



POSITION PAPER

Aid, Growth and Employment

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Preface

This position paper on Aid, Growth, and Employment was prepared by UNU-WIDER under the ReCom programme of Research (Re) and Communication (Com) on foreign aid. It aims to provide a coherent up-to-date overview and guide to a complex issue in the development field: the relation between aid and growth. Moreover, the position paper addresses the intricate linkages between aid and employment and tries—in a forward looking perspective—to identify existing challenges for future action in development practice and research with a view to increasing aid efficiency.

The position paper relates to the first and third ReCom results meetings on ‘Aid, Growth, and Macroeconomic Management’ and ‘Jobs – Aid at Work’, held in Copenhagen on 27 January and 8 October 2012 respectively. The initial draft of the position paper was prepared before the 1st ReCom results meeting in early 2012. It was subsequently updated and revised based on critique, comments, and research inputs received from a wide range of stakeholders. The paper has benefitted substantially from this process and from the deliberations at the two results meetings. To this come a host of almost 25 other conferences and seminars, held over the past two and a half years in various locations throughout the world.

Background research and material on which the UNU-WIDER team has drawn includes: (i) already existing research published in a variety of forms reviewed under the ReCom programme, (ii) background papers prepared for ReCom by members of UNU-WIDER’s global network, including a range of leading specialists in the aid area from both developing and developed countries, (iii) research by UNU-WIDER staff and others, including a DIIS ReCom study report on pro-poor growth through export sector support, and (iv) papers prepared for the UNU-WIDER-AERC conference on the Macroeconomic Management of Foreign Aid, held in Nairobi on 2-3 December 2011. Further information on background papers, research studies and other outputs from ReCom is available at <http://recom.wider.unu.edu/results>; and in the attached list of references, which are referred to throughout this position paper.

Theme leaders for the position paper on Aid, Growth, and Employment have been Finn Tarp and Tony Addison who were supported by Tseday Jemaneh Mekasha. Other UNU-WIDER contributors include Heidi Kaila, Saurabh Singhal, Lena Lindbjerg Sperling, Roger Williamson, and Tuuli Ylinen. They have worked alongside the UNU-WIDER communication and position paper production support team consisting of: Kennedy Ambang, Dominik Etienne, Anu Laakso, Carl-Gustav Lindén, Anne Ruohonen, Susan Servas, James Stewart, Paul Silfvenius, Minna Tokkari, Janis Vehmaan-Kreula, Annett Victorero and Lumi Young. Chapter 3 of this position paper contains material from the research for ReCom by John Page, Abebe Shimeles and Måns Söderbom. Special mention is made of Hilary Bowker, formerly of CNN, for her excellent moderation of the 2012 Copenhagen Results Meeting on Jobs.

Similarly, I acknowledge the moderation by Professor Holger Bernt Hansen in the Aid and Growth results meeting in January 2012.

UNU-WIDER is grateful for all of the many analytical and other efforts that have enriched the Growth and Employment theme under ReCom; and we acknowledge with appreciation significant research contributions from the following professionals: P. B. Anand, C. Arndt, F. Asem, A. Bigsten, B. Bjerge, T. Bwire, F. Bourguignon, A. Chimhowu, P. Collier, F. de Weijer, G. del Castillo, G. Domfe, D. Fielding, G. Fields, A. Fosu, F. Gibson, A. Ghosray, P. Gibbon, J. Gravier-Rymaszewska, P. Guillaumont, J. Harrigan, P. Heller, J. Hudson, S. Jones, K. Juselius, P. M. Kargbo, T. Lloyd, M. Lof, D. Mallaye, R. Manning, O. Morrissey, N. F. Møller, H. Nielsen, R. Osei, K. Otsuka, P. Nielson, J. Page, J. Pirttilä, J. P. Platteau, A. Reshid, M. Quattri, A. Roe, J. Round, S. Sandström, T. Sonobe, A. Sumner, M. Söderbom, S. Tengstam, J. Tyso, R. van der Hoeven, Y. T. Urbain, L. Wagner and others.

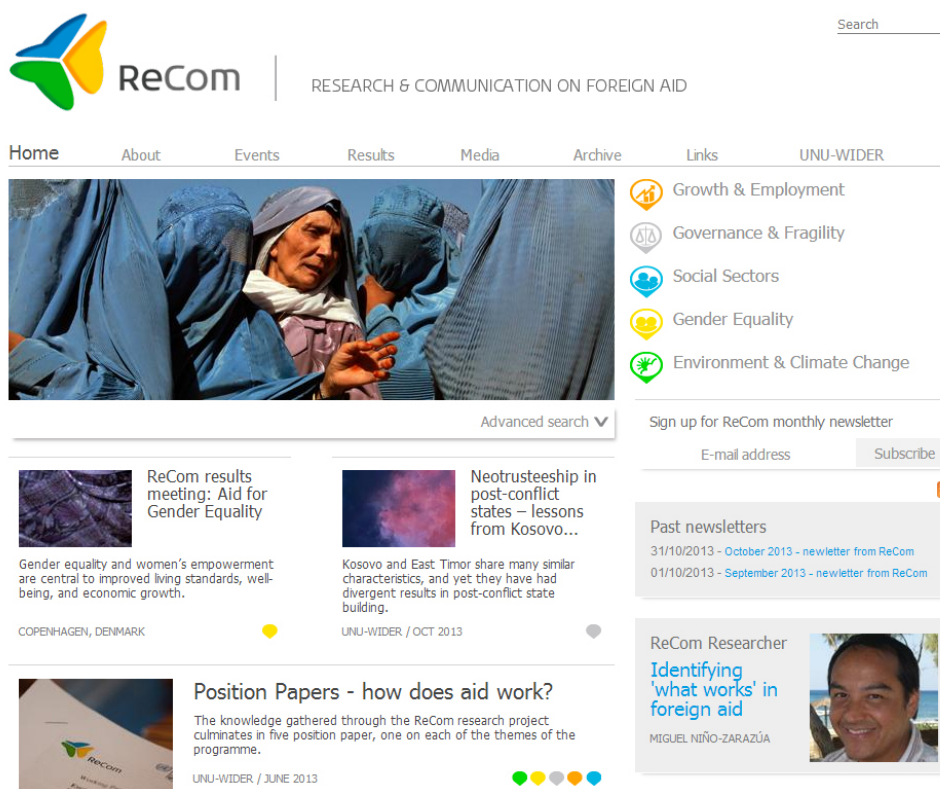
Finally, we at UNU-WIDER would like to express our warmest appreciation to Danida and Sida for financial support and collaboration over the past little more than two and a half years. Particular thanks for their efforts go to Tove Degnbol, Henning Nøhr, Anders Granlund, Lena Johansson de Château and Pernilla Sjöquist Rafiqui. It is our hope that this innovative effort in combining research and development practice has provided material that will be of help to our three main audiences, including aid agency staff alongside researchers and national policy-makers, in their combined efforts to further the effectiveness of foreign aid in the years to come.

Finn Tarp
Director, UNU-WIDER
27 May 2014

About ReCom

ReCom—Research and Communication on Foreign Aid is a UNU-WIDER co-ordinated research programme implemented over 2011-2013 in partnership with Danida (Ministry of Foreign Affairs of Denmark) and Sida (Swedish International Development Cooperation Agency). The Danish Institute for International Studies (DIIS) and the UNU-WIDER global network of partner institutions and researchers were also involved in ReCom research. The aim of the programme was to research and communicate what works and what can be achieved through development assistance. For this purpose, a specific programme website wider.unu.edu/recom has been created.

IMAGE 1
The ReCom website



Source: <http://www.wider.unu.edu/recom>

Foreign aid is a complex and multi-faceted issue, involving many countries, institutions, and people—researchers, aid officials, policy makers, NGOs, companies and civil society organizations. Currently, the evidence for what works in aid is fragmented and not easily accessible thereby limiting, in particular, the transfer of successful interventions across countries. There is limited evidence for what works on a large scale—understanding this is a key objective if more aid is to be used well, and if challenges such as adaptation to climate change are to be met successfully.

To better understand and improve the effectiveness of aid requires a multi-disciplinary approach—bringing together the best from social sciences, in particular economics and political science, as well as other relevant disciplines. Better understanding can only come from mobilizing a global network of development researchers and practitioners to share their knowledge. No single actor can grasp all of the dimensions of aid, especially when we take into account the number of complex issues—such as conflict, climate change, the emergence of new aid donors—involved in the context that aid is operating in. Many developing economies are growing, a success in part due to aid itself, but immense development challenges remain, not least in adapting to climate change and reducing poverty. It is the power of the network that guarantees ReCom its credibility as a source of knowledge on development and aid when communicating these new trends and challenges, and what they mean for aid practice and for achieving aid effectiveness.

Over 2011-2013, ReCom has been bringing together some 300 social scientists from all parts of the world—in fact from 59 different countries, including 22 African countries—to research and communicate what works, and what could work, in development assistance, including the potential to scale-up and transfer small but successful interventions as larger aid programmes. Some 247 individual studies have been published or are forthcoming, mainly in the WIDER Working Papers series—each of them summarized in a research brief published on the ReCom website (see Appendix 5). An important part of the quality assurance process of ReCom is to publish studies in peer-reviewed fora. A large number of the studies have been submitted to, or have already been published in, internationally refereed journals and as UNU-WIDER books (see Appendix 1).

The thematic focus of the research programme covered five key issues in international development assistance: growth and employment; governance and fragility; social sectors; gender equality; and environment and climate change. Poverty and inequality cuts across all these issues, for there can be no sustained poverty reduction without achievements for aid in each. By these means, ReCom is also helping to shape the debate on the Millennium Development Goals (MDGs) and the post-2015 development agenda.

To be of use the new knowledge generated by research must be customized and shared. This is done by effective communication with national policy makers, aid officials, parliamentarians, and other practitioners in NGOs and social movements. Communication has been as important to ReCom's success as research.

ReCom's knowledge-sharing process therefore involved the exchange of information and views. Discussion of the research results set up new questions for further investigation. These exchanges were designed to capture the insights of policy makers and practitioners, which then fed back into further rounds of knowledge creation and sharing. This has been the core of ReCom.

Through more than 80 presentations and seminars, seven ReCom results meetings, and a website (www.wider.unu/recom) dedicated to communicating

the research, ReCom has focused on adding to the existing evidence base and communicating with policy makers as well as the broader audience ‘what aid has done, and what aid can do better in the future’ thereby improving aid practice and policy, ultimately increasing the benefits of aid for recipient countries. Appendix 2 provides a list of all ReCom presentations and seminars that took place during 2011-2013. In addition, social platforms (YouTube, Twitter, Facebook, etc.) and a monthly ReCom newsletter have been used to disseminate the knowledge produced through ReCom.

Box 1: ReCom results meetings

People-to-people knowledge sharing has been a central part of the overall communication strategy of the co-ordinating partners of ReCom. Especially the ReCom results meetings have been the anchor of the communications activities as they have proven to be an excellent vehicle for bringing researchers, practitioners and policy makers together to exchange knowledge on key development and aid issues, and because the knowledge transferred and communicated in them contained the essential facets of each research theme. During the programme period, the following seven ReCom results meetings took place in Copenhagen and Stockholm:

- ‘Aid, Growth and Macroeconomic Management’, Copenhagen, 27 January 2012
- ‘Democracy and Fragility’, Stockholm, 10 May 2012
- ‘Jobs – Aid at Work’, Copenhagen, 8 October 2012
- ‘Aid and the Social Sectors’, Stockholm, 13 March 2013
- ‘Aid and Our Changing Environment’, Stockholm, 4 June 2013
- ‘Challenges in Fragility and Governance’, Copenhagen, 23 October 2013
- ‘Aid for Gender Equality’, Copenhagen, 16 December 2013

IMAGE 2

ReCom results meeting ‘Jobs – Aid at Work’



Source: © UNU-WIDER

The ReCom research findings have been compiled in five substantive position papers, one for each theme, that speak to a broad audience interested in foreign aid and the respective theme. The position papers specifically target

policy makers in donor agencies and their partner countries, as well as private foundations and civil society organizations.

The Growth and Employment theme addressed in this position paper draws on a large academic and policy literature on aid, growth, and employment. The aid-growth issue has traditionally been looked at through an aggregate macro-economic lens, and has for decades been a thorny analytical challenge to researchers and aid practitioners alike. The development profession has struggled to understand whether aid works in contributing to growth or whether aid's potentially positive impact has been completely undermined by negative effects associated with for example Dutch disease and institutional weakening caused by aid. An increasing and in many ways striking degree of consensus has, however, emerged since 2008. This position paper aims to provide an overview that is, while general and relatively easily accessible, also analytically sound and forward looking, addressing both whether aid has worked and what should be done to improve aid's effectiveness.

The aid and employment theme in this position paper addresses one of the most urgent of development's challenges: how to create more and better jobs on a large scale. Such job creation must be achieved if inclusive growth is to have any fundamental meaning, and if the aspirations now evident in the debate on the post-2015 development agenda are to be realized. This includes the aspiration for a 'quantum leap' in livelihoods. This task can be approached from a variety of angles. Efforts in the aid and employment area have typically tried to address the supply side of the labour market without proper (if any at all) attention to the demand side of the employment problem. The latter must be tackled by altering the pattern of growth to achieve more growth in employment demand, and better job opportunities for the rapidly rising working population of low-income countries. Structural transformation (defined as a process where labour moves from low productivity sectors into higher value-added activities) has been disappointing in Africa; and the existing demand side challenges are vividly illustrated with the recent uprisings in the Middle East and North Africa, which have in large measure been attributed to the lack of meaningful employment opportunities, especially for youth.

Prominent conclusions from this position paper are:

- Aid properly applied and over a long-time period does contribute to growth and development, and this is so without implying that aid will do so every time. Overall, the economic rate of return to the foreign aid effort is respectable, and aid has over the past 40 years stimulated growth, promoted structural change, improved social indicators and reduced poverty. Aid has done so by stimulating its proximate determinants—e.g., physical capital accumulation and improving human capital, particularly education and health. Overall, the experience of the past four decades or so provides no support to the argument that aid flows should cease. Considered in light of the great expectations associated with aid in the 1960s and early 1970s, it merits highlighting, however, that aid should not be considered a panacea or silver-bullet for stimulating growth and development.

- Despite statements on the importance of employment, there is not a great deal of evidence regarding the impact of aid on employment. Data on employment and related outcomes are very deficient, and one priority for donors should be to help countries collect better and more timely data. Then policymakers and their donor partners can understand the impact of policies and investments on employment. It is clear that structural transformation needs to be the focus, with more commitment by donors to the productive side of agriculture, where many people make their livelihoods. Raising agricultural productivity is key to increasing labour demand and rural wages. Infrastructure remains a job creator, both in its construction phase, and through its indirect effects in stimulating private sector investment and hiring. Donor support to enterprise development needs to help countries create manufacturing sectors capable of exporting, it needs to help large firms as well as small since large firms are equally strong creators of good jobs, and it must help countries create industrial clusters that stimulate investment, hiring, and the diversification of economies that underpins structural transformation. As the latter occurs, so productivity rises, and higher labour productivity is the key to raising wages and self-employment income over time.

Specific ReCom contributions to the research literature on aid, growth, and employment include 58 UNU-WIDER working papers and a DIIS report. They are all listed and referred to in this position paper. Some of these contributions have during the project period found their way into academic journals such as *African Development Review*, *Journal of Development Studies*, *Journal of Globalization and Development*, *Oxford Bulletin of Economics and Statistics*, and *World Development*. ReCom studies have also been featured in the 2013 *World Development Report* (World Bank 2012b) and a book volume is under consideration by Oxford University Press. A special issue of *World Development* is forthcoming; a special issue of the *Journal of Development Studies* is under preparation; and a special issue on aid and employment has gone out for review. The same goes for a contribution on ‘Aid to Africa’ that has been accepted as a chapter in the forthcoming *Oxford Handbook on Africa and Economics*.

Acronyms and abbreviations

AERC	African Economic Research Consortium
A2F	Access to Finance
AfDB	African Development Bank
AGOA	the Africa Growth and Opportunities Act
CVAR	Cointegrated Vector Autoregressive
DAC	Development Assistance Committee (OECD)
Danida	Danish International Development Agency
DFID	Department for International Development (UK)
ECOWAS	Economic Community of West African States
EPA	Economic Partnership Agreements
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
ILO	International Labour Organization
IMF	International Monetary Fund
IPC-IG	International Policy Centre for Inclusive Growth
IRR	Internal Rate of Return
JICA	Japan International Cooperation Agency
MDGs	Millennium Development Goals
MSEs	Micro and Small Enterprises
NREGS	National Rural Employment Guarantee Scheme
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OFSP	Other Food Security Programme
PSNP	Productive Safety Nets Programme
SEZs	Special Economic Zones
Sida	Swedish International Development Cooperation Agency
SMEs	Small and Medium Enterprises
SSA	sub-Saharan Africa
TFP	Total Factor Productivity
UA	Unit of Account

UN	United Nations
USAID	United States Agency for International Development
VAR	Vector Autoregressive framework
WASA	West Africa Seed Alliance
WDR	<i>World Development Report</i>
YOP	Youth Opportunities Program

Executive summary

The ReCom position paper on Aid, Growth, and Employment covers two distinct bodies of research— (1) aid and growth and (2) aid and employment.

The *aid-growth* issue has traditionally been addressed through an aggregate macro-economic approach. Concerns have been raised that the potentially positive impact of aid on growth could in practice be eroded by the so-called Dutch disease effect whereby aid drives up the exchange rate, leading to a reduction in the incentive to export. Institutional weakening as a result of aid has also been cited in critiques.

There is a growing consensus, particularly since 2008 (when a more evidence-based assessment of aid's long-term impact was formulated), that aid is, in the long-term, beneficial to growth. Manning (2012) cogently argues that aid is, in many ways, a second-best solution and that domestic mobilization of resources, where possible, is preferable. He provides a convincing catalogue of factors which diminish aid's effectiveness, including its high 'transactions costs'.

The aid-employment issue has received much less attention from donors. Consequently, aid is not maximizing its potential to contribute to the challenges set out in the 2013 UN High-level Panel report on the post-2015 development agenda.

Aid and growth

In order to provide a robust empirical basis for discussion of the aid-growth connection, ReCom has assessed the existing data using different approaches: cross-country data, time-series research, meta analysis, and aggregate evidence, as well as utilizing case study evidence.

The *cross-country research* takes up the challenge of Rajan and Subramanian (2008). Using data from both the 1960-2000 and 1970-2000 time periods, Arndt et al. (2010) demonstrate that foreign aid has a positive and statistically significant impact on growth in both periods. Specifically, 'an inflow [of aid] of the order of 10 per cent of GDP spurs the per capita growth rate by more than one percentage point [1.3] per annum in the long run.' (p. 23).

The quality of *time-series data* has improved sufficiently to allow calculations based on 36 sub-Saharan African countries from the mid-1960s to 2007. In 27 cases, aid has had a positive long-term impact. In seven other cases it is positive, but statistically insignificant (Juselius et al. 2014). A particular study has also been made of two countries (Ghana and Tanzania) which required further analysis and explanation: see Juselius et al. (2013). For further time-series evidence see Lof et al. (2013), forthcoming in revised form in *World Development*.

The *meta analysis* work was designed to answer the question what existing studies show on average rather than for a particular country. Mekasha and Tarp (2013) have provided a careful assessment of the study by Doucouliagos and Paldam (2008) (DP08) which draws on their database of 68 aid-growth studies. They provide a critique of the methodology of DP08 and arrive at significantly different conclusions—most notably that their application of meta-analysis techniques suggests that aid has had a positive and statistically significant impact on economic growth.

The *aggregate evidence* suggests that aid does provide a respectable internal rate of return (IRR). Arndt et al. (2014) assess this at 7.3 per cent once what they consider to be a reasonable model with reasonable parameters has been established. Moreover, there is almost unanimity among academic studies published since 2008 of a positive effect of aid on growth.

The position paper refers to many of the arguments in the aid effectiveness debate, concluding that:

- Dutch disease may occur, but this is not inevitable, as the macro-economic impact of aid can be managed (and indeed this can be included in technical assistance);
- the argument that aid is only effective in good policy environments is seductively simple and will not lead to aid being allocated where it is most needed or most effective;
- evidence on absorptive capacity requires case-by-case study;
- aid can, but is not guaranteed to, work in vulnerable, fragile, and conflict situations;
- lack of predictability, and the proliferation and fragmentation of aid lowers its impact; and
- aid can serve as a catalyst to stimulate other financial flows.

These arguments (with pointers to the literature) are developed below.

In sum, Arndt et al. (2010) conclude that an inflow of aid at the level of 10 per cent of GDP per annum generates a more than one per cent increase in the annual per capita growth rate. A later study (Arndt et al. 2014) shows that if aid is regarded as a form of investment, it has had a highly respectable internal rate of return since the mid-1970s.

Aid and employment

The *aid-employment* issue has taken on increasing significance as it is now widely recognized both that jobs are the route out of poverty, and that it is the private sector which will have to generate the jobs. The donor community, however, now faces a challenge: how to respond to the challenge of the UN High-level Panel which has called for a ‘quantum leap’ to ‘improve livelihoods’, and become more ambitious in using aid for structural transformation—using the insights of the new industrial policy to use aid in a more concerted strategy for employment generation. Simply defined, structural transformation is the

movement of labour out of low productivity work (notably subsistence agriculture) into higher productivity employment—particularly manufacturing. This process is clearly described in the 2011 WIDER Annual Lecture by Justin Yifu Lin (Lin 2011).

ReCom research has concentrated on literature reviews and synthesis studies which show that much of the effort on aid and employment has focused on the supply side of the labour market. Structural transformation has been disappointing in Africa. Agricultural productivity is low and it has proven difficult to develop and consolidate manufacturing. Economic growth has been excessively dependent on extractive industries (minerals and energy) which are inevitably capital-intensive. The demand-side challenges are illustrated by the uprisings in the Middle East and North Africa

ReCom sets the issue of aid and employment firmly in the context of underdevelopment, rather than more narrowly defined labour market problems. Fields (2012b) defines the issue as ‘working poverty’ rather than unemployment—there are not enough ‘good jobs’. In the terminology of the International Labour Organization (ILO), there is too high a level of ‘vulnerable employment’. In Africa, agricultural productivity remains low, and structural transformation has still largely not taken place. According to the *World Development Report 2013*, to which ReCom contributed, there are 10 million entrants into the labour market each year in sub-Saharan Africa.

The ReCom results meeting on ‘Jobs – Aid at Work’ (Copenhagen 8th October 2012) analysed many of the key factors:

- the poor quality and vulnerability of jobs in the informal sector;
- constraints related to human capital, financial capital, infrastructure and data on employment outcomes; and
- the infrastructure deficit.

According to the Development Assistance Committee of the OECD (Delponte 2009), ‘[l]ittle or no evaluative material is available on the employment impact of past interventions, although donors agree that this is an area where progress needs to be made’. The ReCom results meeting therefore stressed that it is essential to set a clear objective for work in this area, define specific targets and use realistic instruments to achieve the stated objectives.

Page and Söderbom (2012) argue that the World Bank Doing Business Ranking is not a well-designed tool for identifying binding constraints on enterprise growth; and the ReCom analysis shows that the majority of present challenges are indeed general development problems rather than specific labour market issues.

Government and donors can, however, make positive contributions. Direct roles include investment in infrastructure, enhancing managerial skill and capabilities through training for small- and medium-sized enterprises, augmenting agricultural productivity and facilitating structural transformation. Moreover, aid can also help countries in attracting Foreign Direct Investment

(FDI) by supporting the establishment of investment promotion agencies and improving infrastructure. Overall, the above are the major areas where aid can potentially help in private sector development and hence promote remunerative job creation. Though this is not an exhaustive list of constraints in the private sector, it can serve as an input for designing employment related aid interventions.

Despite rapid economic growth, Africa's overall structure of production and employment is similar to that 20 years ago. There is not a sizeable open unemployment problem per se (except in cases such as North Africa), but about 75-80 per cent of the jobs in sub-Saharan Africa fit the ILO's understanding of vulnerable employment (Sparreboom and Albee 2011). The picture is one of growth without structural change. Agricultural productivity needs to be raised for the 60 per cent of Africans tied to the land, but productivity and spending on agricultural research by African governments' remains low. Above all, donors need to move from a concentration on many small projects to initiatives that achieve impact at scale. This requires refocusing and better coordination.

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1 Introduction and statement of issue

In the last couple of decades, developing countries, including those in sub-Saharan Africa (SSA), have witnessed notable progress in human development outcomes such as health, education, child mortality, sanitation, and access to safe drinking water. Despite this, income and consumption-poverty remains widespread and overall economic growth continues to leave much to be desired. This is so even if SSA would appear to have turned a corner in the late 1990s. Sustaining achievements to date and promoting growth are daunting tasks as myriads of socio-economic and political challenges continue to hamper development efforts. Poor countries are poor for many reasons. First and foremost they are poor because they simply do not produce very much for a host of reasons.

Economists typically view the productive capacity of an economy as being a function of stocks of factors of production, especially physical capital (factories, tools, computers, roads etc.), human capital (workers with skills) and labour (workers without skills) as well as technology. Economists also posit a crucial role for institutions, which provide frameworks for organizing these factors in a manner that is productive. Poor countries lack physical capital, human capital, technology, and well-functioning institutions. As a result, the mass of unskilled labour present in the country may not be very productive with negative implications for nearly all aspects of well-being.

There are some common elements to the above four attributes that help to explain their relative absence in poor countries and the potential role of aid. *First*, they all accumulate through long-run processes. The buildings in most developed country cities reflect more than a century of cumulative construction. Converting an infant into a highly skilled engineer takes at least two decades. While technological leaps are possible, due to for example technology transfer and catching up, technology improvement is mainly a slow evolutionary process conducted via repeated trial and error. Finally, institutions evolve slowly over time. For example, British common law is based on centuries of case experience.

Second, accumulation of these attributes generally requires a forward looking mind set. In order to accumulate any of these, one must typically sacrifice something today in order to benefit in the future. This inter-temporal decision/choice can be very difficult when current resources are highly constrained, when people are unable to satisfy their basic needs, and when conflict and environmental stress make the future uncertain. In this case there is little scope for saving.

Third, accumulation of these attributes relies on public-private partnerships. Even strongly market oriented economies, such as the United States, rely on the public sector to supply basic economic infrastructure such as roads and bridges, education, and to fund research and development for new technologies. This highlights the important role of institutions both for current and future production levels.

Finally, it is worth noting that, unless very well established, all four of these accumulation processes are highly vulnerable to disruption. At the extreme, years of effort can be wiped out in short order. As a prominent example, wars destroy both physical and human capital. More subtle disruptions than the eruption of violence can also have serious impacts. Experience indicates that nascent institutions are particularly vulnerable to disruption (Berg 1993; Arndt 2000). Even a relatively short period of neglect can substantially harm long-run efforts at institution building.

In general, to improve living standards significantly and lift citizens out of poverty, poor countries must produce more—much more. To produce more, these countries must initiate and maintain long-run cumulative processes to build physical and human capital, acquire technology, and nurture institutions that facilitate growth. The role of aid for development, broadly conceived, is to support—not weaken—these long-run cumulative processes. Thus, the success of the aid enterprise in accomplishing this objective and bringing about economic growth that enhances the employability of both human and natural resources is the focus of this position paper.

Initiating and maintaining the aforementioned cumulative processes is a daunting task in light of the multi-faceted problems poor countries face. In particular, unemployment problems, poor quality of existing jobs and low productivity, coupled with political problems like conflict, corruption, and bad governance, can make the cumulative process long and challenging. These internal problems are further compounded by rapidly growing demographic pressures. On top of this, external factors like the global economic recession¹ have exacerbated the problem by causing, among other things; a fall in Foreign Direct Investment (FDI); this in turn adversely affects technology transfer and retards productivity improvements.

Overcoming the aforementioned hurdles of development takes time, and is by no means an easy venture. Nonetheless, countries do have different tools at their disposal to make a difference in the lives of their citizens; and in this regard, the role of sustained economic growth is critical. Achieving sustainable development without robust rates of economic growth is not feasible. At the same time, economic growth is certainly not the sole instrument to realize the development aspirations of poor countries. Development is more than income growth alone.

Although economic growth, as measured by a rise in national income or output should not be an end in itself, it is certainly necessary as a means to an end; that end being the achievement of desired socio-economic development outcomes and hence poverty reduction. There is also empirical evidence to suggest that there is a clear association between growth and poverty reduction, even if the country-variation around means is large.² Our point of departure is that *sustained* and *fairly-distributed* inclusive growth is a necessary condition to promote development.

The question then is how countries can achieve high quality economic growth that can lead to sustainable development? ReCom studies bring out that the

process of economic growth in large measure depends on private initiative, and on the internal resource mobilization efforts of developing countries.³ However, given the narrow tax base, capacity constraints and weak institutions, local resource mobilization should not be left alone to do the job of solving the multifaceted development challenges of poor nations. There is a priori a strong theoretical case for aid, and foreign aid has over the years demonstrated that it can help by complementing local resource mobilization efforts and hence can assist in partially bridging existing resource and knowledge/capacity gaps as suggested in the early aid literature.⁴ This is also demonstrated in a series of ReCom papers.

Moreover, even if other capital flows like FDI and remittances and export sector support can in many cases serve similar developmental purposes,⁵ aid has the distinct advantage that it can finance public goods and target the poor, vulnerable and marginalized sections of society. Aid continues to be—in large measure—public or private charity money that can be spent on pursuing common societal needs and development constraints. The merit of aid in reducing poverty is acknowledged in the literature,⁶ but despite this potential role to make a difference to the life of the poor, some even argue that aid has been outright harmful to growth and poverty reduction (see Moyo (2009)). In sum, the aid-growth issue has been a recurrent hotly debated theme in various fora in development and policy economics, and this sets the background for why this topic together with employment was chosen as a key focus area to be studied under ReCom.

It is indisputable that research and debate are essential parts of the learning process in the development profession, and over the last decades we have learnt a good deal as to ‘what works’ and ‘what does not work’ in relation to aid effectiveness. At times, however, the development profession—academics and practitioners alike—has been caught up in unhelpful discussions, based on beliefs rather than on tangible, balanced, and solid scientific evidence. Misguided policy recommendations have often been the result. This has no doubt been regularly observed in relation to the aid-growth debate, and the early years of the 2000’s witnessed an unfounded pessimism about the role of aid in promoting growth; with much of the discussion relying on rhetoric instead of scientific research.

However, from 2008 onwards a more optimistic, evidence-based long-term assessment of aid’s impact has emerged, in part reflected by better data availability. The reader is, in particular, encouraged to note that there is increasing consensus about this more positive assessment; and that it suggests that receipt of foreign aid equal to 10 per cent of GDP over a sustained period boosts growth by approximately one percentage point on average. It also reflects an overall average internal rate of return to the aid effort, which most analysts would consider respectable, especially since aid has, admittedly, in many cases been justified with reference to non-economic reasons and allocated on grounds that the global development community no longer believe are sound.⁷

The present position paper takes as its point of departure that it is high time to communicate with the wider public and policy-makers about the existing and latest up-to-date evidence on aid and growth, including supporting efforts to point out where the balance of the empirical evidence actually lies. Aid is, to put it simply, a risky business so not all aid efforts are either likely to nor should succeed; but what can we say on balance about the overall impact? Accordingly, communication is a core aim in the ReCom programme alongside the desire to generate widely respected research output. The main objective of this position paper is thus to fill key knowledge gaps and communicate evidence on aid's macro-economic impact and on 'what works', and 'what does not work' in the area of aid and employment. The question 'where we should do better' in relation to the role of aid in spurring economic growth and generating decent and remunerative employment and improved livelihoods is addressed as a recurring theme throughout, but especially in the following chapters.

2 Aid and growth

2.1 Overview

Aggregate aid-growth research typically does not generate policy recommendations beyond suggestions that either provide broad empirical evidence as to whether the theoretical rationales for aid stand up in practice or not.⁸ This may (or may not) provide arguments for cash-strapped finance and development ministers in donor countries, but it does not in and by itself provide detailed insights into what to do, what not to do, and what to do better in aid practice. Here one must look beyond standard aggregate macro-economic research, for example along the lines of Arndt et al. (2013), or by drawing on a wider range of more qualitative evidence related to the provision of aid. We reflect in this section further on this issue and note that further specific detail about a selected set of ReCom aid-growth studies, relying on different methodologies, is provided in Section 2.2 and in Appendix 3.

Moreover, we highlight that in addition to arriving at an estimate of the aggregate impact of aid on growth Arndt et al. (2013) widen the scope of evaluation to a range of key development outcomes including the proximate sources of growth (e.g., physical and human capital), indicators of social welfare (e.g., poverty and infant mortality) and measures of economic transformation (e.g., share of agriculture and industry in value added). Focussing on long-run cumulative effects of aid in developing countries, and taking due account of potential endogeneity, a coherent and favourable pattern of results emerges. Aid has over the past 40 years stimulated growth, promoted structural change, improved social indicators and reduced poverty. In other words, Arndt, Jones, and Tarp ‘unpack’ the aggregate impact and identify human and physical capital as key transmission channels from aid to growth. While further research is no doubt called for to extend these results, this evidence provides indicative policy guidance as regards the critical importance that must be assigned to human and physical capital accumulation in support of development; and this comes in addition to the importance of human capital accumulation as a goal in its own right.

Another critically important policy lesson emerging from the ReCom studies by Juselius et al. (2014), Juselius et al. (2013), and Arndt et al. (2014) is the importance of heterogeneity in aid impact and the need to consider country specific circumstances in understanding the impact of aid on growth and investment, and in designing aid interventions. Case by case analysis that takes the specific economic realities of aid recipient countries into account is clearly needed to supplement macro-research, which can at best provide a useful overview map.

The correlates of growth are by now reasonably well known. Yet, they are still many and views on the direction of causality between the economic variables involved and on how regions and countries make the transition out of economic stagnation and succeed. For example, much remains to be learned

about what can be done to promote effective policy making in low-income economies prone to exogenous shocks. In this regard, development economics as a discipline has shifted focus from decade to decade. The same goes for the preferred choice of research techniques applied. The combination of new data and methodological advance gave impetus to a large cross country econometric literature during the 1990s and the same happened after 2008. It is now widely understood that more in depth country studies are called for to supplement the macro-economic research.

This is put in perspective by noting that even if such studies have been lacking in the aid-growth literature in the past years due to the continuing lack of reliable time series data on macro variables, future research on aid and growth should start to take advantage of the gradually improving data availability in both quantity and quality.

Finally, and as pointed out in the numerical simulation evidence in Arndt et al. (2014) understanding how aid affects total factor productivity (TFP) appears to be particularly crucial challenge in examining the relationship between aid and capital accumulation and the resulting heterogeneity in the effect of aid on income. As indicated by these authors concrete evidence regarding the nature and scale of aid-induced productivity effect is at present scarce. In view of this, assessing the impact of aid on total factor productivity is one area which future aid effectiveness research can pursue.

We now turn to a broader agenda of policy concerns, with a view to identifying a series of areas and actions ‘where aid could do better in future’. In this context, we rely on overall assessments available in studies by Bigsten and Tengstam (2012), Bourguignon and Platteau (2013), Collier (2012), Grawe (2013), Manning (2012), and Ranis (2013). We do not here reflect on the observation that poverty is increasingly concentrated in middle-income countries as shown by Sumner (2013). Further discussion in this regard can be found in the position paper on Aid, Environment, and Climate Change as well as Addison and Sumner (forthcoming).

The overall finding that aid has promoted growth and development should not lead to the impression that there is nothing to do better in aid. In fact, Bourguignon and Platteau (2013) point to the very large costs associated with the lack of proper coordination; and the reader to a range of channels through which the effectiveness of aid is diminished.

In the final analysis, the effectiveness and impact of aid depends critically on how the aid is structured and spent (see Collier 2012); and ReCom studies have on many occasions highlighted that there is a lot of heterogeneity in the aid-growth data, across countries, among aid modalities, and so on. For example, if aid is structured and designed so that it reinforces rent-seeking on the side of government officials and reinforces the weaknesses of institutions, it is likely to have a low impact. To provide an overview we follow Manning (2012), who points out that aid is in many ways a second best solution as compared to the mobilization of domestic resources.⁹ He goes on to identify seven problems of aid effectiveness as follows:

- Aid can be inefficient. The channels of aid delivery built by donors are not free of inefficiencies and fragmentation by any means.
- Recipient countries may become dependent on aid. This can lead to the pushing up of exchange rates and can thus stunt the development of the tradables sector. Over-dependence on aid may also allow donors inappropriate leverage over national policy and diminish national governments efforts to raise revenue independently.
- The private sector might be crowded out through government-to-government aid; this might also lead to the state taking more responsibilities than it can effectively manage. The key issue here is whether aid encourages governments to play a larger role in service delivery than is effective when compared to delivery by agents outside the public sector. More work needs to be done to ascertain whether the current proportion of aid that goes to the state rather than NGOs is optimal.
- Aid can weaken local accountability through strengthening the executive at the expense of other political forces. Aid channelled directly to governments raises their capacity relative to parliaments, civil society and the media.
- Government spending in all countries is open to malpractice and inefficiency; this is particularly the case in countries with weak institutions as already alluded to above. Accountability to donors can trump accountability to stakeholders.
- Donors have mixed motivations for providing aid. These include political influence, cultural promotion and commercial self-interest. These mixed motives can affect the development value of aid spending.
- Aid can be used by donors as an excuse not to take action in other policy areas where reforms may be politically costly in domestic terms but more effective than aid in terms of spurring the development of recipient countries.

All of these issues are as central to the current aid reform agendas as discussed by Bigsten and Tengstam (2012); and Manning (2012) provides a series of specific suggestions for tackling each of these problems. He also notes that there are some key suggestions which provide at least partial solutions to multiple problems. One such suggestion is that further efforts to achieve the Paris agenda goal of greater aid harmonization in cooperation amongst donors would improve aid effectiveness. Greater donor cooperation would naturally mitigate the impact of aid inefficiency caused by donor fragmentation, mixed motives, and lack of policy coherence amongst donors. It could also have an indirect impact through encouraging the mutual development and adoption of best practices regarding aid delivery.

Another recurring suggestion is that of support for both formal and informal institutions for holding governments to account, which would mitigate political power imbalances coming from modes of aid delivery. Stronger parliaments, audit bodies, civil societies and media would lessen the problem of over-powerful executives by providing effective countervailing forces. Stronger institutions could also help foster more effective spending by providing local

stakeholders with a mechanism through which they can hold governments to account and thereby lessen instances of malpractice and provide a political incentive for governments to improve efficiency.

A focus on improving the personnel policies of both donor agencies and recipient administrations is also highlighted as a mitigation strategy. Currently, donor-agencies mostly do not retain staff for long enough for effective relationships to be formed between donors and recipients, which would be key to overcoming problems of aid inefficiency. Furthermore, ineffective spending of aid in recipient countries can, in part, be put down to the inability of public institutions to attract and retain competent staff. These problems could be remedied by providing more attractive career paths and compensation packages to potential and current staff.

Finally—and linking up to the following sections on aid and employment it deserves highlighting that in developing countries the jobs problem is not as such open unemployment but rather working poverty.¹⁰ The majority of the people in low-income countries are engaged in the informal sector where productivity and quality of jobs are very low. Promoting structural change through aid can help in reducing working poverty by moving people from low productivity/low paid jobs to high productivity/high paid jobs. But the evidence shows that structural change in Africa is slow. As a result African countries have difficulty creating good jobs that have the potential to meaningfully reduce poverty. Thus, as emphasized in the ReCom Jobs meeting held on 8 October 2012 promoting structural change and helping people to move into more productive jobs is one area of intervention that donors should target. This can be done, as suggested in (Jones and Tarp 2013) by supporting the growth of labour-intensive export oriented secondary and tertiary industries. Each of the potential intervention areas that we discuss in due course in this chapter plays its own role in promoting such industries.

Another area of intervention that was emphasized during ReCom meetings, in a variety of background studies and in World Bank (2007) is the need to support agricultural productivity and development more generally as the majority of the poor depend on agriculture for their livelihood. It was indicated that underdevelopment in agriculture is a major barrier to job creation in Africa. The use of backward technology, heavy reliance on rainfall, poor infrastructure, under-developed irrigation schemes, lack of fertilizers and high-yielding seeds are major problems that are regularly identified as reasons for underdevelopment in agriculture. In light of this, aid can play a role in transforming agricultural productivity in Africa by relaxing the above constraints to agricultural development. Improving agricultural productivity not only increases the income of the poor but also speeds up the process of structural transformation by releasing cheap labour from agriculture to labour-intensive manufacturing industries. Modern and productive agriculture can also serve as a source of input and raw material for the industrial sector. Overall structural transformation coupled with enhancement of agricultural productivity can help in bringing poverty reduction. Thus, targeting foreign aid in achieving these objectives can have a great impact in increasing the effectiveness of foreign aid on job creation and poverty reduction.

2.2 Evidence from ReCom studies

After years of sharp debate, controversy over the effectiveness of foreign aid as a tool to promote social and economic progress in developing countries is slowly changing character, at least in the academic empirical literature. As noted early on by Mosley (1986), evaluations of foreign aid at the project (micro) and sector (meso) levels have consistently pointed towards positive impacts on average of aid on growth. This view, reflected in detail in other ReCom position papers and background studies,¹¹ has been bolstered by recent studies that consider sub-components of aid, as well as outcomes in specific regions or sectors, e.g. Michaelowa (2004), Mishra and Newhouse (2009), and Arndt et al. (2011; 2013). Broadly speaking, these evaluations indicate a positive average impact of foreign aid, recognizing that heterogeneity of impact (across countries, time, and aid modalities) is prevalent. This is so even if it is not always possible to give precise and statistically robust answers to specific questions such as whether aid has been more effective in country X than in country Y or whether aid modality Q is better than modality P.

There is no doubt that controversy about aid has over the years been most acute at the macroeconomic aid-growth level. Even so, it may come as a surprise to some that practically all of the up-to-date macroeconomic studies in the aid-growth literature find clear and positive impacts, as is demonstrated in what follows. Employing different data and methods, a range of independent studies published since 2008 report highly comparable results for the aid-growth relationship. In approximate terms, these studies suggest that receipt of foreign aid equal to 10 per cent of GDP over a sustained period boosts growth by approximately one percentage point on average. In addition, aid has—as shown by Arndt et al. (2013)—over the past 40 years stimulated growth, promoted structural change, improved social indicators and reduced poverty. In relation, then, to the ReCom questions: *Long-term aid works in stimulating growth.*

While not all findings are statistically significant at conventional levels, in part reflecting noisy and sparse data, an overriding majority is statistically significant. Importantly, the broad magnitude and direction of these results are sufficiently comparable to merit attention, and they are in line with a priori reasoning from macro-economic theory and reasonable expectations (see Rajan and Subramanian 2008; Dalgaard and Erickson 2009).

A useful starting point in trying to come to grips with the aid-growth literature is Rajan and Subramanian (2008)(RS08). They introduced a pair of important analytical innovations that have influenced subsequent research. First, they signalled a movement away from a reliance on so-called cross-country dynamic panel data methods. Rather, their preferred strategy involved a long-run cross-section analysis in which both the measure of aid (Aid/GDP) and growth are taken as averages over relatively extended periods (up to 40 years). This reflects the understanding that development is a cumulative process. Thus, aid given at time t is only likely to have a growth impact after $t + n$ years, and this impact may yield benefits over an extended period, which are not captured in short-

run analysis. Second, to address the endogeneity of aid,¹² they deploy so-called external instrumental variables rather than the internal instruments commonly used in dynamic panel methods, due to the methodological issues associated with the former. We shall not pursue this here, but refer to for example Arndt et al. (2010).

Table 1 summarises core results from recent papers that address aid and growth. To the best of our knowledge, the table covers the full population of studies that meet the following criteria: they (i) refer to an average aggregate aid-growth relation for developing countries as a group; (ii) include data spanning at least 30 years; (iii) attempt to address the endogeneity of aid; and (iv) are accepted in a peer-reviewed economics journal since 2008. As the various papers included in the table use alternative specifications, an attempt has been made to select estimates from comparable models. In some instances non-linear specifications involving a squared aid term are included. For these we report the marginal effect of Aid/GDP on growth evaluated by fixing Aid/GDP at 2.5 percent. In the final column, we report the mass in the relevant tail of the standard normal distribution for the z-statistic calculated from the reported point estimate (beta) and its standard error.

TABLE 1
Point estimates of the marginal effect of aid on growth from recent studies (i.e. since 2008)

Study \a	Reference	Period	Specific. \b	Beta	Std. Error	≈ Prob.
RS08	Table 4, col. 1	1960-2000	Linear	0.06	0.06	0.30
RS08	Table 4, col. 2	1970-2000	Linear	0.10	0.07	0.17
MR10	Table 4, col. 1	1960-2000	Linear	0.08	0.03	0.01
AJT10	Table 6, col. 2	1960-2000	Linear	0.09	0.04	0.02
AJT10	Table 4, col. 4	1970-2000	Linear	0.13	0.05	0.01
CRBB12	Table 7, col. 6	1970-2005	Non-linear	0.15	0.06	0.01
CRBB12	Table 7, col. 10	1970-2005	Non-linear	0.31	0.17	0.07
CRBB12	Table 9, col. 9	1971-2005	Non-linear	0.27	0.13	0.04
CRBB12	Table 9, col. 9	1971-2005	Non-linear	0.42	0.20	0.04
KSV12	Table 2, col. 5	1970-2000	Linear	0.05	0.05	0.32
LM12	Table 3, col. 4	1960-2001	Linear \c	0.85	0.43	0.05
NDHKM12	Table 1, col. 4	1960-2006	Linear	-0.02	0.01	0.14
B13	Table 3, col. 1	1960-2000	Linear	0.12	0.04	0.00
B13	Table 3, col. 1	1970-2000	Linear	0.18	0.07	0.01
HM13	Table 2, row 2	1971-2003	Linear \d	-0.01	0.00	0.00
AJT14	Table 1, col. 2	1970-2007	Linear \e	0.30	0.18	0.09
Mean	Unweighted			0.19	0.05	0.00
	Weighted			0.12	0.02	0.00

Notes: \a. RS08 is Rajan and Subramanian (2008); MR10 is Minoiu and Reddy (2010); AJT10 is Arndt et al. (2010); CRBB12 is Clemens et al. (2012); KSV12 is Kalyvitis et al. (2012); NDHKM12 is Nowak-Lehmann et al. (2012); LM12 is Lessmann and Markwardt (2012); B13 is Brückner (2013), HM13 is Herzer and Morrissey (2013); and AJT14 is Arndt

et al. (2013) forthcoming in 2014 in World Development. \b. For non-linear specifications (which involve a squared aid term) the marginal effect of Aid/GDP on growth is evaluated by fixing Aid/GDP at 2.5 percent; standard errors are also approximate for these cases. \c. For comparability, this result is the marginal effect due to aid assuming no decentralisation of government spending; however, the authors find that if the degree of decentralisation exceeds 7 percent, the marginal effect of aid on growth is no longer statistically significant. \d. This estimate controls for investment and is derived as an average from country-specific regressions. \e. Beta coefficient and standard errors are adjusted to raw values from standardised values as reported in the study. Standard errors for unweighted and weighted means are derived from the reported distribution of beta coefficients in the table. Probability is based on the normal distribution.

Source: authors' collation based on Google Scholar references.

What this table shows is that aid's impact on growth is in the positive domain for all but two of the 16 estimates.¹³ The point estimates from Clemens et al. (2012), denoted CRBB12, range from 0.15 to 0.42, of which one is insignificant at the 5 percent level. Overall, Three quarters are approximately significant at the 10 percent level and just two are insignificant at the 20 percent level. The simple average of the point estimates for the average marginal effect of Aid/GDP on growth is 0.19; weighting by the logarithm of the inverse of their estimated variances yields an estimate of 0.12 with a standard error of 0.02. The finding of a statistically significant average effect is consistent with a formal meta-analysis of 68 earlier aid growth studies found in Mekasha and Tarp (2013). These authors find a positive and significant weighted average partial correlation between aid and growth, which is robust to adjustments addressing publication bias and moderator effects.

The simple average of these point estimates is 0.209, and weighting by the inverse of their estimated variances, the corresponding average marginal effect of Aid/GDP on growth is 0.088, with a standard error of 0.041. These results are remarkably close to estimates from a formal meta-analysis of 68 earlier aid-growth studies found in Mekasha and Tarp (2013). These authors find a positive and significant weighted average effect of aid on growth equal to 0.098, which is equivalent to saying that a 10 per cent increase in aid to GDP leads to approximately a 0.98 per cent change in growth.

Interestingly, this range of results is consistent with the empirical estimates originally found in RS08, which sparked the recent wave of literature. Although the latter result is not statistically significant at standard levels, Arndt et al. (2010) correct the treatment of unreported values for aid flows from missing to null and show that plausible modifications to the authors' empirical strategy yield positive and significant estimates with the same data set. Furthermore, Arndt et al. (2013) find comparable and significant results using data updated to 2007 (Table 1, row 16). It also bears remarking that alternative econometric methods suggest similar conclusions. For example, drawing on country-specific (cointegrated) time series analysis for 36 African countries, Juselius et al. (2014) find that foreign aid had a significant and positive effect on investment or GDP (or both) in 27 cases. In seven cases the effect on investment or GDP is positive but insignificant and in only two cases does the impact of aid appear to be negative and significant.

In sum, recent empirical studies provide consistent support for the view that aid has had a positive average effect on growth when viewed over an extended time frame. The view that aid is ineffective finds much weaker support; and the notion that aggregate aid is actively harmful on average (e.g., Moyo 2009) finds no endorsement when recent studies are carefully scrutinised.¹⁴

ReCom has thus undertaken a thorough review and derived cumulative conclusions, based on four different methods of evaluation. The four approaches are cross country research, time series research, meta analysis and aggregate evidence, combined with available case country evidence. We provide in what follows further detail.

2.1.1 Cross country research

The *Journal of Globalization and Development* ReCom paper by Arndt et al. (2010) specifically takes up the challenge of Rajan and Subramanian (2008). Arndt et al. show both why the pessimism about the macro-level impact of aid on growth is unfounded and how a well-designed empirical research does indeed provide robust empirical support for a positive impact thesis, even at the macro level. Using cross country analysis and methods from the programme evaluation literature, Arndt, Jones, and Tarp demonstrate how foreign aid has a positive but *modest* and statistically significant impact on growth in both the 1960-2000 and 1970-2000 time periods.

In particular, ‘an inflow [of aid] on the order of 10 per cent of GDP spurs the per capita growth rate by more than one percentage point [1.3] per annum in the long run.’ (p. 23). The authors also note that these findings are consistent with the view that foreign aid stimulates aggregate investment and also contributes to productivity growth, despite some fraction of aid being allocated to consumption. The size of the reported effect in Arndt et al. (2010) is very close to the modest impact predicted by recent growth theories. On the other hand, as the analysis by Arndt et al. (2010) shows, the impact of aid in the short run appears to be difficult to detect. Clemens et al. (2012) have provided subsequent corroboration for these findings.

In terms of ‘what works’, ReCom therefore argues that the pessimism concerning the aid-growth connection is based on fragile evidence. There is a need, however, to be realistic about the time frame and to have realistic, rather than excessive, expectations regarding the impact of aid on growth.

2.1.2 Time series research

The improved quality of time series data for particular countries enables studies which account for the particularities of that country, without the flattening out of country specifics which occurs through the averages generated by cross country research. The better quality of data enables this to be done with a greater degree of confidence in the results than before.

The ReCom paper by Juselius et al. (2014), which is published in *Oxford Bulletin of Economics and Statistics*, is a comprehensive study of the long-run effect of aid

on a set of key macroeconomic variables. In particular, the authors try to identify the transmission mechanisms of the effects of foreign aid on the macro economy and establish whether foreign aid has had a positive long-run impact on investment, real GDP as well as on public and private consumption. The analysis is, as noted above, based on individual country models for no less than 36 SSA countries from the mid-1960s to 2007.

The findings provide clear support for a positive long-run impact of aid on the macro economy of recipient countries. Particularly, aid is found to have a significantly positive effect on either investment, GDP or both in 27 of the 36 SSA countries that are included in the study. For seven other countries, the effect of aid on GDP and investment is positive, but statistically insignificant from zero.¹⁵ In only three countries (Comoros, Tanzania and Ghana) is the impact of aid on either GDP or investment negative and statistically significant. Moreover, a closer look at these countries is required. Especially for Ghana, the evidence may not be very strong as the observed strong positive effect of aid on GDP can potentially dominate the observed negative effect on investment. ReCom has clarified the mechanism at work in Ghana as well as in Tanzania and concluded that when the real exchange rate, the inflation rate and aid for macroeconomic transmission mechanisms is taken into account, the impact of aid on growth is positive for these three countries (Juselius et al. 2013).

In addition, according to the results by Juselius et al. (2014), there is transmission from aid-induced consumption to investment and growth. That is, even if aid (as expected) has led to an increase in private/public consumption expenditures, the long-run positive impact of aid on consumption is seen to be accompanied by a positive impact on investment and GDP growth in the majority of the countries in the sample. This indicates that the aid-induced rise in consumption in SSA is not growth inhibiting implying the fact that other transmission channels are also at work. For instance, in the case of public consumption, an aid-induced rise in consumption can potentially lead to higher growth if it is channelled to growth-enhancing activities like health and education.

The qualitative results as to effectiveness of foreign aid are found to be similar in the majority of SSA countries, while these countries are found to be rather heterogeneous with respect to the transmission of aid to the macro variables. As indicated by Juselius et al. (2014), this emphasizes the need to focus more on country-level time series analysis in order to give proper policy advice on individual countries.

Reference is also made to the paper by Lof et al. (2013), which is forthcoming in *World Development* 2014. It further corroborates the time series conclusions drawn here. The convergence of results from sound and up-to-date cross country and time series analysis regarding the positive impact of aid on growth at the macro-level is worth noticing. This reconfirms the absence of micro-macro paradox in aid effectiveness. Instead, the paradox is embedded in inappropriate use of existing econometric methodologies and/or data issues.¹⁶

The available time series data can thus also be adduced as *evidence that aid works, in the sense of positively contributing to growth.*

To summarize, there is convincing time series country-level evidence to support a conclusion that aid has a positive long-run impact on investment and GDP growth in countries in SSA. The time series data shows that aid works.

2.1.3 Meta-analysis

The evidence we have presented so far relies on results from individual aid-growth studies. Another approach to assess the empirical evidence on aid and growth is to ask ‘what does the accumulated empirical evidence, *on average*, say about the impact of aid on growth when one combines the results from individual studies?’ Addressing this question using a so-called ‘meta-analysis’ technique where a regression from each study is treated as an observation of ‘the underlying reality’ is a key objective of the ReCom paper by Mekasha and Tarp (2011), published in the *Journal of Development Studies* (Mekasha and Tarp 2013).¹⁷ Accordingly, these authors focus on two main research questions that are common to any standard meta-analysis: (i) whether the empirical effect (of aid on growth) is different from zero when one combines the existing empirical evidence; and (ii) if so, whether the effect is genuine or an artefact of publication bias.¹⁸

In the course of their work, Mekasha and Tarp also provide a careful assessment of the study by Doucouliagos and Paldam (2008) (henceforth DP08), since they rely on their database of 68 aid-growth studies. As noted earlier, DP08 concluded that the aid effectiveness literature has ‘failed to show a positive and statistically significant effect of aid on growth’. Mekasha and Tarp therefore start by replicating the core aid-growth analytical results of DP08, and in doing so identify three major concerns with the DP08 study: (i) problems with the econometric model choice, (ii) inappropriate statistical choices related to measurement of the effect of aid on growth and calculation of the weighted average effect of aid, and (iii) errors in data entry and coding.

Pursuing more appropriate choices that better reflect the econometric, statistical and data challenges at hand, and in line with best practices and guidelines in meta-analysis methodology, Mekasha and Tarp arrive at a conclusion that is in stark contrast with DP08. In fact, the meta-evidence from the aid-growth literature (based on studies defined by DP08) indicates that the impact of the aid on growth is, on average, positive, statistically significant and genuine i.e., not an artefact of publication bias. While Mekasha and Tarp are careful not to overextend the implications drawn due to methodological and other concerns, the overall message of their work is largely consistent with the conclusions of other ReCom papers summarized in this report.¹⁹

Thus, the *main message of the meta analysis* can be summarized as: when one combines the accumulated aid-growth empirical evidence, using appropriate meta-analysis techniques, the evidence suggests that *aid has had a positive and significant impact on economic growth, on average.* Moreover, this empirical effect appears to be genuine instead of an artefact of publication selection (bias).

Moreover, it has long been understood in the medical profession that a zero meta-impact result does not in any simple way mean that the medical practitioner should immediately stop the ‘treatment’ and leave the ailing patient alone. Instead, he/she should dig deep and find ways to make the treatment work better while trying to figure out what part of it works and what part does not. To be sure, an insignificant effect estimate is not a proof of absence of an effect; it simply indicates that there is lack of enough evidence to disprove the ‘no effect’ hypothesis.

2.1.4 Aggregate evidence

In sum, an array of recent macro-economic studies provides consistent support for the view that aid has a positive average effect on growth. The conclusion that aid is ineffective finds very weak support; and the notion, espoused by for example Moyo (2009), that aggregate aid is actively harmful for growth on average does not find support in the recently-published empirical studies. Arndt et al. (2014) add nuance by noting that the existing post-2008 evidence suggests that when aid impact is assessed over short time horizons the macroeconomic effects of aid are highly variable and potentially negative. However, when viewed over long horizons (e.g., 30 years or more) a consistent and favourable picture emerges.

Overall, we assert that it is safe to say that a sustained aid inflow of 10 per cent of GDP can be expected to raise growth rates by approximately one percentage point on average. The above authors also review the parameters estimated in the studies in Table 1 and show that they are both coherent with plausible parameterizations of an economic model derived from theory, and that there is substantial heterogeneity in the aggregate effects of aid. This implies that the latest empirics indicate that aid has in practice had about the impact on growth that we reasonably should expect it to have, once we adopt a reasonable model with reasonable parameters. Finally, the evidence is consistent with an average internal rate of return (IRR) of 7.3 per cent (as shown by Arndt et al. 2014). This is arguably a very respectable result considering that aid has over the years been supplied for many other reasons than economic growth.²⁰ *The aggregate evidence also shows that aid works in stimulating growth.*

2.3 Discussion and analytical considerations

Empirical research on the effect of aid on growth dates back to the early 1970s. Since then numerous efforts have been made to empirically scrutinize the effectiveness of aid in promoting growth. Though some studies from the early days tended to find a positive and statistically significant impact of aid on growth,²¹ subsequent work did not concur with this optimistic conclusion and instead suggested that foreign aid may have no impact on growth.²² Mosley (1987) came up with the idea of a ‘micro-macro paradox’ noting that while aid seems to be effective at the micro level, a positive and significant impact could not be established as one moved to a macro setting.

The above pessimism regarding the macro level impact of aid instigated, from the early 1990s, further proliferation of aid-growth empirical studies on both sides of the debate. After some time, the tone of the debate started to take a different course from ‘aid doesn’t work’ to ‘aid works but only under certain conditions’. The emergence of the paper by Burnside and Dollar (2000), which suggests that ‘aid works’ *but* only in countries with good policies, marks the beginning of this debate.²³ As is evident in a series of papers from the early 2000s, the policy conditionality argument is fragile at best, and at worst misleading.²⁴ For example, Hansen and Tarp (2001) have shown how a diminishing returns story, captured by an aid squared term, has the most support in the data, suggesting that aid has, on average, a statistically significant positive impact on growth for realistic data ranges. Dalgaard et al. (2004) have also contributed. They found a modest and yet significant positive effect of aid on growth suggesting that the effectiveness of aid seems to vary across geographic locations.²⁵ Other researchers like Clemens et al. (2012) on the other hand report a much higher effect of aid on growth by disaggregating aid into different components.

Even if a positive and yet modest impact of aid on growth at the macro level started to emerge around the turn of the millennium, scepticism about macro level aid effectiveness continued. Prominent here is Rajan and Subramanian (2008), who argue that aid has no systematic impact on growth, and they also claim that this holds under various model specifications. Moyo (2009), in a book titled *Dead Aid*, goes a step further and argues that aid is not only ineffective in spurring growth but is also the source of development problems in Africa. As recognized by a range of commentators, this book is in general characterized by its simplistic analysis, lack of rigor and unrealistic policy recommendations. A similar pessimistic conclusion about aid effectiveness was echoed by Doucouliagos and Paldam (2008). While shying away from recommending the shutdown of the aid industry, their analytical results have been carefully assessed by Mekasha and Tarp (2013) as already discussed.

At this point it is worth mentioning how a misreading of the available evidence plays its own part in fuelling the controversy in the aid effectiveness debate at the macro level. In principle, lack of evidence (what is commonly referred as an ‘insignificant coefficient estimate’ in the parlance of econometrics/statistics) does not imply absence of evidence as to the effectiveness of aid.²⁶ It simply tells that one does not find enough evidence to disprove the null hypothesis i.e., to suggest the presence of ‘an effect’ given the data and time period used for the analysis at hand. Such evidence is just one possible outcome and cannot be taken as a proof of absence of an effect in general. Therefore, studies with a statistically insignificant estimate of the impact of aid on growth should not be taken as proof of aid ineffectiveness. However, this type of misreading of the evidence is regularly observed in the aid-growth literature particularly at the macro level.

Despite the continuing scepticism and controversy about macro level aid effectiveness, there is a wealth of undisputed positive and encouraging results observed at the micro level.²⁷ Does this mean that the ‘micro-macro paradox’ as termed by Mosley remains unresolved? The answer is no. The micro-macro

paradox has by now been unravelled —and this goes for all of the available analytical methodologies at hand. In fact, this evidence reflects an emerging consensus in the development profession regarding the growth-enhancing impact of aid which is becoming too obvious to be ignored.

Finally, we highlight that it has been beyond the scope of ReCom to address in any comprehensive manner the challenge of understanding in-depth the substantial country-level variations inherent in the average aid-growth result reported here. Explaining this dispersion (i.e. the heterogeneity of aid) will no doubt be a key topic on future research agendas about foreign aid and growth. For now, we reiterate that it has been well beyond the scope of ReCom to address this topic as the necessary disaggregated and consistent data over time and across countries are simply not available. Similarly, we have—as is clear from the References—not aimed to generate a comprehensive set of up-to-date country-level case studies. This has also been beyond the reach of the ReCom programme for reasons of time and resources. This said, we have in some cases generated illustrative material (especially in collaboration with the AERC) to complement the more aggregate analyses reported on in this position paper.²⁸

3 Aid and employment

3.1 Donor attention to employment

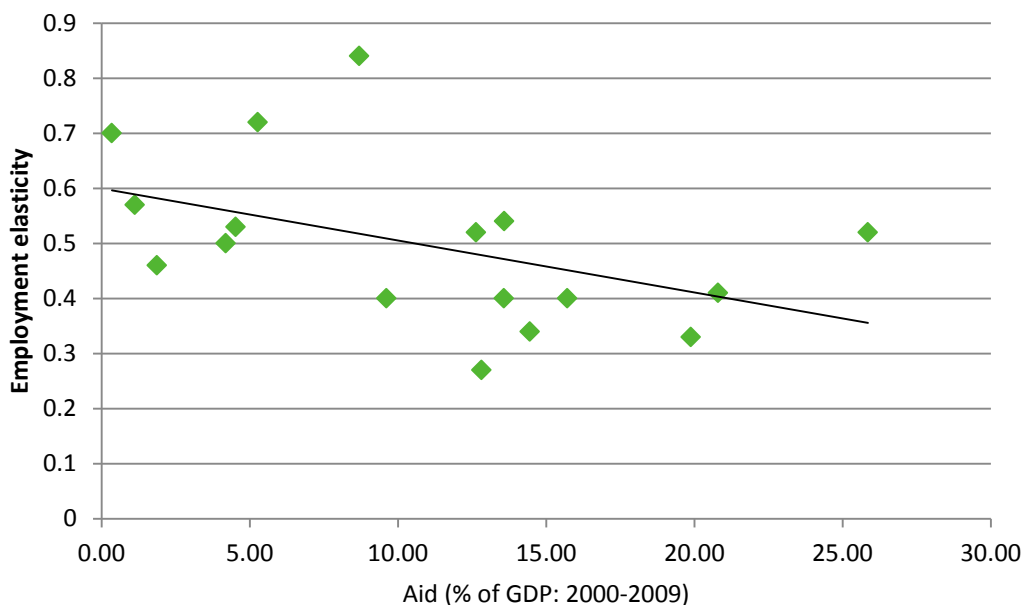
Donors have repeatedly reaffirmed the importance of employment, not least youth employment, especially in discussion around the MDGs (the target to halve poverty, in particular) and now in the discussion of the post-2015 global development agenda. They also appear in project documents regarding the rationale for private sector development and business support.

Yet we still lack a clear understanding of aid's employment impact. This includes not just the number and type of livelihoods (whether in wage- or self-employment) that development cooperation might help to create, but also the impacts on earnings and the occupational quality (security of employment as well as non-pecuniary benefits such as training). The age- and gender- profiles of such impacts are also important for policy.

We especially lack a clear view of whether aid is helping to create more and better jobs *at scale*—not just hundreds or thousands of jobs, but millions. More jobs, and better jobs, should go alongside a growing economy. If aid is contributing to growth, for which the evidence is robust, then aid should also be creating more and better jobs through the increase in labour demand that growth creates. But there are no estimates of this overall employment impact, as we have for aid's growth impact.

We do know that if we look at the correlation between the employment elasticity of growth (the amount of employment created by unit of economic growth) and aid—see Figure 1—then countries with the lowest employment elasticities have received the largest amounts of aid (Page and Shimeles 2014). This could be interpreted in several ways; that donors have not 'rewarded' countries that generate more employment from their growth; or the countries to which aid is allocated find it especially hard to create employment from their growth (if natural resource extraction (which is capital intensive) dominates growth); or donors have not worked enough with aid-recipient countries to generate more jobs from growth.

FIGURE 1
Aid and employment elasticity in selected African countries



Source: Page and Shimeles (2014).

Any impact evaluation runs up against the weakness of employment data. This hinders understanding any investment or policy impact, not just the impact of development co-operation. One future role for aid could be to step up support to employment statistics—especially for informal employment—thereby creating better statistical systems for policy formulation, and aid evaluation.

Donors have also not systematically evaluated the jobs impact of their own programmes (Delponte, 2009). Donors have not seen employment as an objective in itself, but rather as an indirect outcome of sector programmes and projects. More employment is then highly desirable, but not one for which it is necessary to set a clear objective, or evaluate the outcome relative to the objective. In the absence of base-line data, and regular data collection, it is in any case impossible to set a target, and quantitatively evaluate the outcome relative to the target.

Some donors are, however, now giving more attention to their employment impact. One is AfDB. A study for ReCom by AfDB offers a useful model for how other donors can do this; the calculations depend on a number of assumptions, but this study shows what might be done to improve our picture of aid’s employment impact (see Box 2) The IFC has also undertaken a study of the employment impact of its operations (IFC, 2013).

Box 2: Estimating the employment impact of aid

In their study for ReCom, Simpasa et al (forthcoming) of the AfDB analyze the impact of the Bank’s projects on employment. The researchers examine both the direct and the indirect impact of AfDB projects. This is especially important for infrastructure;

jobs are not only created during construction but also through the impact of the completed infrastructure on economic activity, and on the labour market. The AfDB has committed a substantial amount of funding to infrastructure; in 2011 38 per cent of the Bank's funding went to infrastructure development.

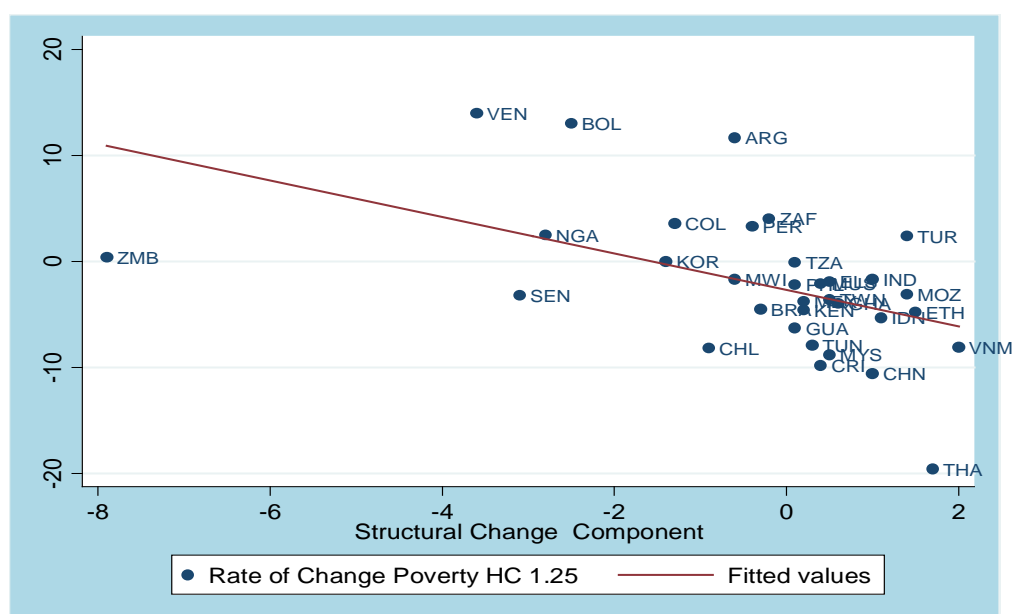
Job creation is not usually given as an explicit objective for AfDB project funding. Job creation is usually treated as a secondary impact of the project. Over 1990 to 2010, AfDB funded more than 300 public sector projects, but only 51 projects had data on employment creation. Simpasa et al (forthcoming) estimate that from US\$ 1.192 billion spent on project financing by AfDB over 1990-2010, some 200,000 jobs were created, both direct and indirect. The project with the largest employment impact was an equity investment in a West African development bank.

Using their calculations for AfDB projects, the researchers then estimate the total employment impact of all ODA to Africa. This is an innovative piece of analysis, although obviously replete with assumptions, one of which is that all aid is at least as good at creating jobs as AfDB finance. They estimate that on average, and over 1990-2000, some 6.3 million jobs were created from all donor financed projects in Africa, ranging from 3.6 million in 2000 to 11 million in 2009 (Simpasa et al. forthcoming).

3.2 Structural transformation

Structural change is a key condition for sustained poverty reduction, as labour is relocated from low- to high- productivity sectors (Imbs and Wacziarg 2003). Higher labour income is associated with higher productivity. Figure 2 shows the strong inverse relationship between the poverty rate and a measure of structural change. It is not only the rate of growth that matters, but also its *pattern*—the distribution of value-added and jobs across sectors and skills.²⁹

FIGURE 2
Rate of change poverty headcount (US\$1.25) and structural change, 1990-2005



Source: Page (2012a)

The reallocation of labour through a process of structural transformation has been, and continues to be, an important source of productivity and income growth across the successful East Asian economies. In China and Vietnam, over the past decade, structural change accounts for 4.1 and 2.6 percentage points of their respective 7.3 and 4.2 per cent annual growth in aggregate labour productivity (World Bank 2012b). The higher return on labour encourages increased household investment in human capital and this, together with training by firms, increases productivity further, stimulating yet more economic growth—thereby creating a virtuous circle (Islam 2004).

In SSA, however, such kinds of gain in labour productivity through structural change are yet to happen. Labour productivity remains low across the agricultural sector, and there is no net movement of labour into sectors such as manufacturing exhibiting higher productivity. This is despite high GDP growth. Educated labour is often unemployed, thereby discouraging human capital formation and leaving Africa outside the virtuous circle that East Asia attained. Until the 1990s, public sector jobs were offered to Africa's young college graduates, but eventually public employment ran up against a fiscal constraint; leading to 'queuing' for public sector jobs, and a devaluation of educational qualifications: 'A fairly well-educated and young labour force remains unemployed, or underemployed, and labour productivity stagnates.' (World Bank, 2012: 7).

Indeed, SSA seems to be going in the opposite direction to East Asia, notwithstanding its high growth; labour is moving from higher-productivity manufacturing into lower-productivity informal activities and from low productivity agriculture into low productivity informal work (McMillan and Rodrik 2011). Agriculture's share of SSA's labour force has fallen over the last two decades; it fell from 70 per cent to 63 per cent from 1995 to 2005 (Fox and Gaal 2008; ILO 2011). In SSA (excluding South Africa) industry accounted for 12 per cent of the labour force in 1990, it fell to 9 per cent by 1995 and has stayed there (World Bank 2005; ILO 2006; Fox and Gaal 2008). The share of labour and output in the service sector increased during the same period, but most of this is informal and low-paying.

Africa's share of manufacturing in GDP was 10 per cent in 2010, around its level forty years ago (Center for African Transformation 2013). The share of manufacturing in GDP in SSA is less than one half of the average for all developing countries. Manufacturing output per capita is about one third of the global developing country average (Page 2011). Only four African countries—Madagascar, Mozambique, Lesotho and the Ivory Coast—have a share of manufacturing in total output that exceeds the predicted value for their level of income. Many of the region's recent growth success stories—Ethiopia Ghana, Kenya, Tanzania and Uganda—have manufacturing value-added shares below the predicted values for their income level (Dinh et al. 2013).

Mozambique is one example of high growth but limited structural transformation (see Box 3). From 1996 to 2009 the percentage of the labour force in agriculture declined from 85 per cent to 80 per cent while the share of the manufacturing labour force stayed the same (at 2.7 per cent) (Jones and Tarp 2013). These researchers conclude that: '[t]he small relative shift that has occurred out of agriculture therefore can be understood as largely an urban phenomenon with the preferred destination sector being some form of services, typically (petty) commerce' (Jones and Tarp 2013: 25). Mozambique's natural resource wealth could finance a decisive break from this low-employment trajectory, but only if investment using natural resource rents raises the productivity of agriculture and creates clusters of manufacturing and high-value services—thereby delivering the creation of good jobs at scale. This is a story repeated along the east coast of Africa, with Tanzania being in a similar position.

Box 3: Mozambique: Promoting sustainable employment

Mozambique boasts one of the world's highest growth rates, averaging 7 percent per annum since 1994. However, absolute poverty remains stubbornly at around 50%, especially in rural areas. Under-employment is high. More than 300,000 people enter the labour market each year, rising to 500,000 new entrants by 2025.

Natural resource extraction is expanding but this does not create large numbers of jobs as it is capital-intensive. Most jobs are on a small farm or in an informal business. Formality is very low; in rural areas only 5 per cent of all jobs are in the formal sector, and just above 30 per cent in urban areas, with the largest category—one half of all Mozambican workers—being self-employed, in both rural and urban areas (Jones and Tarp, 2013: 20). There is little evidence that the jobs landscape in Mozambique is evolving towards growth (Arndt et al. 2007).

Around 80 per cent of Mozambicans work in agriculture, mostly on smallholder farms. People in Mozambique generally do not choose agriculture, but rather have no other viable option. Rural poverty is high (60 per cent in 2008/09). Levels of labour productivity are generally low, as few smallholders have access to improved technologies such as fertilizers and pesticides. Lack of access to physical capital limits non-farm livelihoods. Hence, the lack of poverty reduction despite the high rate of economic growth.

It is crucial to raise the low levels of agricultural productivity in order to help reduce poverty. This requires rural infrastructure investments, the use of basic technologies like pesticides and fertilizer, and opportunities for diversification of work.

In addition it is important to foster entrepreneurship in informal jobs that are outside farming, some of which offer living standards on a par with formal wage employment. To date, the Mozambican government has imposed serious barriers to expansion of the informal sector and access to finance—such as burdensome regulations, and complex and inefficient ownership and transfer rules—and this needs to be reformed.

The informal sector will remain a key source of jobs over the medium term until the formal sector expands significantly. However, the productivity of Mozambique's manufacturing firms is also low compared to similar countries, despite comparable wages. Formal sector jobs are associated with significantly higher living standards and long-term growth. Therefore, labour-intensive growth in the business sector should be promoted.

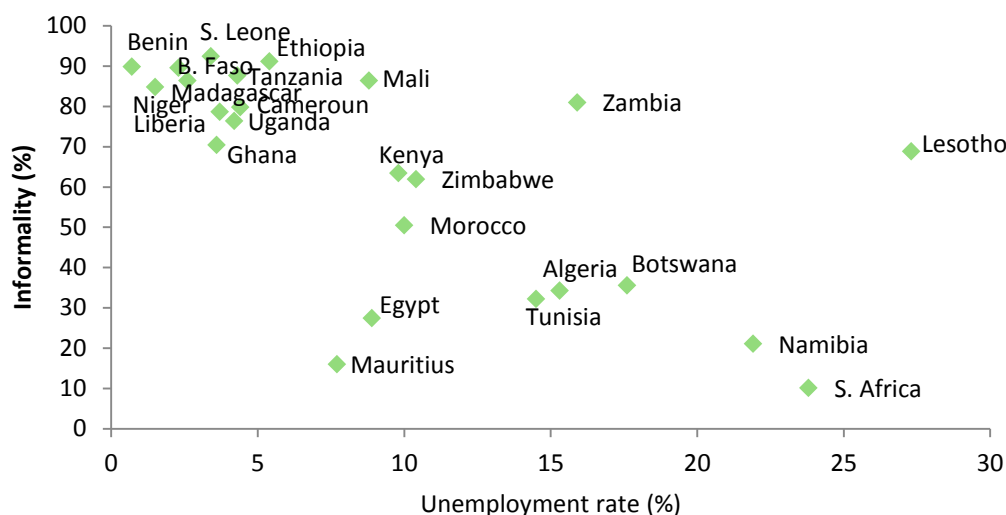
A primary objective for jobs policy in Mozambique should be to leverage the expected revenues from natural resources in order to stimulate the economy in a way that would generate the much-needed jobs. Revenues from resource extraction should be used for large, long-term public investments and policy commitments towards job creation in labour-intensive industries with potential for export. These will improve productivity and longer-term growth. Revenues from natural resources should be used to substantially improve infrastructure and logistics services in key geographic areas.

In summary, SSA is still not on the Asian path of labour-intensive growth led by formal-sector manufacturing (Page 2011). Rather, in so far as structural change is occurring, it is going in the wrong direction towards informal services that absorb a lot of labour, but pay very little (Martins 2013). Hence, unemployment is generally low, but informality is high—the problem is one of ‘working poverty’ (Ehrenpreis 2008; Fields 2012a: 4). In 2011 81.5 per cent of workers in Africa were classified as working poor, compared to a global average of 39.1 per cent (ILO 2011). On the supply side, low levels of education, limited experience, underdeveloped work skills, and lack of training all limit the ability of job-seekers to get the few formal-sector jobs that are available. These supply-side factors also constrain the profitability of informal enterprises, their expansion (including hiring) and hinder their transformation into formal businesses. However, while the supply-side drives some of the growth of informality, informality is also a demand-side story. Specifically it is the inability of economies to create sufficient formal employment to absorb job-seekers, or create a higher level of demand for informal products and services—sufficient to transform most informal business into dynamic businesses that invest in skill and equipment.

Figure 3 shows the inverse relationship between informality and unemployment in Africa. In the absence of comprehensive social protection, low-income households must work or perish (higher-income job-seekers have more resources to remain unemployed while they seek scarce formal-sector jobs). Although informality may keep people from complete destitution, and some informal enterprises at the high end of skill can prosper and pay high wages, informality—at the unskilled end—is associated with high levels of risk and vulnerability to negative shocks (Fields 2012b). With low savings rates, and few assets, current consumption is largely dependent on current income. Shocks, especially ill-health, lead to distressed asset sales and the withdrawal of children from school (and into work), with girls often being the first to be sent out to work. There is then a high probability that the household will never recover, and will remain in chronic poverty; making it likely as well that the children of the chronically poor will be as poor as their parents (Addison et al. 2009; CPRC 2009). ILO (2011) uses a concept of ‘vulnerable employment’ as a tool to evaluate decent work deficits in developing countries.³⁰ SSA’s vulnerable employment rate was 75.5 per cent in 2008, and remains among the highest in the world. Vulnerable employment can rise despite high growth; in Mozambique vulnerable employment only shows a slight decline from 87 per cent to 85 per cent between 1997 and 2007, despite the high growth in that

period (ILO (2011)). See Box 4 on the discussion on these issues at the ReCom results meeting on jobs.

FIGURE 3
Unemployment and informality in Africa



Source: AfDB (2012)

Box 4: Jobs – Aid at Work: Some findings of the ReCom results meeting October 2012

Despite the importance of the jobs agenda, not much is known about the link between aid and employment. ReCom analysis shows that the majority of the challenges are indeed development problems rather than labour market issues.

Various points were raised regarding the underlying causes of the poor quality and vulnerability of jobs in the informal sector. The major issues mentioned as constraints related to: human capital, financial capital, infrastructure and data on employment outcomes. In the first category lack of skills, particularly entrepreneurial skill, managerial skill or limited business expertise to exploit new windows of opportunity, and lack of training was indicated as being a major problem. Secondly, the financial constraint was repeatedly raised during the meeting and is identified by many as one of the most binding. Thirdly, the infrastructure deficit is identified as another obstacle to improving the quality of jobs and hence earnings in the informal sector. Relevant aspects of the infrastructure deficit are: lack of regular access to electricity, absence of good roads that can connect producer destinations to major markets, limited access to mobile phones that makes information very costly leading to higher transaction costs. ReCom research evidence presented during the Jobs meeting by Page and Söderbom (2012) gives a good direction for donor intervention. Aid can help expedite the expansion of more and better quality jobs by supporting public actions to improve the investment climate including regulatory, institutional and physical environments under which both small and large firms can function.

The lack of reliable data on informal sector jobs is another issue which was repeatedly raised during the ReCom Jobs meeting. It was pointed out that this lack of information and hence knowledge about micro businesses and self-employed people in the informal sector activities makes aid interventions difficult to target.

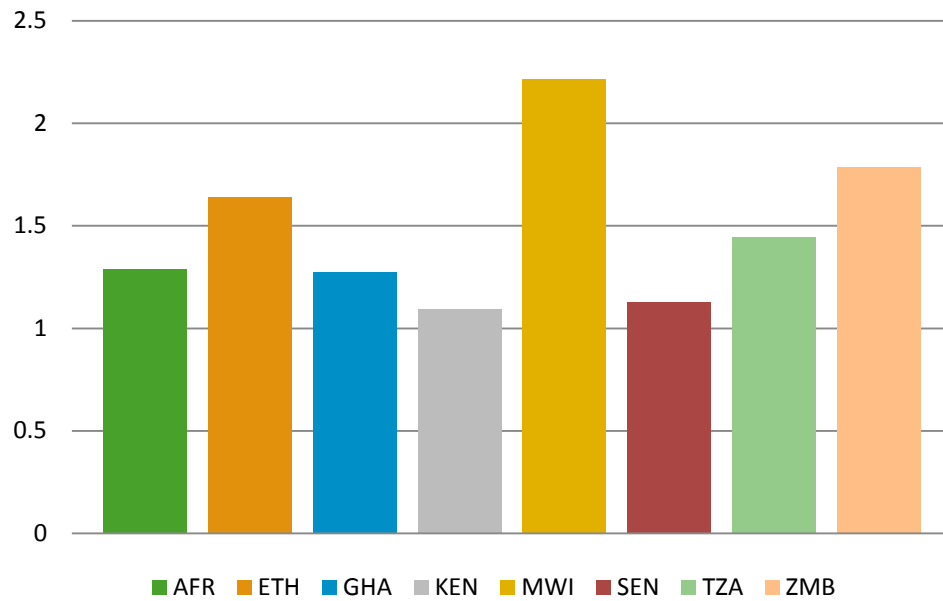
The direct roles of government include relaxing financial constraints in small and micro enterprises particularly in the informal sector, investment in infrastructure, enhancing managerial skill and capabilities through training for small- and medium-sized enterprises, coupling training with low interest credits, augmenting agricultural productivity and facilitating structural transformation. In addition, donors can also help the private sector indirectly by encouraging recipient governments to design the right policies to create a level playing field for private sector development. Moreover, aid can also help countries in attracting FDI by supporting the establishment of investment promotion agencies. Overall, the above are the major areas where aid can potentially help in private sector development and hence promote remunerative job creation. Though this is not an exhaustive list of constraints in the private sector, it can serve as an input for designing employment related aid interventions.

Promoting structural change and helping people to move into more productive jobs is one area of intervention that donors can target. This can be done, as suggested by Jones and Tarp (2013) by supporting the growth of labour-intensive, export-oriented secondary and tertiary industries.

Overall structural transformation coupled with enhancement of agricultural productivity can help in bringing poverty reduction. Thus, targeting foreign aid in achieving these objectives can have a great impact in increasing the effectiveness of foreign aid on poverty reduction.

The opportunities missed in SSA are captured in Figure 4 which summarizes the results of a simulation from (Page 2012a). The simulation assumes that sectoral productivity levels in a sample of African counties remain unchanged, but that the inter-sectoral distribution of employment changes to match that of a benchmark of Asian economies when they shifted from LIC to MIC status.³¹ The potential productivity gains from such a reallocation are substantial. On average, economy-wide productivity for the low-income African countries in the sample would increase 1.3 times. Ethiopia's productivity would increase 1.6 times, Malawi's 2.2 times, and Zambia's 1.8 times. If the structure of the typical African LIC were to shift to that of Africa's own middle-income countries, then output per worker would double.

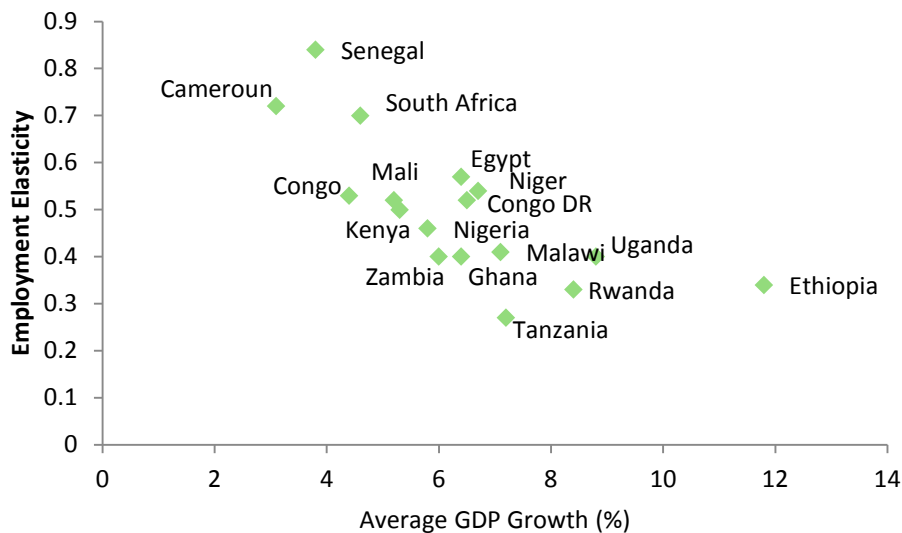
FIGURE 4
Increases in economy-wide labour productivity



Source: Page (2012a).

The absence of structural transformation and the lack of good job creation that accompanies it, is a major reason why the recent high growth rates in SSA countries—which are largely driven by the natural resource sectors—lead to only small reductions in poverty (Martins 2013). There is a strong negative relationship between employment intensity and economic growth in African countries as shown in Figure 5 (Page and Shimeles 2014). The region’s fastest growing economies—Ethiopia, Rwanda, Tanzania and Uganda—also have its lowest elasticities of employment with respect to growth. Slower growing economies—South Africa notable among them—have higher employment elasticities. The sources of growth in the region’s more rapidly growing economies have not been in employment-intensive sectors, but in the capital-intensive extractive sectors (minerals and oil and gas). Rapid growth has created few good jobs, pushing those seeking work into informal self-employment and labour on the family farm (Page and Shimeles 2014).

FIGURE 5
Employment intensity and growth in selected African countries



Source: AfDB (2012)

3.2.1 The demographic challenge

SSA’s population will more than double from 900 million to 2.1 billion by 2050—half of the world’s population growth from now to 2050—and will reach 3.9 billion by 2100.³² An Ethiopian policymaker must plan for a near doubling of the country’s population by 2050; from around 94 million today to 187 million by 2050—and nearly 250 million by the end of the century. Similarly, Tanzania will see a rise from around 50 million today, to about 129 million in 2050, and above 275 million by 2100.

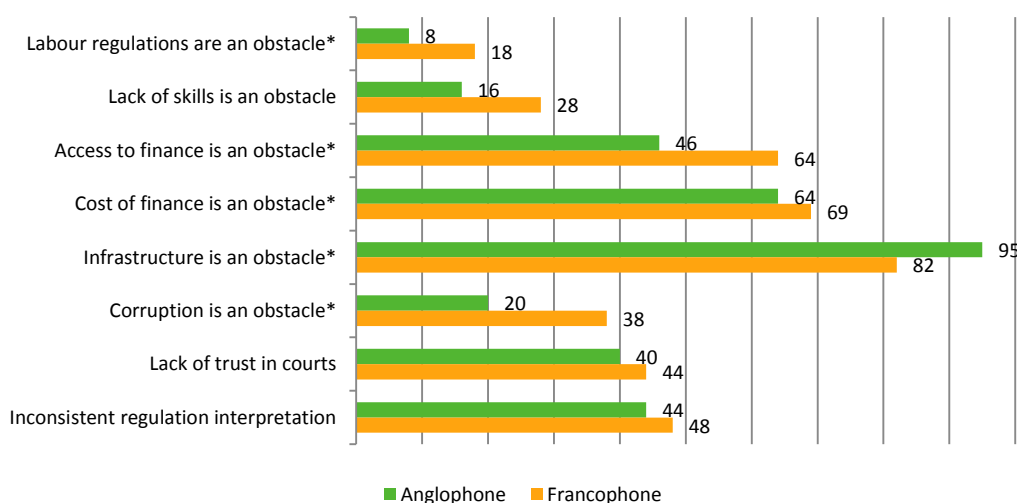
Driving SSA’s population growth is a total fertility rate of 5.4, which is well above the replacement rate (about 2.1 children per woman). Fertility rates in Africa’s fragile states are especially high—6.5 in the DRC and 7.0 in Somalia—and are amongst the world’s highest. Africa’s rising income and urbanization are factors tending to reduce the fertility rate, but it is still expected to be 3.2 by 2050 and the fertility rate will be higher in countries that stagnate at low per capita income since poverty keeps fertility high (Searchinger et al. 2013).

Such a young population might constitute a ‘demographic dividend’; a source of able young workers who raise output and, through their consumption and investment, add to the domestic market’s size as well as to the pool of savings that finances investment. But to do so, those young workers need jobs. And for those jobs to be productive and remunerative, the young need good-quality education and training. Such human capital investment can only pay off, for the individual and for their society, if structural transformation is occurring to create jobs at scale and at increasingly skilled levels that reward private and social investments in education and training. Without jobs, education, and training, and without structural transformation, the demographic dividend will be a demographic burden—a situation of rising frustration and possibly

violence. SSA will then be at risk of following North Africa down a route of grievance-led rebellion, endangering the democratic consolidation that the region needs (Harrigan 2011).

Every year at least 10 million people enter the workforce of sub-Saharan Africa (SSA) (World Bank, 2012). By default, most will end up on family farms, in rural and informal businesses (Fields 2012a; Jones and Tarp 2013). From the 1980s to the 1990s, the donor-view, and in particular the World Bank view, saw informality as largely a product of over-regulation of the labour market. Today, few formal businesses rank that issue as a major concern. Yet, informality continues to grow. The binding constraints on good job creation lie *outside* the labour market, a point reinforced in the World Bank’s *World Development Report 2013* which marks a step change in donor thinking (World Bank, 2012). Using the Doing Business country indicators for 20 SSA countries (Fox and Oviedo 2013) analyze the links between employment protection regulation and employment growth. As can be seen from Figure 6 labour regulation as an obstacle to hiring is at the bottom of firms’ perceptions of the constraints they face. Far more important are factors such as infrastructure and access to finance.

FIGURE 6
Firms’ perceptions of the investment climate, % of firms



Source: Based on Fox and Oviedo (2013)

Note: *Differences are statistically significant at the 5 per cent level.

In summary, the root cause of the dismal prospects facing young job seekers in Africa lie in the lack of structural transformation of the economy which keeps the return to labour low, and devalues investment in education and skills. It is towards these central issues that donors need to direct their attention if they are to help African countries and LICs more broadly in their struggle to create more good jobs.

3.4 Aid and agricultural employment

3.4.1 Agriculture and structural transformation

Agriculture is central to structural transformation and the creation of good jobs. Aid has undergone a remarkable amount of change in relation to agriculture. From being a sector that commanded considerable attention in the very earliest aid programmes, it is now a sector with which aid has an uncertain relationship. On the one hand, donors speak of the continuing importance (and potential) of agriculture, employment included, but on the other hand their financing of the sector does not fully square with the rhetoric.

The volume and share of agriculture in total aid fell from its peak in the mid-1980s—when it constituted 23 per cent of all aid—to a low of 6 per cent in the late 1990s and then recovered (modestly) to today’s 9 per cent (OECD 2012a: 117). The plunge is somewhat overstated (as is the partial recovery), as aid to business and private-sector development in rural areas is supportive of agriculture and rural employment, but is often not coded as ‘agriculture’ in the OECD-DAC system of aid reporting. Ways of measuring aid to agriculture fell behind changes in donor support, although tracking of aid to the rural space is now improving with the Global Donor Platform for Rural Development, a grouping of 30 plus donors (Cabral and Howell 2012; Chimhowu 2013: 2).

Yet, while this takes some of the edge off the decline in aid to agriculture, nevertheless agriculture as a *productive sector* and provider of millions of livelihoods has seen a shift way in donor support in the core areas of input provision, marketing, infrastructure, and productivity enhancement, as compared to the 1980s (Chimhowu, 2013).³³

This is also evident in the decline of agricultural expertise in donor agencies. Take for example, the World Bank group; the largest provider of development finance for agriculture globally (with an FY13 portfolio of US\$10.5 billion). Successive reorganizations reduced the number of agricultural specialists from 1987 onwards. Alarm at the impact of the attrition on the activity and quality of the Bank’s engagement with African agriculture first appeared in a 1991 review (World Bank 1991: 4-5). From 1997 to 2006, the number of agricultural specialists in the Bank more than halved, adversely impacting Bank operations according to a 2007 IEG review (World Bank 2007: 36). Subsequent to the IEG report, the Bank has now increased the number of its agricultural specialists back to around its 1989 level.

What explains the fall-off in donor attention to agriculture? The fall in agriculture’s aid share could be expected once donors committed to the MDGs in 2000, with their human development focus, and the shift of aid towards health and education. Yet, aid to agriculture was in a strong downward trajectory *before* 2000. It was not even a case of a declining share and a flat or slowly rising volume: both fell hard.

Since the millennium agricultural aid has risen again, although this rise is partly inflated by the merger of broader food security initiatives into the statistics for agricultural aid (Cabral and Howell (2012: 2). The global food price spikes of 2008 as well as the entry of the Bill and Melinda Gates Foundation into agriculture provided a catalyst for the partial rebound in aid over more recent years. But aid to agriculture is still nowhere near its late 1980s peak.

Agricultural aid's relative decline sits uneasily with donors' commitment to poverty reduction, given how many poor people still make their living in agriculture or related off-farm activity. The evidence of agriculture's importance to the poor is robust and in plain sight. For the developing world on average, and looking at a wide range of studies, a 1 per cent (annual) increase in agricultural growth yields up to 2 to 3 per cent of income growth for the poor (World Bank 2007: 30; de Janvry and Sadoulet 2009: 6).³⁴

The uptake of unskilled labour is central to the poverty-reducing power of agricultural growth as agriculture is the most labour-intensive sector in the majority of countries. The chronically poor, for whom poverty persists through their lifetime, have little else to sell than their labour and since most are illiterate their work is unskilled (Scott et al. 2013: 5). Moreover, growth in agricultural value-added not only tightens labour demand in agriculture, it also spills over into tighter labour demand in non-agricultural sectors, as labour is drawn into agricultural employment.

For these reasons, agricultural growth is almost three times more poverty reducing than growth in manufacturing, and nearly two times more poverty reducing than growth in construction, as these non-agricultural sectors are less intensive in unskilled labour (Loyaza and Raddatz (2010). The poverty reducing effects of agricultural growth are generally at their strongest in sub-Saharan Africa and South Asia.³⁵

Without more donor and government commitment to agriculture it is hard to see how the '... quantum leap forward in economic opportunities and a profound economic transformation to end extreme poverty and improve livelihoods' demanded by the UN High-Level Panel on the post-2015 agenda can occur (UN, 2013: 8). The role and level of support of aid to agriculture is a central issue that donors need to discuss amongst themselves and with their country partners (Addison et al. 2014).

3.4.2 Aid, agricultural productivity and diversification

There is considerable evidence that agricultural research and development (R&D) has high private and social rates of return (Ruttan 1980; Alston et al. 2000). This includes R&D undertaken by the donor-supported CGIAR, which has very high rates of return (documented in CGIAR 2011). In Africa, productivity success is being achieved with new varieties of rice and in West Africa, as well as maize in Eastern and Southern Africa, with financial support from multilateral and bilateral donors (Adekunle et al. 2012: 12; Kanu et al. 2014).

Agricultural R&D helps to reduce poverty, not least by raising employment and the returns to labour, on- and off- the farm (de Janvry and Sadoulet 2002). As productivity increases, more employment is created in processing and distributing agricultural products, thereby adding value and creating new markets—both domestically and for export. The employment multiplier is high for agriculture; for every direct job created by projects in Tanzanian agriculture through farming and husbandry, another 3 jobs are created indirectly (amongst the suppliers of agricultural inputs, marketing etc) and by the rise in rural consumption that creates extra demand for non-farm products and services (IFC 2013: 9). The benefits of non-farm employment creation are enhanced if the education and skills of the poor are built as well, and their credit constraints reduced through micro-finance.³⁶ Finally, as the real price of food falls—with increased supply—so the main item in the consumption basket of the poor moves in their favour (especially important for landless labourers who buy almost all their food) (Kerr and Kolavalli 1999).

Development history is full of success and failure in poverty reduction depending on the outcome in agriculture. Indonesia and Vietnam's success in reducing rural poverty was built on promoting agricultural technologies that added enormously to labour demand and then, after a lag as underemployed labour-time was absorbed into productive use, to rural income (Osmani 2005: 53). In contrast, low agricultural productivity growth is one of the reasons poverty in Mozambique has stagnated at around 55 per cent, well above its target level (Arndt et al. 2012b: 2). The 2013 *World Development Report* on jobs puts it well: 'Since 1700, virtually every example of mass poverty reduction has actually begun with an increase in agricultural productivity' (World Bank, 2012: 191).

From the mid-1980s until around ten years ago, donor support to national agricultural R&D slid inexorably. Moreover, aid has been highly volatile to national R&D, and more *volatile* in Africa compared to the rest of the developing world, adding to the difficulty of building strong and effective institutions (IFPRI, 2014: 59). In SSA national R&D remains highly dependent on donor funding—funding half the budget is not unusual—and donors tend to drive the research agenda, which is not necessarily aligned with national priorities (Stads 2011; IFPRI 2014: 59). Institutions move in and out of financial crisis depending on the availability of large donor grants.

For agricultural productivity we therefore face a paradox: ample evidence of high returns to growth and poverty reduction from R&D, yet weak donor support—until the partial recovery of recent years—and only modestly rising government support (but not in all cases). If we believe in evidence-based policy, then something went badly wrong from the mid-1980s onwards—and for a long time—as evidence did not seem to motivate aid policy.

The situation is now changing, somewhat. The launch of the Comprehensive Africa Agriculture Development Program (CAADP) in 2003 marked a turning point, at least in official commitment. Since then USAID in particular has re-engaged with agricultural research after some 20 years of relative neglect (the latter being a paradox in itself, for the United States is one of history's most

successful examples of agricultural growth). One catalyst has been the Bill and Melinda Gates Foundation, which moved vigorously into agricultural R&D. More recently, the G20 Cannes meeting in 2011 agreed to put more resources into agricultural research. The CGIAR led ‘Support to Agricultural Research for Development of Strategic Crops in Africa’ (SARD-SC), with a US\$62 million grant from the AfDB, is an example of a new ambition to raise the scale of donor impact—in AfDB at least (AfDB 2011). SARD-SC focuses on four strategic crops: cassava, maize, rice and wheat, and includes employment generation, poverty reduction, and women’s livelihoods amongst its explicit objectives.

As they once again strengthen their support to agricultural R&D, donors need to support research into the crops and technologies of special importance to the achievement of inclusive growth, including both absolute poverty reduction as well as gender equality. This is especially so in much of Africa, where farmers continue to have little access to drought resistant varieties and improved seeds; their use of fertilizer and pesticide is low, animal and mechanical traction is limited, and much of the sector is rain-fed rather than irrigated. Positive poverty impacts may occur through raising yields for crops in which poor smallholders specialize, and/or through crops and technologies that raise labour demand across the sector, and in the processing and distribution components of the value chain (Hazell and Haddad 2001). There are large potential indirect employment effects from the adoption of technology—via the expansion of non-farm employment in particular—and impact assessments of donor support in this area need further investment to improve their methodology (de Janvry et al. 2010). Moreover, as with discussion around the earlier ‘Green Revolution’ technologies in Asia and Latin America, there is concern about the distributional impact of new seed technologies in Africa; whether these predominately benefit agribusiness over smallholders, and whether they undermine traditional seed systems upon which poorer farmers depend (in rice for example).

Agricultural technology alone does not constitute a ‘magic bullet’. When the policy environment is unsupportive, and makes agriculture unprofitable, farmers will not plant traditional varieties, and neither will they plant new varieties—and they will not hire labour to help with the planting and harvesting. In raising output, agricultural technology reduces prices, and farmer profits, if demand remains constant. Any employment growth will then be limited. If new technology is introduced into an area where the road infrastructure is so poor that farmers cannot get increased output to markets other than the local, then prices could fall steeply. Infrastructure is needed to give farmers access to the demand provided by national and international markets. Social protection by raising household cash income can provide a new source of demand, especially as the food share of poor households’ expenditure is high. Through rising demand, farmers are encouraged to take on more labour, and their own labour yields a higher income. Agricultural R&D needs therefore to be seen as part of a *package* of measures that transform both the supply side and the demand side of agricultural livelihoods (Jensen and Tarp 2004).

In summary, poverty reduction and gender equality in relation to agricultural productivity and diversification remain key research challenges in which to build national and international capacity for research, their economic and social impact included. Understanding better the employment impact should sit at the centre of that endeavor.

3.4.3 Achieving scale in agriculture

Agriculture is right at the heart of impact at scale in jobs, for notwithstanding the growth of Africa's urban population, much of that growth is through natural population increase, rather than rural-to-urban migration. Natural population growth will mostly occur in rural Africa, and job-seekers there will look first to agriculture and rural non-farm employment. Moreover, the towns and cities will need to be fed as they grow. While manufacturing has great potential, we must be realistic about how much labour manufacturing can absorb, given the sheer size of the increase in the working-age population. Agriculture needs to sit at the top of the jobs agenda in the post-2015 development agenda.

Instead of scale in agriculture, aid has proliferated small projects. In Ethiopia, for example, 20 donors supported at least 100 agricultural projects in 2005 (World Bank, 2007: 257). It is difficult to believe that impact at scale can be achieved through a mass of ever-smaller donor projects.

For Africa as whole, agriculture as a share of public spending has not risen sufficiently to compensate for the fall in the share of ODA allocated to agriculture. The majority of African governments still spend less than 10 per cent of their budgets on agriculture, despite the 2003 Maputo declaration that committed governments to raise agriculture's share of their budgets—the consensus being that at such a level scale would be achieved (AfDB and IFAD 2010: 27; IFPRI 2014). Ethiopia is one standout exception, and this has helped agricultural growth reach 7 per cent annually over 2000-08, exceeding China and Vietnam's agricultural growth (of around 4 per cent annually), where agriculture also takes an above-average share of the public budget (Cleaver 2013: 9). Overall, both ODA and public spending on African agriculture is too low relative to the livelihoods it creates. Donors need to encourage and support governments to raise their spending, around well-crafted sector strategies.

Some action is now happening; the food-price spike of 2008-09 being one catalyst. At the G8 summit in L'Aquila in 2009 governments from both developing and developed countries committed themselves to raising investment in agriculture. IFAD is one donor that is now taking scaling up seriously (Hartmann et al. 2013). The 9th replenishment of IFAD in 2011 backed the scaling-up agenda. In Peru, IFAD moved from a small-project approach, characterized by projects that were uncoordinated and mostly did not scale-up, to working with government and communities on a long-term (20-year basis); IFAD's initiative in Peru is having significant livelihood, poverty reduction, and food security impacts (Cleaver, 2013: 15). In Rwanda, both AfDB and IFAD now concentrate their resources on budget support and

a limited number of large projects instead of scattering them across many small projects (AfDB & IFAD, 2010: 68). Concentration of this type can only be done once a well-defined sector strategy is in place, which implies investment in local analytical capacity.

3.5 Aid and infrastructure

3.5.1 Overview

Infrastructure ranges from transport systems to energy to communications to water and sanitation. The need for infrastructure is large and it is expensive. Public money together with donor aid can only do so much. Infrastructure investments by businesses and communities are important too, and aid can support these alongside public infrastructure investment.

For countries, climate change adds to cost and the complexity of developing an infrastructure strategy, and positioning the role for aid and other finance. Adapting to climate change requires large new investments, the upgrading of old ones, and increased maintenance. In many LICs the current (inadequate) stock of road infrastructure will need more maintenance in the face of increasing temperatures; precipitation and flooding (Arndt et al. 2012a, on Mozambique). The ReCom position paper on Aid, Climate Change and the Environment discusses these issues further.

In creating and implementing an infrastructure strategy, countries and donors have the opportunity to create employment and boost incomes. This does not mean building infrastructure primarily as a means to create more employment (either in its construction phase or when it becomes operational, when labour is used in its maintenance). The economic return must be high, both as a project per se, and in contributing to overall economic growth and structural transformation. The environmental impact of the infrastructure project must also be positive. Building infrastructure that harms the environment might create jobs in the short-run, but will destroy them in the long-run by reducing the environmental sustainability of growth. Environmental impact assessment is now integrated into the preparation of donor infrastructure projects.³⁷

3.5.2 Infrastructure's direct employment effects

Globally, the construction industry provides considerable employment (Wells and Hawkins 2010). In MENA, construction account for up to 40 per cent of all employment (Estache et al. 2013). In SSA, construction is at high levels in resource-rich countries, and in countries recovering from conflict, such as Cote d'Ivoire, Liberia, and Sierra Leone.

Infrastructure projects have direct employment effects, via the different types of labour used in their construction and maintenance. Direct employment impacts are higher in low-income countries than in middle-income countries, (MICs) since wage costs are lower. Spending US\$ 1 billion on infrastructure generates six times as many jobs in LICs as in upper-MICs in the MENA

region (Estache et al., 2013: xxiii). This difference is higher for SSA, where wages are exceptionally low.

Direct employment impacts can be increased even further. Switching to more labour-intensive technologies in, for example, the maintenance of unpaved roads can generate considerable numbers of jobs and save costs as well (Islam and Majeres 2001; Devereux and Solomon 2006). However, this is not as straightforward as it might first appear. Additional funding must be spent on training to expand the pool of construction workers, which in Africa is below the developing country average. There is a potential role for donor support to such training, as private contractors are unlikely to invest in large-scale training beyond their own needs.

Increasing the use of local contractors is critical. This can catalyze more development of SMEs and larger companies in the construction sector. Local firms generally use more local labour, as opposed to international contractors who use larger amounts of foreign labour (this is a common criticism of Chinese construction projects in Africa, in particular, but it applies to many European firms as well). However, the procurement rules used by the multilateral development banks (MDBs) for large infrastructure projects appear to be unduly rigid, sometimes working against local construction companies and local jobs; foreign contractors transfer little of their knowledge down the supply-chain to local contractors using local labour—and without that knowledge they remain unable to bid successfully (House of Commons 2011: 24). AfDB is pushing hard to improve this situation, and the share of African firms in AfDB financed contracts now exceeds 50 per cent by value (AfDB 2014: vii).

Infrastructure projects can also be used to raise employment for women, as well as excluded ethnic and caste groups. These have been the aims of DFID funded road-projects in Nepal over 2000-12 which connect remote communities to the national road network via the labour-intensive construction of feeder roads (Chapman et al. 2007: 21; DFID 2010: 56). The programme has had impact at scale; over its life it has provided around 10 million days of employment, for 150,000 poor and disadvantaged people through the construction of 1,500 kilometres of rural roads and 2,200 pedestrian bridges (House of Commons, 2011: 75). Some 42 per cent of the workers were women (and over 50 per cent in some years) (DFID 2010: 56; 2013: 2). In Cambodia, women constituted over 40 per cent of the workers in the Labour-Based Rural Infrastructure Rehabilitation Project (Munters 2003)

These direct employment impacts of infrastructure help build inclusive growth. They may also contribute to stabilizing post-conflict countries by employing ex-fighters, unemployed young people who may otherwise be recruited by warlords, and by reducing grievances associated with 'horizontal' (ethnic and caste) inequality which is often associated as well with regional inequality resulting from the neglect of remote regions (including the provision of infrastructure). This has been one of the overarching aims of the DFID road programme in Nepal.

In post-conflict countries, many areas did not have much infrastructure before conflict's onset—this often being a source of grievance—so it is not just a question of rebuilding what existed before, but often starting afresh to transform and reduce spatial inequality and build up livelihoods in disadvantaged areas (Addison and Brück 2008). There are, however, tensions: providing jobs through public works for young male ex-fighters may be stabilizing, but these are not necessarily among the poorest people, and resentment can build if they are the only priority—a comprehensive poverty reduction programme for *all* the poor is necessary.

Labour-intensive works programmes ('public works') are especially important during the slack season of the agricultural year when labour is underemployed.³⁸ They have been used for decades, but increasingly as an instrument they 'shake hands' with social protection as a strategy. It is important to do so, because historically many works programmes in Africa have been ad hoc, often in response to harvest shortfalls and other crises. This leads to inefficiency and higher costs in comparison to Asian works programmes, which have been more sustained and have had a broader coverage than any programme in Africa.

3.5.3 Going to scale: Ethiopia's rural safety net

Ethiopia is an especially important case, given the country's history of famine. But it is also a major example of a shift to impact at scale in Africa for social protection conditional on work—and one that is not without controversy as regards its impact.

Ad hoc projects, including works programmes, and annual appeals for assistance historically characterized responses to Ethiopia's chronic food insecurity. Beginning in 2005, the Productive Safety Net Programme (PSNP)—which sits under Ethiopia's Food Security Programme (FSP)—replaced the ad hoc responses, to become the largest social protection programme in SSA outside of South Africa. It now provides income support to 7 million people (about 8 per cent of the population) and aims to reach 8.3 million. The government and a consortium of ten bilateral and multilateral donors fund PSNP, with a budget of US\$ 2.3 billion for the third phase (2012-15) (World Bank, 2012).³⁹

The PSNP provides work in chronically food insecure districts to build infrastructure and assets at the community level (road construction and maintenance, small-scale irrigation, reforestation, stone terracing of fields etc.). It also provides unconditional cash and food to poor households who have no members able to work on PSNP projects for reasons of ill-health, age etc.⁴⁰ One of PSNP's aims is to avoid asset depletion that often triggers the descent into destitution as households sell livestock etc. in times of hunger.

Two IFPRI evaluations provide the most robust evidence on PSNP's impact. The first, conducted 18 months into the programme by (Gilligan et al. 2009), found that PSNP together with other programmes in the FSP had helped beneficiaries improve their food security (though the early effect was modest)

and had strong effects in improving assets over 2006-08 (a principal PSNP aim); compared to a control group PSNP beneficiaries were more likely to borrow for productive purposes, use improved technology, and run non-farm businesses—PSNP thereby created indirect employment which is additional to the direct employment on PSNP projects. Since PSNP's inception the coverage of poor households has improved, and direct support to those unable to work has increased; and the PSNP has been strengthened institutionally (Devereux and Solomon 2006; DFID 2014). The second IPRI evaluation, covering the period up to 2010, again found considerable improvements in agricultural productivity when households benefited from the PSNP and other FSP programmes (Hoddinott et al. 2012).

Tafere and Woldehanna (2012) are more sceptical of PSNP; they conclude that the PSNP has had no significant effect on household food-security.⁴¹ Note, however, that any evaluation of the PSNP's impact is complicated by the 2008-09 spike in global food prices (which reduced the real value of cash transfers—leading to a partial switch back to food transfers—and a shortfall in PSNP's budget, which was absorbed into an increased budget for the third phase (World Bank 2012a). In addition, with so many households now being PSNP beneficiaries, the result of improved targeting and coverage, it is not now viable to assess PSNP impacts by making comparisons with a control group of non-beneficiaries (as was done in the programme's first years) and other techniques have to be used (Hoddinott et al., 2012).

A larger question is whether linking work to transfers, in cash or kind, is the best form of social protection. This is part of a still larger debate on the merits of conditional versus unconditional social transfers, which we cannot do justice to here (see instead the ReCom position paper on 'Aid to the Social Sectors').⁴²

In summary, the construction of infrastructure, both large and small, generates direct jobs. In the area of commercial construction, it is clear that more needs to be done to enable local contractors to bid effectively on donor-supported projects. Training and skill development can help here, but donors should also revisit their procurement procedures. In the area of public works programmes, we are now seeing impact at greater scale. But there remains the question of whether social protection conditional on work is the best way to provide social protection per se; this is bound up in the larger debate on the relative merits of conditional versus unconditional cash transfers and if conditional, conditioned on what (educational participation versus work) for example. We also do not have much systematic evidence on the quality of infrastructure created and maintained by public works and its usefulness to communities in comparison with alternative means to infrastructure development. In resolving this question, a great deal hinges on the evolution, as well as the ultimate outcomes of large works programmes such as Ethiopia's PSNP.

3.5.4 Infrastructure's indirect and induced employment effects

In recent years, economists have tried to move beyond reliance on just the narrow lens of traditional cost-benefit analysis, to assess infrastructure's larger impacts through spillover and network effects—the impacts on value-added and employment in the regional and national economies overall. Employment created in this way is addition to the direct jobs created by projects. It consists of 'indirect' jobs (those created in suppliers and distributors) and 'induced' jobs (those created by the higher income and consumption resulting from more direct and indirect jobs) (IFC, 2013: 9).

The indirect and induced employment effects of infrastructure projects are captured by the calculation of 'employment multipliers': the total number of jobs in the economy created for every one direct job (Ianchovichina and Gable 2012). This provides the larger picture of job creation. Evidence is scattered, but compelling. In Malaysia, these multipliers range from 3.5 in the power sector to 1.7 for building and construction, and in Egypt they ranged from 1.6 in building and construction to 1.2 in water and sanitation (ILO 2010; Bekhet 2011).

In summary, the indirect (induced) employment impacts can be much larger than the direct employment impacts. What are the channels through which infrastructure creates jobs, and how can aid contribute? Without being exhaustive, we can highlight the following as especially important, drawing upon ReCom and other research:

3.5.5 Stimulate increased private-sector investment and hiring

Capital formation is a key driver of employment and earnings growth over time. Infrastructure investment encourages private-sector investment by lowering the costs of business, and increasing market access for producers to both inputs and outputs; these impacts raise the private rate of return on new investment. (Eifert et al. 2008). The issue is important for all LICs, but especially in SSA which lags at least 20 percentage points behind the LIC average on nearly all infrastructure measures (Page and Söderbom 2012: 16). Lowering the indirect costs of business is especially important for developing internationally-competitive manufacturing and formal service sectors in Africa, as Africa's advantage in low wage costs is more than offset by the very high cost of power, water, and transport facing firms (Eifert et al., 2008). Contrast, for example, the typical Vietnamese firm with its access to good infrastructure with that of a typical firm in SSA. For these reasons, a ReCom study by Mallaye and Urbain (2013) finds that aid for infrastructure positively and significantly affected physical capital formation in 37 SSA countries over 2000-10.

However, Mallaye and Urbain (2013) also find the benefit to be smaller in post-conflict countries, perhaps indicating that insecurity holds back some private investment, and therefore that the economic benefit of infrastructural

investment is not maximized until peace is secure (see Addison and Murshed 2005 on the latter). This indicates that more support to peace-building will raise the rate of return on aid to infrastructure, and that aid's effectiveness cannot be considered in isolation from peace and security. The reconstruction zones proposed for post-conflict countries such as Liberia by del Castillo (2012), in her ReCom study, can reduce uncertainty among private investors. This could help aid-financed infrastructure stimulate a bigger private investment response, and bring the rate of return on infrastructure up to that in peaceful aid recipients. More employment impact will then result.

3.5.6 Promote economic integration—at local, national, and international levels

In low-income countries, especially ones that are large with difficult geographies, local markets often have limited connectivity to each other, and to the international market. Infrastructure helps turn multiple local economies into an integrated national market connected to the wider world. In doing so it has big effects on prices, for both producers and consumers, as goods and labour move locally, leading to more economic efficiency and employment. Infrastructure is often said to help backward regions; it can do so, but in some cases it may concentrate yet more employment in advanced regions by removing a 'natural' barrier to trade and labour movement (Estache and Fay 2007: 15). Infrastructure on its own cannot solve the problem of backward regions.

For Africa, market access is a fundamental driver of the possibilities for creating jobs and raising labour-income on the scale achieved in Asia. Within SSA, access to foreign markets has become more important over the last decade in explaining economic outcomes across countries (Bosker and Garretsen 2012). In manufacturing, the international evidence shows that exporting firms create more and better employment at higher wages than import-competing firms, as they operate at a larger scale, with a higher capital intensity, and labour is on average more productive and better paid.⁴³ This export wage-premium is especially large when exporting is combined with high labour-skill (Munch and Skaksen 2008).

For the creation of good jobs, it is therefore of great concern that Africa's export volumes are about 16 per cent lower than what would be expected given the standard determinants of trade (Freund and Rocha 2011: 361). Whereas in the 1980s, export taxes and import tariffs (often quotas) were high on the list of binding constraints on international trade, today it is often transport infrastructure and cumbersome administrative processes at borders. This is important not just for trade between Africa and the rest of the world; intra-SSA trade is a driver for African manufacturing as the bulk of SSA manufacturing exports still go to other SSA countries (UNCTAD 2009).

Hence, today, infrastructure improvement and making border procedures more efficient have bigger potential impacts than further trade liberalization. Freund and Rocha (2011) find that an increase in inland transit time by one day

reduces exports on average by 7 per cent, which is equivalent to the effect of a 2 percentage point reduction in all importer-country tariffs. More donor support could help raise employment by expanding trade. One promising donor supported initiative is Trade Mark East Africa, which reduces the time in customs clearance, and thereby raises the return on trans-border transport investments as well.⁴⁴

In economics, the term ‘non-tradables’ refers to goods and services that may be bought and sold in a market, but whose price is not affected by international market conditions (the term ‘tradables’ applies to goods and services for which this is the case). For non-tradables, local supply and demand conditions drive the price; international demand and supply have no effect. To take one example, lack of transport infrastructure can make it prohibitively expensive to move a food crop in and out of a region. Rice, for example, may be non-tradable in one locality, but tradable in a locality where infrastructure connects it to international markets. The prices of non-tradable foods are often highly volatile as their supply depends on local climatic conditions. Local price spikes caused by drought can hit food security hard.

Infrastructure investment can turn a non-tradable into a tradable, generating export opportunities and, for food crops, improving food security as food can move more easily to alleviate local shortages. Rice in Vietnam is an example of this success. With the growth of exports, comes more employment, a tightening of the labour market, and higher wages.

By financing infrastructure, aid can help this process. In Vietnam, the World Bank supported a rural transport project to stimulate market development in this way; some 5,000 kilometres of roads were rehabilitated across rural Vietnam in the 1990s, with an emphasis on poor communes—including mountainous communes with a high density of ethnic minority households which are often poor (World Bank 1996). Mu and Walle (2011: 730) find that the project helped remote farmers get their output to market and access inputs; households also diversified into non-agricultural activities (mostly services, which have a high labour-intensity). Impacts for poor communes were generally higher on average, due to the lower initial (pre-rehabilitation) level of market development (Mu and van de Walle (2011: 731). School completion also improved, which can yield higher wages and incomes in the long-run if skilled employment is found.

Given the small market size of many African countries, and the benefits of connecting the landlocked with coastal regions (which tend to act as growth ‘poles’), trans-border transportation networks have potentially high investment returns. But these investments may not occur, for national investment decisions by coastal countries may undervalue the benefits of trans-border transport networks for the landlocked. This is a classic problem in the provision of public goods; the coastal countries do not internalize the externalities accruing to landlocked countries. Moreover, these investments are by their nature costly, and carry some political risk. Donors therefore have a role to play in stimulating such trans-border infrastructure, including political risk insurance of foreign investment.

3.5.7 Reduce poverty by stimulating enterprise and employment

Aid financed large investments in irrigation in the early years of development cooperation from the 1950s up to the 1970s. Combined with the new seeds of the green revolution, irrigation led to a step-up in agricultural productivity, with large benefits to employment, food-security and poverty reduction, especially in south Asia and south-east Asia. This also facilitated the rapid movement of labour out of agriculture and into non-farm employment, including into wage-employment in the new factories established under export-industrialization—rural infrastructure investments thereby helped achieved the large-scale poverty reduction associated with Asia’s structural transformation.

Many poor people are stuck in ‘spatial poverty traps’. Their livelihoods are inhibited by high transport costs, in reaching markets to sell either their products or labour. Underemployment is the result. For Bangladesh, investment in rural roads increases rural household incomes by an average of five to seven per cent, with a strong benefit for poorer households (Knox et al., 2013). Roads helped agricultural intensification in rural Bangladesh, thereby increasing employment for landless labourers. Ethiopia shows even larger results; access to good roads increased consumption growth by 16.3 per cent and reduced poverty by 6.9 per cent (Knox et al. 2013). Donors have played an important role in the road sector over the years. In Ethiopia, IDA has financed successive Road Sector Development Programmes; as a result, the road density per 1000 square km has grown by more than 70 per cent. (World Bank 2008). These investments have improved road access to towns, and encouraged the entry of manufacturing firms, and increased the average size of firms as well, which encourages more hiring (Shiferaw et al. 2012b; a).

Other types of infrastructure such as better electricity supplies can reduce poverty as well. They improve non-farm employment opportunities as non-farm enterprises have more stable power supplies. This raises their profitability, investment and labour-hiring.

However, we should be careful not to see infrastructure support as a single ‘magic bullet’ for structural transformation, especially pro-poor transformation. Initial conditions matter, and constraints on making better livelihoods and finding better employment can be multiple, and still in place after the infrastructure improves. Thus, for a road that improves market access, credit market failures (e.g. a farmer still cannot produce a surplus if she cannot afford inputs), governance failures (e.g. farmers are reluctant to sell if they are taxed unfairly), labour-market failures (e.g. restrictions on migration impede movement to find work), and security failures (e.g. it is unsafe to travel to the market or for work) can all keep people locked into underemployment and poverty.

In Africa, local market sizes are often small—reflecting limited purchasing power—and remain a constraint on firm profitability and hiring after investment in energy infrastructure has reduced the indirect costs of formal

firms and micro-enterprises. For this reason, a GTZ-funded electrification project for villages in remote Northern Benin had less than expected benefits for micro manufacturing enterprises, both in their profitability and hiring, even though electrification created a substantial number of new firms, and helped raise rural income (Peters et al. 2011). Similarly, in rural South Africa, some DFID supported projects in electrification failed to raise employment significantly as the poverty of the local community continued to limit micro-enterprise profitability (Oakley et al. 2007: v).

Accordingly, multiple interventions across all constraints, not just on infrastructure, are often needed. This strategy characterizes China's poor-area development projects, supported by the World Bank; interventions are multiple, not just in infrastructure. An evaluation of this approach in south-west China ten years after the projects' completion found a lasting household income-effect, but less than expected, indicating that constraints on livelihood improvement were yet to be fully overcome (Chen et al. 2008). China does not have the low population densities that often limit local purchasing power in rural Africa; accordingly, overcoming demand-side constraints is a bigger challenge in rural Africa than in population-dense rural Asia. Selective conditional cash transfers for remoter rural areas may offer one way forward, if fiscally sustainable (potentially the case in Africa's new oil and gas rich countries).

3.5.8 Catalyze private investments in infrastructure

The gap in infrastructure investment is generally too wide to fill from tax revenue, let alone aid. Encouraging more private investment is crucial. Moreover, the private sector is better able to deliver some types of infrastructure than the state: telecommunications is an example. Yet, the private sector may at first be slow to invest, due to information uncertainties and large-scale upfront investment costs.

ICT is an especially promising area, as both a direct employer, and as a stimulator for investment and jobs elsewhere in the economy, including new sectors created by ICT. One rough estimate is that ICT created some 500,000 direct and indirect jobs in East Africa. Early donor support to the creation of what became the highly successful mobile payment system in East Africa is an example of aid as a catalyst. As mobile banking took off, this further encouraged more private investment in providing ICT services, creating more jobs.⁴⁵

3.5.9 Aid allocation to infrastructure

Notwithstanding the benefits of infrastructure for growth, jobs and poverty reduction, infrastructure has shown a strong relative decline in sector allocable ODA over two decades as donors moved towards the social sectors instead. The share of infrastructure in ODA fell from 27 per cent in the mid-1990s to 18 per cent by 2006 (World Bank, 2008: 9). Water and sanitation is classified under the social sectors by OECD-DAC; as a share of total aid allocated to the

social sectors, water and sanitation dropped from 21 per cent in the mid-1990s to 11 percent by 2006 (World Bank, 2008: 9). This reflected the move of donors away from dam projects, and away from urban water and sanitation systems, both of which featured heavily in aid allocations from the 1950s to the 1980s. While large-scale investment in dams proved problematic, the gap has not been filled by irrigation investments for small-scale farmers. Too many of Africa's farms continue to depend on rainfall, which is likely to become yet more variable with climate change. Whereas 33 per cent of arable land in Asia is irrigated, only 7 per cent is irrigated in Africa, and even less is irrigated in sub-Saharan Africa (AfDB and IFAD, 2010: 31).

The supply of donor aid for infrastructure has become very concentrated on a few donors. By 2006, two bilateral donors (Japan and the United States) and two multilateral donors (IDA and the EC) provided about half of ODA (from DAC donors) for physical infrastructure (transport and storage, communications and energy) (World Bank, 2008: 9). Non-traditional donors are growing in importance: between 2001 and 2009, China committed US\$14 billion to infrastructure finance (Chen, 2010: 14).

The donor community is now again paying more attention to infrastructure, with the launch of several high profile initiatives. These include the 'Power Africa' initiative launched by President Obama in 2013. This renewed focus has the characteristic that it aims to leverage in much more non-aid funding than in the past (Addison and Anand 2012). In May 2014 the AfDB announced an 'Africa50' fund.⁴⁶ This has an initial equity capital of USD3 billion, of which AfDB itself will invest US\$500 million, with the aim of achieving an equity capital of US\$10 billion.⁴⁷ In turn, the Africa50 fund will leverage up to US\$100 billion from private and government funding.

3.6 Manufacturing: Setting new objectives for aid—exports, clusters, and capabilities⁴⁸

Over the past quarter century developing countries—mainly in Asia—have become the 'world's factory'. Three inter-related drivers of industrial location have largely determined Asia's rise: success in task-based exports, rapid growth of industrial agglomerations, and the ability to attract and transfer firm capabilities (UNIDO 2009; Page 2012a). Aid can help African governments to master these determinants of global competitiveness.

3.6.1 Supporting an export push

For the vast majority of African countries, the export market represents the only option for rapid growth of industry, and trade in tasks is a potential point of entry. Countries such as Vietnam and Cambodia have found it easier to master a single stage of the production process than to develop vertically integrated production. But, success is by no means assured. As Lesotho and Swaziland found when the Multi Fiber Agreement expired, task-trade investors

are footloose and continuously seek new locations in response to changing costs and incentives (Edwards and Lawrence 2011).

To succeed Africa will need an ‘export push’, a focused set of public investments, policy, and institutional reforms that address the critical constraints to exporting. Because new entrants to task based production tend to specialize in the final stages of the value chain, improving trade logistics and deeper regional integration are essential. African countries rank at the bottom of the World Bank Trade Logistics Index, and poor trade logistics performance in coastal countries taxes landlocked neighbours (World Bank 2010).

International support for an export push should consist of aid to improve trade logistics, policies to increase preferential market access, and support for regional integration. Aid for Trade (AfT) Initiative has attracted considerable donor attention. As generously defined by the donors, it comprises about 25 per cent of total development assistance. But donors are not fulfilling the promise made at Hong Kong in 2005 to make aid for trade additional to existing aid budgets. In fact AfT’s share in total development assistance has fallen steadily since 1996 (OECD 2010). Africa’s export push will not succeed unless the international community keeps its promise of additionally.

A first step for trade policy is to reduce escalating tariffs targeted at higher stage processing of Africa’s exports. Here China must play a leading role. A second step is to develop a simple, time-bound system of preferences for Africa’s non-traditional exports to high-income countries. A sensible place to begin would be for the European Union and the United States to harmonize their individual preference schemes for Africa, the Economic Partnership Agreements (EPA), and the Africa Growth and Opportunities Act (AGOA).

Africa’s development partners have failed to support regional integration, preferring instead to deal with individual countries, not regional organizations. Cross-border projects have been few and slow to implement. The capacity of regional organizations to develop bankable projects, to carry out monitoring and evaluation, and to ensure adequate financial management needs to be strengthened. Donors need to make stronger efforts to harmonize their support to regional organizations and integrate their national aid programmes into their regional strategies (Page 2012b).

3.6.2 Building industrial clusters

Manufacturing and service industries tend to concentrate in clusters. Because of the productivity boost that such industrial agglomerations provide, starting a new industrial location is a form of collective action problem. If a critical mass of firms locates in a new area, they will realize productivity gains, but no single firm has the incentive to move in the absence of others. Africa has few modern industrial clusters, making it both more difficult for existing firms to compete and more difficult to attract new industry and create more employment.

Governments can foster agglomerations by concentrating investment in high-quality institutions, social services, and infrastructure in a special economic

zone (SEZ). This has been one of the keys to rapid growth of industry and jobs in China and Vietnam. Africa's experience with spatial industrial policy, however, has been largely unsuccessful. A recent review concludes that most African SEZs have failed to reach the levels of physical, institutional, and human capital needed to attract global investors (Farole and Akinci 2011).

Traditional donors have tended to neglect special economic zones. Indeed, the prevailing wisdom in the World Bank until quite recently was that SEZs were costly, inefficient substitutes for economy-wide reforms in trade policy and regulation. China, on the other hand—building on its own success with spatial industrial policies—has launched a recent initiative to build export-oriented special economic zones in Africa (Brautigam and Xioyang 2011). The DAC donors can learn from the Chinese experience. Investment-climate reforms in the broadest sense of investments in world-class institutions, infrastructure, and skills can be focused initially on SEZs. This is an area where public-private dialogue to identify key bottlenecks, and partnerships to address them, can be particularly effective in creating more enterprise employment.

3.6.3 Strengthening firm capabilities

In most industries productivity and quality depend on the tacit knowledge, or working practices of the firm's workforce and management. These 'firm capabilities' are used in the course of production and in developing new products. In a globalized marketplace, firms are competing in capabilities: most often the critical constraints to industrialization are complex, inter-related bodies of knowledge and patterns of behaviour (Sutton 2012). One of Africa's major constraints to more rapid structural change is the absence of capable mid-sized domestically owned firms.⁴⁹

The process of and building capabilities consists of two phases. The first phase involves bringing a higher level of capability to some firm or group of firms. This is most often a result of Foreign Direct Investment (FDI), but it can take other forms—such as supplier-purchaser relationships—as well. The second phase consists of the spillover of capabilities to other firms within and outside the host industry, mainly through supply-chain relationships. There is a role for aid in each phase. Properly designed investment-climate reforms can have a large payoff by making it easier to attract FDI. Today, the vast majority of Africa's foreign investment promotion efforts fall short of international best practice (Page 2012a). Donors can assist African governments to develop effective foreign investments' promotion agencies. They can also help 'import' global best practices by supporting networks of related manufacturing companies to whom advice on achieving international standards in terms of quality and production is provided (Sutton 2005).

Another promising area for capability-building is management training. The importance of differences in management to differences in productivity across countries has only recently been recognized. Since 2007, the World Bank and the Japan International Co-operation Agency (JICA) have undertaken some pilot projects in which management-training programmes are provided free of charge to small entrepreneurs in Africa. Ex-post evaluations indicate that the

training programmes have accelerated the adoption of improved management practices, including through spillovers from the training participants to non-participants (Otsuka and Sonobe 2011 and Box 5).

Box 5: Business training and structural transformation in Africa

In addition to capital and labour, a firm's productivity also depends on its 'capabilities', that is, the tacit knowledge or working practices of its workforce and management. Business training projects are increasingly being viewed as a way of directly building capabilities, especially at the managerial level. For example, since 2007 some projects implemented by the World Bank and JICA have provided management training programmes free of charge to small entrepreneurs in Africa. Sonobe and Otsuka (2012) find such training programmes to have been effective, and lead to an accelerated adoption of improved management practices.

The results are promising, but further work remains: for example, most of the current studies measure the short-term effects, while the dynamic effects of learning are more likely to be evident over longer periods of time (McKenzie 2011). Evaluation of a business training programme in Tanzania finds that the training intervention increased the business knowledge of both male and female entrepreneurs and reduced the gender gap in behavioral outcomes such as risk-aversion and confidence (Berge et al. 2011). Such changes are more likely to affect the long-term profitability of the firm.

Even though most of the studies randomize treatment, take-up rates are way below 100 per cent (McKenzie and Woodruff forthcoming) and positively related to the level of education. For example, Bjorvatn and Tungodden (2010) find that attendance during the training programme increased with educational levels even though treatment effects (gain in business knowledge) were greater for subjects with the lower educational levels. In the light of such evidence it is more appropriate to view investments in higher education and business training as complementary inputs rather than substitutes.

3.7 Enterprise development⁵⁰

In the area of enterprise development, the aid community gives most attention to small businesses. This is driven by their share in employment; micro- small- and medium- enterprises (MSMEs) in developing countries account for about 90 per cent of all workers. The European Union recently asserted, 'For developing countries, the expansion of the private sector, notably MSMEs is *a powerful engine of economic growth and the main source of job creation* (emphasis in original)' (EU 2012).

There are an estimated 365-445 million, formal and informal, MSMEs in the developing world. Only 25 million to 30 million of these firms are formal SMEs (5 to 250 employees). More than 90 per cent are either formal enterprises with fewer than 5 employees or enterprises that are not formally registered (McKinsey 2011). Of these approximately 70 per cent report that they do not use any external financing, although they would do so if financing were available. Another 15 per cent are underfinanced. The financing gap is estimated at US\$2.1 trillion to US\$2.5 trillion (McKinsey 2010; 2011). Filling

such a large financing gap in the pursuit of jobs is an attractive objective for both public and private development actors.

There are more than 300 public and private investment funds for MSMEs in low-income countries and almost a quarter of their investments in 2010 went to Africa.⁵¹ Official development assistance (ODA) to SMEs is estimated to have exceeded US\$1 billion in 2009.⁵² Forty eight per cent of this ODA went to Asia, 19 per cent to the Middle East and North Africa, and 18 per cent to SSA (Siegesmund and Glisovic 2011).

All the multilateral development banks (MBEs) have programmes that address SME access to finance. Some invest directly in enterprises through loans or equity; others provide loans to financial intermediaries—typically commercial banks—which in turn lend directly to enterprises. The majority of the multilateral banks also provide technical assistance (TA) to governments on a wide range of policy reforms that affect the business environment, such as: business registration, licensing, labour regulations, contract enforcement, corporate taxation, and ease of exporting.

Donor strategies to finance small and medium enterprises vary greatly. Some focus on institutional, legal, and regulatory reforms to improve the investment climate. Other aid actors focus on interventions to remove the constraints to growth faced by small businesses. Some finance SMEs directly, and others provide wholesale finance through financial intermediaries. Some donors provide technical assistance advisory services to train banks in lending practices for SMEs. Donors have also provided TA to SMEs to prepare bankable proposals. In general individual development agencies are not fully aware of the projects and policies of their peers, and there is little co-ordination, either globally or at the country level.

Direct assistance by bilaterals at the firm level usually consists of equity or debt financing and technical assistance for business support (to improve business practices). Value-chain programmes where donors work with large corporations to connect them to small enterprises as suppliers or distributors have become increasingly popular. In addition, donors work directly with enterprises or through business and trade associations to help build supplier relationships and to help small businesses gain access to market information. The cluster development approach, popularized by Japan, aims to increase co-ordination among businesses, suppliers, trade associations, local universities, and local government to promote the growth of a strategic sector, help businesses gain access to inputs, and stimulate greater levels of innovation and technology transfers.

Development finance institutions are risk capital investment funds. The International Finance Corporation is the largest DFI supporting SMEs. In 2009, IFC committed US\$6.1 billion to its SME finance portfolio. IFC financial intermediaries had an outstanding portfolio of 1.3 million SME loans that totalled US\$90.6 billion. IFC's equity investment portfolio—77 funds that target SMEs—had committed US\$765 million to over 775 SMEs by 2011. Only two per cent of the IFC portfolio is in Africa. IFC also provides a range

of advisory services both to enterprises and financial intermediaries (OECD 2009b).

There are a total of 16 European DFIs and collectively in 2008 they had an investment portfolio of EUR 16.7 billion in a total of 4,221 projects. The four largest European DFIs are owned by the governments of Germany, the Netherlands, the United Kingdom, and France. They specialize primarily in making direct investments in enterprises. The European funds differ from the MDBs and bilaterals because they only make investments in firms or financial institutions. Equity (53 per cent) is the most common financing product used by the European DFIs, followed by loans (40 per cent) and guarantees (7 per cent). The average project size is about EUR 4 million. Between 2007 and 2008 the European fund's Africa portfolios grew by 10 per cent (Dalberg 2009).

3.7.1 Small enterprises and job creation

Enterprise surveys show that about half of new jobs in Africa are created in firms with 5-19 workers, but the data do not tell anything about how long those jobs last. Small firms everywhere have both higher birth and death rates than large firms. Because the cross-country data cannot tell us anything about firm entry and exit, (Page and Söderbom 2012) use panel data from one African country, Ethiopia, which has above-average data. They find a striking result: when the significantly lower survival rates of small firms are taken into account, expected job growth for large and small firms is essentially the same.

There are also substantial differences in the quality of jobs between small and large firms. Small firms consistently trail large firms in wages paid and wage growth.

Enterprise surveys of nine African countries show a strong positive relationship between wages and firm size (Page and Söderbom, 2012). Workers in small African firms are paid far less than employees in larger firms. In Ethiopia there is a persistent difference in wages between large and small firms. Although wages rise in all firms that survive, firms starting small do not close the wage gap with large firms.

Taken together the various strands of evidence suggest that it is time to rethink aid strategies for job creation based on support to small enterprises.

What are the implications for aid—and industrial policy more generally—of the analysis of employment and wage growth in small and large firms? Page and Söderbom (2012) argue that if 'good' jobs are the objective, then firm size alone is too blunt an instrument to use in programmes to support job creation.

While—depending on the size cut-off used—small enterprises may be where 'most of the jobs are' in Africa, the evidence in Page and Söderbom (2012) indicates that once firm survival is taken into account, small firms and large firms perform essentially the same in generating new jobs over the medium term. At least in Ethiopia, the evidence does not support the notion that small enterprises are a powerful engine of job creation. The Ethiopian evidence is

consistent with what is known about small enterprises and job creation in other economies. Moreover, the jobs that small firms create are less attractive than those in larger enterprises. Small firms across Africa have higher job turnover and persistently lower wages than larger firms. In sum, small firms are the wrong target.

Aid needs to target those firms that are successful at creating 'better' jobs. The evidence in Page and Söderbom (2012) shows that growing firms regardless of size are the ones that create net new employment and offer the potential for wage growth. But, size alone cannot predict which firms will grow. Indeed, it is known that a small firm is more likely to die than a larger firm, despite the fact that if the small firm survives it will grow faster. This argues in the first instance for policies and programmes that reduce the constraints to the growth of firms, regardless of size.

3.7.2 Institutional and regulatory reform⁵³

The donor agenda for the investment climate has largely centered on changes in trade, regulatory, and labour market policies designed to reduce the role of government in economic management. This is not inappropriate. Surveys of manufacturing firms in Africa highlight a number of areas in which regulatory or administrative burdens impose cost penalties that limit the growth of firms (Clarke 2005; Yoshino 2008; Farole and Akinci 2011). The cost of doing business in Africa is 20–40 per cent above that for other developing regions.⁵⁴ But, both the main instrument used by the aid community and the approach to identifying the binding constraints to enterprise growth have been misguided.

The most widely used global benchmark of regulatory burden is the World Bank *Doing Business* ranking. In 2011 Africa's average rank (moving from 1 as the best country-level environment to 183 as the worst) was 137. It is therefore tempting to argue that African governments should target rapid progress in moving up the *Doing Business* rankings as the primary objective of the institutional and regulatory reform agenda. And indeed, driven in part by the relentless promotion of the World Bank, *Doing Business* has become the centerpiece of the donor dialogue on the investment climate in many African countries (Page 2011).

But *Doing Business* is not an appropriate instrument to identify the regulatory constraints that actually inhibit the growth of firms at the country level. It was never designed to be used as a country-level diagnostic tool; it is a cross-country benchmarking exercise. The indicators were developed to support cross-country comparisons on the basis of common criteria generated in Washington. They are also uniformly weighted. But at the country level not all reforms will have equal impact.

Close co-ordination between the public and private sectors is needed to identify the regulations and institutions which offer the greatest scope for growth enhancing reforms. But, the massive literature on rent seeking and government failures suggests that in many cases a close relationship between business and government can lead to inappropriate policies. Helping

governments manage the tension between close co-ordination and capture is an appropriate area for innovation in aid. Rather than leading the donor-country dialogue, changes in the doing business ranking ought properly to be viewed as an *outcome* not an *objective* of a well-designed regulatory reform programme.

3.8 Aid and employment: Reaching for scale

The size of the population numbers for Africa's future focuses our attention on the sheer scale of the region's jobs challenge. At the same time the challenge is also an opportunity; the high ratio of younger workers to older dependents is favourable to accelerating growth, and diversifying its sources. In comparison, China has a rapidly ageing population—the working population declined for the first time in 2013 and will continue to do so for the next two decades—and its labour costs are rising fast. The Chinese economist, Justin Lin, argues that: '... it is reasonable to assume that total manufacturing employment in Africa is at most 10 million. This suggests that relocation of even a small share of China's 85 million labour-intensive manufacturing jobs would go a long way toward creating new opportunities for employment and sustained growth in Africa' (Lin 2011: 29).

But if Africa is to get these jobs then it has to compete hard with LICs (and MICs) elsewhere in the world. Africa is relatively abundant in unskilled labour, and its wage costs are very low. But the indirect costs facing firms, especially those associated with infrastructure-related inputs, are very high and largely offset its advantage in wage costs: '...the difference between the indirect cost levels faced by comparative Zambian and Chinese firms is almost equivalent to the whole wage bill of the former' (Eifert et al. 2008: 1542). And manufacturing is generating fewer jobs per unit of output *everywhere* as technological innovation and adoption make it a less-intensive process—thereby reducing the comparative advantage of countries abundant in unskilled labour, which was historically a driver of the first stage of industrialization. More jobs are now shifting back to the developed world when technology has driven down the share of labour cost to the point at which they become competitive again (the 're-shoring phenomenon').

A high level of ambition is therefore called for, especially in Africa where structural transformation, and the quality jobs that go with it, are still by and large on the starting blocks. And it is not a question of creating a few thousand decent jobs, but millions. The former is impact, but the latter is impact on a large scale, or more succinctly, *impact at scale*. Countries need policies and investments that create a very large impact for the effort and money—whether this is by donors or government. (Hartmann and Linn 2008: 8) provide a good definition of scaling-up: 'Scaling up means expanding, adapting and sustaining successful policies, programs or projects in different places and over time to reach a greater number of people.'⁵⁵ Note that their definition includes sustainability as well as numbers of people reached, as there is little point in scaling up an initiative that cannot be sustained. And impact at scale does not necessarily mean a large-scale project or programme—for if the latter is not

well designed and implemented then it will not have the desired magnitude of impact.

Impact at scale in jobs has been achieved in China and Vietnam (in both quantity and quality) as well as in Bangladesh (in quantity but not quality). What we do not yet see is much impact at scale in the area of jobs in most of the LICs, notably across Africa.

3.8.1 Achieving impact at scale: Overcoming barriers to aid coordination

The volume of aid and its allocation results from the decisions of some 197 bilateral agencies and 262 multilateral agencies, yielding close to 100,000 ongoing aid projects annually (although an accurate count is impossible). Their average size is small (around US\$1.7 million in 2006) and appears to be getting smaller; the median size had dropped from US\$120,000 to US\$70,000 by around 2010 (Kharas et al. 2011: 2; World Bank, 2008: 19; Linn 2011: 203).

A small project can yield a large impact, if the level of innovation is very high, scaling up to a larger project or perhaps spreading its new knowledge across the pool of other small projects. But few observers of aid are confident that this is happening. And the downsides of smallness are also evident. Major constraints such as lack of infrastructure and technology remain unresolved. Overcoming them requires large investments sustained over long periods—and small projects are not in that game. Small projects often sit outside local institutions, or have only weak connections to them (embedded in ministries perhaps, but otherwise operating independently). And small projects do not achieve economies of scale in their administration and implementation that larger initiatives do. Dealing with a myriad of small projects stretches the capacities of recipient governments even further. High transactions costs, for donors and recipients, are pervasive in the present global aid architecture.

The last decade has seen a step up in attempts to improve the situation including the 2003 Rome Declaration on Harmonization, the Paris Declaration on Aid Effectiveness, the 2008 Accra Agenda for Action and, the most recent, 2011 Busan Partnership for Effective Development Cooperation (OECD 2009a; 2012b). These processes have highlighted harmonization, ownership, alignment, and accountability as four keys to better aid coordination. More donor coordination will reduce transaction costs. Engaging with a cohesive group of donors rather than with donors on an individual basis will enable recipients to exercise more ownership of their national development process. Achieving the Paris alignment goal will be easier. Donors are more likely to base their own policies on recipient priorities if donors act together, and do not pursue individual national priorities. More cohesion among donors will make it less likely for them to promote small projects, each with their own management (and reporting) system, and more likely to use the systems that recipients already have in place for project and programme management.

Bigsten and Tengstam (2012) in their ReCom paper assess the gains to countries from having fewer partners and from aid shifting from small projects to larger programmes. They calculate that an annual saving of US\$915 million could be achieved by reducing aid disbursed via projects and increasing programme assistance to 66 per cent of total aid (the Paris target) from its level of 39 per cent in 2009 (Bigsten and Tengstam, 2012). By reducing the number of partner countries and shifting to programme rather than project aid, total donor savings of more than US\$2 billion per year could be achieved. These are significant amounts, and the savings could then be allocated to, among other uses, more impact at scale in job creation.

If greater aid coordination yields significant benefits, both for the efficiency and effectiveness of aid, then why does it seem so difficult to achieve? One answer is that while aid coordination reduces transaction costs and improves aid governance it also implies a loss of political control by the donor. That ‘cost’ to the donor may be the deciding factor in the donor’s behaviour, leading to a low-level of cooperation with other donors.

Bourguignon and Platteau (2012; 2013) argue that coordination increases if donors attach more importance to poverty reduction than their own national sovereignty (and coordination efforts increase when aid budgets are smaller). The incentives for donors to free ride, and reduce their cooperation, increase as the total aid pool rises. Some (big) donors have larger budgets and a greater preference for political independence, which they attach a higher cost to losing than smaller donors. So bigger donors are less likely to cooperate.

There is some evidence that resistance to coordination is greater in livelihood projects than in aid to health and education. Bourguignon and Platteau (2013) report that in Mali, where reforms to aid policy have been underway since 1996—when the country was selected as a pilot country by the DAC to review aid effectiveness—coordination has improved somewhat in education and health. But generally donors remain reluctant to cede control over projects or pool resources. This is at its worst in aid to Mali’s rural development where only 15 per cent of projects are jointly organized, far below the target of 66 per cent. Given the need for scale of impact in employment, this lack of progress is discouraging.⁵⁶

3.8.2 Impact at scale in employment: A goal not yet reached

Aid needs to have more impact at scale. The case is strong, and some donors are committed. Yet, the development community will have to work hard to reverse the serious fragmentation of aid.

Health is the exception to this; more impact at scale is now being achieved in aid for health, notably via the ‘vertical’ funds such as the Global Fund to Fight AIDS, TB, and Malaria and the Global Alliance for Vaccines and Immunization (GAVI).⁵⁷ And Mexico and Brazil have shown the way to scale in social protection—using public money not aid—through *Oportunidades* (previously Progresá) and *Bolsa Família*, respectively. (See the ReCom paper on ‘Aid and the Social Sectors’).

However, poverty reduction cannot be reduced to just providing better health-care and social protection (or more education), vital as these all are. Take Tanzania for example. Public spending on education and health has shown impressive growth over the last decade—in part due to aid in the form of general budget support. Tanzania’s human development indicators have improved. But per capita consumption among the poor has barely budged over the last decade, and the poverty rate is still around its 2001 level (in the range of 35 per cent), despite a rise in per capita income of close to 30 per cent over the decade—with wealthier groups capturing the gain (Atkinson and Lugo 2010). Many factors contribute to poverty in Tanzania, but the lack of quality jobs must be high on the list. While the impressive gain in school attendance adds to the country’s human capital stock, education does not automatically generate access to good employment. In Ethiopia, education has grown impressively (the number of youth having higher education rose from 4 per cent to 22 per cent between 1999 and 2011) but Ethiopia’s youth are more likely to be unemployed than their elders—in both rural and urban areas (Broussard and Tekleselassie 2012). The government, realizing this, has embarked on an ambitious programme of industrialization supported by infrastructure development, inspired by East Asia’s success.

Impact at scale in jobs is therefore imperative. Yet, small projects characterize donor support to the productive sectors. As Bourguignon and Platteau (2013) show, there are powerful forces within aid agencies working against the kind of cooperation that can join aid resources together with those of government into large and more impactful programmes.

IFAD is showing what can be done in rural development to get to scale. But there is a long way to travel. And we do not yet have a similar example of donor commitment to impact at scale in the informal sector—which, with Africa’s working population growing, will also be the first destination of young job-seekers.

4 Discussion and conclusions

4.1 Aid and growth

A coherent body of evidence on aid's growth impact at the macro level across countries has emerged from ReCom. ReCom has analysed cross-country and time-series data, and has undertaken meta-analysis as well as aggregate analysis and has drawn upon case studies. Because growth is the product of many determinants, and because aid is only one among many determinants, then it really does matter to the identification of aid's impact that we get the methodology and its application right.

Overall, the impact on growth of aid is about the amount one would reasonably expect, using a reasonable model with reasonable parameters. ReCom's results point to a positive and statistically significant impact of aid on growth in recipient countries. An inflow of aid in the order of 10 per cent of GDP spurs the per capita annual growth rate by more than one percentage point in the long run (Arndt et al. 2010: 23).

Using time series data for 36 SSA countries, from the mid-1960s to 2007, ReCom research also finds that in 27 cases aid has a positive long-term impact; in seven other cases it is positive but statistically significant (Juselius et al. 2014). A particular study has also been made of two countries (Ghana and Tanzania) which required further analysis and explanation: see (Juselius et al. 2013). For further time-series evidence see Lof et al. (2013), forthcoming, in revised form in *World Development*.

The meta analysis work was designed to answer the question what existing studies show on average rather than for a particular country. Mekasha and Tarp (2013) provided a careful assessment of the study by Doucouliagos and Paldam (2008) (DP08) which draws on their database of 68 aid-growth studies. They provide a critique of the methodology of DP08 and arrive at significantly different conclusions—most notably that their application of meta-analysis techniques suggests that aid has had a positive and statistically significant impact on economic growth.

The aggregate evidence suggests that aid does provide a respectable internal rate of return (IRR). Arndt et al. (2014) assess this at 7.3 per cent once what they consider to be a reasonable model with reasonable parameters has been established. Moreover, there is almost unanimity among 16 academic studies published since 2008 of a positive effect of aid on growth.

The evidence compiled under ReCom shows that the pessimism often expressed in the public debate on aid and growth, and informed by short popular books such as Moyo (2009) is, by and large, not warranted. Aid has its failings, it does not work at all times and in all places, but from the perspective of growth it has made a statistically significant contribution.

Popular critics of aid's growth impact have too often called upon simple theories. Aid's potential to undermine export competitiveness, and thereby economic growth by causing an exchange rate appreciation (the 'Dutch Disease' effect) is often cited, not least by Moyo (2009). Yet, the evidence does not support Dutch Disease. ReCom finds that aid helps improve growth overall, when controlling for other factors. The AERC-UNU-WIDER December 2011 conference on aid and macroeconomic management reviewed the evidence, and concluded that there is no simple relationship between aid and the exchange rate (nominal or 'real').⁵⁸ Why? Use of simple theories, misses the key point that while the demand effect of any inflow (aid, remittances, resource revenues etc.) can cause a currency appreciation, aid also improves the supply-side of the recipient economy. ReCom's evidence of aid's positive growth impact indicates that it does so by an amount large enough to offset any negative effect of currency appreciation on growth (the currency will tend to appreciate in any case as confidence in the economy takes hold and as exports strengthen helping to build foreign exchange reserves). (Roe 2011; Fielding and Gibson 2012; Addison and Balamoune 2013; Addison et al. forthcoming)

How does aid build the supply-side? In the 1980s and early 1990s when aid-recipients were experiencing severe foreign exchange shortages that limited the economy's capacity utilization, aid helped relax that constraint allowing the importation of vital equipment and inputs. This was especially so in countries such as Ethiopia, Mozambique, and Uganda as they began to haul themselves out of civil war, and when their export sectors were badly damaged; requiring the wholesale rehabilitation of infrastructure to get markets and economies moving again. The investment in human capital that aid has financed via support to basic health care and primary education also raises the recipient economy's overall growth potential. This does not, however, happen overnight—it starts when healthy and educated young adults enter the workforce. This report has argued that aid could do much more in agriculture and infrastructure especially, and that structural transformation is necessary to create good jobs for those healthy and educated young job-seekers. The evidence does not support the popular view that aid's growth effects are insignificant or downright harmful. Successful economies usually have strong currencies, but by rising labour productivity (thereby reducing unit costs), and integrating themselves into global value chains to find new markets, they maintain their international competitiveness.

ReCom evidence of aid's positive growth impact should also calm some of the anxiety around aid's supposed role in undermining growth by causing *institutional decay* in the capabilities of the state. Again, popular critics of aid such as Moyo (2009) have reached for some simple theories of the many links that aid can have to institutional quality. It is indeed possible to build theoretical models that reach the conclusion that aid undermines capability.⁵⁹ For sure, no one can be satisfied with the present level of state capability in many countries (the efforts of donors to improve this situation are discussed in a separate position paper on 'Aid, Governance, and Fragility'). The inherent challenges of allocating and spending aid effectively are complex, especially in the fragile

states, including those emerging from conflict.⁶⁰ Yet, ReCom's evidence for aid's positive impact on growth should make us wary in jumping to any conclusion that aid today is undermining institutions in recipient countries: it may need to do better in helping countries along the long pathway to more effective states (and aid on its own cannot eliminate conflict or build peace). This is, however, very different from saying that aid is so pernicious that it undermines growth by shifting state capability backward, not forward. Conclusions reached from theoretical models that show how aid *might* undermine state capability cannot carry the same weight in the debate as evidence that demonstrates aid's positive impact on growth. Again, this must be addressed by case-by-case analysis and assessment (see Arndt et al. (2010) for an example).

In summary, and as also pointed out by Tarp (2006), we have to continue to make a distinction between 'aid being less effective than possible' versus 'aid doing real harm' in terms of its growth and development impact. It is in the case of the latter that one should seriously reconsider the overall relevance of aid, while in the former what is called for is improved aid design. The good news is that there is no evidence to suggest that aid has, on a net basis, harmed growth in recipient economies over the long run.

ReCom research has shown that the claim of a micro-macro paradox in aid—that it works at a project level but a positive effect cannot be found at a macro level in the growth numbers—is out-of-date. One reason for this new clarity, especially since 2008, is that we have more data, particularly time-series data than when the micro-macro paradox came into the debate some 30 years ago. There is certainly variation across countries in the impact of aid (see Juselius et al. (2011)).⁶¹ Those country variations remain poorly understood.⁶²

To be sure, no well-informed individual believes that aid has been beneficial in all places at all times in spurring growth, and there are certainly instances where aid, like any other development intervention, has failed to fully meet its intended objectives for various reasons.⁶³ There is solid evidence that aid proliferation, unpredictability and fragmentation of aid flows lowers the impact of aid on economic growth, as illustrated by Kimura et al. (2012), Kodama (2012), and del Castillo (2012). Heller (2011) discusses ways in which DAC countries could enhance aid's effectiveness by reconsidering among other things the roles that different current aid actors (donors and recipients) should play.⁶⁴ How aid's impact will look in the future will in the final analysis depend on how aid is structured and spent. There is a lot of heterogeneity in the aid-growth data, across countries, and in aid modalities as noted in this position paper.

Absorptive capacity remains an important issue for aid effectiveness. The existence of an average positive impact of aid on growth does not imply that for example a doubling of aid will lead to a doubling of the impact of aid. Several papers in the literature (see for example Clemens et al. 2012) note that the potential existence of diminishing returns to the last dollar of aid provided cannot be dismissed. This is so since the capacity to absorb aid may, in some cases, be constrained, while aid may in other contexts lead to better than

average performance. In parallel, it is clear that the impact of aid depends in intricate ways on the way in which it is provided (see Minoiu and Reddy 2010) and to which countries (Collier and Dollar 2002). Mosley (2012) argues that recipient country tax effort determines the long-run effectiveness of aid. Technical assistance to broaden the tax base is thus also needed, and donor effort on taxation has increased in recent years.⁶⁵

Aid in vulnerable, fragile and conflict situations remains a big concern. As an extension of the above point, there is a very considerable body of macroeconomic aid literature which suggests that aid may have very high returns in vulnerable and conflict situations, which does not exclude that negative outcomes may occur.⁶⁶ In these situations the focus is rarely on macroeconomic stability in any simple sense. Yet, aid does have the potential to play a catalytic role and help establish the necessary developmental framework as illustrated by Arndt et al. (2007) for the case of Mozambique. A less encouraging example is discussed by de Weijer (2013) for the case of Afghanistan. The ReCom position paper on Aid, Governance and Fragility goes into depth on the problems of state capability in fragile states.

As economies grow, so they attract more private financial flows, not only foreign direct investment, but also portfolio flows. One of the macroeconomic rationales for aid is to encourage other financial flows to developing countries; this is now happening in infrastructure finance for example, and as that new infrastructure comes on stream so it helps to attract FDI and other private capital. That aid can indeed serve as a catalyst for such investment is vividly illustrated by for example the discussion in the ReCom paper by Collier (2013).⁶⁷ As these flows increase, they will help build the private sector of recipient countries which adds further to growth. Aid still needs, however, to do much more in many cases to help countries attract more private capital.

There is indeed a limit to what and how much aid can do; aid should not be seen as a universal remedy. The development community needs to hold realistic expectations both in relation to the size of the impact of aid on growth, and the time horizon over which one can expect to see any impact. The impact of aid on growth is, while reflecting a respectable rate of return, modest in comparison to country needs and its full impact only realized over the long run.

Unrealistic expectations have not helped communication around aid in the past. Aid to Africa and other LICs in the world is far less than the public generally believes. Note that most of the variation in growth across countries is due to factors other than aid; and this is so even if aid has a perfectly decent rate of return, as demonstrated by Arndt et al. (2014). This reinforces the point that ‘common sense’ arguments such as ‘if aid were effective, Africa would be developed’, make no real sense at all.⁶⁸

4.2 Aid and employment

Economic growth is not an end in itself. It means little if it does not reduce poverty and social inequality. Economic growth is intimately linked to the creation of better livelihoods – that provide decent work and a good income— but this can only happen if structural transformation works for the poor. That means a shift of labour into higher productivity activities and sectors, particularly in manufacturing, supported by rising productivity in agriculture. ReCom’s analysis shows that the majority of the challenges for employment are indeed development problems rather issues within the labour market itself. The ReCom results meeting on Jobs held in October 2012 reaffirmed that focus, and technical work under ReCom has added to our knowledge of what constitutes the highest priorities: refocusing on agriculture, together with reinforcing enterprise development, both large and small. And supporting all this through large-scale infrastructure investment, that creates jobs during its construction, and adds to jobs through the benefits of more reliable power systems, better transport networks that connect local and national and international markets.

That said, donor engagement with the jobs agenda is too weak—and it does not, by and large, deliver impact at scale. A patchwork of donor engagement with countries has resulted from: the downturn in the allocation of aid to agriculture (still the main employer of the poor); the instability in aid funding for agricultural research (still a key driver of hiring and income for the poor); the on-off commitment to infrastructure (still essential to broad-based employment generation); and the lack of focus on the real constraints on enterprise development (business finance, management skills, investment agencies to attract FDI etc.) combined with an over-focus on business regulation; and the proliferation of small projects (especially in the livelihoods area). This patchwork sits uneasily with grand donor visions and statements on the need for more and better jobs.

There are some signs of progress. Agriculture’s share of aid is moving up again. Agricultural research is getting some more attention. Leveraging private money using aid to build infrastructure is on the rise (notably led by AfDB). Labour-intensive works programmes such as Ethiopia’s PSNP have replaced previously fragmentary efforts in food-security. More impact at scale—and fewer small projects—is now taken seriously by donors such as IFAD (in rural development). The World Bank’s *WDR 2013* on job creation, to which ReCom contributed, refocused donor attention on employment.

Yet, despite these promising trends and innovations, the development community still faces a fundamental obstacle in getting a grip on the employment issue: *DATA*. If there is one issue above all that donors could focus their technical assistance on, it is helping statistical offices and research institutions improve their collection and analysis of data with regard to employment and labour income, especially in the urban informal sector, rural non-farm employment, and for the dimensions of gender and region in particular. This would help create a base of objective information from which

to understand the impact of policy and investment on employment outcomes, including those policy reforms and investments supported and financed by donors themselves.

This would also improve the quality of donor dialogue and assistance to governments. No two countries are the same, even if they are low-income. An aid policy to help job creation in a newly resource-rich country (such as Ghana) must differ from a country that is still mainly agrarian (such as Malawi). Help to small-island states must differ from that to countries with large populations and big domestic markets (the Comoros versus Nigeria, for example). The landlocked have different needs to coastal countries in reaching global markets (Mali versus Mozambique). A one-size fits all strategy is no strategy at all. Similarly, a fixation on a single lever to help create jobs blinds us to a task that must involve bringing together *all* the ingredients of development.

In the meantime, donors should undertake more assessment of their own impact on employment: the evaluation of the employment impact of AfDB, undertaken as part of ReCom, offers one innovative model for others to emulate (see earlier discussion and Box 2 in chapter 3). This would enable donors to speak with more authority. It will also help generate a clearer picture of the opportunity costs involved in the proliferation of small donor projects, and the benefits to be reaped from reducing aid's fragmentation.

As economies grow and diversify, and as they build state capabilities, they become more robust: their public revenues rise; their service-delivery improves; and it becomes easier to construct a robust social compact. Then their citizens experience not only better lives, but better livelihoods. With growth, once poor societies begin to exit from aid dependence. They will then draw upon other sources of finance that are attracted to success—foreign investment, especially. From being barely able to finance their basic import requirements, and very reliant on aid to do so, once-poor economies become, through their own growth, sources of demand and drivers of growth for the rest of the world. Countries that were once stuck in low-growth have seen their fortunes rise, and aid has helped in this success overall. The next challenge is to achieve the kind of structural transformation that builds and sustains social inclusion—creating not just hundreds or thousands of good jobs, but millions. That is *impact at scale*.

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Notes

- ¹ See Addison et al. (2011) and Addison and Ghoshray (2013).
- ² See for instance Ravallion (2001); Dollar and Kraay (2002).
- ³ Bourguignon and Platteau (2012), Morrissey (2012), Bwire et al. (2013a); Bwire et al. (2013b). Also relevant are Mallaye and Urbain (2013) and Quattri and Fosu (2012).
- ⁴ See Papanek (1972, 1973) and Mosley (1987) for earlier formulations and more modern expositions such as Dalgaard et al. (2004) and Rajan and Subramanian (2008).
- ⁵ See Osei (2012) and Nielsen and Gibbon (2011).
- ⁶ See for instance Gomanee and Morrissey (2002), Feeny (2003) and Gomanee et al. (2005) among others.
- ⁷ See Arndt et al. (2013) and Arndt et al. (2014).
- ⁸ For example, based on the aid-growth impact reported in this report, it is clear that the original ‘two gap’ models of aid have with hindsight led to unreasonable expectations about the impact of aid (see also Easterly 1999). Similarly, ‘poverty trap’ models driven by insufficient savings such that a ‘once off’ big push raises income permanently are also subject to critique based on ReCom results. But, overall, one does not need these features of a model to get justifiable returns to aid (Lant Pritchett, personal communication).
- ⁹ On the mobilization of domestic tax resources see Addison and Levin (forthcoming). Chowdhury and Addison (forthcoming) find evidence that aid has had a positive effect in stimulating the expansion of Africa’s bond markets, an important source of public finance for the future. Aid can also encourage (or discourage) FDI depending on country circumstances (Addison and Balamoune-Lutz, forthcoming).
- ¹⁰ See van der Hoeven (2012) who provides an overview of development and employment issues.
- ¹¹ See for example Nielson (2012), Griffith-Jones and Tyson (2013) and Nyssölä et al. (2012).
- ¹² This is the fact that aid is provided to poor countries and is normally phased out when they are doing well. This implies that simple correlations of aid and growth are not telling the full story. Endogeneity has to be controlled for to assess what would have happened had aid not been provided, which is the appropriate comparator (i.e. counterfactual). See also

Dalgaard and Hansen (2009, 2010) for reviews of various studies and issues related to evaluating aid effectiveness in the aggregate.

- ¹³ The data underlying the first of these negative results (NDHKM12) has been re-examined and found wanting by Lof et al. (2014) up-dating Lof et al. (2013). A very different and more positive perspective and conclusion emerges when data are treated properly and the Brückner (2013) simultaneity challenges are taken into account. The second negative result (HM13) derives from an estimation model that controls for aggregate investment, implying the estimated effect of aid on output is restricted to non-investment channels. Note that the aid-investment channel is deemed to be important in a range of studies, including Juselius et al. (2014); Arndt et al. (2013). This suggests that the up-to-date evidence is indeed very strong.
- ¹⁴ See also for example Fambon (2013) and Kargbo (2012).
- ¹⁵ Please recall, this implies absence of evidence of impact, not evidence of absence of impact.
- ¹⁶ One recent example of how inappropriate use of existing methodologies and data in time series analysis can lead to misleading conclusion is, as already noted, the paper by Nowak-Lehmann et al. (2012).
- ¹⁷ We highlight that while Mekasha and Tarp have pursued this line of enquiry under the ReCom umbrella this does not entail a methodological endorsement of the meta-analysis approach in the case of aid and growth.
- ¹⁸ Publication bias is said to arise when researchers, editors, and reviewers tend to favour statistically significant findings causing studies that yield relatively small and/or insignificant results to remain unpublished.
- ¹⁹ We have taken due note of Doucouliagos' and Paldam's (2013) comment in the *Journal of Development Studies*. It does not change the Mekasha and Tarp (2013) critique.
- ²⁰ See for example Gravier-Rymaszewska (2012), Jones (2011) and Kilby and Dreher (2010).
- ²¹ See Papanek (1972, 1973), Stoneman (1975), Dowling and Hiemenz (1983), Gupta and Islam (1983), Levy (1988) and Murthy et al. (1994).
- ²² See Mosley (1987), Boone (1994) and many others.
- ²³ The Burnside-Dollar analysis was also at the center of the World Bank's 1998 report 'assessing aid'—and its conclusions about 'what works, what doesn't and why' (World Bank 1998). Similar policy conditionality arguments can be found in Collier and Dollar (2002). Collier and Dehn (2001) also present conditional aid effectiveness argument stating that aid is

more effective when it is given to countries experiencing negative export price shocks.

- ²⁴ See Hansen and Tarp (2001), Dalgaard and Hansen (2001), Easterly et al. (2004) and Roodman (2007).
- ²⁵ Dalgaard et al. (2004) concluded by pointing out that ‘it is very hard to believe that aid, inherently, should be less potent in the tropics. Hence the explanation is likely to be found elsewhere’ (p. 212). They indicated the need for further research to disentangle the channels through which aid matters for productivity.
- ²⁶ See Temple (2010) for further background and discussion.
- ²⁷ ‘...it is relevant to stress that there is widespread agreement in the literature that aid has in many cases been highly successful at the microeconomic level. The most rigorous project evaluations are done by the World Bank, and reports from the Independent Evaluation Group of the World Bank are generally encouraging. For the period 1993-2002 an average rate of return of 22 per cent has been noted and decent project rates of return have over the years been reported regularly in one survey after the other...’(Tarp 2006).
- ²⁸ Examples include del Castillo (2012), de Weijer (2013), Kargbo (2012), Harrigan (2011) and Osei (2012, 2013).
- ²⁹ See the 2013 UNU-WIDER conferences on Inclusive Growth in Africa and Learning to Compete in Africa (www.wider.unu.edu), as well as the ReCom study by van der Hoeven (2012), Bourguignon (2004), Loyaza and Raddatz (2010) and World Bank (2012).
- ³⁰ ‘Vulnerable employment consists of the sum of the status groups of own-account workers and contributing family workers [as a share of all employed]. In developing economies, these workers are less likely to have formal work arrangements, and are therefore more likely to lack elements associated with decent work such as adequate social security and recourse to effective social dialogue mechanisms. Vulnerable employment is often characterized by inadequate earnings, difficult conditions of work that undermine workers’ fundamental rights, or other characteristics pointing at decent work deficits, including low productivity.’ ILO (2011: 58).
- ³¹ The benchmark is constructed using the sectoral shares of value added and employment in China, India, Indonesia, Korea, Malaysia, Philippines and Thailand, when they crossed the threshold to middle-income status according to the World Bank’s definition.
- ³² Population and fertility projections by the population division of UN-DESA.

- ³³ The essays in Lele (1991) provide a detailed picture of bilateral and multilateral engagement with agriculture as it stood around 1990.
- ³⁴ The range of outcomes for poverty from agricultural growth depends on how both are defined and measured. Studies on the poverty impact of sectoral growth include: Bravo-Ortega and Lederman (2005); Christiaensen and Demery (2007); Ligon and Sadoulet (2011); Loyaza and Raddatz (2010); and Ravallion and Chen (2007). These studies use different concepts of poverty (headcount ratios as well as the income or expenditures of the lowest income deciles) and sometimes of growth (sectoral value-added is the most usual measure). For an authoritative overview of the evidence see: de Janvry and Sadoulet (2009).
- ³⁵ For cross-regional comparisons and country studies on sectoral growth and poverty reduction see: Foster and Rosenzweig (2003); Hasan and Quibria (2004); Suryahadi et al. (2008); Suryahadi and Hadiwidjaja (2011).
- ³⁶ India is a particularly interesting case in the relationship between agricultural growth and non-farm employment for poverty reduction Lanjouw and Murgai (2009).
- ³⁷ This is one reason why the lead-time from project idea to completion has lengthened.
- ³⁸ Public works are publicly financed, but they may be executed by private contractors, NGOs or community-based organizations.
- ³⁹ The donors to Ethiopia's Productive Safety Net Programme (PSNP) are: CIDA, DANIDA, DFID, the EU, Irish Aid, the Netherlands, SIDA, USAID, WFP, and the World Bank (World Bank, 2012: 14).
- ⁴⁰ Sitting alongside the PSNP under the FSP are two other programmes: the Other Food Security Programme (OFSP) (which was reformed and renamed the Household Asset Building Programme (HABP)). These focus on improving the productivity of smallholder livelihoods through soil and water conservation, improved seeds, irrigation, and bee keeping.
- ⁴¹ Tafere and Woldehanna (2012) also find evidence of a negative effect on children, through an increase in child labour. Works programmes can have mixed effects on the incidence of child labour depending on how they are designed. For a review of social transfers and child protection see (Barrientos et al. 2013: 26-29).
- ⁴² The ReCom position paper on 'Aid to the Social Sectors' is available at www.wider.unu.edu/recom.
- ⁴³ Schank et al. (2007) survey the international evidence from developed to developing countries, while Van Biesebroeck (2005; 2007) provides evidence for SSA manufacturing.

- ⁴⁴ Trade Mark East Africa receives support from Belgium, Denmark, Netherlands, Sweden and the UK (<http://www.trademarka.com/>)
- ⁴⁵ ‘Overall ICT employment has grown as the mobile sector directly and indirectly added jobs in African countries. Multiplier effects and new lines of business (mobile airtime agents and m-transactions) also add to employment growth and income generation. In East Africa, the mobile industry directly and indirectly provides employment for close to 500,000 people’ (Foster and Briceno-Garmendia (2010: 168) citing estimate by GSMA (2007)).
- ⁴⁶ AfDB is the executing agency for the Programme for Infrastructure Development in Africa (PIDA), which was launched by the African Heads of State in 2012. PIDA, which is led by the African Union Commission (AUC), the NEPAD Secretariat and the AfDB succeeds the NEPAD Medium to Long Term Strategic Framework (MLTSF), in providing a vision and strategy for infrastructure, both regional and trans-boundary.
- ⁴⁷ <http://www.afdb.org/en/topics-and-sectors/initiatives-partnerships/africa50-infrastructure-fund/>
- ⁴⁸ This section is from the ReCom paper by Page and Shimeles (2014).
- ⁴⁹ In a series of *Enterprise Maps* sponsored by the International Growth Centre, John Sutton has documented the nature and extent of firm capabilities in Ethiopia, Ghana, Mozambique, Tanzania, and Zambia. Of the 50 leading firms in each economy, only about 25 per cent are owned and managed by domestic investors. See for example Sutton and Kellow (2010).
- ⁵⁰ This section is taken from the ReCom study by Page and Söderbom (2012).
- ⁵¹ The largest aid actors included the European Investment Bank (EIB), International Finance Corporation (IFC), World Bank, Netherlands Development Finance Company (FMO), European Bank for Reconstruction and Development (EBRD), Germany’s Kreditanstalt für Wiederaufbau (KfW), and the Asian Development Bank. Each had programmes of SME support in excess of US\$500 million in 2010 (Siegesmund and Glisovic 2011).
- ⁵² These estimates are approximate. There are data gaps in what donors and DFIs self-report, and the information is not reported consistently across organizations.
- ⁵³ This section is taken from the ReCom study by Page and Söderbom (2012).
- ⁵⁴ There is by now a large literature on the costs of doing business in Africa. See for example the *Africa Competitiveness Report* of the AfDB, World Economic Forum and the World Bank.

- ⁵⁵ This perspective on scaling-up evolved out of an initiative during the Wolfensohn presidency of the World Bank (Hartmann et al. 2013).
- ⁵⁶ On the effectiveness of agricultural projects on livelihoods see the ReCom study by Nyyssölä et al. (2012) for Mozambique, which finds positive effects on the use of fertilizer and improved seeds by households. For an evaluation of the EU's Farmers Income Diversification Programme (FIDP) in Malawi see Zant (2012); the latter is found to have successfully diversified crop income and raised smallholder productivity.
- ⁵⁷ In addition to the World Bank, donors with a new interest in scale include: IFAD, JICA, USAID, (Linn (2011: 207).
- ⁵⁸ See Addison, Mekasha and Tarp (forthcoming), Addison and Balamoune-Lutz (2013), Fielding and Gibson (2012), Roe (2011) and other presentation by for example the IMF, which can be accessed from the ReCom web-site: <http://recom.wider.unu.edu/growth-and-employment>
- ⁵⁹ Much theory about this topic is summarized by Temple (2010).
- ⁶⁰ See Collier (2012), Harrigan (2011), Osei et al. (2013) and Round (2012).
- ⁶¹ Burnside and Dollar (2000) and World Bank (1998) argued that aid works, but only when good policies are in place. This result was challenged by Hansen and Tarp (2001), Dalgaard et al. (2004), Dalgaard and Hansen (2001) and Easterly et al. (2004). Allocating aid conditional on good policy is alluringly simple, but will neither allocate aid to where it is most needed nor ensure that aid impact is maximized.
- ⁶² It must be emphasized that the aggregate empirical aid-growth distributions reported in this position paper are about the central tendency of the aid-growth relation (conditional on parameter sets) not about the dispersion. Country variations, including differences in total factor productivity (TFP), remain poorly understood. Addressing this challenge should be a key topic in any aid research agenda for the future as noted early on by Dalgaard et al. (2004).
- ⁶³ See (Easterly 1999).
- ⁶⁴ Bigsten and Tengstam (2012) estimate the costs of fragmentation, while Bourguignon and Platteau (2012) discuss the implications of fragmentation and co-ordination for aid effectiveness. Addison and Clarke (forthcoming) discuss what emerging donors could learn from traditional donors.
- ⁶⁵ See Addison and Levin, forthcoming.
- ⁶⁶ See Collier and Dehn (2001), Guillaumont and Wagner (2012), Hudson (2012), McGillivray and Feeny (2008) and Neanidis and Varvarigos (2009) for a range of studies that illustrate these points.

- ⁶⁷ A similar case in relation to export promotion is argued by Nielsen and Gibbon (2011), and Addison and Anand (2012) as well as Addison and Anand (forthcoming) consider the context of infrastructure finance. Driffield and Jones (2013) provide a broader analysis. Addison and Balamoune-Lutz (forthcoming) discuss aid in relation to foreign direct investment.
- ⁶⁸ The same goes for reference to ‘poverty trap’ models as an indispensable part of the logic for providing aid. One does not need such models to get justifiable returns to aid, as also argued by Kraay and Raddatz (2007).

Appendix 1: Externally peer-reviewed publications

(This list does not include papers that will be submitted after the completion of the ReCom position papers.)

A1.1 Books and journal special issues

A1.1.1 Published and forthcoming

Addison, T., and F. Tarp (eds) (forthcoming). ‘Aid Policy and the Macroeconomic Management of Aid’. Special issue of World Development.

1. Aid Policy and the Macroeconomic Management of Aid
T. Addison and F. Tarp
2. Assessing Foreign Aid’s Long-Run Contribution to Growth and Development
C. Arndt, S. Jones, and F. Tarp
3. Aid and Income: Another Time-series Perspective
M. Lof, T.J. Mekasha, and F. Tarp
4. Aid Supplies over Time: Addressing Heterogeneity, Trends and Dynamics
S. Jones
5. Business Cycle Fluctuations, Large Macroeconomic Shocks, and Development Aid
E. Dabla-Norris, C. Minoiu, and L.-F. Zanna
6. Consequences of Aid Volatility for Macroeconomic Management and Aid Effectiveness
J. Hudson
7. International Coordination and the Effectiveness of Aid
A. Bigsten and S. Tengstam
8. The Hard Challenge of Aid Coordination
F. Bourguignon and J.-P. Platteau
9. Aid and Government Fiscal Behavior: Assessing Recent Evidence
O. Morrissey

10. Fiscal Composition and Aid Effectiveness: A Political Economy Model
P. Mosley
11. Policy Responses to Aid Surges in Countries with Limited International Capital Mobility: The Role of the Exchange Rate Regime
A. Berg, R. Portillo, and L.-F. Zanna

Arndt, C., and F. Tarp (eds) (forthcoming). ‘Aid, Environment, and Climate Change’. Special issue of *Development Policy Review*

1. Environmental and Climate Finance in a New World: How Past Environmental Aid Allocation Impacts Future Climate Aid
C. Marcoux, B. C. Parks, C. M. Peratsakis, J. T. Roberts, and M. J. Tierney
2. Foreign Assistance in a Climate- Constrained World
C. Arndt and C. Friis Bach
3. Land, Environment and Climate: Contributing to the Global Public Good
T. W. Hertel
4. International Cooperation for Agricultural Development and Food- and Nutrition Security: New Institutional Arrangements for Related Public Goods
J. von Braun
5. REDD+ as Performance-Based Aid
A. Angelsen
6. Foreign Aid and Sustainable Energy
L. Gomez-Echeverri
7. Aid, Environment, and Climate Change
C. Arndt and F. Tarp

Gisselquist, R. M. (ed.) (forthcoming). ‘Aid and Institution-Building in Fragile States: Findings from Comparative Cases’. Special issue of the *Annals of the American Academy of Political and Social Science*

1. Aid and Institution-Building in Fragile States: What Do We Know? What Can Comparative Analysis Add?
R. M. Gisselquist
2. International Aid to Southern Europe in the Early Post-war Period: The Cases of Greece and Italy
D. A. Sotiropoulos

3. US Aid and Uneven Development in East Asia
K. Gray
4. Aid and Governance in Vulnerable States: Bangladesh and Pakistan since 1971
M. Khan
5. Foreign Aid, Resource Rents and Institution-Building in Mozambique and Angola
H. Perez Nino and P. Le Billon
6. Consociational Settlements and Reconstruction: Bosnia in Comparative Perspective (1995 to present)
S. Stoschein
7. Kosovo and East Timor: Neotrusteeship, Neighbors, and the United Nations
L. M. Howard
8. Transition Regimes and Security Sector Reforms in Sierra Leone and Liberia
A. K. Onoma
9. State Failure, State-building, and Prospects for a 'Functional Failed State' in Somalia
K. Menkhaus
10. External Intervention and State-Building in Japan, Iraq, and Afghanistan
J. Monten

Gisselquist, R. M., (ed.). Aid to Support Fragile States: The Challenge of Chronic Weakness, *Third World Quarterly*, forthcoming July 2015

(Note: Papers #2, #3, and #4 did not originate as ReCom commissioned papers.)

1. Aid to Support Fragile States: Domestic Constraints
R. M. Gisselquist
2. State Fragility: Towards a Multi-Dimensional Empirical Typology
J. Gravingholt, S. Ziaja, and M. Kreibaum
3. An Anchor for a Dazzling Debate: Conceptualizing State Collapse
D. Lambach, E. Johais, and M. Bayer
4. Sequencing Fragile State Processes: An Empirical Analysis
J. Landry, S. Shaw, C. Ostropolski, D. B. Carment, and Y. T. Samy
5. Aid and State Transition in Ghana and South Korea
J. Kim

6. Aid and Policy Preference in Oil-Rich Countries: Indonesia and Nigeria Compared
A. H. Fuady
7. Aid and Institution-Building in Central America: The Re-Formation of Rule of Law Institutions in Post-Conflict Societies
J. M. Cruz
8. Foreign Aid and the Failure of State-Building in Haiti under the Duvaliers, Aristide, Préval, and Martelly
T. Buss
9. Foreign Aid and the Legacy of War in Rwanda and Burundi
D. Curtis
10. Aid, Human Rights, and Institution-Building in Ethiopia: A Comparison of Donor Practice
B. Abegaጺ

Gisselquist, R. M., and M. Niño-Zarazúa (eds) (forthcoming). 'Experimental and Non-Experimental Methods in the Study Government Performance: Toward a Middle Ground?'. Special issue of *The Journal of Globalization and Development*.

1. Introduction: What Can Experimental Methods Tell Us about Government Performance?
R. M. Gisselquist and M. Niño-Zarazúa
2. Evaluating Antipoverty Transfer Programs in Latin America and Sub-Saharan Africa: Better Policies? Better Politics?
A. Barrientos and J. M. Villa
3. A Structural Approach to Generalization in Social Experiments
F. Martel Garcia and L. Wantchekon
4. The Ethics of Field Experimentation
M. Humphreys
5. The Porous Dialectic: Experimental and Non-experimental Methods in Development Economics
R. Debejia
6. Measuring Government Performance in Public Opinion Surveys in Africa: Towards Experiments?
M. Bratton
7. Ancillary Experiments: Opportunities and Challenges
K. Baldwin and R. Bhavnani

Gisselquist, R. M., and D. Resnick (eds) (forthcoming). ‘Aiding Government Effectiveness in Developing Countries’. Special issue of *Public Administration and Development*.

1. Introduction
R. M. Gisselquist and D. Resnick
2. Policing Reforms and Economic Development in African States: Understanding the Linkages, Empowering Change
O. Marenin
3. Economic Governance: Improving the Economic and Regulatory Environment for Supporting Private Sector Activity
C. Kirkpatrick
4. The Impact of Adult Civic Education Programs in Developing Democracies
S. Finkel
5. Foreign Aid and Decentralization: Policies for Autonomy and Programming for Responsiveness
J. Tyler Dickovick
6. Taxation and Development: A Review of Donor Support to Strengthen Tax Systems in Developing Countries
O.-H. Fjeldstad
7. Civil Service Reform: A Review
S. Repucci

Jones S., J. Page, A. Shimeles, and F. Tarp (eds) (forthcoming). ‘Aid and Employment’. Special issue of *African Development Review*.

1. Introduction: Overview of Aid and Employment
S. Jones, J. Page, A. Shimeles, and F. Tarp
2. Aid, Growth, and Jobs
G. Fields
3. Aid, Employment, and Poverty Reduction in Africa
J. Page and A. Shimeles
4. Employment Effects of Multilateral Development Bank Projects: The Case of the African Development Bank
A. M. Simpasa, A. Shimeles, and A. O. Salami
5. Is Small Beautiful? Small Enterprise, Aid and Employment in Africa
J. Page and M. Söderbom

6. Priorities for boosting employment in sub-Saharan Africa: evidence from Mozambique
S. Jones and F. Tarp
7. Aid, Employment and Inclusive Growth in Conflict-Affected Countries: A Proposal for Reconstruction Zones in Liberia
G. del Castillo
8. The Role of Training in Fostering Cluster-Based Micro and Small Enterprises Development
T. Sonobe and K. Otsuka
9. Aid and Employment
T. Addison and F. Tarp

Resnick, D. (ed.) (forthcoming). 'Urban Governance and Service Delivery in African Cities'. Special issue of *Development Policy Review*.

1. Urban Governance and Service Delivery in African Cities: The Role of Politics and Policies
D. Resnick
2. Urban Service Delivery in Africa and the Role of International Assistance
R. Stren
3. Opposition Politics and Urban Service Delivery in Kampala, Uganda
G. Lambright
4. Strategies of Subversion in Vertically-Divided Contexts: Decentralisation and Urban Service Delivery in Senegal
D. Resnick
5. Vertical Decentralisation and Urban Service Delivery in South Africa: Does Politics Matter?
R. Cameron

Resnick, D., and N. van de Walle (eds) (2013). *Democratic Trajectories in Africa: Unravelling the Impact of Foreign Aid*. Oxford, UK: Oxford University Press.

1. Introduction: Why Aid and Democracy? Why Africa?
D. Resnick and N. van de Walle
2. Democratization in Africa: What Role for External Actors?
D. Resnick and N. van de Walle
3. Foreign Aid and Democratic Development in Africa
S. Dietrich and J. Wright

4. Foreign Aid in Dangerous Places: The Donors and Mali's Democracy
N. van de Walle
5. Two Steps Forward, One Step Back: The Limits of Foreign Aid on Malawi's Democratic Consolidation
D. Resnick
6. The Changing Dynamics of Foreign Aid and Democracy in Mozambique
C. Manning and M. Malbrough
7. Donor Assistance and Political Reform in Tanzania
A. M. Tripp
8. Foreign Aid and Democratic Consolidation in Zambia
L. Rakner
9. Beyond Electoral Democracy: Foreign Aid and the Challenge of Deepening Democracy in Benin
M. Gazibo
10. Ghana: The Limits of External Democracy Assistance
E. Gyimah-Boadi and T. Yakab
11. Conclusions and Policy Recommendations
D. Resnick

A1.1.2 Under review and in preparation

Addison, T., M. Niño-Zarazúa, and F. Tarp (eds). 'Aid, Social Policy and Welfare in Developing Countries'.

1. Introduction: Aid, Social Policy and Welfare in Developing Countries
T. Addison, M. Niño-Zarazúa, and F. Tarp
2. Public Spending, Welfare and the Quest against Poverty and Income Inequality in Developing Countries
F. H. Gebregziabber and M. Niño-Zarazúa
3. On the Impact of Sector-Specific Foreign Aid on Welfare Outcomes: Do Aid Modalities Matter?
A. Abdilahi, T. Addison, M. Niño-Zarazúa, and F. Tarp
4. Aid, Political Cycles and Welfare in sub-Saharan Africa
B. Chiripanhura and M. Niño-Zarazúa
5. The Progressivity and Regressivity of Aid to the Social Sectors
B. Baulch and L. Vi An Tam

6. New Actors in Development Assistance: the Africa-Brazil Co-operation in Social Protection
I. Costa Leite, B. Suyama, and M. Pomeroy
7. Targeting Social Transfer Programmes: Comparing Design and Implementation Errors Across Alternative Mechanisms
R. Sabates-Wheeler, A. Hurrell, and S. Devereux
8. The Donor Co-ordination for Effective Government Policies? Implementation of the New Aid Effectiveness Agenda in Health and Education in Zambia
S. Leiderer

Addison, T., L. Scott, and F. Tarp (eds). 'Renaissance or Retreat? Aid in Changing Times'.

1. Introduction
T. Addison, L. Scott, and F. Tarp
2. Aid as a Second-Best Solution. Seven Problems of Effectiveness and How to Tackle Them
R. Manning
3. Rethinking the World of Aid in the Twenty First Century
P. Heller
4. Aid and Poverty: Why Does Aid Not Address Poverty (Much)
A. Shepherd and S. Bishop
5. Aid, Structural Change and the Private Sector in Africa
J. Page
6. Aid and Infrastructure Financing: Emerging Challenges with a Focus on Africa
T. Addison and P.B. Anand
7. Foreign Assistance and the Food Crisis of 2007-08
P. Abbott
8. Improving Donor Support for Urban Poverty Reduction: A Focus on South Asia
N. Banks
9. A Changing Landscape with New Players and Challenges
A. Chimhowu
10. Aid as a Catalyst for Pioneer Investment
P. Collier
11. Global Poverty, Aid, and Middle-Income Countries: Are the Country Classifications Moribund or Is Global Poverty in the

Process of ‘Nationalizing’?
A. Sumner

12. Conclusions: Renaissance or Retreat?
T. Addison, L. Scott, and F. Tarp

Addison, T., and F. Tarp (eds). ‘Macroeconomic Management of Aid’.
(Final selection of papers underway)

Gisselquist, R. M. (ed.). ‘Good Aid in Hard Places: Evaluating and Explaining Reform ‘Success’ in Fragile Contexts’.

1. Good Aid in Hard Places: Evaluating and Learning from What Has Worked in Fragile Contexts
R. M. Gisselquist
2. The National Solidarity Program: Assessing the Effects of Community Driven Development in Afghanistan
A. Beath, F. Christia, and R. Enikolopov
3. Delivering Good Aid in Hard Places: The Yemen Social Fund for Development Approach
L. Al-Iryani, A. de Janvry, and E. Sadoulet
4. The World Bank’s Health Projects in Timor-Leste: The Political Economy of Effective Aid
A. Rosser and S. Bremner
5. Afghanistan’s Health Sector Rehabilitation Program
M. K. Rashidi, F. Feroz, N. Kamawal, H. Niayesh, G. Qader, and H. Saleh
6. Education from the Bottom Up: UNICEF’s Education Program in Somalia
J. H. Williams and W. C. Cummings
7. Success When Stars Align: Public Financial Management Reforms in Sierra Leone
H. Tavakoli, W. Cole, and I. Ceesay
8. Liberia’s Gender-Sensitive Police Reform: Starting from Scratch? Improving Representation and Responsiveness
L. Bacon
9. Impact Assessment of the Facilitadores Judiciales Program in Nicaragua
M. Barendrecht, M. Kokke, M. Gramatikov, R. Porter, M. Frishman, and A. Morales
10. Finn Church Aid and the Somali Peace Process
R. Lepistö and J. Ojala

Grown, C. (ed.). ‘Aid and Gender’.

(Final selection of papers underway)

Huang, Y., and U. Pascual (eds). ‘Aid Effectiveness for Environmental Sustainability’.

- 1 Introduction
Yongfu Huang and Unai Pascual
- 2 Foreign Aid for Capacity-building to Address Climate Change
David Victor
- 3 Foreign Aid for Climate Change Related Capacity Building
Zexian Chen and Jingjing He
- 4 The Effectiveness of Foreign Aid for Sustainable Energy and Climate Mitigation
H-Holger Rogner
- 5 Foreign Aid, Green Cities and Buildings
Sandrine Kablan
- 6 Foreign Aid, Urbanization and Green Cities
Jun Li
- 7 Leveraging Global Climate Finance for Sustainable Forests: Opportunities and Conditions for Successful Foreign Aid to the Forestry Sector
Unai Pascual, Eneko Garmendia, Jacob Phelps, and Elena Ojea
- 8 Foreign Aid and Sustainable Forestry
Pekka E. Kauppi
- 9 Financing Sustainable Agriculture under Climate Change with a Specific Focus on Foreign Aid
Jikun Huang
- 10 Foreign Aid and Sustainable Agriculture in Africa
Siddig Umbadda and Ismail Elgizouli
- 11 Foreign Aid and Sustainable Energy
Luis Gomez-Echeverri

Niño-Zarazúa, M. (ed.). ‘Education Aid and Development: Have We Got It Right?’.

1. Introduction: Foreign Aid and Education: Principles and Actions
M. Niño-Zarazúa

2. The Effectiveness of Foreign Aid to Education: What Can Be Learned?
A. Riddell
3. International Organizations and the Future of Educational Assistance
P. Heyneman and B. Lee
4. Making Aid Work for Education in Developing Countries: an Analysis of Aid Effectiveness for Primary Education Coverage and Quality
K. Birchler and K. Michaelowa
5. What Works to Improve Education Quality in Developing Countries
S. Masino and M. Niño-Zarazúa
6. Class Size versus Composition: Do They Matter for Learning in East Africa?
S. Jones
7. How to Move from Measuring Separate Outcomes of School Food Provision to an Integrated Indicator Related to Learning?
A. Gelli, F. Espejo, J. Shen, and E. Kristjansson

Niño-Zarazúa, M. (ed.). 'Aid and Public Health Policy in Developing Countries'.

1. Introduction: Foreign Aid and Public Health Interventions in Developing Countries
M. Niño-Zarazúa
2. Aid Effectiveness in the Health Sector
M. Martínez Álvarez and A. Acharya
3. Global Collective Action in Health: The WDR+20 Landscape of Core and Supportive Functions
N. Blanchet, M. Thomas, R. Atun, D. Jamison, F. Knaul, and R. Hecht
4. External Assistance and Aid Effectiveness for Maternal and Child Health: Challenges and Opportunities
Z. A. Bhutta and S. Aleem
5. Universal Access to Drinking Water: The Role of Foreign Aid
R. Bain, R. Luyendijk, and J. Bartram
6. Every Drop Counts: Assessing Aid for Water and Sanitation
P.B. Anand

7. International Aid for Diarrheal Disease Control: Effectiveness and Potential for the Future
R. A. Cash and J. Potter
8. What Do We Know about Non-Clinical Interventions for Preventable and Treatable Childhood Diseases in Developing Countries?
M. Seguin and M. Niño-Zarazúa
9. Policy Interventions against HIV/AIDS, Tuberculosis and Malaria in Developing Countries: What are their Micro-Economic effects?
A. B. Amaya and M. Niño-Zarazúa
10. On the Effectiveness of Policy Interventions Against Neglected Tropical Diseases
M. Quattri and M. Niño-Zarazúa
11. Conclusion
M. Niño-Zarazúa

Pritchett, L., M. Woolcock, and M. Andrews. ‘Remaking the Developing Project: Why Building State Capability for Implementation is the 21st Century Development Problem, and What to do About It’.

(Final selection of papers underway)

A1.2 Individual journal articles and book chapters

(Excluding papers currently under review)

A1.2.1 Published and forthcoming

Addison, T., C. Arndt, and F. Tarp (2011). ‘The Triple Crisis and the Global Aid Architecture’. *African Development Review*, 23(4): 461-478.

Andrews, M., L. Pritchett, and M. Woolcock (2013). ‘Escaping Capability Traps Through Problem Driven Iterative Adaptation (PDIA)’. *World Development*, 51: 234-244.

Arndt, C., S. Jones, and F. Tarp. (2010). ‘Aid, Growth, and Development: Have We Come Full Circle?’. *Journal of Globalization and Development*, 1(2): 1-29.

Arndt, C., S. Jones, and F. Tarp (forthcoming). ‘Aid Effectiveness’. In M. Ndulu (ed.), *Problems, Promises, and Paradoxes of Aid: Africa’s Experience*. Cambridge Scholars Publishing.

Gisselquist, R.M. (forthcoming 2014). 'Paired Comparisons and Theory Development: Considerations for Case Selection'. *PS: Political Science & Politics*, 47(2): 477-484.

Jones, S., and F. Tarp (forthcoming). 'Jobs and Welfare in Mozambique'. In G. Betcherman (ed.), *World Development Report 2013: Country Case Study Volume*. Washington, DC: World Bank.

Juselius, K., N.F. Møller, and F. Tarp (2014). 'The Long-Run Impact of Foreign Aid in 36 African Countries: Insights from Multivariate Time Series Analysis'. *Oxford Bulletin of Economics and Statistics*, 75(2): 153-184.

Mekasha, T.J. and F. Tarp (2013). 'Aid and Growth: What Meta-Analysis Reveals'. *The Journal of Development Studies*, 49(4): 564-583.

Nanivazo, M. (forthcoming). 'Social Transfer Programmes and School Enrolment in Malawi: A Micro-simulation'. *African Development Review*.

Pritchett, L., M. Woolcock, and M. Andrews (2013). 'Looking Like a State: Techniques of Persistent Failure in State Capability for Implementation'. *The Journal of Development Studies*, 49(1): 1-18.

Tarp, F. (2011). 'Foreign Aid and Development'. In B. Badie, D. Berg-Schlosser, and L. Morlino (eds), *International Encyclopedia of Political Science*. Thousand Oaks, CA: SAGE Publications, Inc.

Tarp, F. (2012) 'The Rationale of Foreign Aid Policy'. In P. Andersen, I. Henriksen, J. H. Petersen and H. Zobbe (eds), *How Does the World Look?*. Copenhagen: Jurist og Økonomforbundets Forlag.

Woolcock, M. (2013). 'Using Case Studies to Explore the External Validity of 'Complex' Development Interventions'. *Evaluation*, 19(3): 229-248.

Appendix 2: Events and presentations

1. Seminar: ‘Aid and Development, Asia and Africa: The Role of Infrastructure and Capacity Development, East Asia: Growth and its Implication for African Development’, School of Oriental and African Studies (SOAS), University of London, UK, 17-18 February 2011.
2. Seminar: ‘The Impact of Aid: What is the Impact of Aid, Economic Development, Recipient Governments and Donors Themselves?’, Sida, Stockholm, Sweden, 9 March 2011.
3. Presentation: ‘Aid, Growth and Development: Are We Getting Results?’, Finnish Development Days, Ministry for Foreign Affairs of Finland, Helsinki, Finland, 22 March 2011.
4. Seminar: ‘Aid: Working for Development’, Danish Ministry for Foreign Affairs, Copenhagen, Denmark, 17 June 2011.
5. Conference: ‘Foreign Aid: Research and Communication’, UNU-WIDER, Helsinki, Finland, 30 September-1 October 2011.
6. Conference: ‘Macroeconomic Management of Foreign Aid’, Nairobi, Kenya, 2-3 December 2011.
7. Seminar: ‘Development Effectiveness: New Ideas, New Challenges’, Development Policy Department, Ministry for Foreign Affairs of Finland, Helsinki, Finland, 19 January 2012.
8. ReCom Results Meeting: ‘Aid, ‘Growth and Macroeconomic Management’, Copenhagen, Denmark, 27 January 2012.
9. Seminar: Sida Development Talks: ‘Development Assistance and Growth’, Sida, Stockholm, Sweden, 13 March 2012.
10. Seminar: ‘Aid and Growth: an Overview’, London, UK, 19 March 2012.
11. Seminar: ‘Two Steps Forward, One Step Back? Progress, Setbacks, and Possibilities for Democratization, Africa’, Helsinki, Finland, 18 April 2012.
12. Lecture: ‘Foreign Aid and Domestic Politics, Recipient Countries’, Stockholm, Sweden, 10 May 2012.
13. ReCom Results Meeting ‘Democracy and Fragility’, Stockholm, Sweden, 10 May 2012.
14. Seminar: ‘Does Aid Contribute to Economic Development?’, Helsinki, Finland, 15 May 2012.
15. Seminar: ‘Cutting Edge Executive Education’, Harvard University, Cambridge, Massachusetts, USA, 15-18 May 2012
16. Seminar: ‘Foreign Aid and Democracy in Africa’, London, UK, 17 May 2012.
17. Seminar: ‘Urban Governance and Service Delivery, Africa’, Cape Town, South Africa, 5 June 2012

18. Seminar: [‘Donors, Democracy and Development: Unravelling the Impact of Aid in Africa’](#), Accra, Ghana, 8 June 2012.
19. [Gender Equality Theme Meeting](#), Helsinki, Finland, 12-13 July 2012.
20. Seminar: [‘Urban Governance and Service Delivery, Africa: The Role of National Policies, Institutions, and Politics’](#), within World Urban Forum 6, Naples, Italy, 5 September 2012.
21. Conference presentation: ‘Successful Societies’, Princeton University, New Jersey, USA, 21 September 2012.
22. ReCom Results Meeting: [‘Jobs: Aid at Work’](#), Copenhagen, Denmark, 8 October 2012.
23. Presentation: [‘Aid, Growth and Development’](#), Danish Economic Society, Copenhagen, Denmark, 9 October 2012.
24. Presentation: ‘Has Foreign Aid Improved Governance in Sub-Saharan Africa? Experimental and Quasi-Experimental Findings’ at [Nordic Africa Days](#), Reykjavík, Iceland, 18-19 October 2012.
25. Presentation at a UNDP Seminar: New York, USA, 24 October 2012.
26. Presentation: [‘Building State Capability: A PDIA Approach’](#) at CID’s 5th Annual Global Empowerment Meeting (GEM12), Harvard Kennedy School, Cambridge, Massachusetts, USA, 25 October 2012.
27. Presentation made to the World Bank Middle East and North Africa (MENA) region team, Washington DC, USA, 30 October 2012.
28. Presentation made to USAID governance group, Washington DC, USA, November 2012.
29. Presentation: [‘Aid, Growth and Development’](#), Danish Society for International Development and the Centre for African Studies, Copenhagen University, Copenhagen, Denmark, 2 November 2012.
30. Presentation: [‘Does Foreign Aid Help?’](#), IBIS General Assembly, Copenhagen, Denmark, 3 November 2012.
31. Presentation at EU European Social Fund Conference, the Netherlands, 6 November 2012.
32. Presentation: SIDA Development Talks, [‘Capturing and Communicating Results: Complex Contributions’](#), Stockholm, Sweden, 8 November 2012.
33. Presentation of ReCom results at workshop, [‘The New Global Development Agenda’](#), Ministry for Foreign Affairs of Finland and UNU-WIDER, Helsinki, Finland, 12 November 2012.
34. Presentation at MIT Department of Urban Studies and Planning Seminar: Cambridge, Massachusetts, USA, 14 November 2012.
35. Presentation at DFID, London, UK, 15 November 2012.
36. Workshop: ‘Growth and Building State Capability through Problem-Driven Iterative Adaptation (PDIA)’, Government of Uganda, Kampala, Uganda, 6-8 December 2012.

37. Presentation in RAND Graduate School Seminar: 10 January 2013.
38. Seminar at American University, School of International Service, Washington DC, USA, 30 January 2013.
39. ReCom Results Meeting: '[Aid and the Social Sectors](#)', Stockholm, Sweden, 13 March 2013.
40. Guest lecture at Johns Hopkins University, School of Advanced International Studies, Washington DC, USA, 1 April 2013.
41. Presentation: '[Does Aid Contribute to Economic Development?](#)', African Development Bank, Tunis, Tunisia, 4 April 2013.
42. Presentation at World Bank Institute, Washington DC, USA, 29 April 2013.
43. Presentation at the Harvard University Cutting Edge Executive Education Seminar, Cambridge, Massachusetts, USA, 13-17 May 2013.
44. Presentation at Civilian Training of the US Department of Defense, Washington DC, USA, 23 May 2013.
45. ReCom Results Meeting: '[Aid and Our Changing Environment](#)', Stockholm, Sweden, 4 June 2013.
46. Promotion and exhibition booth on ReCom at the Deutsche Welle [Global Media Forum](#), Bonn, Germany, 17-19 June 2013.
47. Promotion and exhibition booth on ReCom at the [8th World Conference of Science Journalist 2013](#), Helsinki, Finland, 24-28 June
48. Workshop: '[How to Make News Out of Foreign Aid](#)', 8th World Conference of Science Journalists, Helsinki, Finland, 24 June 2013.
49. Lecture at World Bank DEC, Washington DC, USA, 26 June 2013.
50. Guest lecture at Sydney Law School, Sydney, Australia, 17 August 2013.
51. Lecture at South African National Treasury, Pretoria, South Africa, August 2013.
52. Presentation at Harvard Business Review, Brasil Public Management Training for local government officials, Brasilia, Brazil, 20 August 2013.
53. Symposium: '[Experimental and Non-Experimental Methods to Study Governance Performance: Contributions and Limits](#)', New York, USA, 22-23 August 2013.
54. Lecture at Syracuse University, New York, USA, September 2013.
55. Briefing: ReCom programme for UNU-WIDER conference participants held, Helsinki, Finland, 19 September 2013.
56. Guest lecture at Columbia University, New York, USA, 20 September 2013.
57. Lecture at Johns Hopkins University Baltimore, USA, September 2013.
58. Public lecture at University of Bath, Bath, UK, 14 October 2013.

59. Panel discussion at American Evaluation Association, Washington DC, USA, 17 October 2013.
60. ReCom Results Meeting: [‘Challenges, Fragility and Governance’](#), Copenhagen, Denmark, 23 October 2013.
61. Workshop: [‘Untying Development: Promoting Governance and Governments with Impact’](#), Harvard University, USA, 23 October 2013.
62. Panel discussion: [‘Impact Evaluation as a Learning Tool for Development Effectiveness Tomorrow’](#), Inter-American Development Bank, Washington DC, USA, 24 October 2013.
63. Joint UNU and UNU-WIDER event: [‘Fragility and Aid: What Works?’](#), New York, USA, 25 October 2013.
64. Presentation: [‘ReCom: What Works, Foreign Aid’](#), Ministry for Foreign Ministry of Finland’s Planning Day, Helsinki, Finland, 31 October 2013.
65. Lecture at New York University, USA, October 2013.
66. Conference presentation at [LACEA-LAMES 2013](#), Latin American Economics Association (LACEA), Mexico City, Mexico, 2 November 2013.
67. Presentation: [‘Aid, Environment and Climate Change’](#), IDB-NDF seminar on Innovative Climate Financing Mechanisms, Nordic Development Fund, Helsinki, Finland, 4 November 2013.
68. Presentation at World Bank Institute Seminar, Washington DC, USA, 5 November 2013.
69. Panel discussion: [‘Foreign Aid and Democracy, Africa’](#), Carnegie Endowment for International Peace, Washington DC, USA, 6 November 2013.
70. Lecture at Australian Embassy, Jakarta, Indonesia, 11 November 2013.
71. Presentation: Overseas Development Institute, London, UK, 15 November 2013.
72. Project meeting: [‘Aid and Institution-Building, Fragile States: Lessons from Comparative Cases’](#), Helsinki, Finland, 15-16 November 2013.
73. Presentation at World Bank Seminar, Myanmar, 18 November 2013.
74. Presentation at World Bank Seminar, Nairobi, Kenya, 2 December 2013.
75. Project meeting: [‘Good Aid, Hard Places: Learning from What Has Worked, Fragile Contexts’](#), Helsinki, Finland, 12-13 December 2013.
76. ReCom Results Meeting: [‘Aid for Gender Equality’](#), Copenhagen, Denmark, 16 December 2013.
77. Presentation [‘Aid, Growth, and Africa: the Changing Context’](#) at DFID, London, UK, 28 January 2014.
78. Presentation at the Wilton Park Conference [‘The post-2015 development framework: priorities for the least developed countries’](#), Steyning West Sussex, UK, 29-31 January 2014.

79. Presentation to the Finnish parliamentary Development Policy Committee, Helsinki, Finland, 12 February 2014.
80. Presentation '[What works in education aid policy in developing countries? A systematic review](#)', Global Education Summit, Kuala Lumpur, Malaysia, 4-5 March 2014.
81. Presentation '[Aid, growth, poverty and the global context](#)' at JICA Research Institute, Tokyo, Japan, 25 March 2014.
82. Presentation '[Social service delivery and access to financial innovation: the impact of Oportunidades' electronic payment system in Mexico](#)' at ODI, London, UK, 2 April 2014.
83. Presentation at the panel 'Does development aid work?' at the MFA of Finland, Helsinki, Finland, 8 May 2014.

Appendix 3: Commissioned papers

This appendix has two sections. Section A3.1 provides an annotated bibliography of UNU-WIDER working papers and other background studies, organized in alphabetical order. Section A3.2 provides an annotated bibliography of DIIS studies prepared under this theme.

A3.1 Annotated bibliography

Adamu, P.A. (2013). 'The Impact of Foreign Aid on Economic Growth in ECOWAS Countries: A Simultaneous-Equation Model'. WIDER Working Paper 2013/143. Helsinki: UNU-WIDER.

This paper investigates the impact of foreign aid on economic growth in member countries of the Economic Community of West African States (ECOWAS) using panel data for 1990-2009 and a three-equation simultaneous-equations model. The effect of foreign aid on economic growth among the ECOWAS countries was found to be positive and strong. Other important drivers of economic growth include interest rate, foreign direct investment, and the level of international reserves. The results from the equation on foreign aid indicated that domestic investment, exports, and international reserves have a positive relationship with foreign aid. From the equation explaining investment, domestic savings and exchange rate were found to be positively related to investment. A policy implication of the study is that ECOWAS countries should seek foreign aid as it would greatly accelerate their economic growth.

Addison, T. and P.B. Anand (2012). 'Aid and Infrastructure Financing: Emerging challenges with a focus on Africa'. WIDER Working Paper 2012/056. Helsinki: UNU-WIDER.

The central argument of this study is that given the magnitude of the investment in infrastructure that is required, especially in Africa, the role of foreign aid in the future should be distinctly different. While aid will be required to continue to fill the 'savings gap' in some small countries and land-locked countries, in most other countries aid can play a very different role in facilitating the creation of institutional mechanisms that help mobilize more funding from other sources. These include domestic revenues (which already fund a large proportion of infrastructure), investments by China and the other 'BRICs', sovereign wealth funds and infrastructure funds. There are already examples of aid playing such a leveraging role. What is needed is to take this to a new and higher level. The study provides an overview of evidence on infrastructure needs and also possible magnitudes of flows from different sources for investment in infrastructure.

Addison, T. and P.B. Anand (forthcoming). 'Infrastructure and Development Finance: an Overview of Issues and Evidence'. WIDER Working Paper. Helsinki: UNU-WIDER.

The Post-2015 development agenda calls for a quantum leap in the creation of better livelihoods and more employment. Substantial investment in all forms of infrastructure is required to achieve this, especially in the poorer countries, and in landlocked states. Although domestic revenues can be raised to finance infrastructure, greater private investment must undertake the task, and aid has a role to play in leveraging in more private and foreign investment in infrastructure. Infrastructure that links landlocked states with coastal growth poles is important, but slow progress in regional economic cooperation in Africa, limits the returns to infrastructure investment of this type. This paper discusses the issues arising in achieving the scale of investment required, and the evidence to date.

Addison, T., C. Arndt, and F. Tarp (2010). 'The Triple Crisis and the Global Aid Architecture'. WIDER Working Paper 2010/01 Helsinki: UNU-WIDER.

The global economy is passing through a period of profound change. The immediate concern is with the financial crisis, originating in the North. The South is affected via reduced demand and lower prices for their exports, reduced private financial flows, and falling remittances. This is the first crisis. Simultaneously, climate change remains unchecked, with the growth in greenhouse gas emissions exceeding previous estimates. This is the second crisis. Finally, malnutrition and hunger are on the rise, propelled by the recent inflation in global food prices. This constitutes the third crisis. These three crises interact to undermine the prosperity of present and future generations. Each has implications for international aid and underline the need for concerted action

Addison, T. and M. Balamoune-Lutz (2013). 'Aid and Dutch Disease: Evidence from Moroccan and Tunisian time-series data'. WIDER Working Paper 2013/132. Helsinki: UNU-WIDER.

We examine aid-induced Dutch Disease—after controlling for the effects of remittances and FDI flows—in the context of two North African countries, Morocco and Tunisia. We do so by performing a multivariate time series analysis of aggregated annual data over the period 1980-2009. Aid causes real exchange rate appreciation in the case of Morocco, especially in the long run, but has no effect on the real exchange rate in the case of Tunisia. Remittances cause a real depreciation in Tunisia but have no significant effect in Morocco, while FDI does not have an effect on the real exchange rate in either country. We discuss the policy implications of the main results: aid and other types of foreign exchange inflow have the potential to cause Dutch

Disease but this is not automatic in the way suggested by the strongest critiques of aid. Morocco and Tunisia provide contrasting outcomes. Our results confirm the importance of the macroeconomic framework in which aid is provided, and the key role for infrastructure and other supply-side improvements to the final real-economy impact of aid and other inflows.

Addison, T. and M. Balamoune-Lutz (forthcoming). 'Does Aid Stimulate Foreign Direct Investment?'. WIDER Working Paper. Helsinki: UNU-WIDER.

Does foreign aid stimulate more private capital flow, FDI in particular? This can be the outcome if aid finances infrastructure, human capital formation, and better institutions, all of which can make a country more attractive to investors. If aid does achieve this, then a dollar's worth of aid will in effect be leveraging further investment and growth aside from any direct effect of aid on growth. Aid and FDI are then complements. Many in the development community view aid and FDI in this way (this was a common position at the 2002 UN International Conference on Financing for Development, in Monterrey). However, if foreign aid gives rise to strong Dutch Disease effects then it could potentially deter FDI in the tradables sector, exports in particular. Aid and FDI might then be substitutes rather than complements. This paper reviews the empirical evidence, from Africa and elsewhere in the developing world.

Addison, T. and A. Chowdhury (forthcoming). 'Developing Bond Markets in Africa: The Role of Foreign Aid'. WIDER Working Paper. Helsinki: UNU-WIDER.

As economies grow, they typically develop more diversified sources of public finance, and in time dependence on aid falls. One of the most important is the market for sovereign debt, including both bonds denominated in domestic currency (which implies that the creditor faces a potential exchange rate risk) as well as foreign-currency bonds. Aid, in promoting economic growth, leads to stronger real economies, which in turn makes it easier to service bonds and to reduce exchange rate risk; this in turn makes them more attractive to creditors, and improves the ability of governments to finance development spending. Aid can also improve the financial infrastructure of a country, via technical assistance to help develop bond markets, but also by underwriting some of the risk in new issues of bonds. This paper empirically explores the issues; it finds that overall aid has had a positive effect on the expansion of the bond market.

Addison, T. and M. Clarke (forthcoming). 'What Can Emerging Donors Learn from the Lessons of Aid Policy and Practice of the Traditional Donors?'. WIDER Working Paper. Helsinki: UNU-WIDER.

A striking transition is underway in international aid flows, with flows from emerging donors increasing, including China, India, South Korea and Turkey. The rise in aid from emerging donors illustrates a wider pivot in international economic relations. While these aid flows are still small in global terms, they have become increasingly important in Africa and Melanesia. The existing literature on emerging aid donors (much of it focused on China) has been largely concerned with the motivations behind this aid. However, a barely discussed issue is what emerging donors might learn from the aid policy and practices of 'traditional' (OECD-DAC) donors in helping countries achieve economic growth and higher levels of human development.

Addison, T. and A. Ghoshray (2013). 'Agricultural Commodity Price Shocks and Their Effect on Growth in Sub-Saharan Africa'. WIDER Working Paper 2013/098 Helsinki: UNU-WIDER.

Commodity price shocks are an important type of external shock and are often cited as a problem for economic growth in sub-Saharan Africa. This paper quantifies the impact of agricultural commodity price shocks using a near vector autoregressive model. The novel aspect of this model is that it defines an auxiliary variable that can potentially capture the definition of a price shock that allows determination of whether the response of per capita Gross domestic product (GDP) growth in sub-Saharan Africa to these price shocks is asymmetric. The authors find that there is evidence of such asymmetric responses to commodity price shocks.

Addison, T. and J. Levin (forthcoming). 'Revenue Mobilization in Aid Dependent Countries: Current and Future Challenges'. WIDER Working Paper. Helsinki: UNU-WIDER.

There is now a consensus that strengthening domestic revenue mobilization, including widening the tax base, is important to raising public spending on public goods for economic growth, poverty reduction, and human development. However, it is important that tax revenues should not be mobilized in ways that distort economic growth, or impact unduly on the poor. This paper reviews progress in improving tax administration, including donor support, as well as the challenges ahead. Economic growth in raising the amount of tax revenue that can be potentially collected can strengthen the public finances of low-income countries, but only if appropriate institutions are built to collect it.

Addison, T., T.J. Mekasha, and F. Tarp (forthcoming). 'The Macroeconomic Management of Aid: Overview'. WIDER Working Paper. Helsinki: UNU-WIDER.

For aid-recipient countries together with their donor partners, a major issue is the effective management of aid inflows to achieve development objectives. Creating an appropriate macro-economic framework around aid is essential to this task. This is especially so when the aid inflow is large in relation to the economy's size and the scale of the government's budget—which is often the case in low-income countries, especially those recovering from conflict. Aid has the potential to relax supply-side constraints and increase the economy's potential output, especially in the tradable sectors (both exportables and import-substitutes). Aid may then have favourable effects on the rate of growth, the balance of payments, and government revenue (through the rise in the tax base associated with growth). Much recent attention has been devoted to aid's role in financing infrastructure, which is critical to improving the supply-side of poor economies. However, aid also has a potentially negative effect on growth, originating in its demand-side effects. Aid in large volumes raises domestic demand and, with inelasticity in the production of non-tradables, the relative price of non-tradables may rise relative to tradables (a 'spending effect'). This real-exchange rate effect may then cause an adverse response on the supply-side.

Addison, T., S. Singhal, and F. Tarp (2013). 'Aid to Africa: The Changing Context'. WIDER Working Paper 2013/144. Helsinki: UNU-WIDER (and in Justin Yifu Lin and Célestin Monga (eds) *The Oxford Handbook of Africa and Economics*, Oxford University Press: forthcoming 2014).

While aid has been successful in helping countries achieve growth, this rests on too narrow a base, and Africa remains vulnerable to shocks. Growth also needs to reach more of Africa's half a billion poor people if rising inequality is to be avoided. By investing in more infrastructure, especially for regional economic integration, aid can help improve both growth and equity; and infrastructure is also central to building climate change resilience. Aid has demonstrated success in the social sectors, which receive the largest share of aid, driven by the Millennium Development Goals (MDGs) with its human development focus. The 2013 UN High-Level Panel report on the post-2015 development agenda emphasizes economic (i.e. structural) transformation to create better livelihoods. While improving education and health do contribute to this, donors must rethink their engagement with the productive side of African economies if they are to contribute meaningfully to inclusive growth, especially employment. This implies reversing the neglect of agriculture that has characterized aid over the last 25 years, and addressing the growth and equity dilemmas in smallholder versus larger-scale farming. Donors must also become more open to new

forms of industrial policy that help countries ‘learn to compete’ in the global manufacturing and service economies.

Addison, T. and A. Sumner (forthcoming). 'Global Poverty, Aid and Middle Income Countries'. WIDER Working Paper. Helsinki: UNU-WIDER.

Much of global poverty is situated in middle-income countries and specifically in countries that have grown from low income to middle income over the last two decades. This raises various questions about the country classifications themselves, and the future of aid but also the – apparently – weak responsiveness of poverty to economic growth. The latter is the subject of this paper. Of course nothing happens when a country crosses a somewhat arbitrary threshold but it does matter to (some) ‘traditional’ (meaning OECD-DAC) donors because those thresholds are used in numerous and various degrees of complexity to make decisions on aid allocations. Indeed, the crossing of that arbitrary line is cause enough for some donors to at least consider reducing if not actually ending aid just because a country crosses the line. What if there were alternative options for aid donors than simply withdrawal? This paper argues that ‘traditional’ donors had something useful to contribute in middle-income or better off countries (however defined) where a lack of growth is not a problem but the broad-basedness of growth is an issue that governments themselves are grappling with notably in terms of spatial inequalities or ‘sub-national LICs’ within MICs.

Anago, R. and D.Y. Alia (2014). 'Foreign Aid Effectiveness in African Economies: Evidence from a panel threshold framework'. WIDER Working Paper 2014/015. Helsinki: UNU-WIDER.

The aid-growth literature has been explored using a wide range of econometric methodologies. The evidence of the effectiveness of aid to promote economic growth is mixed suggesting that the link between aid and growth is complex and may not be well identified by traditional methods. We take another perspective and frame the aid-growth literature within a nonlinear panel threshold framework applied to a panel of selected African economies for the period 1980 to 2007. We also compare our results with the linear and nonlinear-polynomial specification and address potential endogeneity using instrumental variable and dynamic panel estimations. In the linear setting, we find no clear evidence of positive effect of aid on growth. In the nonlinear setting, we explore four threshold variables capturing various macroeconomic policies. For each threshold variable, we estimate a polynomial model by interacting aid with the considered threshold variable and a threshold model by splitting the sample according to some endogenous thresholds. In the case of aid as threshold variable, we find no evidence of polynomial effect but a weak evidence of threshold effect with a diminishing return of aid. In a lower regime of

past aid received lower than of 1.5 per cent of GDP, aid appears to have a strong positive and significant effect on growth and while above the effect is not significant. We also finds that under good policy environment characterized a relatively low inflation, high trade openness and low budget deficit, the effect of aid is more appears. These finding suggest that both donors and African aid recipient countries should pursue their effort in strengthening the macroeconomic management of aid.

Arndt, C., S. Jones, and F. Tarp (2010). 'Aid, Growth, and Development: Have We Come Full Circle?'. WIDER Working Paper 2010/96 Helsinki: UNU-WIDER.

The micro-macro paradox has been revived. Despite broadly positive evaluations at the micro- and meso-levels, recent literature doubts the ability of foreign aid to foster economic growth and development. This paper assesses the aid-growth literature and, taking inspiration from the programme evaluation literature, the authors re-examine key hypotheses. In their findings, aid has a positive and statistically significant causal effect on growth over the long run, with confidence intervals conforming to levels suggested by growth theory. Aid remains a key tool for enhancing the development prospects of poor countries.

Arndt, C., S. Jones, and F. Tarp (2011). 'Aid Effectiveness: Opening the Black Box'. WIDER Working Paper 2011/44 Helsinki: UNU-WIDER.

Controversy over the aggregate impact of foreign aid has focused on reduced form estimates of the aid-growth link. The causal chain, through which aid affects developmental outcomes including growth, has received much less attention. The authors address this gap by: (i) specifying a structural model of the main relationships; (ii) estimating the impact of aid on a range of final and intermediate outcomes; and (iii) quantifying a simplified representation of the full structural form, where aid impacts on growth through key intermediate outcomes. A coherent picture emerges: aid stimulates growth and reduces poverty through physical capital investment and improvements in health.

Arndt, C., S. Jones, and F. Tarp (2013). 'Assessing foreign aid's long-run contribution to growth in development'. WIDER Working Paper 2013/072. Helsinki: UNU-WIDER.

This paper confirms recent evidence of a positive impact of aid on growth and widens the scope of evaluation to a range of outcomes including proximate sources of growth (e.g., physical and human capital), indicators of social welfare (e.g., poverty and infant mortality), and measures of economic transformation (e.g., share of agriculture and industry in value added). Focusing on long-run cumulative effects of aid

in developing countries, and taking due account of potential endogeneity, a coherent and favorable pattern of results emerges. Aid has over the past forty years stimulated growth, promoted structural change, improved social indicators and reduced poverty.

Arndt, C., S. Jones, and F. Tarp (2014). 'What is the Aggregate Economic Return to Foreign Aid?'. WIDER Working Paper 2014/089. Helsinki: UNU-WIDER.

This paper considers the aggregate effect of aid on macroeconomic outcomes. Adopting a simulation approach, we ask: (i) whether recent empirical findings regarding the effect of aid on growth are numerically coherent; and (ii) what they imply about the economic rate of return to aid. Our findings reveal that when assessed over short time horizons, the macroeconomic effects of aid are highly variable and potentially negative. However, when viewed over long horizons (e.g., 30 years or more) a more consistent and favourable picture emerges. We find the average long-run marginal effect on growth to be highly consistent with recent empirical studies, both on average and in terms of its distribution. Also, if aid is permitted to induce a moderate positive effect on total factor productivity, its aggregate impact is increased but remains in an empirically plausible domain. Calculations of the economic return associated with these simulations underline the importance of seeing aid as a long-run cumulative investment; they also substantiate the relevance of aid as a concessionary source of financing.

Bigsten, A. and S. Tengstam (2012). 'International Coordination and the Effectiveness of Aid'. WIDER Working Paper 2012/032. Helsinki: UNU-WIDER.

This paper discusses and seeks to quantify the effects of improved donor coordination on aid effectiveness. Empirical estimates are first provided of the reductions in transaction costs that can be achieved by better donor coordination via concentration to fewer partner countries and a shift from project aid to programme-based approaches. Further estimates are presented showing how much could be gained in terms of poverty reduction by optimizing aid allocation across countries. The potential gains of a coordinated reallocation would be huge, but there are severe political implementation constraints. Still, the overall conclusion of the paper is that there are huge potential gains from donor coordination.

Bjerge, B.A. and F. Tarp (mimeo). 'Aid Effectiveness on Employment Generation: Evidence from Low-Income Countries'. WIDER Working Paper. Helsinki: UNU-WIDER.

In many countries demand for skilled labour has risen significantly as a result of globalization, advances in technology and the changing organization of work. Inadequate skills and skills mismatch reduce employability, increasing the risk that under-educated and under-trained will be marginalized and enterprise competitiveness undermined (Brewer, 2004). The mismatch between demand and supply in the labour market and constraints to expanding employment opportunities through formal growth strategies have led to the quick appeal of active employment programmes as an important policy instrument to challenge the pressing problems of un- and underemployment.

Bevan, D. (2012). 'Aid, Fiscal Policy, Climate Change, and Growth'. WIDER Working Paper 2012/077. Helsinki: UNU-WIDER.

This paper sets out to provide an introduction to two sets of questions, and to some relevant literature that has tried to answer them. The first set of questions concern what determines growth in low-income countries, and how the answers are conditioned by the history of fiscal policy design (public capital, debt and deficit management, for example). The second (related) set of questions concerns how to design fiscal policy in face of future uncertainties over climate change, structural change, and the evolution of aid flows. The paper is intended to ask questions, rather than answer them, but at least to provide some structure within which to do this.

Bourguignon, F. and J.-P. Platteau (2012). 'Does Aid Availability Affect Effectiveness in Reducing Poverty?'. WIDER Working Paper 2012/054 Helsinki: United Nations University - World Institute for Development Economics Research (UNU-WIDER).

This paper addresses the issue of the impact of aid supply on aid effectiveness. The authors proceed in two steps. First, they review research works that deal with the problem of governance in donor-recipient relationships and are susceptible of highlighting effects of aggregate aid availability. Second, they provide a conceptual framework that explicitly incorporates a trade-off between considerations of needs and governance. They examine the impact of aid supply on the manner in which a donor agency allocates the available money between countries differing in terms of both needs and domestic governance. The central conclusion is that a donor's utility function that embodies the need-governance trade-off and the associated optimization mechanism yields a meaningful rule to guide inter-country allocation of aid resources.

Bourguignon, F. and J.-P. Platteau (2013). 'The Hard Challenge of Aid Co-ordination'. WIDER Working Paper 2013/073. Helsinki: UNU-WIDER.

Aid co-ordination is a constant theme of discussion among national and international aid agencies in their search for more effectiveness and efficiency in delivering development assistance. This paper seeks to clarify some of the arguments currently made in support of aid co-ordination, and to assess unavoidable trade-offs born of the existence of political costs. It is anchored in the available literature on aid delivery while focusing on the implementation problems of aid co-ordination among donor countries. In particular, it deals with: (a) the issue of consistently and collectively handling possible governance failures in recipient countries; and (b) the impact of heterogeneity of donor countries on the effectiveness of aid co-ordination.

Bwire, T., O. Morrissey, and T. Lloyd (2013). 'Foreign Aid, Public Sector and Private Consumption: A Cointegrated Vector Autoregressive Approach'. WIDER Working Paper 2013/094 Helsinki: UNU-WIDER.

This paper employs a cointegrated vector autoregressive model to assess the growth effect of aid in Uganda over the period 1972-2008. Results show that aid in Uganda has had both direct and indirect beneficial association with growth; that it is the productivity and not the steady state level of investment that contributes to achieving target growth rates; and that consumption spending is more beneficial to growth because it contributes to private incomes and consumption. In terms of policy, it is crucial to strengthen fiscal response to aid receipts and ensure aid funded projects are closely monitored and contract specifications are strictly enforced. Moreover, donors need to accept the politically unpalatable fact that aid has an important role in supporting consumption spending.

Bwire, T., O. Morrissey, and T. Lloyd (2013). 'A Timeseries Analysis of the Impact of Foreign Aid on Central Government's Fiscal Budget in Uganda'. WIDER Working Paper 2013/101 Helsinki: UNU-WIDER.

A dynamic relationship between foreign aid and domestic fiscal variables in Uganda is analysed using a cointegrated vector autoregressive model over the period 1972-2008. Results show that aid is a significant element of long-run fiscal equilibrium, is associated with increased tax effort and public spending, and reduced domestic borrowing. Shocks to tax revenue are the pull factors, while those to domestic borrowing, government spending and aid are the push forces in the system. In terms of policy, it is crucial for donors to increase the reliability and predictability of aid, coordinate aid delivery systems and also make aid more transparent.

Chimhowu, A. (2013). 'Aid for Agriculture and Rural Development: A Changing Landscape with New Players and Challenges'. WIDER Working Paper 2013/014. Helsinki: UNU-WIDER.

This paper analyses the way aid for agriculture and rural development in the global South has changed over time. It finds three key shifts. First, a change in funding priority that has seen aid commitments move to the social sectors. Secondly, there has been a shift in priority within agriculture and rural development from the productive sector towards support for policy development and administrative capacity strengthening. Thirdly, the emergence and rise in commitments from nontraditional bilateral donors, private sector foundations and venture capital finance needs to be noted. The paper argues that these ‘new’ actors, often working outside the Development Aid Committee and other global official development assistance frameworks, have introduced alternative aid channels that not only complement but also reshape aid relationships between the traditional donors and the global south. It suggests further research to understand the impact of these new ways of financing development.

Collier, P. (2012). 'How to Spend it: The Organization of Public Spending and Aid Effectiveness'. WIDER Working Paper 2012/005. Helsinki: UNU-WIDER.

As aid diminishes in importance, donors need a capacity that enables governments to improve the quality of their public spending. In this study, three such organizational innovations are suggested: independent ratings of spending systems, Independent Public Service Agencies, and Sovereign Development Funds. These constitute a new donor instrument of influencing the modalities of public spending, alongside the volume of aid. With an additional instrument donors can escape the dilemma of having more objectives than instruments. How aid is spent may become more important than how much of it is spent.

Collier, P. (2013). 'Aid as a Catalyst for Pioneer Investment'. WIDER Working Paper 2013/004 Helsinki: UNU-WIDER.

The paper discusses how aid can support growth in small, isolated economies. Small markets frustrate scale economies and competition. Combined with high transport costs, essential inputs become prohibitively expensive. Breaking the coordination problem requires pioneering investment. Since this generates externalities it will be undersupplied. Donors have both the finance and the long-term relationships that could offset the externalities and political risks that impede pioneers. However, there are practical difficulties of how such support is best organized. In order of ambition these run from finance of infrastructure, through subsidized capital and political risk insurance, to long-term partnerships with private firms.

de Weijer, F. (2013). 'A Capable State in Afghanistan: A Building without a Foundation?'. WIDER Working Paper 2013/063. Helsinki: UNU-WIDER.

This paper argues that attempts at state-building in Afghanistan have led to institutions that are not robust. The state institutions and organizations continue to be highly dependent on external resources and technical expertise, and lack of a critical mass of people able and willing to maintain them when external support recedes. The author contends that Afghanistan may have fallen into a ‘capability trap’ that can lead to an actual decrease in state capacity in spite of an appearance of progress. This capability trap has been facilitated by four conditions; (i) high expectations on the government without sequencing or prioritization, (ii) more weight on immediate results than on establishing capable institutions, (iii) a limited menu of acceptable options for institutional arrangements, leading to strong pressures for simple ‘transplantation’, and (iv) a top-down model of implementation. Thinking about state-building thus needs to shift towards helping to structure or guide a process through which the problem-solving capacity of a broader range of actors can be brought to the fore, and more contextually appropriate models can emerge, that are less reliant on external expertise, resources, and legitimacy.

del Castillo, G. (2012). 'Aid, Employment and Inclusive Growth in Conflict-Affected Countries: Policy Recommendations for Liberia'. WIDER Working Paper 2012/047 Helsinki: UNU-WIDER.

The experience and lessons of the last two decades have shown that ignoring the key differences between the economics of peace and the economics of development has been a major reason why countries relapse into conflict. This paper briefly analyses such differences and their important implications for effective policymaking in war-torn countries, and against this background, it makes recommendations for the creation of reconstruction zones in Liberia. Reconstruction zones would have two distinct but linked areas to ensure synergies between them—an export-oriented reconstruction zone, consisting of any existing agricultural or mining foreign concession, and a local production reconstruction zone focusing on rural development, that would produce agricultural goods, food, light manufacturing and services for the domestic market, including for the concessions. The purposes of reconstruction zones are as follows. First, to create links between the concessions, operating as enclaves, and the domestic economy, particularly with the rural communities in their vicinity that have often been displaced or their livelihoods threatened by them. Second, to focus on rural development to improve food security and decrease dependence on imports. Third, to support business development through the creation of a level playing field in infrastructure and credit for micro and small enterprises, including small farmers. Fourth, to move away from the fragmented aid and investment strategies of the past, to a more integrated and effective aid strategy. Last but not least, to achieve more inclusive growth that could help to consolidate peace and avoid the danger that Liberia relapses into conflict.

Fambon, S. (2013). 'Foreign Capital Inflow and Economic Growth in Cameroon'. WIDER Working Paper 2013/124 Helsinki: UNU-WIDER.

The purpose of this paper is to capture the impact of foreign capital inflows (which include foreign aid and foreign direct investment) on economic growth in Cameroon. Using the autoregressive distributive lag approach to cointegration and time-series data for the period 1980–2008, the results of the study indicate that the domestic capital stock and foreign direct investment have positive and significant impacts on economic growth in the short and long terms, while the impact of the labour force on growth was significantly negative in both terms, a result that may be attributable to the fact that Cameroon is a developing country with an unlimited supply of labour whose increase has a detrimental effect on the country's growth.

Fielding, D. and F. Gibson (2012). 'Aid and Dutch Disease in Sub-Saharan Africa'. WIDER Working Paper 2012/026 Helsinki: UNU-WIDER.

International aid has an ambiguous effect on the macroeconomy of the recipient country. To the extent that aid raises consumer expenditure, there will be some real exchange rate appreciation and a shift of resources away from traded goods production and into non-traded goods production. However, aid for investment in the traded goods sector can mitigate this effect. Also, a relatively high level of productivity in the non-traded goods sector combined with a high level of investment will tend to depreciate the real exchange rate. The authors examine aid inflows in 26 sub-Saharan African countries, and find a variety of macroeconomic responses. Some of the variation in the responses can be explained by variation in observable country characteristics; this has implications for donor policy.

Fields, G.S. (2012). 'Aid, Growth, and Jobs'. WIDER Working Paper 2012/086 Helsinki: UNU-WIDER.

Various development objectives are worthy, but for the author, one objective dominates all others: reducing the scourge of absolute economic misery in the world. In this paper, the focus is on an important but relatively underemphasized approach to poverty reduction: helping the poor earn more in the labour market for the work they do, so that they can buy the goods and services they need to move up out of poverty.

Fitzgerald, V. (2013). 'The international fiscal implications of global poverty reduction and global public goods provision'. WIDER Working Paper 2013/136. Helsinki: UNU-WIDER.

The mixed record on the 2015 Millennium Development Goal (MDG) targets and the focus on global public goods in post-MDG debates questions the future of traditional development co-operation (official development assistance, ODA). Meanwhile, international financial crisis and fiscal retrenchment have focussed policy makers on the international dimensions of income and asset taxation. This paper explores how these two currents of economic discourse can be combined, a decade after the Zedillo Commission proposed new forms of ‘innovative development finance’ (IDF). Current IDF proposals involve new forms of hypothecated taxation (such as those on financial transactions or carbon pollution) and borrowing against future ODA commitments. These proposals have practical drawbacks, require new intergovernmental mechanisms and tend to perpetuate ‘aid dependency’. In contrast, greater international co-operation for direct tax collection (to which the G20 is already committed) would allow developing countries to ensure full income tax collection from their residents (both corporate and personal) through information exchange and the resulting clearing mechanism for double taxation resolution would provide the basis for prior collection of agreed quotas to fund global public goods on an equitable basis. Based on an expanded global income tax base (not new taxes or increased rates) such co-operation represents a more sustainable and equitable system than forms of IDF based on traditional ODA relationships. While a decade ago such an outcome seemed extremely unlikely, recent changes in the global political economy mean that such a transformation of development assistance might now possibly be feasible.

Gravier-Rymaszewska, J. (2012). 'How Aid Supply Responds to Economic Crises: A Panel VAR Approach'. WIDER Working Paper 2012/025 Helsinki: UNU-WIDER.

The strong interdependence between the developed and developing worlds surfaced with the recent economic downturn. Due to the global character of the economy, the downturn affected not only the North but also the South. In addition, the Official Development Assistance (ODA) is subject to a pro-cyclical trend in aid which falls when donors encounter recession. We attempt to answer the question of whether and how donors adjust aid budgets in response to various macroeconomic shocks. The main objective of the study is to explore the channels as well as behavioural consequences of unexpected financial shocks on aid budget adjustments in the short run. Crises are found to affect aid budgets and their trend through two channels: directly through lower revenues and indirectly by increasing fiscal costs through exchange rates and financial volatility. In addition, this relationship between aid and the donor economy is not solely economic as the donor’s internal political orientation also plays an important role.

Grawe, R. (2013). 'Innovation at the World Bank: Selective Perspectives over Three Decades 1975-2005'. WIDER Working Paper 2013/129. Helsinki: UNU-WIDER.

The World Bank is uniquely positioned to identify and disseminate innovative development practices. Based on his thirty-year experience as a World Bank staff member, the author takes an institutional perspective on the innovation climate at the World Bank focusing on dominant development paradigms, client and stakeholder relationships and the organization's operational toolkit as key factors influencing the climate for innovation. The interaction and impact of these factors are illustrated through selective examples of innovative programmes or practices.

Griffith-Jones, S. and J. Tyson (2013). 'The European Investment Bank: Lessons for Developing Countries'. WIDER Working Paper 2013/019 Helsinki: UNU-WIDER.

The paper considers the experience of the European Investment Bank and addresses policy lessons for developing countries as they seek finance for development. The paper argues that the key lesson for developing countries is that the traditional role of a development bank in closing market gaps in long-term, low-cost and stable infrastructure lending and in anticyclical financing remains relevant for developing countries but needs to be directed towards new goals. The paper also proposes that an optimal structure is a regionally owned development bank, as this would allow critical advantages of regional ownership, control and responsiveness.

Guillaumont, P. and L. Wagner (2012). 'Aid and Growth Accelerations: Vulnerability Matters'. WIDER Working Paper 2012/031. Helsinki: UNU-WIDER.

This paper confronts three conundrums. First, does the relationship between aid and growth fade over time when aid is successful? Second, why are aid inflows neglected in the literature on growth acceleration (or episodes). Third, why is country vulnerability overlooked in the same literature? The authors' purpose is to address these puzzles, and in doing so two hypotheses are formulated and tested. First, they assume that aid can have a positive (catalytic) effect on the launching of growth episodes, as well as on their duration. Second, they assume that this effect is all the more significant with the intensity of the exogenous shocks the country faces. Econometric tests do not reject these hypotheses. The paper first considers the origin of the puzzles and explains the hypotheses presented as the answer, and then introduces the models used to test these. Finally, it assesses the results and their implications. Once again, it appears that vulnerability does matter with

regard to the impact of aid on both the probability of an occurrence of growth spells and on their duration.

Harrigan, J. (2011). 'The Political Economy of Aid Flows to North Africa'. WIDER Working Paper 2011/72 Helsinki: UNU-WIDER.

This paper provides an historical overview of aid flows to North Africa. It assesses the aid allocation process and argues that past aid flows to the region have been heavily influenced by donor political interests. This has reduced the effectiveness of aid which, with the exception of Tunisia, has not been associated with sustained economic growth. The Arab Spring provides an opportunity to reappraise aid flows to North Africa and it is argued that future flows need to support the democratization process, generate pro-poor growth, support social safety nets and address the pressing issues of widening inequalities and unemployment.

Heller, P.S. (2011). 'Rethinking the World of Aid in the Twenty First Century'. WIDER Working Paper 2011/67 Helsinki: UNU-WIDER.

Many concerns can be raised about the effectiveness of current aid programmes to developing countries. The appropriateness of aid is particularly questionable when one considers the likely character of the challenges that the global economy will confront in 2025, as suggested by alternative global scenario exercises. This paper argues for urgent reconsideration of the focus of aid by Development Assistance Committee (DAC) countries, extending from: the priorities that aid should be used for (with greater emphasis on global public good initiatives); the ways that DAC donors can contribute to these different policy objectives; and the roles that different aid actors should play.

Hudson, J. (2012). 'Consequences of Aid Volatility for Macroeconomic Management and Aid Effectiveness'. WIDER Working Paper 2012/035. Helsinki: UNU-WIDER.

This paper reviews both the literature on aid volatility and also adds to that literature. In general, the focus of this literature has been on the volatility of overall aid, while the focus is more on the volatility of the individual aid sectors, e.g., education aid. In doing this, detailed use is made of the Creditor Reporting System (CRS) database on aid commitments and disbursements, particularly the latter. Key aid sectors in explaining total aid volatility relate to debt, programme assistance, infrastructure and government. This reflects both these sectors' volatility and their size. The most volatile aid sectors per se are debt, industry, humanitarian, NGO and programme assistance. The least volatile are education, health, other social infrastructure and multi-sector aid. The study also finds evidence that the volatility of different

aid sectors saw a peak around 2006, which was about when debt aid volatility was at its highest. In an asymmetric VAR, we find that both positive and negative aid volatility tend to be corrected for in the following period, rather than there simply being a return to trend. There are also cross-sector effects by which volatility in one sector has subsequent impacts on other sectors. These tend to revolve around government aid and programme assistance. Finally, the paper examines the impact of aid and aid volatility on very specific targets, finding both to be significant. There are several lessons we draw from this: first, in analysing aid's impact, for example, on social targets such as school completion rates, social sector aid rather than overall aid is the relevant variable - although not necessarily just education aid. Second, the author argues that a complete understanding of aid's impact can only be obtained by an analysis such as this, across a range of targets and then by analysing the impact of these targets on the macroeconomy itself. This leads to the further conclusion that it is not the volatility of total aid which matters so much as the sum of sector and subsector volatilities.

Jones, S. (2011). 'Aid Supplies Over Time: Accounting for Heterogeneity, Trends, and Dynamics'. WIDER Working Paper 2011/04 Helsinki: UNU-WIDER.

The recent financial crisis has rekindled interest in the foreign aid supply behaviour of bilateral donors. Using the latest data covering the period 1960-2009, this paper examines how such behaviour is related to domestic factors. Based on a simple empirical model, a distinction is made between long-run supply trends and short-run dynamics, which motivates use of error correction methods. Panel econometric techniques are employed that are consistent in the presence of parameter heterogeneity and cross-section dependence. Results support the error correction framework, but point to very substantial heterogeneity between countries. There is also good evidence that donor behaviour continues to evolve over time. As such, past trends in aid supplies are unlikely to provide a good guide to those of the future.

Jones, S. and F. Tarp (2013). 'Jobs and Welfare in Mozambique'. WIDER Working Paper 2013/045 Helsinki: UNU-WIDER.

Mozambique has achieved remarkable macroeconomic success over recent decades, boasting one of the world's highest rates of GDP growth. However, absolute poverty remains persistent, spilling over into social unrest. To better understand the link between aggregate growth and household welfare, this study focuses on labour market trends. We ask: (a) what has happened to jobs in Mozambique over the past 15 years; (b) what has been the link between jobs and development outcomes; and (c) where should policymakers focus to create more

good jobs? We conclude that jobs policy must seek to raise agricultural productivity and stimulate labour-intensive exports.

Juselius, K., N.F. Møller, and F. Tarp (2011). 'The Long-Run Impact of Foreign Aid in 36 African Countries: Insights from Multivariate Time Series Analysis'. WIDER Working Paper 2011/51 Helsinki: UNU-WIDER.

Studies of aid effectiveness abound in the literature, often with opposing conclusions. Since most time-series studies use data from the exact same publicly available data bases, the claim advanced here is that such differences in results must be due to the use of different econometric models and methods. To investigate this, the authors perform a comprehensive study of the long-run effect of foreign aid (ODA) on a set of key macroeconomic variables in 36 sub-Saharan African countries from mid-1960s to 2007. They use a well-specified (Cointegrated) VAR (CVAR) model as their statistical benchmark. It represents a much-needed general-to-specific approach which can provide broad confidence intervals within which empirically relevant claims should fall. Based on stringent statistical testing, their results provide broad support for a positive long-run impact of ODA flows on the macroeconomy. For example, they find a positive effect of ODA on investment in 33 of the 36 included countries, but hardly any evidence supporting the view that aid has been harmful. From a methodological point of view their study documents the importance of transparency in results reporting in particular when the statistical null does not correspond to a natural economic null hypothesis. Their study identifies three reasons for econometrically unsatisfactory results in the literature: failure to adequately account for unit roots and breaks; imposing seemingly innocuous but invalid data transformations; and imposing aid endogeneity/exogeneity without testing.

Juselius, K., A. Reshid, and F. Tarp (2013). 'The real exchange rate, foreign aid and macroeconomic transmission mechanisms in Tanzania and Ghana'. WIDER Working Paper 2013/090. Helsinki: UNU-WIDER.

A recent study of 36 sub-Saharan African countries found a positive impact of aid in the absolute majority of these countries. However, for Tanzania and Ghana, two major aid recipients, aid did not seem to have been equally beneficial. This paper singles out these two countries for a more detailed empirical investigation. The focus is now on the effect of aid when allowing external and nominal factors to play a role in the macroeconomic transmission mechanism. We conclude that aid played a significantly positive—but very different—role in the two countries. Due in part to generous aid inflows Tanzania experienced positive investment and GDP growth from the late 1960s to 2007. But, until the mid-1980s, the impact of aid on growth was well below its potential as the large inflows of aid facilitated a serious over appreciation of the real exchange rate. In Ghana, declining aid in the 1970s was associated with

lacking growth while the reactivation of aid flows in the 1980s supported an economic rebound. When monetary and external factors are properly accounted for, we find that aid has been pivotal to growth in both real GDP and investment.

Kargbo, P.M. (2012). 'Impact of Foreign Aid on Economic Growth in Sierra Leone: Empirical Analysis'. WIDER Working Paper 2012/007 Helsinki: UNU-WIDER.

This paper examines the impact of foreign aid on economic growth in Sierra Leone, a country where an empirical econometric study on aid effectiveness is yet to exist. Using a triangulation of approaches involving the ARDL bounds test approach and the Johansen maximum likelihood approach to cointegration for the period 1970-2007, the author finds that foreign aid has a significant contribution in promoting economic growth in the country. This finding is found to be robust across approaches and specifications. Whilst aid may have been associated with improvement in economic growth in the country, its impact during the period of war is found to be either weak or non-existent. Further, aid during the pre-war period is found to be marginally more effective than aid during the post-war period. The latter results suggest that the impact of aid may change with time.

Lof, M., T.J. Mekasha, and F. Tarp (2013). 'Aid and Income: Another Time-series Perspective'. WIDER Working Paper 2013/069 Helsinki: UNU-WIDER.

In a recent article, Nowak-Lehmann, Dreher, Herzer, Klasen, and Martínez-Zarzoso (2012) (henceforth NDHKM) conclude that foreign aid has not had a significant effect on income, based on evidence from panel data potentially covering 131 countries over the period 1960-2006. The present study provides a replication of the empirical results reported by NDHKM. We uncover that NDHKM relied on a regression model that included a log transformation of variables that are not strictly positive. This led to a non-random omission of a large proportion of observations. Furthermore, the study shows that NDHKM's use of co-integrated regressions is not a suitable empirical strategy for estimating the causal effect of aid on income. Given the nature of the variables and the question under investigation, a Vector Autoregressive (VAR) model can arguably better address the inherent endogeneity problem in the aid-growth relationship. Evidence from a panel VAR model estimated on the dataset of NDHKM, suggests a positive and statistically significant long-run effect of aid on income.

Mallay, D. and Y.T. Urbain (2013). 'Foreign Aid and Mobilization of Growth Factors in Sub-Saharan Africa'. WIDER Working Paper 2013/103 Helsinki: UNU-WIDER.

This study addresses the macroeconomic effect of foreign aid on the factors of growth. Specifically, the authors examine the effects of foreign aid on capital investment (human capital, physical capital) in sub-Saharan Africa. Their methodological approach evaluates the effect of disaggregate aid (aid for infrastructure and aid for education) on capital investment. To test their postulate, they make use of panel data of 37 sub-Saharan African states over the period 2000-10. The results of the regressions show that foreign aid positively and significantly affected the physical capital accumulation in the countries under review. The effect of aid for infrastructure is less important in post-conflict environments than in stable environments. Concerning the impacts of aid on human capital, the authors find that aid enhances enrolment in primary education. They also note that there is no statistical difference between stable countries and post-conflict countries in terms of the effectiveness of aid for education.

Manning, R. (2012). 'Aid as a Second-Best Solution: Seven Problems of Effectiveness and How to Tackle Them'. WIDER Working Paper 2012/024 Helsinki: UNU-WIDER.

Most rich countries developed without aid, and this 'self-development' has some intrinsic advantages. In today's massively unequal world, however, such an approach would imply very low levels of human development for several generations for many poor countries. Aid can therefore usefully be thought of as a necessary but 'second-best option'. The challenge then is how to manage this second-best option, particularly in the more aid-dependent states and the more fragile environments, in order to achieve sustainable results. The study examines seven problems that can limit the effectiveness of aid, and suggests possible ways of tackling them.

Mekasha, T.J. and F. Tarp (2011). 'Aid and Growth: What Meta-Analysis Reveals'. WIDER Working Paper 2011/22 Helsinki: UNU-WIDER.

Some recent literature in the meta-analysis category where results from a range of studies are brought together throws doubt on the ability of foreign aid to foster economic growth and development. This paper assesses what meta-analysis has to say about the effectiveness of foreign aid in terms of the growth impact. The authors re-examine key hypotheses, and find that the effect of aid on growth is positive and statistically significant. This significant effect is genuine, and not an artefact of publication selection. It is also shown why these results differ from those published elsewhere.

Morrissey, O. (2012). 'Aid and Government Fiscal Behaviour: What Does the Evidence Say?'. WIDER Working Paper 2012/001 Helsinki: UNU-WIDER.

Donors are concerned about how their aid is used, especially how it affects fiscal behaviour by recipient governments. This study reviews the recent evidence on the effects of aid on government spending and tax effort in recipient countries, concluding with a discussion of when (general) budget support is a fiscally efficient aid modality. Severe data limitations restrict inferences on the relationship between aid and spending, especially as the government is not aware of all the aid available to finance the provision of public goods. Three generalizations are permitted by the evidence: aid finances government spending; the extent to which aid is fungible is over-stated and even where it is fungible this does not appear to make the aid less effective; and there is no systematic effect of aid on tax effort. Beyond these conclusions the fiscal effects of aid are country-specific.

Mosley, P. (2012). 'Fiscal Composition and Aid Effectiveness: A Political-Economy Model'. WIDER Working Paper 2012/029 Helsinki: UNU-WIDER.

In accounting for the rather gloomy trend of the aid effectiveness literature over the last few years, one explanatory strand has been fiscal, suggesting in particular that aid flows in weak states have tended to erode the taxbase and the structure of institutions. The author pursues this idea, tracing the link from politics to domestic tax effort and then using the influence of this on expenditure to explain the leverage of aid. Thus, he argues that in the long run, tax effort determines the effectiveness of aid, and this relationship operates simultaneously in some countries with the negative link in the opposite direction, from aid to domestic tax effort, as observed by Bräutigam and Knack (2004) and others. He finds that tax effort and the ability of the state to diversify its taxation structure are important determinants of long-term growth and aid effectiveness, and in this model, he finds that overall aid effectiveness is, in a 3SLS model, weakly positive and significant, echoing the findings of Arndt, Jones and Tarp (2009) and Minoiu and Reddy (2010); however, these findings are not robust when retested using the GMM approach favoured by the literature. A more robust finding, and a key message for policy, is that a broadening of the tax structure in low-income countries is crucial in order to enable those countries to escape from the 'weak state – low tax trap', and to make aid more effective.

Nielson, P. (2012). 'EU Aid: What Works and Why'. WIDER Working Paper 2012/076 Helsinki: UNU-WIDER.

Over the years EU aid has been much discussed—and criticized. Besides the accusations of being old fashioned, slow and bureaucratic there is also the complexity of a close neighbourhood with the EU's foreign policy in general, trade and the eternal question for Europe of what to do as a community, and what to do as individual member states. This study cuts through this discussion by simply asking what

works and why. Based on a somewhat exclusive version of participant observation the author describes the features that are distinct for EU aid and arrives at the conclusion, that thanks to a reform effort that mainstreamed EU aid these distinct features have become key assets.

Nyysölä, M., J. Pirttilä, and S. Sandström (2012). 'Evidence from a Group-Based Aid Project in Mozambique'. WIDER Working Paper 2012/088. Helsinki: UNU-WIDER.

This paper evaluates the impact of an integrated rural development programme on farming techniques and food security in the Gaza area of rural Mozambique. The authors examine the impact of a group-based approach, in a country with few impact evaluations of technology adoption in farming. Using self-collected panel data on over 200 households from treatment and control villages from 2008-10, they examine the impact of the aid programme on people living in the treatment villages, using the difference-in-differences approach, and on those who participate in the farmers' groups, using instrumental variables techniques. The results on farming activities and food security indicate some positive immediate impacts on technology adoption and self-reported food security.

Osei, R.D. (2012). 'Aid, Growth and Private Capital Flows to Ghana'. WIDER Working Paper 2012/022. Helsinki: UNU-WIDER.

This study provides an analysis of the aid-private capital flows-growth nexus for Ghana. It is premised on the argument that Ghana's new status as a middle income country plus the start of oil production is bound to result in a reduction in ODA inflows in the long term. However in the short to medium term ODA will remain an important component in the country's fiscals as well as an important tool for leveraging government policy. One of the key questions that the study addresses is how aid can be used as to reinforce the country's growth in a way that reduces its chances of being a victim of the 'oil curse'. The study makes two key observations about the economy of Ghana. First, it notes that although the structure of the economy has changed over the years, the observed change has not been of the developmentally transformative type. Production within the economy still takes place on the lower end of the technology scale and the country's exports is still dominated by primary products. Second, it notes that revenue from oil can at best replace foreign aid in the long run. However in the short to medium term, Ghana will have the complement of both oil and aid. It is necessary. on the contrary. that aid is used in an efficient and creative way so as to help improve productivity and production in agriculture and manufacturing. The study concludes by making two suggestions as to how aid can be used to help transform the economy. The first suggestion is to tackle the structural deficiency in the country's fiscals in

a decisive way. The second is the need to properly prioritize public investments so as to maximize their returns.

Osei, R.D., F. Asem, and G. Domfe (2013). 'The Political Economy Dimensions of Macroeconomic Management of Aid in Ghana'. WIDER Working Paper 2013/106 Helsinki: UNU-WIDER.

This paper contributes to the debate on aid effectiveness by looking at the 'how' of aid effectiveness. In other words it provides an assessment of whether aid only filled a financing gap or whether it, in addition, helped influence the political economy in a way that engendered growth. Ghana provides a good case for an assessment of this question as it saw significant aid inflows over the last two and a half decades and also recorded significant growth and poverty reduction. The paper asserts that aid has impacted positively on growth, in part through the creation of an enabling environment for private sector-led growth. It also argues that aid has helped shape macroeconomic management in Ghana, identifying three channels through which aid has supported macroeconomic management. First, aid has supported both physical and social infrastructure and therefore growth. Second, aid has helped reduce fiscal instability by limiting domestic borrowing. Third, it helped shape the general policy direction in Ghana. It concludes by arguing that the aid-induced policy has helped in the operation of a more effective and efficient market system in Ghana today.

Page, J. (2012). 'Aid, Structural Change and the Private Sector in Africa'. WIDER Working Paper 2012/021. Helsinki: UNU-WIDER.

This paper argues that official development assistance (foreign aid) is partly responsible for the lack of structural change in Africa. Africa's development partners have devoted too few resources and too little attention to two critical constraints to private investment, infrastructure and skills, focusing instead on easily understood, but potentially low impact regulatory reforms. A new aid strategy, one that catalyses private investment in high value added sectors, is needed. Support for strategic interventions to push non-traditional exports, support industrial agglomerations, build firm capabilities, and strengthen regional integration should anchor a new donor agenda to create good jobs and sustain growth.

Page, J. and M. Söderbom (2012). 'Is Small Beautiful? Small Enterprise, Aid and Employment in Africa'. WIDER Working Paper 2012/094. Helsinki: UNU-WIDER.

Aid providers frequently link supporting small firms to job creation. Small firms create about half of new jobs in Africa, but they also have higher failure rates. Ignoring firm exit exaggerates net employment

growth. Using panel data for Ethiopia, the study finds that small and large enterprises create similar numbers of net jobs. Moreover, wages in small firms are persistently lower. To create more 'good' jobs aid should target the constraints to the growth of firms of all sizes. Improving the 'investment climate' and new programmes to increase firms' capabilities—through for example management training—offer better prospects for employment creation.

Page, J. and A. Shimeles (2014). 'Aid, Employment and Poverty Reduction in Africa'. WIDER Working Paper 2014/043. Helsinki: UNU-WIDER.

Growth and poverty reduction in Africa are weakly linked. This paper argues that the reason is that Africa has failed to create enough good jobs. Structural transformation – the relative growth of employment in high productivity sectors – has not featured in Africa's post-1995 growth story. As a result the region's fastest growing economies have the least responsiveness of employment to growth. The role of development aid in this context is problematic. Across Africa more aid went to countries with a low employment intensity of growth. The paper proposes a new approach to aid and poverty in Africa, one that focuses on supporting structural change for job creation.

Quartey, P. (2014). 'How Do We Increase the Share of Aid to Agriculture in Africa?'. WIDER Working Paper 2014/022. Helsinki: UNU-WIDER.

Agriculture plays an important role in terms of employment and its contribution to GDP in many African countries. Thus, any policy initiative targeted towards poverty reduction in Africa should consider the agricultural sector as the major priority area. Unfortunately, the sector faces a myriad of challenges and prominent among them is the issue of finance. Although some significant amounts of Agricultural finance has come from ODA, private capital flows and private philanthropy, it has been argued that the scale has not been adequate to transform the sectors into a modern and high productivity sector. For instance, OECD (2011) statistics show that in 2009, of the total ODA from DAC Countries, only 6% went into Agriculture, forestry and fishing while education received 10.3%, population and reproductive health 11.5% and humanitarian 11.9%. Using secondary data and country case studies from Africa, the study investigates why aid to Agriculture has been low and how the share of ODA to agriculture can be improved.

Quattri, M. and A.K. Fosu (2012). 'On the Impact of External Debt and Aid on Public Expenditure Allocation in Sub-Saharan Africa after the Launch of the HIPC Initiative'. WIDER Working Paper 2012/042 Helsinki: UNU-WIDER.

In the wake of the current financial and economic crises, the economies of sub-Saharan Africa find themselves squeezed between likely reductions in official development assistance and the pressing challenge to eradicate poverty. Public expenditure allocation to the social sector and to public investment is constrained by the need to pursue fiscal discipline in order to avert debt distress. Within a framework of public expenditure choice, the paper investigates the impact of the external debt-servicing constraint, as well as external aid, on government expenditure allocation in sub-Saharan Africa countries after the launch of the Heavily Indebted Poor Countries Initiative. Among the findings are: (i) the debt effect, while substantially lower than existing estimates for the pre-HIPC period, remains negative for the social sector, with education expenditure funding gaps, suggesting that appropriate measures must be undertaken in order to prevent the deleterious effects of debt, particularly on the social sector. Meanwhile, the additional finding that government effectiveness favours public investment as well as spending in the social sector suggests that increased attention on governance is required.

Ranis, G. (2013). 'Another Look at Foreign Aid'. WIDER Working Paper 2013/119 Helsinki: UNU-WIDER.

The foreign aid landscape has undergone a paradigm shift in the last few decades, with changes in the behaviour of 'traditional' donors and a new focus on selectivity in aid disbursement, as well as 'new' donors and South-South co-operation playing an increasingly important role. Amidst these changes the debate over aid effectiveness rages on. What impact has aid had on recipient countries, and does aid really have the ability to induce policy reform? The structural adjustment loans of the 1980s were an attempt at prompting policy reform by imposing conditions on recipient countries. This proved ineffective for a number of reasons, and the aid community continues its search for the elusive 'silver bullet' in foreign aid provision. This paper assesses the past effectiveness of aid, comments on new aid donors and outlines some of the key arguments in favour of a potentially more effective and sustainable method of conditional aid delivery.

Roe, A.R. (2011). 'Aid and the Fiscal and Monetary Responses to Dutch Disease'. WIDER Working Paper 2011/95 Helsinki: UNU-WIDER.

This study assesses the fiscal and monetary management challenges that can be associated with large inflows of foreign aid. It provides a brief overview of the literature on Dutch Disease (DD) as applied to mineral wealth and then assesses the conventional policy responses that are available to mitigate the main problems that can be caused by DD. This discussion incorporates an identification of the additional issues and transmission mechanisms that arise when the source of DD is a surge in foreign aid. This analysis is designed to illuminate the circumstances

in which an aid-induced DD effect is likely to call for countervailing macroeconomic policy interventions, and when other approaches may be more appropriate. The study concludes with an empirical assessment of the relative importance of mineral-based and aid-based DD problems in low- and middle-income economies. It suggests—contrary to the mainstream literature—that foreign aid and mineral exports typically create joint macroeconomic management problems for such countries.

Round, J.I. (2012). 'Aid and Investment in Statistics for Africa'. WIDER Working Paper 2012/93 Helsinki: UNU-WIDER.

Over many past decades countries in sub-Saharan Africa have received extensive bilateral and multilateral aid in support of the production of relevant, timely, and good quality data and statistics. But assessing aid effectiveness in the statistical area is a complex matter. Many datasets are effectively (global) public goods, as any restrictions on their availability and use are eventually relaxed. Hence it is extremely difficult to value or even measure the eventual impact of data production on general well-being. The aim of this paper is to review and scope how aid effectiveness might be assessed in this area. It sets out the context, the issues, and some possible approaches, going beyond existing measures of statistical capacity-building.

Simpassa, A., S. Adeleke, and A. Shimeles (forthcoming). 'Employment Effects of Multilateral Development Bank Projects: The case of the African Development Bank'. WIDER Working Paper. Helsinki: UNU-WIDER.

High unemployment and poverty are two most pressing challenges currently facing the African continent. Although Africa has made strong economic gains over the past decade, with real GDP growth averaging above 5 percent, this growth has not been very transformative, particularly in creating large scale formal jobs. In 2010, unemployment in Africa was reported to be 8.2 percent. However, this figure masks the large proportion of people in vulnerable and informal sector employment. There are also significant spatial and gender unemployment variations, reflecting high unemployment rates among females relative to their male counterparts. Weak job creation has in turn slowed down the pace of poverty reduction and could threaten political and social stability as demonstrated by events in North Africa. Recent estimates show that poverty in African has declined, but not sufficiently to meet the millennium development target of reducing absolute poverty by half MDG1, by the deadline of 2015.

Sonobe, T. and K. Otsuka (2012). 'The Role of Training in Fostering Cluster-Based Micro and Small Enterprises Development'. WIDER Working Paper 2012/099 Helsinki: UNU-WIDER.

While it has been increasingly recognized that efficient management holds the key to the development of micro and small enterprises in developing countries, very little is known about the managerial capacity of business owners and managers in these countries. In order to explore whether managerial capacity can be nurtured, this paper reviews case studies of industrial clusters in Asia and sub-Saharan Africa, including randomized control trials of management training. The authors found that management training is effective in many cases. This argues in favour of support for the foreign aid policy that pays due attention to enhancement of managerial capacity.

Sumner, A. (2013). 'Global Poverty, Aid, and Middle-income Countries: Are the Country Classifications Moribund or is Global Poverty in the Process of 'Nationalizing'?'. WIDER Working Paper 2013/062 Helsinki: UNU-WIDER.

The majority of the world's poor, by income poverty and multi-dimensional poverty, now live in countries officially classified by the World Bank as middle-income countries. Of course nothing happens when a country crosses a (somewhat) arbitrary threshold in per capita income but it does matter to traditional OECD donors because not only are those thresholds used in numerous and various ways, the crossing of that arbitrary line is viewed as cause enough for some donors to at least consider ending aid. In light of this, this paper considers two competing perspectives on this changing pattern of global poverty: the first is that the thresholds used to classify countries by the World Bank and extensively used by aid agencies, albeit with other indicators and in various ways, are moribund—meaning they do not represent 'poor' or 'non-poor' countries in any meaningful sense any longer (if they ever did) from the point of view of aid donors. The second, and by no means necessarily mutually exclusive, is that global poverty is gradually in the process of 'nationalizing', at least in terms of resources, meaning the bulk of extreme poverty is in developing countries with rapidly rising average incomes and where resource constraints are less pressing. This is not only because of additional resources produced by economic growth, but also because private capital markets can be accessed and thus official development assistance is becoming of lesser importance over time as domestic resources allocation becomes an ever more significant variable. This paper discusses both of these perspectives in turn and considers the implications for OECD donors, offering options for new/alternative country groupings and three avenues for continued OECD donor engagement with countries that have substantial domestic resources (however that is defined).

van der Hoeven, R. (2012). 'Development Aid and Employment'. WIDER Working Paper 2012/107. Helsinki: UNU-WIDER.

Globalization has led to labour becoming more precarious. This especially manifests in unstable working conditions, a lower labour share in national income as well as in a growing income inequality, with the exception of some countries with high initial income inequality. The neglect of concern for employment and inequality in the formulation of the Millennium Development Goals (MDGs) in 2000 is noted; the addition of a goal for full employment in a reformulation of the MDGs in 2005 did not lead to a change in focus in official development assistance (ODA). If the growing concern for employment and inequality is taken seriously, a refocus of development efforts is necessary, combining a greater share of development assistance for employment and productivity enhancing activities with a change in national and international economic and financial policies, so as to make employment creation (together with poverty reduction) an overarching goal.

A3.2 Annotated bibliography of DIIS papers

Nielsen, H. and P. Gibbon (2011). 'Pro-poor Growth Through Export Sector Support'. DIIS Report 2011:15. Copenhagen: Danish Institute for International Studies.

This study examines a variety of interventions directed at increasing Low Income Country exports while benefiting the poor. The cases covered include export-oriented interventions aimed at benefiting the poor through a specific focus on the poorest countries (Least Developed Countries, LDCs), or on particularly vulnerable groups, or on particular sections of the population considered to make up the poor, such as smallholders and women factory workers.

Appendix 4: Outcomes

TABLE A4.1
Summary of Donor Interventions: Aid, Growth, Employment

GROWTH			
Key issue/ context	Methodology	Conclusion	Comments
Scepticism regarding macro-economic impact of aid (e.g. Rajan and Subramanian (2008) Academic and popular critiques suggesting that aid is not working or even positively harmful (Moyo)	Cross country research Arndt, Jones and Tarp (2010) Time series research Analysis of time series data on 36 SSA economies Juselius, Møller and Tarp 2013	Impact of aid is positive – significant impact on growth 1960-2000 and 1970 – 2000. Inflow of aid of 10% of GDP increases per capita growth by more than 1% per annum (1.3%) in the long run Significant positive long-term impact on investment, GDP or both in 27/36 SSA countries. Juselius, Reshid and Tarp (2013) detailed consideration of Tanzania and Ghana ‘exceptions’.	Consistent with Clemens et al. (2011) Pessimism re. growth is based on fragile evidence Need to be realistic about time frame Necessary to have reasonable expectations regarding the impact of aid on growth. Transmission from aid induced consumption to investment and growth also observed. Claim that foreign aid primarily leads to wasteful consumption appears to be unfounded.
	Meta analysis – asking what accumulated evidence from individual country studies say on average about impact on growth.	Mekasha and Tarp (2011) re-assess Doucouliagos and Paldam (2008) = DP08 database of 68 aid-growth studies. Conclusion – aid has positive and significant impact on economic growth on average	Also provides detailed critique of DP08 Problems with econometric model choice Inappropriate statistical choices Errors in data entry and coding
	Aggregate evidence Quantifying causal impact of aid on final outcomes (economic growth, poverty, inequality and structural change) and intermediate outcomes (eg investment, consumption, tax, health and education.)	Positive and statistically significant impact of aid on different final outcome measures – especially on growth Arndt, Jones and Tarp (2011) find that constant flow of foreign aid of \$25 per capita (in real terms) per annum yields an average growth	Aid significantly lowers level of poverty – measured by poverty headcount index. No evidence that aid leads to inequality Aid promotes structural transformation, reduces poverty, stimulates growth.

			bonus of c. 0.5%. - internal rate of return of (at least) 7% over the period 1970-2007.	The long run is the appropriate time period over which to assess aid – do not expect quick wins – because of the importance of physical and human capital accumulation.
AID AS 'SECOND BEST'				
Key issue	Evidence assessed in Position Paper	Conclusion	Comments	
Aid is a second-best solution compared to domestic mobilization of resources (Manning 2012)		'Second best' is exactly correct. Manning does not argue that aid is bad – in the absence of other domestic resources for key state and welfare responsibilities, aid has an important role	ReCom work on Governance and Fragility assesses work on domestic resource mobilization – eg improved tax systems	
	Aid can be inefficient	Channels of aid delivery built by donors are not free of inefficiencies and fragmentation		
	Recipient countries may become dependent on aid	Can push up exchange rate and stunt development of tradables sector		
	Private sector may be crowded out through government-to-government aid	Can lead to government taking on more responsibilities than it can effectively manage. Key issue is whether aid encourages governments to play larger role than is effective compared to delivery by agents outside the public sector	More research needed to determine optimal proportion of aid that goes to state or other actors (NGOs)	
	Aid can weaken local accountability through strengthening the executive at the expense of other political forces	Aid channeled directly to governments raises their capacity relative to parliaments, civil society and the media	ReCom work on Governance and Fragility reviews work on parliamentary strengthening, budget oversight etc.	
	Government spending in all countries is open to malpractice and inefficiency	This is particularly the case in countries with weak institutions: accountability to donors can take precedence over accountability to stakeholders (voters)	ReCom work on Governance and Fragility stresses institution-building and accountability	
	Donors have mixed motivations for providing aid	These include political influence, cultural promotion and commercial self-interest		

	Aid can be used by donors as an excuse not to taken action in other more effective areas	Reforms may be politically costly in domestic terms, but more effective than aid in achieving development in recipient countries.	
MACROECONOMIC AND POLITICAL ECONOMY AID ISSUES			
Key issue	Evidence assessed in Position Paper	Conclusion	Comments
Dutch disease – over-valued exchange rate undermines aid recipients’ international competitiveness	AERC and UNU-WIDER conference (December 2011)	No simple relationship discovered between aid and exchange rate	IMF also contest simple relationship. Needs assessment case-by-case.
Aid and institutional decay	Theory outlined by Temple 2010	Little empirical evidence that aid undermines local institutions and long-term growth	Needs assessment case-by-case – see eg Arndt, Jones and Tarp (2000)
‘Good policy’ and the impact of aid	World Bank (1998), Dollar and Burnside (2000) argue that aid works, but only when good policies are in place	Challenged by: Hansen and Tarp (2001), Dalgaard and Hansen (2004), Dalgaard, Hansen and Tarp (2004) and Easterly, Levine and Roodman (2004). Thesis is alluringly simple, but will not allocate aid where it is most needed, nor ensure that aid impact is maximised.	
Absorptive capacity and aid effectiveness	Existence of an average positive impact of aid does not guarantee eg that doubling aid will double impact	Clemens et al. (2012) is among studies which adduce potential of diminishing returns.	How aid is provided is relevant – Minoiu and Reddy (2010) So is which destination countries – Collier and Dollar (2012).
Aid in vulnerable, fragile and conflict countries	Aid can have high returns in vulnerable and conflict situations- record is mixed – Arndt, Jones and Tarp (2007) on Mozambique is positive; de Weijer (2012) on Afghanistan (2013) less encouraging.	These are often complex political situations and poor policy environments. Case-bu-case evaluation is necessary.	ReCom position paper on Governance and Fragility, and work of PDIA (Program Driven Iterative Adaptation) e.g. Andrews and Pritchett (2012) of relevance
Aid predictability,	Evidence of lower economic growth as a result		Paris (2005) and Accra (2008) agenda relevant

proliferation and fragmentation	Kimura, Mori and Sawada (2012), Kodama (2012), del Castillo (2012)										
Aid and the mobilization of other financial flows	Key macroeconomic rationale for aid to promote other financial flows- aid can serve as a catalyst for investment – Collier (2013) See also on export promotion Nielsen and Gibbon (2011), Driffield and Jones (2013)										
EMPLOYMENT											
Area of Intervention	Context	What has not worked	What has worked?	What could work?	What is scalable?	What is transferrable across contexts?	Knowledge gaps				
Vulnerable employment (ILO 2011)	'Working poverty, not unemployment' (Fields 2012)	Aid is not a panacea for employment and labour market problems in developing countries			Job creation via key export sectors	Job creation via export sectors	Not much known on link between aid and growth 'Little or no evaluative material on impact of past interventions' (DAC 2007:4)				
Data on employment, especially in informal sector	Lack of evidence on informal sector, and lack of interest by African governments.	Neglect of data collection and analysis		Better data on informal sector jobs – Results meeting	National employment data system		High % of workers in Africa in vulnerable employment (ILO) – need for better analysis				
Employment generation	Need to (1) get fundamentals right (2) pursue good labour policies and (3) know country's potential – see Fields (2012).	Previous policies in most developing countries	DANIDA project on employment creation with women and children with Malian Min. of Labour				Concentrate on exports, clusters and capabilities (Page and Shimeles forthcoming).				

Urban and informal sectors	Formal sector will not absorb population increase (10 m per annum in Africa – ReCom evidence to WDR 2013 Report)	Neglect or repression of informal economy and settlements		'promote good jobs within the informal sector' (Jones and Tarp 2012)		Skills and training projects	Lack of detailed knowledge of informal sector makes it hard to target aid interventions for micro business
Small and medium enterprises	Access to finance		Microfinance – could be combined more often with business training	Targeting aid interventions to help microbusiness and self-employed. Need for lower interest rates for micro-finance		Finance targetted to encourage SME investment	
Training labour force		Excessive concentration on primary education	Ethiopian Kaizen institute – JICA supported	Focus on supply-side (better education/ skills/ training)	Training centres – eg Kaizen Ethiopian model		
UN High Level Panel: '...A quantum leap forward in economic opportunities and a profound economic transformation to end extreme poverty and improve livelihoods.' (UN 2013: 8) Policy advice on	Need for African countries to understand comparative advantage and possible 'market niche'			Need to develop labour-intensive manufacturing industry. Increase productivity in agriculture		Creation of industrial clusters	Page and Shimeles (forthcoming) argue for new aid strategy to create good jobs through structural change- Needed emphases: agricultural productivity and complementary infrastructure, private sector – infrastructure and skills, more good jobs, through non-traditional exports

<p>structural transformation</p> <p>Shortage of labour intensive manufacturing industries</p>	<p>Foreign Direct Investment (FDI)</p>	<p>Africa's infrastructure deficit estimated at \$93 billion per annum (World Bank 2009)</p>			<p>African countries cannot afford infrastructure</p>		<p>Reforms (eg structural adjustment) are no guarantee that investment will come</p>	<p>Donors have not given infrastructure priority</p>		<p>FDI Promotion agencies</p>			<p>Need to improve regulatory, institutional and physical environment to help large and small firms function (Page and Söderbom 2012)</p>							<p>Leveraging in private investment into infrastructure</p>						<p>Reducing further risks in private investment in infrastructure</p>
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Appendix 5: Research briefs

The research briefs are two-page documents providing in a compact and easy language some of the key findings and implications of WIDER Working Papers from ReCom programme. The briefs are also the building blocks of the highly praised ReCom website (www.wider.unu.edu/recom), which delivers a wide range of knowledge on the five themes of the research programme. All papers coming out of the ReCom programme will also have research briefs on the ReCom website.

1. [Impact of aid for health and education on gender equity and human development - WIDER Working Paper 2013/66](#)
2. [Assessing the role of gender in DfID and Sida challenge funds - WIDER Working Paper 2013/043](#)
3. [How to promote sustainable jobs in Mozambique - WIDER Working Paper 2013/45](#)
4. [The effectiveness of aid to women's political participation in MENA - WIDER Working Paper 2013/74](#)
5. [Lessons from US interventions to Japan, Afghanistan and Iraq - WIDER Working Paper 2013/108](#)
6. [Maximizing the effectiveness of foreign aid in the forestry sector - WIDER Working Paper 2013/054](#)
7. [Supporting design of green cities - Working Paper 2013/051](#)
8. [Neotrusteeship in post-conflict states – lessons from Kosovo and East Timor - WIDER Working Paper 'Aid and Institution-Building in Fragile States: State-Building through Neotrusteeship: Kosovo and East Timor in Comparative Perspective'](#)
9. [Policing reforms in African states – exploring the link to economic development - WIDER Working Paper 2013/013](#)
10. [Gender sensitivity of World Bank investments - WIDER Working Paper 2013/017](#)
11. [Using foreign aid to incentivize pioneer investing - WIDER Working Paper 2013/004](#)
12. [Building a capable state in Afghanistan - WIDER Working Paper 2013/063](#)
13. [Global poverty, middle-income countries and the future of development aid - WIDER Working Paper 2013/062](#)
14. [How to achieve economics of peace? - WIDER Working Paper no. 2012/47](#)
15. [Confronting climate change: The role of land - WIDER Working Paper 2013/107](#)

16. Trends in environmental aid: global issues, bilateral delivery - *WIDER Working Paper 'Environmental and Climate Finance in a New World'*
17. Improving food security: what works and what could work? - WIDER Working Paper 2013/061
18. Foreign aid, capacity building and climate change - WIDER Working Paper 2013/46
19. Job creation and small and medium size enterprises - WIDER Working Paper 2012/94
20. How can aid help mitigate the problem of overfishing in Africa? - *WIDER Working Paper 'Foreign Aid and Sustainable Fisheries Management in Sub-Saharan Africa'*
21. How can aid help agriculture become more resilient to climate change? - WIDER Working Paper 2013/047
22. Gender mainstreaming: the comparative case of the Nordic Development Agencies - WIDER Working Paper 2012/91
23. An assessment of a village development programme in Mozambique - WIDER Working Paper 2012/88
24. Curbing early childhood undernutrition in lower and middle income countries – findings and lessons for the future - *This research brief is based on a series of systematic reviews and evaluations conducted by Elizabeth Kristjansson, Damian Francis, Selma Liberato, Trish Greenhalgh, Vivian Welch, Eamonn Noonan.*
25. Principled aid: ways to attain MDG4 and MDG5 - *This research brief is based on 'A review of external assistance and aid effectiveness for maternal and child health: challenges and opportunities'*
26. Evaluations: crucial for the spread of social protection programmes - WIDER Working Paper 2013/009
27. Education aid - a way forward - WIDER Working Paper 2013/018
28. What is the effect of aid on primary enrolment and quality of education? - WIDER Working Paper 2012/21
29. Aid, poverty, and the working poor - WIDER Working Paper 2012/86
30. What works? - lessons from aid to education - WIDER Working Paper 75/2012
31. Healthcare: Barriers to effective aid - WIDER Working Paper 2012/69
32. The development process – the problem of imitating success - WIDER Working Paper no. 2012/63
33. The development process - escaping the capability trap - WIDER Working Paper no. 2012/64
34. Gender and transitional justice - WIDER Working Paper no. 2012/06
35. Does aid promote development? - WIDER Working Paper 2011/44

36. Foreign assistance in a climate-constrained world - WIDER Working Paper 2011/66
37. Service delivery in Nairobi and Mombasa - WIDER Working Paper no. 2012/92
38. Aid for statistics in Africa - WIDER Working Paper no. 2012/99
39. Aid and management training - WIDER Working Paper no. 2012/99
40. Financing growth in low-income countries - WIDER Working Paper no. 2012/77
41. Barriers to effective civil service reform in developing countries - WIDER Working Paper no. 2012/90
42. Growth for low-income countries? - WIDER Working Paper no. 2012/77
43. The unique character of EU aid - WIDER Working Paper no. 2012/76
44. Greenhouse gas emissions and China's agriculture sector - UNU-WIDER working paper no. 2012/74
45. Democratic consolidation and donor activity in Malawi - UNU-WIDER working paper no. 2012/28
46. Foreign aid and Ghanaian democracy - UNU-WIDER working paper no. 2012/40
47. Aid and Dutch Disease - UNU-WIDER working paper no. 2012/26
48. The fungibility problem: Budget support, aid on delivery or project aid? - UNU-WIDER working paper no. 2012/68
49. Foreign aid and Malian democracy - UNU-WIDER working paper no. 2012/61
50. The role of ODA in infrastructure financing - UNU-WIDER working paper no. 2012/56
51. Should aid be allocated according to need or governance capacity? - UNU-WIDER working paper no. 2012/54
52. The second best solution - seven problems of aid effectiveness - UNU-WIDER working paper no. 2012/24
53. Divided authority in Kampala, Uganda - UNU-WIDER working paper no. 2012/51
54. Urban service delivery in Africa and the World Bank - UNU-WIDER working paper no. 2012/49
55. Taxation, public expenditure and aid effectiveness - UNU-WIDER working paper no. 2012/29
56. The global triple crises - finance, environment and food - UNU-WIDER working paper no. 2010/01
57. The supply side of aid - UNU-WIDER working paper no. 2011/04

58. Aid and structural change in Africa: a new agenda - UNU-WIDER working paper no. 2012/21
59. Delivering aid through religious organizations - UNU-WIDER working paper no. 2011/73
60. How to spend it? - UNU-WIDER working paper no. 2012/05
61. Aid to Mozambique: a trade-off between governance and democracy? - UNU-WIDER working paper no. 2012/18
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65. A meta-analysis of the literature on aid and growth - UNU-WIDER working paper no. 2011/22
66. Aid effectiveness in 36 African countries - UNU-WIDER working paper no. 2011/51
67. Responding to aid-induced Dutch Disease - UNU-WIDER working paper no. 2011/95
68. Aid and economic growth: the case of Sierra Leone - UNU-WIDER working paper no. 2012/07
69. Aid, debt, and public expenditure allocation - UNU-WIDER working paper no. 2012/42
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71. Democratic transitions in Africa: the impacts of development aid and democracy assistance - UNU-WIDER working paper no. 2012/15
72. Zambia - Foreign Aid and Democratic Consolidation - UNU-WIDER working paper no. 2012/16
73. How Aid Supplies from Donor Countries Respond to Economic Crisis - UNU-WIDER working paper no. 2012/25
74. Ghana's oil resources toward economic growth and human development - UNU-WIDER working paper no. 2012/22
75. Aid and government fiscal behaviour: What does the evidence say? - UNU-WIDER working paper no. 2012/01
76. Can the coordination of aid cut costs for donors? - UNU-WIDER working paper no. 2012/32
77. What does good governance mean? - UNU-WIDER working paper no. 2012/30

78. Lessons of Experience in International Democracy Support - UNU-WIDER working paper no. 2011/84
79. The unintended consequences of foreign aid in Tanzania - UNU-WIDER working paper no. 2012/37
80. Aid in North Africa after the ‘Arab Spring’ – UNU-WIDER working paper no. 2011/72
81. Aid volatility across development sectors - UNU-WIDER working paper no. 2012/35
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86. How can food aid be more effective? - UNU-WIDER working paper no. 2012/19
87. Food Aid: What we know and what we need to know - UNU-WIDER working paper no. 2012/34
88. The unintended consequences of the MCP on foreign aid for family planning – UNU-WIDER working paper no. 2013/118
89. The price of inaction - climate change in Mozambique – UNU-WIDER working paper no. 2010/101
90. The cost of climate change in Vietnam – UNU-WIDER working paper nos. 2012/79, 2012/80, 2012/81, 2012/82
91. The impact of foreign aid on the fiscal behaviour of the Ugandan government – UNU-WIDER working paper no. 2013/101
92. The microeconomic impact of interventions against HIV/AIDS, tuberculosis and malaria – UNU-WIDER forthcoming working paper
93. A systematic review of the impact of microfinance on poverty – UNU-WIDER forthcoming working paper
94. Africa’s democratic trajectory: the impact of development aid and democracy assistance – UNU-WIDER working paper no. 2012/15
95. The role of ODA in infrastructure financing - UNU-WIDER working paper no. 2012/56
96. Is the Clean Development Mechanism Promoting Sustainable Development? – UNU-WIDER working paper no. 2012/72
97. Is the Clean Development Mechanism Effective for Emission Reductions? – UNU-WIDER working paper no. 2012/73

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