palgrave pivot

AID, GROWTH AND POVERTY

Jonathan Glennie
and Andy Sumner

Aid, Growth and Poverty

Jonathan Glennie • Andy Sumner

Aid, Growth and Poverty

palgrave
macmillan

Jonathan Glennie
Visiting Fellow
King's College London
London, UK

Andy Sumner
Reader in International Development
King's College London
London, UK

ISBN 978-1-137-57271-4 ISBN 978-1-137-57272-1 (eBook)
DOI 10.1057/978-1-137-57272-1

Library of Congress Control Number: 2016940950

Printed on acid-free paper

This Palgrave Macmillan imprint is published by Springer Nature
The registered company is Macmillan Publishers Ltd. London

Acknowledgments

We would like to thank the following for comments on earlier versions of this work that appeared in part or whole as Glennie et al., (2012); Glennie and Sumner (2014) and Sumner and Glennie (2015): Michael Clemens; Mark McGillivray; Tony Addison; Roger Riddell; Simon Maxwell; Paddy Carter; Gargee Ghosh, Carol Welch and four anonymous reviewers. This book is based in part on work that was supported by the Bill and Melinda Gates Foundation. Views presented are entirely those of the authors. This book was peer reviewed in itself and in earlier versions as a Working Paper and a journal article.

References

Glennie, J. and Sumner, A. (2014). The $138.5 Billion Question: When Does Foreign Aid Work (and When Doesn't It)?. CGD Policy Paper 49. Washington DC: Center for Global Development.

Sumner, A. and Glennie, J. (2015) Growth, Poverty and Development Assistance: When Does Foreign Aid Work? Global Policy. 6(3): 201-211.

Glennie, J. with with Ahmed Ali, Maia King, Alastair McKechnie and Gideon Rabinowitz (2012) Localising aid: can using local actors strengthen them? ODI Working Paper 352. ODI: London.

Contents

Acronyms

GDP	Gross domestic product
GNI	Gross national income
IDA	International Development Association
IMF	International Monetary Fund
IMR	Infant mortality rate
LDC	Least developed country
LIC	Low-income country
MIC	Middle-income country
NGO	Non-governmental organisation
ODA	Official development assistance
OECD-DAC	Organisation for Economic Co-operation and Development—Development Assistance Committee
RCT	Randomised controlled trial
UNU	WIDER United Nations University—World Institute for Development Economics Research

List of Figures

List of Tables

CHAPTER 1

Introduction

Abstract This introduction outlines how this book seeks to identify the conditions under which aid is most likely to be effective. We argue that the question 'does aid work' has limited use. Instead, one should be concentrating on the following: when does aid work (and when doesn't it)?

Keywords Aid • foreign aid • aid effectiveness • Official Development Assistance • ODA • development aid

Aid has always been controversial. On the one hand there is, to most, a clear moral obligation to help poorer countries and people. On the other hand, there is the concern that financial transfers either do not work very well or even undermine broader development efforts. Peter Bauer's critique of aid (notably, 1972) was seminal and there have been many since, not least from Easterly (2006) and Moyo (2009), and most recently Deaton (2013).

The issue of aid's effectiveness at fostering development is as important today as it has ever been, but the context is somewhat different from previous eras for three reasons:

(a) There has been progress in terms of wealth generation in poorer countries, with even some of the world's poorest countries posting impressive growth rates in the past decade in particular. Global estimates unanimously suggest, albeit with a wide range of estimates, significant reductions in the numbers of the world's extremely poor people are likely to continue over

J. Glennie, A. Sumner, *Aid, Growth and Poverty*,
DOI 10.1057/978-1-137-57272-1_1

the next 10–20 years. This has prompted questions as to whether aid is still as important as it was, not least given the growing number of countries crossing the somewhat arbitrary threshold to middle-income status, which is seen as reason to start winding down aid by some donors.

(b) At the same time, a range of new or re-emerging aid-givers have entered the fray, including governments of emerging economies or major private organisations. The varied motivations and ways of working among this increased array of actors have thrown open aid effectiveness debates previously thought closed, such as the acceptability of tied aid or aid not focused primarily on poverty reduction, and the importance or otherwise of using country systems.

(c) The final critical addition to today's aid equation is the expanding set of challenges facing the world. The post-2015 Sustainable Development Goal discussions have emerged with an agenda in which ending absolute poverty remains central but other concerns are also recognised, namely the planet's environmental limits and the need to invest in greener growth and more equitable development. It is likely that this longer list of objectives will have consequences for the future of international aid.

Add to these changes the economic problems faced by many of the traditional donor countries (which come together in the Organisation for Economic Cooperation and Development (OECD's) Development Assistance Committee (DAC), which has led to significant political pressure to reduce foreign assistance, and the question of aid effectiveness is facing new and to some extent unforeseen questions.

The theories and practices of development cooperation have to change significantly if they are to respond to the challenges and opportunities of a new era. Establishing and analysing the effectiveness of aid interventions is important both for its own sake (so that aid can improve its impacts) as well as to make the case for aid budgets to be sustained.

Questions for the Present Aid Effectiveness Narrative

Prior to the early 1970s, there was very little discussion of aid effectiveness—not because it was not considered important but because the assumption was that aid (as an additional resource) necessarily made a positive contribution. Since then, the discussion has been more fervent, especially since the end of the 1990s. A growing emphasis has been placed on the effectiveness of aid interventions in response to, on the one hand, increasing criticisms from a variety of perspectives that were damaging the broad consensus behind development aid and, on the other, a range of important pieces of evidence that began to shape a consolidated response to the problem.

Convened by the OECD-DAC, and backed by low-income countries and major pressure groups, conferences in Rome (2003) and Paris (2005) gave rise to the Paris Declaration on Aid Effectiveness, with its five now well-known principles and 12 indicators of progress. The 'Paris agenda' found broad support among the world's poorest countries as it addressed recognised problems in the aid industry with commitments from both donors and recipients hoping to gradually improve the impacts of aid interventions. It has become the conventional summary of what effective aid should look like. A 2008 meeting in Accra, Ghana further refined this new aid effectiveness agenda, reaffirming the need for action and emphasising the importance of partnerships with non-state actors, in particular the role of civil society.

The two most recent meetings in this series, in Busan, South Korea (2011), and Mexico City (2014), oversaw a significant transformation both in the ambition of the 'aid effectiveness agenda' and its primary channels of influence. In response to criticism that focusing on 'official development assistance' from OECD member countries was too narrow in today's world, the process has sought to look at a range of other aspects important for successful pro-development interventions, including South–South cooperation, private sector involvement, and domestic resources such as tax.

However, despite some advances, it is broadly agreed that progress has been limited. The real-life incentives that led the aid industry into some of its cul-de-sacs in the first place were perhaps not properly understood—the political economy of aid appears absent in a predominantly technical analysis. Over time the principles have also come under scrutiny, especially as applied to countries outside the core client base of low-income countries. With the rise of the emerging economies, some of which are now donors themselves, major shifts are underway in global governance, and economic theory and deficiencies in the Paris agenda have become ever clearer with regard to two areas in particular: evidence and universal applicability.

Evidence

Some aspects of the Paris agenda, although based on decades of donor and recipient experience in aid delivery, are not evidently supported by the weight of published academic research, or research does not exist to make a reasonable judgement. For instance, the pressure to put more aid 'on system', that is to use recipient-country processes such as budgets and spending mechanisms, a guiding force of aid effectiveness discussions for the past decade, may be less appropriate where aid is a small proportion of the economy, or where objectives are not primarily about system strengthening or where government systems are particularly weak. In fact, there is little evidence that one modality is generally more appropriate than another—it depends on objective and context.

Universal Applicability

Some aspects of the Paris agenda may be inappropriate for all development cooperation providers/recipients. Tied aid, for instance, is not necessarily an effectiveness issue; it could be viewed as a value-for-money issue. Therefore untying aid is not so relevant for less wealthy or new donor countries, where labour and goods are available more cheaply (such as in India, China, and Brazil). Tying aid, in fact, may be important in promoting increased participation in South–South cooperation, including persuading sceptical electorates of its importance (indeed, this may also be a growing trend in some of the OECD countries, where voters want to know how they are also benefiting).

Attempts to update the Paris agenda to accommodate new development horizons remain ongoing. There are questions over the extent to which the non-DAC bilateral donors have engaged meaningfully in the agenda given their focus on alternative processes under the auspices of the UN. Meanwhile, the clarity of the Paris principles has been somewhat confused by the movement from aid effectiveness to development effectiveness, a nebulous concept with a variety of meanings. A lack of political weight combined with a lack of technical clarity has left us with an aid/development effectiveness narrative that is at once confused (what is it and to whom does it apply) and deprioritised (few donors now feel pressure to meet specific targets). The great merit of the Paris agenda, for all its faults, was that recipient countries could use it to pressure donors to align better with the principles—it is questionable whether the Busan/Mexico City agenda is now playing that function (see Glennie et al. 2013, for more on this).

A New Narrative on Aid Effectiveness

This crisis in clarity and confidence comes at a time when there has never been a greater need for a convincing, evidence-based, coherent, and well-communicated narrative on when aid can work. Policymakers, politicians, practitioners, and members of the public all need to be reconvinced of the value of aid. Pressures on the public budgets of OECD countries are likely to last for the foreseeable future. If such a narrative does not emerge, we run the risk of gradually declining support for public spending, not only on traditional aid but also on various other global collective action problems that are becoming more pressing.

Part of the problem is the polarised and non-nuanced public policy debate between the 'aid works' versus 'aid is a waste of money' camps. In our review we are constrained by reviewing how the literature has approached this question. We thus take aid 'working' or 'effective aid' to mean aid that contributes to, or is associated with, even if only modestly, positive development outcomes such as economic growth and social development. This is not an ideal definition but it is common in the literature and thus a review is constrained in opening this question further. Meanwhile, the lack of a counterfactual is the biggest barrier to ever knowing for certain the impact of aid. Interested parties, both informed and uninformed, can question the idea that aid 'works'; assertions that aid is wholly or in part responsible for impressive improvements in human development in the past couple of decades are questionable. It is also not difficult to find examples where aid has been detrimental to countries and communities and where there may be trade-offs in terms of positive and negative impacts. More modesty is needed in any claims for how aid can contribute to development. However, the evidence, which we discuss in this book, does suggest that aid has contributed in many countries and, despite its many flaws, can continue to do so.

However, we need a new evidence-based narrative, both for its own sake and also because it is more likely to win over sceptics in the medium term. The objective of this book is to encourage the global debate to move on from *whether* aid 'works' or not to looking at *when* aid works and how it can work better. We are, of course, not the first to criticise the binary yes/no approach to aid, but such a simplistic analysis has proven stubbornly persistent, especially in popular discourse. We therefore now call for a clear break. The question 'does aid work' has limited use. Instead, one should be concentrating on a question around which we can build some critical pointers from the empirical evidence, and which can influence policy decisions and make a clearer case to citizens in contributor countries: when does aid work (and when doesn't it)?

A first step is to review the evidence. In this book we survey the last ten years of the cross-country literature on aid and growth and, to a lesser extent, health, education, and income poverty. While there is much conflict in decades of evidence on aid's impact, there are some general guidelines that emerge for policymakers.

The book is structured as follows: In Chapter 2 we set the context with a history of aid effectiveness debates. Chapter 3 then considers why it is so difficult to answer the basic question of when or even if aid 'works'. Chapter 4 reviews the academic research we have surveyed. Chapter 5 concludes.

This book discusses the nature of evidence on foreign aid and why assessing the impact of aid is so difficult in Chapter 2. In Chapter 3 we outline the main problems with the evidence on aid effectiveness in general, which we group under the issues of definition and methodology. The latter category is further broken down into the fairly intractable problems of causality and bias. Partly in response to the constraints on this area of study we set out our own approach which involves assessing papers which meet a specific set of criteria to look for generalisations to contribute to the debate. We focus on peer-reviewed, cross-country, econometric studies published over the last decade and attempt to make some global-level generalisations on aid with caveats and conditions relating to the context and conditions under which aid might be said to 'work'.

In Chapter 4 we review aid's impacts on economic growth and discuss under what conditions aid is most likely to work, outlining areas with signs of convergence and areas of divergence. We also look at the relationship between aid and improvements in social development—education, health, and poverty reduction—although with less of a focus as there are only a few studies which meet our criteria. Broadly speaking, we have found that the most recent studies, over the last decade, have been more positive on the role aid can play in these areas than previous generations of studies. Despite all the caveats on which we insist, this is an important finding which needs to better percolate into the public debates on aid.

In Chapter 4 we breakdown what the evidence suggests regarding what makes aid more likely to be effective, with a particular focus on the growth literature, and we are able to propose a set of factors that likely play an important role in when aid is *most likely* to work. We find it useful to break down the conditions governing aid's effectiveness into two categories: (a) the country context, meaning the characteristics of the recipient country and national government policies and (b) aid management, meaning the characteristics of aid and donor policies and practices.

We argue that the evidence in four areas has signs of convergence that may have direct relevance for policy decisions on aid and for aid effectiveness discussions. These four areas are as follows:

1. Aid levels (meaning if aid is too low or too high).
2. Domestic political institutions (including political stability and extent of decentralisation).
3. Aid composition (including sectors, modalities, objectives, and time horizons).
4. Aid volatility and fragmentation.

We also identify two areas where there is little sign of convergence in the evidence: the importance or otherwise of 'good', meaning orthodox macroeconomic policies and the question of grants versus loans. Finally, in the Conclusion, we discuss briefly how these findings might impact current debates.

References

Deaton, A. (2013). *The great escape: Health, wealth and the origins of inequality*. Princeton: Princeton University Press.

Easterly, W. (2006). *The white man's burden: Why the west's efforts to aid the rest have done so much ill, and so little good*. New York: Penguin Press.

Glennie, J., Ali, A., McKechnie, A., & Rabinowitz, G. (2013). Localising aid: Sustaining change in the public, private and civil society sectors. London: ODI. www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/8284.pdf. Accessed 18 Sept 2014.

Moyo, D. (2009). *Dead aid: Why aid is not working and how there is a better way for Africa*. New York: Farrar, Straus and Giroux.

CHAPTER 2

A History of Aid Effectiveness

Abstract Aid effectiveness has a long history. The most recent, and possibly most concerted, effort has been the OECD-led Paris process. This chapter discusses how progress in implementing aid-effectiveness reforms has been slower than hoped.

Keywords Aid • foreign aid • aid effectiveness • Official Development Assistance • ODA • development aid

Ever since the modern era of aid giving began after World War II, donors have been concerned with improving their aid effectiveness. The most recent, and possibly most concerted, effort to this end has been the OECD-led Paris process. However, progress in implementing aid-effectiveness reforms has been slower than hoped. With donors reaffirming their commitment to Paris-style aid effectiveness at Busan, and to using country systems in particular (OECD 2011b), there is a growing need to find ways to deliver aid that respect the principles of country ownership and alignment with country priorities and systems, while also addressing the growing political imperatives around risks and results, and the problems inherent in current approaches.

Despite continued enthusiasm for moving aid money into recipient-government systems, there is a limited evidence base for the developmental impacts of such an aid-effectiveness prescription, and that even the theory, or theories, of change (i.e. the logic behind the intervention) is often poorly

J. Glennie, A. Sumner, *Aid, Growth and Poverty*,
DOI 10.1057/978-1-137-57272-1_2

elucidated. If aid agencies are to implement sometimes radical reforms successfully, in the face of hard questions from national stakeholders concerned about the loss of tied business or the increased risk associated with more effective aid modalities, a stronger evidence base will form an important part of the picture.

It is useful to define three eras of aid, each a reaction to the one that preceded it. Prior to the 1980s (the first era), the main modality for giving aid was project funding. Following a slow-down in economic growth in the developing world in the late 1970s, linked to steep rises in the cost of oil, collapsing commodity prices and reduced export earnings, developing country governments sought urgent external grants and cheap loan financing to cover shortfalls in their access to foreign exchange. Donors, led by the World Bank and IMF (International Monetary Fund), shifted focus towards programme and policy lending, increasing the proportion of grants and loans directly transferred to developing-country coffers under agreed conditions ('conditionalities'). This was the beginning of 'structural adjustment lending'—the second era of aid—so called because the conditions attached to aid were intended to lead to structural changes in recipient economies.

At first glance, this direct support to government balance sheets may appear similar to the 'second generation' budget support that was de rigueur in some European donor agencies in the 2000s, but its purpose in fact was almost diametrically opposite. While modern budget support claims to strengthen the recipient government's ability to own, plan, and implement its development strategy, adjustment lending in the 1980s and 1990s combined a scepticism of the ability of public institutions to lead development efforts—preferring private alternatives—with an aggressively interventionist approach to development policy. The means by which aid could support change in a country, therefore, formally became dual: it could make direct impacts in the way it was spent, and it could also play a part in pressuring countries to make policy reforms.

For some donors, policy lending was never a significant share of the total, and project funding remained predominant. USAID (United States Agency for International Development) programme assistance included structural adjustment-type lending while the US Africa Bureau's distinctive African Economic Policy Reform Programme (AEPRP) had an idiosyncratic approach to engagement with country systems at sectoral level. In Zambia, for example, USAID analysis and programme assistance under AEPRP helped in the design and implementation of a 'safety net' programme to reduce the impact of IFI conditions on the poor.

During this same period, the role of non-state entities, including for-profit and not-for-profit, national and international, took on growing importance in aid giving, both as recipients of aid (core support) and as channels for it. Donors had been using private contractors for some time but their use significantly increased in the 1980s and 1990s even while the amounts remained fairly small (Raffer and Singer 1996).

The reasons for increasing the use of private entities were related in part to the same ideology that underscored structural adjustment: the movement towards privatisation and away from state management that has characterised most donors' policies since the 1980s. CSOs were considered better able to reach grassroots and excluded communities at a time when the poverty focus of aid was gaining momentum; they had a track record in innovative service delivery and were strong advocates of participation and empowerment (Wilkinson and Hulme 2012). The delegation of projects to private-sector contractors could also entail a reduction in cost for donors if fewer civil servants were needed to manage projects. The use of private entities also enabled donors to avoid working directly with autocratic governments.

Aid began to fall back in the 1990s, both in real terms and as a percentage of rich-country gross domestic product (GDP); by 1997 it was back at 1983 levels. Most analysts regard the declining need to make repayments to Cold War allies a major reason for the fall, but the failure of 1980s policies to reduce poverty, especially in Africa, and the increasing number of analyses sceptical of the poverty-reduction impact of aid, were also important factors in the downward pressure on aid budgets. By the turn of the century, the main pillar of the preceding two decades of aid policy—structural adjustment lending and the conditions attached—found few defenders. Some thought it had simply not worked (i.e. reform cannot be bought against the will of the national leadership); others thought the neo-liberal policies associated with the Washington Consensus were simply wrong. Still others were concerned about the impact of strict conditions on democracy and sovereignty. Consensus seemed to be emerging that the role of a capable and accountable state had been overlooked by development practitioners who placed more weight on the ability of private entities (either the market, or voluntary organisations in cases of market failure) to resolve the barriers to progress in poor countries.

According to another analysis, the commitment that arose in the aid industry to work more thoughtfully with national systems did not emerge from the conclusion that aid had ignored state structures, but rather from a sense that it had harmed them (Harrold 1995)—and, possibly, used them to provide a veneer of legitimacy for their 'pet' projects. The various 'sector-wide approaches' piloted from the early 1990s were already grappling with Paris agenda issues, in terms of alignment and harmonisation.

A changing global context led to rising aid levels in the 2000s, accompanied by a renewed commitment to aid effectiveness. The OECD's milestone publication, *Shaping the 21st Century: The Contribution of Development Co-operation* (OECD 1996), set out the principles of country ownership and donor support to national development strategies that would lie at the heart of the third era of aid. In 2003, governments and civil society from around the world met in Rome to agree on guidelines to improve aid mechanisms. Two years later, in March 2005, the Paris Declaration on Aid Effectiveness announced that 'while the volumes of aid and other development resources must increase to achieve [the Millennium Development Goals], aid effectiveness must increase significantly as well to support partner-country efforts to strengthen governance and improve development performance' (OECD 2005). The Paris Declaration did not originate the focus on country systems, rather it crystallised a formal, high-level coalition around an idea that had been building for ten years and was already being practised by some agencies as project aid began to be further criticised and sectoral approaches gained traction. The debt relief campaign of the 1990s highlighted the need for a more integrated approach to aid delivery which had to be under national government's control. It is helpful to briefly summarise the process by which the Paris stipulations were intended to increase aid effectiveness, using the indicators as a guide. First, the recipient country has a development strategy endorsed by the World Bank (1). It demonstrates that it has reliable public financial and procurement systems (2a/2b). With those in place, donors align their aid with the priorities set out in the government's development strategy (3); coordinate their technical assistance with other donors (4); use the PFM and procurement systems (5a/5b); use no parallel project implementation units at all (6); disburse aid as committed (7); untie 100% of aid; and (8) use common arrangements, and joint missions and country analytic work for their aid (9/10a/10b). Finally, each country has a results framework approved by the World Bank (11) and has in place a mutual accountability framework whereby recipients are able to hold donors to account for their commitments, just as donors have historically done for recipients (12).

Ownership and Alignment

According to the 2002 Global Monitoring Report, by the end of the 1990s only about 30% of bilateral aid was available for flexible expenditures in developing countries, the rest being earmarked for specific, donor-decided expenditures, a decrease from 40% in the early 1980s

(Sagasti et al. 2005). Country ownership is the backbone of the Paris Declaration. Donors agreed to design their interventions in such a way that they aligned 'to the maximum extent possible behind central government-led strategies or, if that is not possible, donors should make maximum use of country, regional, sector or non-government systems' (OECD 2005). There is some ambiguity and flexibility in the original Paris Declaration as to how much the word 'country', when used with 'ownership' and 'systems', refers to government or broader societal processes. In more recent gatherings, 'country ownership' has been further defined as national or democratic ownership, implying that non-state actors should be involved in setting national objectives. However, the term 'country systems' remains tightly interpreted as meaning state and government systems, partly because of the way the targets have set the donor agenda, rather than the longer statements of intent. In the main the thinking here emanate from observing the dis-benefits of aid bypassing country systems and strategies, and other inefficiencies, such as tied aid. In other words, they are based on a 'negative' efficiency argument more than a 'positive' opportunity and outcome argument. This is an important point and may explain some of the lack of empirical evidence supporting the major changes set out at Paris (i.e. there is plenty of evidence of what does not work, but less of what does).

It is useful to note that the objective of increasing aid using country systems is only for aid 'for the government sector' (Paris) or 'in support of activities managed by the public sector' (Busan). In other words, there is no commitment to increase the amount of funds to the government sector, only to ensure that funds that are directed to the government sector use government systems (i.e. gradually reduce the parallel structures they have tended to develop, and work more closely with the strategies and systems managed by the host government). Theoretically, a donor could score 100% on this indicator without directing any money at all to the government sector (e.g. devoting all its aid to strengthening civil society).

Three main groups of factors can be identified for the shift in emphasis at Paris, all of which are relevant in varying degrees to 'country ownership' and alignment to 'country systems': results, sustainability, and reduced costs. While interconnected, their purposes can sometimes be in tension.

While it was recognised that sharing control and responsibility for development interventions with national governments might lead to a range of new risks and challenges, it was also acknowledged that donor attempts to force their own priorities on countries, rather than 'working with the grain' of local actors, had hampered development progress

(Kelsall 2008). It was therefore thought that integration of donor and recipient development objectives—with the latter taking the lead—would on the whole mean a higher probability of the most appropriate development objectives being fulfilled as fast as possible.

If there was dissatisfaction with the pace of development results, there was even more concern about their sustainability. Rather than just respond to the needs of the poorest by delivering services directly, donors wanted to use aid to strengthen the partner country's ability to deliver the services without foreign assistance. Failure to consider the sustainability of progress achieved began to be considered short-sighted. From a more negative point of view, some donor practices were viewed as actually harmful to the development of a recipient country's ability to emerge from aid reliance because they replaced, rather than supported, country mechanisms, systems, and processes; many aid agencies adopted a 'do-no-harm' approach to mitigate this possibility. A particular focus came to be placed on the importance of a well-functioning state, an area considered marginalised in the theories and practices of development actors in previous years. The failure of the state began to be seen as the primary cause of slow development.

A large amount of aid was being spent outside recipient-government budgets, with donors setting up parallel structures, employing their own staffs, writing rules, and developing their own sets of contacts and contracts. The benefits of setting up parallel systems were clear to donors who wanted quick results. But multiple channels made it harder for governments to achieve policy coherence, as well as making basic accounting harder, if not impossible. According to an evaluation in the early 2000s, 'The effectiveness of government systems is seriously undermined by the extensive reliance on parallel, non-government, project-management structure and special staffing arrangements.' Focusing on country systems would, it was argued, have a 'transformative effect on government systems and results' (Lawson et al. 2003).

Capacity development emerged as one of the most important aspects of this fresh focus on sustainability. Results achieved without related development in the local capacity to continue delivering those results without external assistance is not development at all, but isolated interventionism. While technical assistance had long been a major portion of OECD aid (around 30%), it was not considered to have had the requisite impact on capacity building given its financial importance, with some suggesting that much technical assistance substituted for, rather than built, capacity.

A particular problem with aid-dependent relationships was that host governments were at risk of being more accountable to external actors—

from whom their development resources came—than to their own people. This threatened the important state-citizen relationship at the heart of any functioning nation, as accountability became skewed towards donor-specific mechanisms of accountability, corroding the normal structures of democratic accountability.

Donor 'branding' also undermined the legitimacy of the state in the eyes of its citizens. In this context, it was thought that aid channelled through domestic systems would focus on the government's own accountability channels, rather than those of donors. Putting aid 'on budget' would improve the ability of parliament and the public to scrutinise expenditure decisions, while donors' concerns would shift from how well their particular project was faring to how well the government was managing development activities overall. Technical assistance would complement these gains in domestic accountability.

Towards the end of the 1990s, evidence began to accumulate that the transaction costs of delivering aid through projects had become unacceptably high for countries with large numbers of them and a multitude of donors, each with their own reporting and accounting requirements. Excessive fragmentation into myriad small projects was leading to excessive overhead and administrative costs, particularly when concern over fiduciary risks led to foreign agencies, CSOs, and companies implementing them. While a project approach can only grow linearly, a programme approach can achieve economies of scale as institutions are developed.

Bringing down transaction costs became a key feature of the new era of aid effectiveness. Using country systems was one way of reducing transaction costs associated with aid for the recipient country since there would be less need for separate project management, implementation planning, and monitoring. By better coordinating their aid procedures, donors hoped to reduce the resources spent by all parties on administration. Problems faced by recipients in meeting the disbursement and implementation requirements of different projects, along with supply-side institutional or political blockages, were leading to unpredictability in funding levels. Many argued that adopting multilateral (e.g. pooling) approaches was one way to improve the situation.

Tying aid to the purchase of goods and services from donor countries made it less efficient because it restricted competition. It may also promote inappropriate technologies (i.e. technologies appropriate in industrial countries but not in low-income countries). Tied aid has also been promoted by business lobbies and was perceived as assistance to donor companies, rather than to the poor. Untying aid became another signature requirement of the Paris agenda.

The most important of the three rationales behind the focus on country systems is sustainability. According to the Paris Declaration: 'Using a country's own institutions and systems, where these provide assurance that aid will be used for agreed purposes, increases aid effectiveness by strengthening the partner country's sustainable capacity to develop, implement, and account for its policies to its citizens and parliament' (OECD 2005).

The focus on strengthening PFM and procurement systems (i.e. a country's financial systems), either through use or other forms of support, is concerned primarily with sustainability and has little to do with reducing poverty in the short term. Reducing costs is a secondary concern.

The official OECD (2011a) analysis of progress against the Paris targets is in substantial agreement with an independent evaluation (Wood et al. 2011); when it has been implemented it has worked to varying degrees, but there has not been enough implementation. Of the 15 targets, since 2007 significant progress had been made on four, significant worsening on one and no significant change on the remaining nine.

Strikingly, evidence from the implementation of the Paris agenda suggests that donor usage has had little or no impact on country financial systems, and that there is little relation between the strength of those systems and donor decisions to use them. By 2010, only 41 % of aid was considered aligned with country priorities—about the same as in 2005. Around 45 % of aid to governments used recipient-country public financial management and procurement systems, a modest increase since 2005 (OECD 2011a, b, c). The degree of improvement in country PFM and procurement systems was also quite limited. The structural problem in aid is that while new aid 'machinery' is being invented all the time, older organisations tend not to disappear, leading to an ever more complex landscape.

There are two critiques of the Paris approach to country systems and to some extent the Paris agenda more broadly: first, that the role of non-state sectors deserves more attention, and second, that country context, both recipient and donor, needs to be brought further into the discussion.

According to some critiques, the aid consensus emerging from the Paris process over-focuses on the government and state, and was perhaps overcorrecting for the state-deficient policies of previous decades. By contrast, there is little emphasis on the other aspects of a functioning country, such as the private sector and civil society. It is now a commonplace that a strong and development-focussed state is a requisite for sustained development, and that aid should support that state. But the non-state provision of goods and services is also important in most countries, while domestic accountability mechanisms, often involving non-state actors, are necessary to support the provision of services (Savigny and Adams 2009). While Paris does not, as is sometimes implied, insist that increasing quantities of aid should focus on state systems (it says that increasing quantities of aid to the government sector should use country systems), the failure to discuss non-state actors in the same depth as state actors has led to a dearth of information and ideas regarding how to use aid to support them.

In cases of unrepresentative, unaccountable, and ineffective national governments, in particular, this absence is surprising. A common critique of Paris is that support for government ownership should depend to some extent on the nature of the government and the policies it pursues i.e. 'ownership' needs to be seen in the context of legitimacy (OECD 2010a; Booth 2011; Keane 2009).

While the Poverty Reduction Strategy Paper (PRSP) processes sought to include civil society to some certain extent, the Paris agenda failed to build on this trend, and PRSPs themselves have been criticised for excluding parliaments (Piron and Evans 2004). In some circumstances, rather than focusing on aligning more aid to government strategies and systems, donors might as well wish to support countervailing forces (i.e. non-state systems and actors) if, for example, the state is sufficiently strong, aid is already closely aligned with government plans, or in polarised societies where the government or public institutions may lack popular legitimacy (McGee and Garcia Heredia 2010). In certain circumstances, the use of political conditionality or selectivity may be an effective means of contributing to state-building goals by creating stronger incentives for governments to improve their performance. The focus on the state level may also have led to sub-state governments being neglected.

While donors are urged to help broaden participation in government processes, strengthen institutions, and build accountable budgetary processes, few analyses wrestle with one of the central paradoxes of aid: that the act of aid giving can also undermine state capacity and accountability. This is a well-known area of concern in academia (Brautigam and Knack 2004) and the problem of aid dependency has risen to the surface of the political agenda. While limited efforts to increase ownership are likely to have some positive effects, as the problem is now better understood than previously, it is hard to see how the fundamental problem of accountability to donors rather than citizens (known as dual accountability) will recede as long as external actors provide large amounts of funding. The power imbalances between donor and recipient may be intrinsic and not easily removable by better management.

Issues of accountability and capacity can be mitigated by donor practices, however. The focus on accountability mechanisms to provide incentives for government to carry out its tasks effectively, including according a much higher profile to transparency as a sine qua non of effective aid, may be another important mitigating factor.

There is a tendency in international relations for context-specific declarations and decisions to gradually metamorphose into policy blueprints. When this happens the corrective qualities of such declarations, which serve an important temporal purpose, can instead become the problem since they are applied to situations for which they were not devised and to which they do not pertain. A further set of critiques of the Paris agenda's colonisation of the aid-effectiveness discourse is that it is sometimes misconstrued as a journey towards an ideal aid relationship when in fact no such ideal exists; rather, the Paris Declaration and the bureaucratic process accompanying it were in essence a response to a particular set of problems that have dogged aid relationships for the past two decades. Moreover, the issues that form the Paris agenda were chosen not only because they were considered important to address, but because they were considered feasible to address through the international, bureaucratic process. This limited the ambition and depth of the analysis. To treat the Paris analysis as archetypal is to mistake a fundamentally political (and, to a certain extent, lowest-common-denominator) process for a thorough analysis of the problems of aid. There is nothing inherently good or bad about using country systems (or, indeed, most of the Paris indicators). Even the principle of ownership—the cornerstone of the Paris agenda—is open to question in some circumstances.

The treatment of the Paris agenda as applicable across all contexts may have undermined attempts to make aid more effective in different types of country situations, particularly in fragile states, middle-income countries, and/or countries less dependent on aid. While the Paris agenda accepts that donors should not be encouraged to use weak country systems (particularly those associated with fragile states), instead of offering a modified prescription of the same medicine, it may be more appropriate to adopt a wholly different approach. The DAC-hosted discussion on fragile states, especially post-Accra, grew out of the critique that aid effectiveness in these countries was of a different magnitude than in more stable countries (OECD 2009a).

Crucially, while there is certainly evidence that the use of country systems helps to strengthen them—and while it certainly seems logical—the evidence as it stands is inconclusive.

There is evidence that technical support, for example, to PFM reform can lead to significant progress (De Renzio et al. 2011). However, there is equally concern, in some contexts, that too many donors using country systems may harm them.

One of the more surprising lessons after Paris is that parallel systems remained important in many contexts, even preferred by recipient countries (Wood et al. 2011). The weak evidence for a causal link between improved systems and improved results may be a reason for the slow progress (i.e. donors remain unconvinced despite formal commitments). Moreover, if donors are using country financial systems but still making most of the decisions, government simply becomes an implementing agency for them; using country systems then becomes a distraction from the real issue, which is the distribution of political and financial power in the country and between the country and its partners. Therefore, while recipient-donor coherence is crucial to a successful aid relationship, it does not necessarily entail a gradual increase in the use of government systems.

A range of reasons are cited for donors' slow progress in using country systems (see for discussion, OECD 2011a), but the one that needs most attention is their failure to internalise the change of mindset required to move from a short-term results-based approach to a 'systems approach'. This may be because: Donors fear financial misuse; donors fear a loss of the ability to directly or exclusively attribute development impacts to contributions; donors are reluctant to lose control of development choices; donors tend to target risk avoidance rather than risk management; different donors have different risk tolerances—a system strong enough for one donor may not be for another and; corporate policies, legal frameworks, organisational incentives and capacity issues are persistent bottlenecks within donor organisations. Formal rules on approaches to aid management in donor organisations may not have been altered to the extent required or may not be communicated internally; donors have not fully assessed/understood the variety of ways in which aid provided through different modalities, including project aid, can use partner-country systems, not just general budget support. In some cases, limited use of country PFM systems may reflect the country institutions' own preferences for parallel structures.

Paris implies that working with institutions is the best way to deliver results for poor people over the long term and to end aid dependency. However, this may be in tension with achieving greater immediate reductions in poverty. The quickest way to achieve short-term results may be to bypass inefficient systems, which is precisely what donors are tempted to do. Major donors are elevating their 'results' rhetoric but the implication of a systems approach is that the risk/results analysis will need to shift significantly. Profound changes in culture may be required as the aims of aid stop being specific poverty-alleviation or policy outcomes and become improvements in capacity and accountability (Morgan 2005), but the Paris process tends to treat such outcomes comparably. The challenges implicit in measuring such an approach are more complex; persuading donor publics of its importance may also be difficult. Added to this, donors often do not adequately understand a host country's political economy. Policies and procedures related to country systems as diverse as competition policy, procurement procedures and many other PFM procedures may seem technocratic and straightforward, but they have political implications of which donors may be unaware. The critique that donors have a weak grasp of local political dynamics implies they should be more cautious in their analysis of country systems. Another issue is whether donors even have the best interests of recipient countries at heart; in areas of geopolitical importance, donors are as likely to act in their own strategic interest as in those of the host country. In other countries, they may emphasise certain agendas for ideological reasons or to appease domestic constituencies.

While some see this as a tractable problem, implying that donors should deepen their knowledge of country political contexts, others see it as intractable. State building is an endogenous process and countries design institutions that are legitimate with respect to their own history, culture, beliefs and public expectations; large external actors may ultimately never be good at building institutions in societies they only partially understand, and they can also do harm.

The Fourth High Level Forum on Aid Effectiveness in Busan, South Korea in late 2011 sought to set out the critical issues for future phases of aid reform, based on a review of progress in achieving the targets established in the Paris Declaration and an analysis of development challenges. However, Busan suffered from trying to please too wide a range of stakeholders. While Paris, for its many faults, constructed a clear agenda for action, what emerged from Busan was a wide-ranging wish-list in which it is difficult to discern a clear direction of travel. Core principles underscore specific commitments and a range of voluntary building blocks then seeks to assemble coalitions of like-minded entities to progress specific agendas. While this may appear unsatisfactory, it offers possibilities for a more realistic attitude to aid effectiveness, based around complementarity (although this word is seldom actually enunciated), as opposed to the over-ambitious and possibly counter-productive harmonisation that was a key plank of Paris (see Glennie and Rogerson 2011).

Busan was a significant milestone in aid effectiveness. Despite being rhetorically reiterated at Busan and other meetings, some aspects of Paris, such as harmonisation, have fallen away, while new aspects, such as transparency, have come to the fore. Busan maintained the focus on sustainable and accountable state institutions as illustrated by the continued emphasis on the use of country financial management and procurement systems and country-led approaches to results monitoring and mutual accountability processes. More crucially, Busan talked explicitly of advancing aid exit strategies (indeed, the word 'aid' is becoming unfashionable in some quarters). But this time there is stronger recognition that development requires collaboration across a wide range of actors, not just the state. In 2008, the Accra Agenda for Action declared that both donor and recipient nations would 'deepen our engagement with CSOs as independent development actors in their own right, whose efforts complement those of governments and the private sector. [We] share an interest in ensuring that CSO contributions to development reach their full potential' (OECD 2008). This emphasis went further in the Busan agenda with a more explicit mention of an enabling environment for civil society and the private sector than was the case in Paris and Accra. It is notable, however, that by dropping the indicator on programme-based approaches—which established guidelines for aid delivered through all groups of actors—important elements of a multi-sectoral approach to aid programming were de-emphasised.

While untying aid retained its prominence in the Busan agenda, albeit with the same vague commitment to 'continued progress' as in Paris and Accra, there was a potentially significant change in emphasis in the Busan Outcome Document which, for the first time, recognises that untying aid presents 'opportunities for local procurement, business development …' (OECD 2011b, clause 18e). Untying aid by prioritising local partners (for-profit and not-for-profit) in the implementation of programmes and projects will, it is argued, have greater developmental impact because a larger share of aid funds are likely to stay in the local economy, translating into jobs, incomes and local business revenue.

The Manila Statement on Effective States, which predated Busan, summed up the attitude that with some revision the same approach might work in coming years, despite not having done so previously:

> We call for development partners to have reasonable and realistic demands and expectations on country systems, as well as to acknowledge progress made in strengthening country systems. With this in mind, we call for a common agreement that could promote the progressive use of country systems for aid over time … We recognise that mechanisms for country and development partners to jointly assess risks and work collaboratively to manage them, and risks related to their use should be a key element of a post-Busan effective states agenda.

While a global monitoring framework remains with generalised targets, there is then more emphasis on country-specific, aid-effectiveness priorities, implying substantial opportunity for variable approaches. Bottom-up and more flexible use of aid modalities are promoted rather than top-down blueprints; this is illustrated by the de-emphasis of indicators on specific aid modalities (e.g. the use of programme-based approaches and the focus on technical cooperation) and the emphasis on transparency, accountability and results monitoring as tools for identifying what works and promoting it.

While the OECD is aware of supply-side barriers to progress, there was little in Busan that acknowledged the gravity of the problem. If anything, the tension between the 'results agenda' and a systems approach became even starker, with the results target moving from being the penultimate of 15 targets after Paris to first place in the list after Busan. That is one of Busan's key outcomes for many OECD donors, who need to demonstrate the impact of their aid to electorates generally suffering slow or no growth. There is, however, language in the Busan Outcome Document about managing 'rather than avoiding' risk, which implies recognition that there has been too much risk avoidance in the past (OECD 2011b, clause 18a). It is worth noting that this results focus is similar in some ways to a 'what works' approach, which might de-emphasise specific predetermined modalities in favour of focusing efforts on who can deliver results in a given context.

Since the 2011 Busan meeting, a range of follow-up meetings have taken place, seeking to put flesh on the bones of a coherent post-Paris approach to aid effectiveness, or 'effective development cooperation' as the new, broader, terminology would have it. While interesting discussions are ongoing on the role of aid alongside a host of other development interventions, nothing has emerged that sets out a significant new direction on aid effectiveness in particular. Moreover, the pressure felt by donors at the height of the Paris era to account for the effectiveness of its aid according to shared principles seems to have dissipated significantly. Seen negatively, this means that the hard work on aid effectiveness earlier in the century is in danger of being undermined. But seen positively, there is now an opportunity to build a new push for aid effectiveness based not only on learnings from the Paris period, but also from largely unsuccessful experiences post-Paris.

In sum, aid-effectiveness debates have moved through three eras as discussed. Progress has been significant in some areas and rather slow or nonexistent in other areas of the Paris agenda. Underlying the debate is that aid can work under certain processes and conditions.

References

ActionAid. (2006). *Real aid: Making technical assistance work*. London: ActionAid International. Retrieved from http://www.actionaid.org.uk/doc_lib/real_aid:2.pdf

ActionAid. (2012). *Real aid: Ending aid dependency*. London: ActionAid International. Retrieved from http://www.actionaid.org.uk/doc_lib/real_aid:3.pdf

Afghanistan Compact. (2006). *The Afghanistan compact*. Brussels: NATO. Retrieved from http://www.nato.int/isaf/docu/epub/pdf/afghaistan_compact.pdf

Alexander, N. (2007). *The new aid model: Implications for the aid system, citizen's network on essential services*. Unpublished paper.

Althaus, C., Bridgman, P., & Davis, G. (2007). *Australian policy handbook*. London: Allen and Unwin.

Barder, O. (2011). *Can aid work? Written testimony submitted to the House of Lords*. Retrieved from http://blogs.cgdev.org/globaldevelopment/2011/07/can-aid-work-written-testimony-submitted-to-the-house-of-lords.php

Birdsall, N., & Savedoff, W. (2010). *Cash on delivery: A new approach to foreign aid*. Washington, DC: Center for Global Development. Retrieved from http://www.cgdev.org/content/publications/detail/1423949/

BOND. (2011). *Aid effectiveness in contexts of poor governance, conflict and fragility: A statement by UK relief, development and peace-building agencies ahead of Busan*. Retrieved from http://www.ukan.org.uk/fileadmin/user_upload/Joint_Conflict_Aid_Effect_Statement_FINAL_VERSION_230911_1_pdf

Booth, D. (2011). *Aid effectiveness: Bringing country ownership (and politics) back in*. London: Overseas Development Institute. Retrieved from http://www.odi.org.uk/resources/docs/6028.pdf

Bovard Peterson, S. (2011). Plateaus not summits: Reforming public financial management in Africa. *Public Administration* and *Development, 31*, 205–213. Retrieved from http://www.ids.ac.uk/files/dmfile/PlateausnotSummits.pdf

Brautigam, D., & Knack, S. (2004). Foreign aid, institutions, and governance in Sub-Saharan Africa. *Economic Development and Cultural Change, 52*. Retrieved from http://www.american.edu/sis/faculty/upload/Foreign-Aid-Institutions-and-Governance-in-SubSaharan-Africa.pdf

CABRI. (2008). *Putting aid on budget: Synthesis report*. Pretoria: Collaborative African Budget Reform Initiative. Retrieved from http://cabri-sbo.org/cabri%20synthesis%20eng%20proof%206.pdf

Collier, P. (2007). *The bottom billion: Why the poorest countries are failing and what can be done about it*. Oxford: Oxford University Press.

Collier, P. (2009). *Wars, guns and votes: Democracy in dangerous places*. New York: HarperCollins.

Commission for Africa. (2005). *Our common interest: Report of the Commission for Africa*. Retrieved from http://www.commissionforafrica.info/wp-context/uploads/2005-report/11-03-05_cr_report.pdf

Daily Beast Editorial Team. (1995, May 28). More bang for the buck. *Daily Beast*. Retrieved from http://www.thedailybeast.com/newsweek/1995/05/28/more-bang-for-the-buck.html

Davies, P. (2011). *The role of the private sector in the context of aid effectiveness* (OECD Consultative Findings Document). Paris: OECD. Retrieved from http://www.oecd.org/development/aideffectiveness/47088121.pdf

De Renzio, P., Andrews, A., & Mills, Z. (2011). *Does donor support to public financial management reforms in developing countries work? An analytical study of quantitative cross-country evidence* (ODI Working Paper 329). London: Overseas Development Institute. Retrieved from http://www.odi.org.uk/resources/docs/7098.pdf

Desai, V., & Potter, R. B. (forthcoming). *The companion to development studies* (3rd ed.). London: Hodder Education.

Eubank, N. (2010) *Peacebuilding without external assistance: Lessons from Somaliland* (CGD Working Paper 198). Washington, DC: Center for Global Development. Retrieved from http://www.cgdev.org/files/1423538_file_Eubank_Somaliland_FINAL.pdf

Eurodad. (2007). *Putting donors under surveillance? A Eurodad briefing on the aid-effectiveness agenda*. Brussels: European Network on Debt and Development.

Eurodad. (2008). *Turning the tables: Aid and accountability under the Paris framework*. Brussels: European Network on Debt and Development. Retrieved from http://www.scribd.com/doc/52828822/Turning-the-Tables-Aid-and-accountability-under-the-Paris-framework-a-civil-society-report

Eurodad. (2011). *How to spend it: Smart procurement for more effective aid*. Brussels: European Network on Debt and Development. Retrieved from http://eurodad.org/4639/

GDCC. (2010). *Supporting results-based programmatic approaches in Cambodia*. Phnom Penh: Government-Donor Coordination Committee Cambodia. Retrieved from http://www.cdc-crdb.gov.kh/cdc/twg_network/resource_mpe_stage4/documents/supporting_rbm_concept_note_18_oct_2010_en.pdf

Ghani, A., & Lockhart, C. (2009). *Fixing failed states: A framework for rebuilding a fractured world*. Oxford: Oxford University Press.

Glennie, J. (2008). *The trouble with aid: Why less could mean more for Africa*. London: Zed.

Glennie, J. (2012). *The implications of an evolving framework for development cooperation*. Think-piece prepared for the UNDCF High Level Symposium in May 2012. Retrieved from http://www.un.org/en/ecosoc/newfunct/pdf/dcf_australia_jonathan_glennie_may_2012.pdf

Glennie, J., & Rogerson, A. (2011). *Global reach is the prize at Busan* (ODI Opinion). London: Overseas Development Institute. Retrieved from http://www.odi.org.uk/opinion/docs/7293.pdf

Griffin, J., & Judge, R. (2010). *Civil society policy and practice in donor agencies*. London: Governance and Social Development Resource Centre. Retrieved from https://webgate.ec.europa.eu/fpfis/mwikis/aidco/images/a/ab/Donor_policy_and_practice_final_report_for_ext_circulation_mar_2010_(3).pdf

Harrold, P. (1995). *The broad sector approach to investment lending*. Washington, DC: World Bank. Retrieved from http://books.google.co.uk/books?id=r576wXmmMV4C&printsec=frontcover&source=gbs_ge_summary_r&cad=0#v=onepage&q&f=false

IDD Associates. (2006). *Evaluation of General Budget Support Synthesis Report: Joint Evaluation of General Budget Support 1994-2004*. Birmingham: International Development Department Birmingham University. Retrieved from http://www.oecd.org/development/evaluationofdevelopmentprogrammes/dcdndep/37426676.pdf

IMF. (2002). *Guidelines on conditionality*. Washington, DC: IMF.

IMF-World Bank. (2004). *Global Monitoring Report 2004: Policies and actions for achieving the millennium development goals and related outcomes*. Washington, DC: IMF and World Bank. Retrieved from http://siteresources.worldbank.org/GLOBALMONITORINGEXT/Resources/0821358596.pdf

Irish Aid. (2011). *Irish Aid Annual Report 2010—aid works: Delivering on results*. Dublin: Irish Aid. Retrieved from http://www.irishaid.gov.ie/uploads/Irish-Aid-Report-2010.pdf

Jennings, M. (2011). *Economic impact of local manufacturing of bed nets: A survey*. London: School of Oriental and African Studies. Retrieved from http://www.olyset.net/pdf/SOAS_Economic_Impact%20%20Survey_April_2011.pdf

Keane, J. (2009). *The life and death of democracy*. New York: W.W. Norton.

Kelsall, T. (2008). *Going with the grain in African development?* (Africa Power and Politics Programme Discussion Paper 1). London: Overseas Development Institute. Retrieved from http://www.institutions-africa.org/filestream/20080623-

discussion-paper-1-going-with-the-grain-inafrican-development-tim-kelsall-june-2008

Lawson, A. (2007). *DFID budget support to Sierra Leone 2004–07: Achievements and lessons for the future*. London: Overseas Development Institute. Retrieved from http://www.odi.org.uk/resources/docs/249.pdf

Lawson, A., Boadi, G., Ghartey, A., Ghartey, A., Killick, T., Kizilbash, Z., et al. (2007). *Joint evaluation of multi-donor budget support to Ghana: Final report*. London: ODI and Centre for Democratic Development, Accra, Overseas Development Institute. Retrieved from http://www.odi.org.uk/resources/docs/226.pdf

Lawson, A., Booth, D., Harding, A., et al. (2003). *General budget support evaluability study phase 1: Synthesis report*. Oxford and London: OPM/ODI.

Lawson, A., Habas, J., Keito, M., Paul, E., Versailles, B., & Murray-Zmijewski, A. (2011). *Joint evaluation of budget support operations in Mali 2003-09*. Brussels: Special Evaluation Office of International Cooperation. Retrieved from http://www.oecd.org/countries/mali/48656665.pdf

Manning, R. (2004). *How can the Development Community help to achieve greater progress towards the Millennium Development Goals?* Helsinki: WIDER United Nations University.

McGee, R., & Garcia Heredia, I. (2010). *Paris in Bogota: Applying the aid effectiveness agenda in Colombia* (Working paper 342). London: Institute of Development Studies. Retrieved from http://www.ids.ac.uk/files/dmfile/Wp342.pdf

McKechnie, A. (2009, June 15–16). *Efficacité de l'aide dans les situations fragiles et post-conflits*. Presentation at the High Level Forum on Aid Effectiveness in DRC, Kinshasa.

Morgan, P. (2005). *Organising for large-scale system change: The Environmental Action (ENACT) programme, Jamaica* (Discussion Paper 57J). Maastricht: European Centre for Development Policy Management. Retrieved from http://www.ecdpm.org/dp57J

NAO. (2006). *DFID: Working with non-governmental organisations and other civil society organisations to promote development*. London: National Audit Office. Retrieved from http://www.nao.org.uk/publications/0506/dfid_working_with_non-governm.aspx

Naschold, F., & Booth, D. (2002). *General budget support evaluability study: Literature review*. London: Overseas Development Institute.

Natsios, A. (2010). *The clash of the counter-bureaucracy and development* (Center for Global Development Essay). Washington, DC: Center for Global Development. Retrieved from http://www.cgdev.org/content/publications/detail/1424271/

Naviwala, N. (2010). *Harnessing local capacity: US assistance and CSOs in Pakistan*. Boston, MA: Harvard Kennedy School. Retrieved from http://www.hks.harvard.edu/cchrp/sbhrap/forum/article_0003/HarnessingLocalCapacity.pdf

Norris, J. (2012, July 18). Hired gun fight: Obama's aid chief takes on the development-industrial complex. *Foreign Policy*. Retrieved from http://www.foreignpolicy.com/articles/2012/07/18/hired_gun_fight?page=0,1

OECD. (1996). *Shaping the 21st century: The contribution of development cooperation*. Paris: OECD. Retrieved from http://www.oecd.org/dac/2508761.pdf

OECD. (2005). *Paris Declaration on aid effectiveness*. Paris: OECD. Retrieved from http://www.oecd.org/dac/aideffectiveness/43911948.pdf

OECD. (2008). *Accra agenda for action*. Paris: OECD. Retrieved from http://www.oecd.org/dac/aideffectiveness/43911948.pdf

OECD. (2009a). *2009 OECD report on division of labour: Addressing fragmentation and concentration of aid across countries*. Paris: OECD. Retrieved from http://www.oecd.org/development/aideffectiveness/44318319.pdf

OECD. (2009b). *Service delivery in fragile situations: Key concepts, findings and lessons* (OECD/DAC Discussion Paper). Paris: OECD. Retrieved from http://www.oecd.org/development/conflictandfragility/40886707.pdf

OECD. (2010a). *The state's legitimacy in fragile situations: Unpacking complexity*. Paris: OECD. Retrieved from http://www.oecd.org/development/conflictandfragility/44794487.pdf

OECD. (2010b). *Annual report: Resource flows to fragile and conflict-affected states*. Paris: OECD. Retrieved from http://www.oecd.org/dac/conflictandfragility/annualreportresourceflowstofragileandconflict-affectedstates2010.htm#Current

OECD. (2010c). *2011 survey on monitoring the Paris Declaration: Survey guidance*. Paris: OECD. Retrieved from http://www.oecd.org/site/dacsmpd11/46138662.pdf

OECD. (2011a). *Aid effectiveness 2005-10: Progress in implementing the Paris Declaration*. Paris: OECD. Retrieved from http://www.oecd.org/dac/aideffectiveness/assessingprogressonimplementingtheparisdeclarationandtheaccraagendaforaction.htm

OECD. (2011b). *Busan Partnership for Effective Development Cooperation*. Paris: OECD. Retrieved from http://www.aideffectiveness.org/busanhlf4/images/stories/hlf4/OUTCOME_DOCUMENT_-_FINAL_EN.pdf

OECD. (2011c). *Supporting state-building in situations of conflict and fragility*. DAC Guidelines and Reference Series. Paris: OECD. Retrieved from http://www.oecdilibrary.org/docserver/download/fulltext/4311031e.pdf?expires=1344452424&id=id&accname=guest&checksum=38432371E51457CDF4BBAE6C017E6F11

Open Forum. (2010). *Istanbul principles for CSO development effectiveness*. Brussels: Open Forum. Retrieved from http://www.cso-effectiveness.org/IstanbulPrinciples

Pact Inc. (2005). *Engaging local non-governmental organizations (CSOs) in the response to HIV/AIDS* (Community Reach Programme). Washington, DC: Pact Inc. Retrieved from http://www.pactworld.org/galleries/resource-center/engaging_web.pdf

Park, K.-H. (2011). New development partners and a global development partnership. In H. Kharas, K. Makino, & W. Jung (Eds.), *Catalyzing development: A new vision for aid*. Washington, DC: Brookings.

PDT. (2009). *$pending the development dollar twice: The local economic impact of procurement in Afghanistan*. New York: Peace Dividend Trust. Retrieved from http://buildingmarkets.org/sites/default/files/pdm_reports/pdt_spending_dev_twice_report_0709.pdf

Piron, L.-H., & Evans, A. (2004). *Politics and the PRSP approach: Synthesis paper* (ODI Working Paper 237). London: Overseas Development Institute. Retrieved from http://www.prspsynthesis.org/wp237_politics_synthesis.pdf

Raffer, K., & Singer, H. W. (1996). *The foreign aid business: Economic assistance and development cooperation*. Cheltenham: E. Elgar.

Ramalingham, B., & Jones, H., et al. (2008). *Exploring the science of complexity: Ideas and implications for development and humanitarian efforts* (ODI Working Papers 285). London: Overseas Development Institute. Retrieved from http://www.odi.org.uk/resources/details.asp?id=583&title=science-complexity

Sagasti, F., Besanzon, K., & Prada, F. (2005). *The future of development financing: Challenges and strategic choices*. London: Palgrave McMillan.

Savigny, D., & Adams, T. (2009). *Systems thinking for health systems strengthening*. Geneva: WHO. Retrieved from http://whqlibdoc.who.int/publications/2009/9789241563895_eng.pdf

Scanteam. (2007). *Support models for CSOs at country level: Synthesis report*. Oslo: Scanteam. Retrieved from http://www.um.dk/NR/rdonlyres/C7C91205-3115-4BBB-A8BAC0C83D1F41FB/0/Nordic_SynthesisReportFinal.pdf

Taviakoli, H., & Smith, G. (2011). *Insights from recent evidence on some critical issues for budget support design* (ODI Background Note). London: Overseas Development Institute. Retrieved from http://www.odi.org.uk/resources/docs/6730.pdf

Tembo, F., Wells, A., et al. (2007). *Multi-donor support to civil society and engaging with 'nontraditional' civil society: A light-touch review of DFID's portfolio*. London: Overseas Development Institute. Retrieved from http://www.odi.org.uk/resources/download/259.pdf

UNDP. (2006). *The new public finance: Responding to global challenges*. New York: Oxford University Press.

UNDP. (2010). *Capacity is development: Stories of institutions*. New York: United Nations Development Programme. Retrieved from http://www.undp.ro/download/Capacity%20is%20developmentstories%20of%20institutions%202010.pdf

UNU-WIDER. (2012). *Foreign aid in Africa: Tracing channels of influence on democratic transitions and consolidation*. Helsinki: UN University World Institute for Development Economics Research. Retrieved from http://www.wider.unu.edu/publications/working-papers/2012/en_GB/wp2012-015

USAID. (2011). *Building local development leadership: USAID's operational and procurement improvement plan*. Retrieved from http://forward.usaid.gov/sites/default/files/Building%20local%20development%20leadership%20PA.pdf

WFP. (2011). *Summary report of the strategic mid-term evaluation of WFP's purchase for progress initiative 2008-13*. Rome: World Food Programme. Retrieved from http://documents.wfp.org/stellent/groups/public/documents/eb/wfpdoc061406.pdf

Wilkinson, R., & Hulme, D. (2012). *Millennium Development Goals and beyond*. London: Routledge.

Wood, B., Betts, J., Etta, F., Gayfer, J., Kabells, D., Ngwira, N., et al. (2011). *Evaluation of the Paris Declaration, phase 2: Final report*. Copenhagen: Danish Institute for International Studies. Retrieved from http://pd-website.inforce.dk/content/pdf/PD-EN-web.pdf

World Bank. (2004a). *OP 8.60: Operational policy lending*. Washington, DC: World Bank. Retrieved from http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/EXTPOLICIES/EXTOPMANUAL/0,,contentMDK:20471192~pagePK:64141683~piPK:64141620~theSitePK:502184,00.html

World Bank. (2004b). *World development report 2004: Making services work for poor people*. Washington, DC: World Bank. Retrieved from http://web.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH/EXTWDRS/0,,contentMDK:23062333~pagePK:478093~piPK:477627~theSitePK:477624,00.html

World Bank. (2007a). *Aid architecture: An overview of the main trends in official development assistance* (International Development Assistance Resource Mobilisation). Washington, DC: World Bank. Retrieved from http://siteresources.worldbank.org/IDA/Resources/Seminar%20PDFs/73449-1172525976405/3492866-1172527584498/Aidarchitecture.pdf

World Bank. (2007b). *Strengthening World Bank group engagement on fraud and corruption*. Washington, DC: World Bank. Retrieved from http://siteresources.worldbank.org/EXTGOVANTICORR/Resources/3035863-1281627136986/GACStrategyPaper.pdf

World Bank. (2008). *Aid architecture: An overview of the main trends in official development assistance* (International Development Assistance Resource Mobilisation). Washington, DC: World Bank. Retrieved from http://siteresources.worldbank.org/IDA/Resources/Aid_Architecture-May2008.pdf

World Bank. (2011). *World development report 2011: Citizen, security, justice and jobs*. Washington, DC: World Bank. Retrieved from http://wdr2011.worldbank.org/

CHAPTER 3

Assessing Aid: Conceptual and Methodological Issues

Abstract In this chapter we discuss issues of methodology related to aid effectiveness studies with a focus on causality and bias. We discuss the methodological issues emerging from the aid effectiveness literature.

Keywords Aid • foreign aid • aid effectiveness • Official Development Assistance • ODA • development aid

The question 'does aid work?' has been dominant in aid debates since the mid-1970s. Total annual spending on aid (meaning here, Official Development Assistance [ODA] or concessional development finance) has reached $138.5 billion per year[1] and yet the answer to the question posed by Cassen and Associates (1986) and Riddell (1987), 'Does Foreign Aid Really Work?', is still disputed, even more so in the context of rapidly shifting geopolitical power and wealth, and rising incomes in many of the world's poorest countries.[2]

On the one hand, there are fewer 'traditional' poor countries where the case for aid as resource transfer has been clearest. Even in these countries—whether they are labelled Least Developed (LDC) or Low Income Countries (LICs)—aid dependency Official Development Assistance/Gross National Income (ODA/GNI) has been declining (see Fig. 3.1). That said, ODA[3] remains significant in per capita terms in the poorest countries (see Fig. 3.2) and there are a relatively small number of countries where governments can only function because of ODA (see Fig. 3.3 for countries where ODA is more than 50 % of central government spending).[4]

J. Glennie, A. Sumner, *Aid, Growth and Poverty*,
DOI 10.1057/978-1-137-57272-1_3

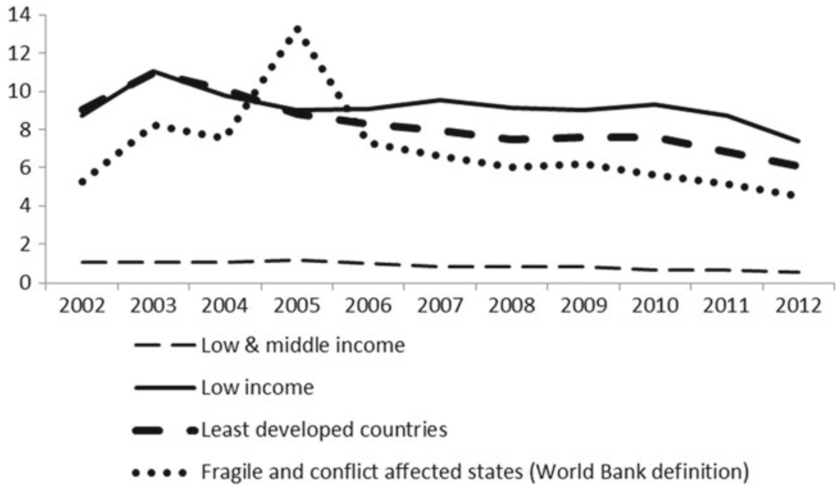

Fig. 3.1 Net ODA received/GNI in all developing countries, low income countries, least developed countries, and fragile and conflict-affected states, 2002–2012.
Source: World Bank (2014)

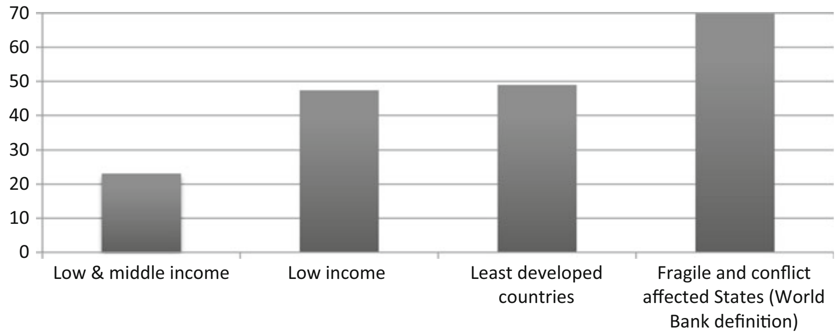

Fig. 3.2 Net ODA received per capita (current $) in all developing countries, low-income countries, least-developed countries and fragile and conflict-affected states, 2012.
Source: World Bank (2014)

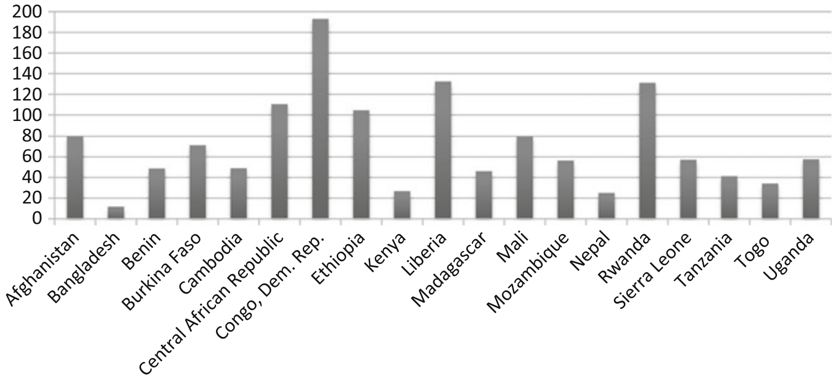

Fig. 3.3 Net ODA received as percentage of central government expenditure in low-income countries *with data*, 2010–2012 (most recent available year). *Source:* World Bank (2014)

In the vast bulk of developing countries, development cooperation including ODA but also other forms of public financing, technology sharing and capacity building, is likely to remain important even if it is insignificant as a proportion of GNI vis-à-vis domestic resources. And if one accepts the concept of global citizenship and the need to support global and regional public goods (to deal with climate change, for example), then the responsibilities of the OECD countries ought to extend beyond simply raising all human beings to above the dollar-a-day poverty threshold.

Thus, contrary to much of the rhetoric common in aid debates, one could argue that the era of development cooperation is not ending, but still just beginning. This can be illustrated by the plethora of new aid-related agencies and foundations, both public and private, which have emerged in recent years to complement or challenge traditional sources of funds. At the same time the case for aid—be it ODA or other types of publicly sourced international transfers—appears to be weakening in OECD countries partly due to austerity but also because the effectiveness of aid has been challenged.

Aid debates in policy circles, which percolate to public debates, have historically tended to be polarised and non-nuanced: either aid 'works' or 'aid is a waste of money'. One issue is establishing a vision of success for effective aid. What is effective aid? What does aid 'works' even mean?

Claims that aid is wholly or largely responsible for impressive improvements in human development in the past couple of decades are not credible. Indeed, it is not difficult to find examples where aid has even been detrimental to countries and communities and where there may be trade-offs in terms of positive and negative impacts. On the other hand, the claim that aid has been entirely useless is equally difficult to sustain.

All of which suggests that there is not only a question of whether aid works but under which conditions it works (or does not work). Research has largely suggested (see later discussion) that the average effect of aid on growth is modest. Further, in the types of study we review results can be fragile and dependent on sample and variables used as well as approaches. There are good theoretical reasons to think that aid may sometimes do harm, or at least have undesirable side effects that could outweigh the good impacts.[5] Studies might conclude that aid results in higher growth, or even lower growth, but from a policy and aid programme design point of view we need to know the reasons why aid has had whatever impact is has, or the channels through which this impact has emerged.

With these points in mind, our book reviews the last ten years of research on aid. The book is intended for a non-technical audience. We should say restate that aid effectiveness has two somewhat parallel literatures: one on processes or principles emerging from the Paris, Accra, Busan and Mexico high-level meetings intended to make the aid system and aid practice more effective overall (e.g. coordination, transparency and so forth), and one from academic peer review journals (and elsewhere) that focuses on assessing if or under what conditions aid is effective in achieving its stated outcomes, particularly those related to economic growth or social development.

In this book, we have already referred to the former literature, and in the next chapter will review the cross-country peer-reviewed, econometric studies. The Paris process has been a valuable source of information on aid effectiveness and, perhaps more importantly, has enabled some (limited) changes in the actions and attitudes of donors and recipients alike. However, it has been based as much on expert opinion as research evidence. While there may be a number of overlaps, we raise issues that are absent from the Paris agenda and its successors, and bypass other areas important to that agenda if we cannot find cross-country, empirical, peer-reviewed evidence to support it.

In the next section, we discuss issues of definition and methodology with a focus on causality and bias in the general sense. We explain our decision first to rely on a narrow evidence base (the last ten years of peer-reviewed, cross-country, empirical studies using econometric methodology) and to focus on when rather than whether aid works for two particular purposes: to contribute to economic growth and social development (which we define as education, health and poverty reduction). The focus is largely on the former because the latter has few studies that meet our criteria. We look at whether the public debate (and to some extent expert policy discussions), which continues to assume that the evidence is mixed as to aid's effectiveness, is aligned with the latest evidence regarding aid and its impacts on economic growth and social development. We discuss the main methodological issues outstanding in the aid econometrics literature. In Chapter 4, remembering the caveats we laid out we seek to draw signposts regarding when and where aid works. Because there is a larger body of research, we focus here on aid and growth studies to discuss under what conditions aid is most likely to work and outline areas with signs of convergence and areas of divergence. We arrive at a set of factors that are likely to play a role in determining when aid is most likely to contribute to growth. Finally, in the conclusion, we briefly discuss how our findings are relevant to policy debates.

The idea that aid does or does not 'work' is common shorthand in the public policy debate, but focusing solely on that question is unhelpful for two main reasons: definitional and methodological. Scholarly studies on aid have long since moved on to the conditions under which aid works.

Definitional Problems

A point of departure is what do we mean by aid 'working' or not? In the context of growth, for example, is it higher growth than would have been the case without aid? Or is it establishing the preconditions for self-sustained growth without aid in the future? Or is it a contribution to growth that represents value for money (however that is defined)? Take for instance the econometric literature. If we find that the coefficient of aid is statistically significant and positive, we conclude that aid is effective and has been successful in stimulating growth. But does this indicate success? It might, or it might not depending on how one defines success. In our review below we are constrained by reviewing how the literature has approached this question. We thus take aid 'working' or 'effective aid' to mean aid that contributes to, or is associated with, even if only modestly, positive development outcomes such as economic growth and social development. Of course the lack of a counter-factual is the biggest barrier to ever knowing for certain the impact of aid (see discussion below).

What is aid? Qian (2014) discusses the heterogeneity of aid and this is also an important point of departure:

> Much of the existing literature examines aggregate ODA, which is a bundle of many different types of aid… [A]id can differ in whether the donor is a country or a multilateral agency, designated as humanitarian or non-humanitarian, transferred as cash or in-kind, or spent in the donor or the recipient country. Each aspect can influence how aid affects the recipient country. Thus, examining the impact of aggregate aid confounds a bundle of different and potentially offsetting mechanisms (p. 23).

In short, aid is delivered in many forms and, like foreign direct investment from private companies, has diverse and complex objectives and motivations. It is quite plausible and, given the copious amounts of conflicting opinions on the subject, also probable that different types of aid achieve (or do not achieve) different objectives. It is therefore meaningless to ask whether aid works or not without first being clear what we mean by 'aid' as well as 'work'.

In this book we focus primarily on ODA as 'aid'. We define 'aid' as ODA on the basis that it accounts for the overwhelming majority of aid. Of course 'aid' is broader than ODA. Most recent econometric studies we refer to below use 'Effective Development Assistance' which is an aggregate measure of aid flows which included all grants and grant equivalents of loans. In short, a measure of concessional transfers to developing countries that emanate from governments of donor countries (funded by the taxpayers of these countries) and that at least in principle or in claimed intent are aimed at contributing to development.

Box 3.1 Types of ODA

Main aid modalities	• Programme aid including budget support (general or sector specific) • Project support • Support to/via NGOs • Support to/via public-private partnerships • Technical assistance
Main types of 'flow'	• Grants • Concessional loans • Debt relief • Equity purchase

(*Continued*)

Box 3.1 Continued

Objectives of aid	• Short-term human development results • Capacity strengthening (institutional and human) • Policy change • Economic growth and poverty reduction • Climate and other international public goods • Research and technological advance • Security concern
Motivations for aid	• Donor benefit—primarily motivated by the interests of the contributor • Mutual benefit—in which the contributor hopes to benefit as well as the recipient • Recipient benefit—charitable, no immediate benefits sought for the contributor, although long-term benefits expected from safer/wealthier world • Global or regional spillover benefits—benefits beyond specific borders of one country
Sectoral support	• Social services and infrastructure (education, health, water, government and civil society, peace and security) • Economic services and infrastructure (transport, communications, energy, banking) • Production (agriculture, industry, trade, tourism) • Commodities and general programme support (food, general budget support) • Debt relief • Humanitarian • Unspecified

Source: Authors

Box 3.1 gives a summary of the main modalities and flow types of ODA, of their wide range of objectives (the specific aims of a stated intervention) and motivations (the more general purpose behind the aid relationship), and of the sectors in which aid interventions are generally made. In all of the rows in Box 3.1 there will be plenty of overlap between the categories—they are meant primarily to illustrate the diversity of intervention which complicates the apparently simple question, does aid work? At one extreme, some interventions might be quite short term, local, and with empirically verifiable outcomes (such as an attempt to reduce the prevalence of malaria in a particular geographic location). At the other, some aid interventions may be intended to support long-term change nationally, making progress hard to measure (such as general budget support). There is no reason, a priori, why all types of intervention should or should not work in general.

Methodological Problems

Even once one has addressed definitional matters, the evidence may often be questionable or simply not available for two main general methodological reasons: causality and research bias.[6]

Causality

At the practical level, questions of attribution and causality are complex. Emphasis is placed increasingly on output-level evaluations, which narrow the focus of what is evaluated to the methodological tools available. Randomised controlled trials (RCTs) are thought by some to provide the highest form of robust evidence and, although evolving, RCTs are typically only possible for relatively micro-evaluations and therefore only relevant for some types of aid intervention evaluation (e.g. does the introduction of de-worming tablets improve school enrolments?).

The complexity of development policy and interventions is increasingly being acknowledged. Ramalingam et al. (2008) look at the relevance of complexity science to understand social, political, and economic phenomena and note the extent to which the challenges of learning from mistakes and new ideas can inhibit progress. They argue that the literature on evaluation is focused on technical argumentation, concluding that no single method should claim a monopoly on providing policy-relevant evidence, suggesting that RCTs have their place but should not dominate the discussion.

Most importantly, effects can seldom be consistently and conclusively attributed to aid flows, given that numerous other variables may have overlapping impacts that are difficult to disentangle. Various studies note the impossibility of conclusively establishing causality in evaluating aid effectiveness, even at the intervention level. Scholars studying aid are very aware of these issues; most studies and scholars explicitly acknowledge such problems.[7]

Clearly, the further one goes beyond concrete project outputs, the harder the evidence gathering and causation analysis becomes. Figure 3.4 seeks to illustrate this general rule, i.e. that the possibility of making meaningful generalisations depends on the scope of the research question and the size of the aid intervention being investigated (dark grey = very difficult; medium grey = difficult and potentially methodologically sensitive; light grey = possible but still challenging).

<table>
<tr><td colspan="2"></td><td colspan="4">Aid intervention</td></tr>
<tr><td colspan="2"></td><td>Aid to Africa</td><td>Health aid to Africa</td><td>A particular donor's health aid to a particular country</td><td>A particular health project</td></tr>
<tr><td rowspan="3">Research question</td><td>Does aid lead to development?</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Does aid improve health outcomes?</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Does aid reduce infant mortality in the short term?</td><td></td><td></td><td></td><td></td></tr>
</table>

Fig. 3.4 Making generalisations on the impact of aid: illustrative research questions versus scope of aid. *Source:* Authors

Broadening the discussion beyond establishing causality, one well-known paradox in the literature is the macro–micro paradox (first outlined by Mosley 1987). This paradox was essentially that while studies were generally in agreement about positive effects of aid at the micro level, studies in the late 1980s and 1990s (and beyond) found it difficult to show any systematic effect of aid on growth at a macro level. To some extent, with caveats, this has changed over the last 5–10 years with the majority of studies finding a macro-positive effect of aid on growth, albeit usually modest and under specific conditions, as we shall see below. A lesser discussed paradox (that may explain the macro–micro paradox to some extent) is that aid is generally needed most where it is least likely to be effective—in the very poorest countries and contexts.

Furthermore, aid's consequences (both positive and negative) usually go beyond those explicitly planned for or expected (see e.g. Newby 2010).

As with all policy and financial interventions, aid interventions could be judged not only against their stated objectives or 'vision of success' but also on any possible unintended consequences.

Riddell (2007) carried out a review of the evidence on the intended and unintended effects of aid, including at country level, and concluded that:

> While the quality of the information and data contained in these studies [donor studies of country impact] has certainly improved over time, with some notable exceptions… the overwhelming majority of these studies provide insufficient information from which to draw firm conclusions about aid impact at the country level – as most authors readily and explicitly acknowledge. (p. 214)

This is a good summary, and is one of the reasons why drawing conclusions about whether aid works or not has proven so difficult.

In terms of the type of evidence we used below—econometric studies—there are a set of issues beyond the general discussion above.

The literature on establishing causality from observational data is large in econometrics (see for example, Heckman 2008; Imbens and Wooldridge 2009 and in the context of aid, Chatelain and Ralf 2014; Deaton 2009; Roodman 2004, 2007, 2008).

It is useful to focus on the main problem in terms of establishing the unobserved counterfactual—what would have happened in the absence of aid? The fundamental problem being that we do not have experimental data (or quasi-experimental such as natural experiments) where you can observe the counterfactual (untreated) other than in the case of the few micro-questions where RCTs are plausible.

The issue of 'reverse causation' relates to the direction of the cause and effect. For example, countries with poor growth historically tend to get more aid.[8] Indeed, Brückner (2013) found that donors *do* tend to give less aid to faster growing countries and that can produce a negative correlation between growth and aid. A promising approach to deal with this is that of Galiani et al. (2014), who develop a novel way of addressing this endogeneity-of-aid question (that countries with poor growth histories tend to attract more aid). Galiani et al. ask what happens after countries pass the World Bank's International Development Association (IDA) threshold.[9]

Another credible paper is that of Werker et al. (2009) who test the aid-growth effect with oil price fluctuations (exogenously causing aid given by oil-exporting donors).[10]

Finally, there are a set of other issues relating to econometric studies that should be noted. These include that (1) that the econometric literature on aid and growth only studies one 'interactive term' at a time (aid × policy for example or aid × volatility) when in all likelihood more than one will be of importance to the aid and growth relationship[11]; (2) the magnitude of effect—even if the effect of aid is modest, theory suggests that it may be critical if it is, for instance, successfully addressing important market failures; (3) there are variables that affect both aid and growth to deal with (known as 'simultaneous causation'); (4) there are omitted variables (there may be a factor that is missing in the analysis); (5) mismeasurement (indicators used may be poor proxies for what they seek to measure); and (6) studies do not have the same dataset so when one compares, it is not comparing like with like in terms of countries and time periods and/or findings may be driven by outliers or fragile to the countries or time periods included in the dataset. One could also reiterate the broader questions of the judging of 'success' (see earlier discussion) and the identification of channels of the effect of aid (and thus policy implications) as more important than if aid works or not.

Bias

If the causality problem were not already enough of a barrier to drawing firm conclusions, there is also a problem of bias and institutional incentives. Many studies of aid are conducted or funded by aid agencies themselves as was the review work for this book. How have we dealt with this? In our review here we have tried to search and read the research evidence in a balanced way and report both positive and negative studies and most importantly make it clear exactly how we selected the studies we did (see below). We have also asked a number of reviewers to comment on earlier drafts and this book was peer reviewed in itself and in earlier versions as a Working Paper and an academic journal article (Sumner and Glennie 2015; Sumner and Glennie 2015).

To be clear—we are not suggesting that those conducting studies have given the agencies funding their work the answers they want to hear (although that may sometimes occur). Rather that there may be institutional incentives in donor organisations to evaluate only/mainly the direct/short-term effects of aid, in line with stated objectives, and potentially to find more positive results by taking a narrower focus. Ebrahim and Rangan (2010), for example, argue that donors can choose which results they set out to measure, thus implying what they are and aren't responsible for. This is not entirely unreasonable—donors aren't responsible for everything that happens—but it does allow a level of subjectivity to enter what would ideally be an impartial analysis.

For example, Faust (2008) notes that the field of evaluation tends to be highly focused at the technical and micro-analytical level, i.e. on inputs and outputs, taking insufficient account of broader societal effects, and that evaluators who depend financially on the donors they work for may be compromised in making fully impartial assessments.[12]

Our Approach in this Review

The most obvious response to this problem is to limit the scope of the research question i.e. not to ask whether aid works, but to ask whether particular types of aid achieve better-specified outcomes, and of course this is an approach that many have taken. In this book, we have largely focused on one specific objective: how aid affects growth, with sub-focuses on aid's impact on health, education, and poverty reduction. These seem to us to be the areas most amenable to the kind of cross-country review we are interested in, with sufficient evidence on which to base a discussion and make some generalisations with caveats.

But even with a more particular focus, the problems of causality and bias dog attempts to generalise about whether aid 'works' or not. We therefore take an approach to the evidence with the following research question in mind: When does aid work? A priori, then we are assuming that some aid interventions 'work' and others not and yet others have negative consequences that outweigh their positive impacts.

We focus on the last ten years of aid research (see next section for our reasoning), and look at cross-country, peer-reviewed, econometric studies (see Table 3.1) on the basis that one needs to have a reasonably large set of countries to make global-level generalisations (with caveats). This is not a systematic review but a literature review based on one database and one search engine and additionally the references within the papers generated in the search. All studies chosen fit a set of criteria outlined below. Thus the reader should note that we cannot guarantee that we have included every single study, although that was our intention (see Annex for list of studies used).

The review was conducted as follows: First, we searched Thomson Reuters Web of Science database for peer-reviewed journal papers for the time period of 1 January 2004 to present (the logic behind this cut-off date is explained in the following section). We also searched the search engine Google Scholar

Table 3.1 Search terms used and results

	Web of Science since 1 Jan 2004 (keywords in abstract and/or title and/or keywords listed)	*Google Scholar since 1 Jan 2010 (based on keywords in title)*
"aid" OR "foreign aid" OR "aid effectiveness" OR "ODA" OR "Official Development Assistance" OR "development aid" AND "economic growth" OR "growth"	487	212
"aid" OR "foreign aid" OR "aid effectiveness" OR "ODA" OR "Official Development Assistance" OR "development aid" AND "education"	190	228
"aid" OR "foreign aid" OR "aid effectiveness" OR "ODA" OR "Official Development Assistance" OR "development aid" AND "health"	109	115
"aid" OR "foreign aid" OR "aid effectiveness" OR "ODA" OR "Official Development Assistance" OR "development aid" AND "poverty"	166	259

from 1 January 2010 to capture working papers that are not yet in academic journals (under the assumption that it can take up five years for papers to reach journals—it can take even longer but five years is reasonable and manageable). The search was based on a set of keywords (see Table 3.1).

Second, we selected studies from the long list of studies that met five criteria:

1. Addresses one or more of the research questions: Does aid work or not? Or when does aid work or not? Or when is aid more likely to work or not?
2. Has an empirical basis that entails global coverage of developing countries (not just a smaller sub-set of countries or coverage of one or two regions).
3. Uses econometric methodology.
4. Was published following peer review (in a journal or as a working paper).
5. Is available in English.

Third, we also reviewed studies cited within the selected studies from the search if they met the criteria (even if they did not appear in the original search results).

The search process in its entirety generated a set of 72 papers that met the criteria. Of these:

- 49 of these papers were on aid and growth and 29 of these papers related to conditions under which aid is more likely to work or not.
- 6 papers were on aid and education.
- 11 papers were on aid and health.
- 6 papers were on aid and income poverty.

Within the papers there was some overlap where a paper addressed more than one social development dimension and/or growth.

In this way we hope to present credible evidence upon which to build some generalisations with caveats. It is important to reiterate that the findings of studies we use are sensitive to their methodological specification (as are all studies) and as such there is no absolute guarantee of quality through peer review. But peer-reviewed is as good as it gets, especially if the paper is in a reputable academic journal.

Next, given the amount of sometimes contradictory evidence even in this more limited area of research evidence, our approach is to seek out where the evidence converges. We argue that where there appears to be some kind of convergence (broadly defined) we can be reasonably confident about making generalisations. When all or the large majority of evidence points in a particular direction, some 'dos and don'ts' of aid can be made—not unchallengeable, but with a fairly strong body of evidence behind them. By the same token, where there is divergence in the evidence, we argue that we cannot make such generalisations, and should adopt caution. Any claims of certainty should be treated with care, especially when they go beyond very localised and specific project analyses—this is a social science after all and not physical science in a controlled laboratory.

Notes

1. According to OECD-Development Assistance Committee (DAC) (2014: 3), concessional development finance in 2012 for DAC plus other reporting countries was $133.4bn and non-reporting countries was a further $5.1bn making $138.5bn. One problem which illustrates some

of the discussion in this section is that ODA aid figures exclude NGO (Non-Governmental Organisation) and foundation aid except that which is funded by ODA.

2. See also Riddell (2007, 2014).
3. As we explain later, we define 'aid' as ODA on the basis that it accounts for the overwhelming majority of aid.
4. Further, the data used—net ODA—includes emergency/humanitarian aid which is likely to be proportionally more important in fragile and conflict-affected states.
5. Take for example, Dutch disease (aid inflows lead to exchange rate depreciation and loss of competitiveness and falling export earnings, possibly outweighing the aid inflow in value). Dutch disease can be misleading as it is very static (economies move around a given production possibility frontier between tradables and non-tradables). Aid is rather about investments that move the frontier out over time. Further, the evidence on the existence of Dutch disease is very mixed and will depend on the level of aid, the host economy, and so forth. If aid is invested in reducing transactions costs (e.g. better roads), health and education (e.g. better human capital), then it becomes cheaper to produce (per unit); then any appreciation of the exchange rate matters less so (and in any case will tend to occur as economies grow). Selaya and Thiele (2010) find no empirical support for the idea that aid tends to encourage Dutch disease. However, Rajan and Subramanian (2011) do find substantial Dutch disease effects of aid.
6. Here we discuss these issues in a general sense—later in the book we refer specifically to econometrics.
7. See later discussion on this with reference to econometrics.
8. Poorer countries tend to get more aid per capita and this "allocation effect' tends to bias estimates of aid's impact in a negative direction (Dalgaard and Hansen 2009). The standard practice (other than randomised controlled trials) is to use instrumental variable regressions in an attempt to identify exogenous variation in aid, and hence be able to infer a causal effect of aid (see discussion of Bazzi and Clemens 2013). See also Carter (2014) for discussion of the standard empirical methods employed in the study of foreign aid and the potential for misleading results concerning the object of interest—the long-run impact of aid.
9. They find that crossing the IDA threshold slows growth and that is likely due to aid. Once this is taken into account, they find with a sample of just 35 countries that after passing the threshold, every 1 % of aid/GNI raises income per person by a third of a percentage point. A further promising approach is that by Temple and Van de Sijpe (2014).

10. They find a positive effect that is only statistically significant at the 10% level, and is only externally valid for countries that receive aid from major oil exporters.
11. Thanks to Mark McGillivray for this observation (and others).
12. See also Pawson (2006) and White (1992).

References

Bazzi, S., & Clemens, M. A. (2013). Blunt instruments: Avoiding common pitfalls in identifying the causes of economic growth. *American Economic Journal: Macroeconomics, American Economic Association, 5*(2), 152–186.

Brückner, M. (2013). On the simultaneity problem in the aid and growth debate. *Journal of Applied Econometrics, 28*(1), 126–150.

Carter, P. (2014). Aid regressions when agents optimize. Mimeo.

Chatelain, J., & Ralf, K. (2014). Spurious regressions and near-multicollinearity, with an application to aid, policies and growth. *Journal of Macroeconomics, 39*, 85–96.

Cassen, R. and Associates (1986). Does aid work? Oxford: OUP.

Dalgaard, C-J., & Hansen, H. (2009). Evaluating aid effectiveness in the aggregate: Methodological issues. Evaluation Study. Ministry of Foreign Affairs of Denmark.

Deaton, A. (2009). Instruments of development: Randomization in the tropics, and the search for the elusive keys to economic development. NBER Working Paper Series. Working Paper 14690. Cambridge MA: National Bureau of Economic Research.

Ebrahim, A., & Rangan, V. (2010). The limits of nonprofit impact: A contingency framework for measuring social performance. HBS Working Paper Number: 10–099. http://hbswk.hbs.edu/item/6439.html. Accessed 18 Sept 2014.

Faust, J. (2008). Are more democratic donor countries more development oriented? : Domestic institutions and external development promotion in OECD countries. *World Development, 36*(3), 383–398.

Galiani, S., Knack, S., Xu, C., & Zou. B. (2014). The effect of aid on growth: Evidence from a quasi-experiment. World Bank Policy Research Working Paper Series 6865. Washington DC: The World Bank.

Glennie, J. and Sumner, A. (2014b). The $138.5 Billion Question: When Does Foreign Aid Work (and When Doesn't It)?. CGD Policy Paper 49. Washington DC: Center for Global Development.

Heckman, J. (2008). Econometric causality. *International Statistical Review, International Statistical Institute, 76*(1), 1–27.

Imbens, G. W., & Wooldridge, J. M. (2009). Recent developments in the econometrics of program evaluation. *Journal of Economic Literature, 47*(1), 5–86.

Mosley, P. (1987). *Overseas aid: Its defence and reform*. Brighton: Wheatsheaf.

Newby, T. (2010). Unintended effects of development aid – A brief overview. DIIS Working Paper 2010:06, Copenhagen: Danish Institute for International Studies.

OECD-DAC (2014). Non-DAC countries and the debate on measuring post-2015 development finance. Paper for DAC Meeting, 10 February 2014.
Pawson, R. (2006). *Evidence-based policy: A realist perspective.* Thousand Oaks, CA: Sage.
Qian, N. (2014). Making progress on foreign aid. Annual Review of Economic *3.* In Press.
Rajan, R. G., & Subramanian, A. (2011). Aid, Dutch disease, and manufacturing growth. *Journal of Development Economics, 94*(1), 106–118.
Ramalingam, B., Jones, H., Reba, T., & Young, J. (2008). *Exploring the science of complexity: Ideas and implications for development and humanitarian efforts.* London: Overseas Development Institute.
Riddell, R. (2014). Does foreign aid really work? Background paper to keynote address to the Australasian Aid and International Development Workshop, Canberra.
Riddell, R. (2007). *Does foreign aid really work?* Oxford: Oxford University Press.
Riddell, R. (1987). *Foreign aid reconsidered.* Baltimore: Johns Hopkins University Press.
Roodman, D. (2004). *The anarchy of numbers: Aid, development, and cross-country empirics.* Washington, DC: Center for Global Development.
Roodman, D. (2007). The anarchy of numbers: Aid, development, and cross-country empirics. *World Bank Economic Review, 21*(2), 255–277.
Roodman, D. (2008). Through the looking glass, and what OLS found there: On growth, foreign aid, and reverse causality. Center for Global Development Working Paper Number 137. Washington DC: CGD.
Selaya, P., & Thiele, R. (2010). Aid and sectoral growth: Evidence from panel data. *Journal of Development Studies, 46*(10), 1749–1766.
Sumner, A. and Glennie, J. (2015b) Growth, Poverty and Development Assistance: When Does Foreign Aid Work? Global Policy. 6(3): 201-211.
Temple, J. R. W, & Van de Sijpe, N. (2014). Foreign aid and domestic absorption. CSAE Working Paper Series 2014–01, Oxford: Centre for the Study of African Economies, University of Oxford.
Werker, E., Ahmed, F. Z., & Cohen, C. (2009). How is foreign aid spent? Evidence from a natural experiment. *American Economic Journal: Macroeconomics, 1*, 25–244.
White, H. (1992). The macroeconomic impact of development aid: A critical survey. *Journal of Development Studies, 28*(2), 163–240.
World Bank. (2014). *World development indicators.* Washington, DC: World Bank.

CHAPTER 4

Aid, Growth, and Poverty: An Empirical Review of Cross-country Research

Abstract This chapter reviews empirical, cross-country studies of aid effectiveness. We consider aid and growth and aid and social development and identify areas of convergence and divergence in the literature

Keywords Aid • foreign aid • aid effectiveness • Official Development Assistance • ODA • development aid

Aid and Growth: Earlier Generations of Study

The largest body of cross-country literature on the impact of aid is about the relationship between aid and economic growth. Critiques of income-based measures as proxies for development are long-running and indeed formed much of the basis for the emergence of the 'human development' perspective and greater interest in progress on the 'ends' of development such as education, health, and nutrition (e.g. Seers 1972; Sen 1999; Streeten 1980; Stewart 1985). Nevertheless, income is important in measurements of human development as an indirect indicator of other capabilities, and growth generates resources that can then be used for social spending on human development.

A prevailing perception is that the aid and growth academic research is contradictory. This has certainly been the case in some past periods. However, an important trend has emerged over the last few years, namely that many more studies than not report that aid *does* contribute to growth in general, albeit *modestly*. This may represent a convergence in the academic literature that has the potential to move the debate forward.

J. Glennie, A. Sumner, *Aid, Growth and Poverty*,
DOI 10.1057/978-1-137-57272-1_4

One reason that findings on aid and growth have, in the past, been contradictory is that the body of research has evolved (or oscillated) as more and better data have become available and as methodological techniques in econometrics have evolved. The result is that the current state-of-the-art builds on several 'generations' of aid studies which were framed by the prevailing methodologies used and datasets available at the time of publication.

The various 'generations' of aid studies are laid out in Arndt et al. (2010) (see also the earlier review of McGillivray et al. 2006). Here we detail the main contours of each 'generation'.[1]

First generation studies, in the 1970s, focused on the extent to which aid increases savings and investment in recipient countries. Second generation studies, in the 1980s and early 1990s, focused on the impact of aid on growth via investment. Hansen and Tarp (2000) note that first generation studies generally concluded that aid does increase total savings and second generation studies consistently indicate a positive link between aid and investment. In all of the 131 studies reviewed by Hansen and Tarp (2000), aid led to an increase in investment. In only one study was the positive inflow of aid outweighed by a negative impact on domestic savings (in Gupta and Islam 1983) and only one out of 131 studies showed a negative impact of aid on growth (in Mosley 1987). In short, only two of 131 studies were negative about the impact of aid.

A third generation of more than 60 studies followed from the mid-1990s as much better data became available, which meant that studies could look at changes across and within countries. New theories of economic growth were incorporated and the aid-growth relationship was explored as potentially non-linear. Studies also incorporated institutions and new econometric methods. In terms of findings, one might call these a more mixed generation of studies than previous generations. In total, Stockemer et al. (2011) identify this generation as 'the conditionality literature' with three iterations: (a) a 'good policy model'—aid works if the recipient government has 'good' policies (e.g. Burnside and Dollar 2000, 2004; Collier and Dollar 2002); (b) a 'medicine model'—aid works in the correct dosage but is ineffective if too high or too low (e.g. Collier and Hoeffler 2004; Dalgaard et al. 2004)[2]; and (c) an 'institutions model'—aid works if the 'right' institutions are in place.

On the positive side, Hadjimichael et al. (1995), and Lensink and White (2001) found aid and growth had a positive association. However, the issue of diminishing returns was noted (e.g. Lensink and White 2001; Dalgaard et al. 2004). On the negative side Boone (1994, 1996), focusing on aid, policies, and growth found that aid did *not* have a positive impact on growth.

Burnside and Dollar (2000, 2004) argued that aid works in 'good' economic policy contexts (meaning orthodox fiscal, monetary, and trade policies).[3] That aid always works in good policy environments was strongly rejected by a range of studies even though those studies did find that aid has stimulated growth (e.g. Easterly et al. 2004; Hansen and Tarp 2001).

Many studies in this generation have question marks over them due to the fragility of findings. Roodman (2004, 2007) tested seven well-cited aid and growth studies and found that all results were fragile, particularly in relation to sample expansion, as well as different definitions of aid, different time periods, and other factors (those studies found to have fragile results were as follows: Burnside and Dollar 2004; Collier and Dehn 2001; Collier and Dollar 2002, 2004; Collier and Hoeffler 2004; Dalgaard et al. 2004; Guillaumont and Chauvet 2001; Hansen and Tarp 2001).

This generation of literature was inconclusive in identifying conditions (such as policy) under which aid stimulates growth, and whether aid per se results in more growth than would be the case without aid. The lasting impact of this generation has been the incorporation of attempts to capture or test the importance of the policies of national governments on the impact of aid, among other factors.

Aid and Growth: Studies Since 2004

There is a fourth or current generation of studies which we date from 2004 and onwards. Of course any cut-off is going to be somewhat arbitrary. One could also argue that the biggest turning point in the literature on aid effectiveness was the 1997 publication of the World Bank working paper by Burnside and Dollar (2000) or Dollar and Pritchett's (1998) Assessing Aid. Others such as UNU-WIDER (2014a) date this generation to 2008 due to the Rajan and Subramanian (2008) study that extended the study of aid and growth to consider the long-run effects of aid (up to 40 years) and found no positive effect of aid overall across different types of aid and time periods.

We have dated this generation to 2004 on the basis that Clemens et al. (2004) was published that year. That study is, as Dalgaard and Hansen (2010, p. 38) concur, the study that 'pioneered the examination of disaggregated aid in a cross-country setting[s]' and that issue of disaggregating aid became an important feature of this fourth generation of studies.

We discuss those post-2004 studies as they relate largely to conditions under which aid is more likely to work. Before, we discuss the well-known studies to illustrate the balance of opinion.

The importance of the Clemens et al. study was cemented in its final journal version (Clemens et al. 2012) which carried out a re-analysis of the data from the Rajan and Subramanian (2008) study and two other influential (by citation scores) aid-growth studies (Boone 1996; Burnside and Dollar 2000, 2004). Clemens et al. (2012) convincingly link existing disagreements on aid and growth studies to a time lag issue (aid takes time to impact on growth) as well as types of aid. In so doing they reconcile the three most cited aid-growth studies that formerly were considered as having conflicted findings.

Clemens et al. (2012) offered two reasons for the previous disagreements in aid econometrics. First, research measured the effect of aid on contemporary growth whereas most aid-funded projects may take quite some time to influence growth (they use examples of road building or vaccination programmes). They note that the impact of health and education aid are difficult to discern and may impact over the *very* long term.[4]

Second, current growth will affect current aid and this leads to the question of whether one is looking at correlation or causation. Clemens et al. note:

> There is one broad finding from the regression specifications used in all of these studies: aid inflows are systematically associated with modest, positive subsequent growth in cross-country panel data. The principal reasons that other studies have not observed this relationship are that they tested for aid effects within an inappropriate time horizon, relied too much on weak or invalid instrumental variables and looked at historical time series that were too short. Most of the substantial disagreements in the literature's most influential studies disappear when aid is allowed to affect growth with a lag, when only portions of aid relevant to short-term growth are tested for short-term growth effects and when the historical time series under observation is extended to include all available data.—(2012, pp. 612–613)

In a somewhat similar vein, Minoiu and Reddy (2010) separate types of aid and incorporate time horizons and find the impact of aid on growth positive when one separates 'developmental aid' (aid which seeks to promote economic growth or other development objectives) and 'non-developmental aid' (all other aid) and allow for the effect of aid on growth to occur over long periods. They find that developmental aid has a large, positive effect on growth and non-developmental aid is mostly 'growth neutral' and occasionally negative in terms of growth impact.

Such findings are consistent with the review by UNU-WIDER of ten post-2008 peer-reviewed studies on aid and growth. UNU-WIDER takes 16 estimates from comparable models in those ten papers that:

> (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 [meaning that aid flows could go to countries doing badly or well creating spurious correlations between aid and growth]; and (iv) are accepted in a peer-reviewed economics journal since 2008.—(2014a, p. 10)

The UNU-WIDER (2014a) exercise finds that the effect of aid on growth is positive in all but two of the 16 estimates and there is a statistically significant average effect across the set of studies.[5] The two studies that do not find the positive effect of aid are: (1) Nowak-Lehmann et al. (2012), who conclude that aid has an insignificant or minute impact on per capita income. However, this study has been called into question by a further peer review study, Lof et al. (2014) which, using the same data and a different approach, finds a positive and statistically significant long-run effect of aid on income; and (2) Herzer and Morrissey (2013) who argue that the effect of aid on GDP depends on a trade-off which is country-specific, i.e. that aid has a direct positive effect through financing investment but this can be outweighed by an indirect productivity effect if aid exacerbates growth-retarding factors such as poor governance. They conclude that insofar as aid is used to finance investment, the overall effect on output may therefore be positive and that cross-country differences can be explained by differences in law and order, religious tensions, and government size.

In sum, the primary finding of this fourth generation of papers is that aid does—on average—contribute to economic growth and increased per capita income, *but* generally in the longer run and often only modestly. If one assesses aid over a *short* time horizon, its effects on growth and other macroeconomic indicators are variable and sometimes negative. Even important achievements in one sector might not have immediately positive impacts on the economy; for instance, it is possible that the initial impacts of disease eradication on per capita income may be negative due to increases in population and dependency ratios (Acemoglu and Johnson 2007). The lasting impact of this generation of aid studies has been to emphasise these time lags and cumulative effects of aid.[6]

One paper worth noting is Mekasha and Tarp (2013), who conduct a 'meta-analysis' of 68 published studies. This meta-analysis seeks to take the body of existing empirical literature and assess whether the effect of aid on growth is significant and genuine, meaning not produced by 'publication bias' due to authors' propensity not to publish negative studies or to play down negative results. This is the claim of a previous meta-analysis of the same 68 studies by Doucouliagos and Paldam (2008 and see also 2006, 2009, 2010, and 2011) which argued that the literature had failed to show a positive and statistically significant effect of aid on growth. As Temple (2010, pp. 4506–7) notes, there may be a counter bias at work as journals want to publish studies that say aid doesn't work because of the interest in counter-intuitive or surprising research findings.

Mekasha and Tarp (2013) conclude that the accumulated empirical evidence shows that aid has had a positive and significant impact on growth on average. They argue that Doucouliagos and Paldam's findings were due to inappropriate measurement and weighing of the average effect of aid (as well as errors in data entry and coding).

Before concluding that the debate is closed on aid and growth, it is important to remember the caveats one ought to place on growth regressions as noted earlier. And because of such issues, Roodman (2014) disputes Clemens et al. (2012). However, the critique is replied to by two of the authors of the Clemens et al. study, in Bazzi and Bhavnani (2014) who replicate his analysis and reveal that Roodman's null results arise spuriously, from running regressions that by design have no power to reject the null.

In a similar vein, Doucouliagos and Paldam (forthcoming 2015) dispute Mekasha and Tarp's meta-analysis (2013) but do note that the small positive effect of aid on growth in the average study is real but a consequence of the 'publication selection bias'. Further, Chatelain and Ralf (2014) argue that findings are fragile or spurious to outliers, or the impact of aid is close to zero.

Nevertheless, the assertion that aid generally contributes to economic growth, while not proven beyond doubt, is now less contentious in the academic literature than is currently recognised in public policy debate. That is not to say that there is an absolute consensus, or that there are not important unresolved questions that would need addressing to claim unequivocal proof, but that aid's critics are currently in the academic minority.

Aid and Social Development

Next, we turn to aid and social development. In this section, we take a cut-off as 2004 for consistency with the previous discussion on aid and growth. We define social development as education, health, and poverty reduction. Here we discuss the studies that were part of our literature review.

As with the aid and growth literature, there is some convergence in cross-country studies on the positive impact of aid on social sectors, although generalisations are complicated by three factors:

- There are far fewer cross-country studies.
- The quality and longevity of social data is weaker.
- ODA (Official Developemnt Assistance) has focused on health in LICs (Low Income Country) but on education in MICs (Middle Income Country), which affects findings (Baulch and Vi An Tam 2013).

The net result of the above factors is that claims to any convergence in social sector studies are not going to be as evident as with aid and growth. There are two studies in recent years which are particularly worth discussing.[7]

First, Arndt et al. (2014) show in a cross-country study that aid has reduced poverty across a range of social indicators. They find that an annual average aid inflow of 5 % of GDP would be expected to increase growth by 1.5 %, reduce poverty by 9 %, raise schooling by 1.4 %, raise life expectancy by four years, and reduce the infant mortality rate (IMR) by 20 in every 1000 births. Second, Hirano and Otsubo (2014) find that aid in social sectors (education, health, and water and sanitation spending) directly and significantly benefits the poorest and aid in economic sectors (transportation, energy and communications, and financial infrastructure) increases the incomes of the poor via growth. Further, they find strong evidence that aid reduces inequality which is of importance because the impact of aid on inequality mediates the impact on monetary poverty (and perhaps could be seen as a parallel to how Dutch disease or growth-retarding factors such as poor governance noted by Herzer and Morrissey may mediate the impact of aid on growth).

Table 4.1 shows other studies for education, health, and poverty. It suggests more convergence on education and in monetary poverty than in health. However, given the very limited number of cross-country studies it is harder to come to any definitive declarations in this area than it is with economic growth.

Table 4.1 Studies of education, health and poverty, and aid impacts

Sector	*Positive impact of aid found*	*No impact/negative impact/ mixed impact of aid found*
Education	Arndt et al. (2014) find that aid has a causal effect on average years of schooling, and secondary schooling in particular and that an average annual aid inflow of 5 % of GDP over the period of 1970–2007 would be expected to augment average schooling by 2.8 years.	
	Birchler and Michaelowa (2013) show that education aid has a modest impact on primary school enrolment.	
	Christensen et al. (2011) find that bilateral education aid related to primary education has a modest impact on primary school enrolments.	
	d'Aiglepierre and Wagner (2013) find that aid for primary education has a strong positive effect on primary school enrolments (and gender parity). Diminishing returns also reported. Governance variable did not have an impact.	
	Dreher et al. (2008) show aid for education increases primary school enrolment but by modest amount. There is no significant impact of governance or democracy.	
	McGillivray et al. (2011) find that aid improves education (primary education completion), though more so for better-off consumption groups than the poorest.	

Sector	*Positive impact of aid found*	*No impact/negative impact/ mixed impact of aid found*
Health	Afridi and Ventelou (2013) find that health aid reduces adult mortality.	Masud and Yontcheva (2005) find that bilateral aid does not reduce infant mortality but that NGO aid does.
	Arndt et al. (2014) find that an average annual aid inflow of 5% of GDP over the period of 1970–2007 would be expected to reduce the IMR by 14 in every 1000 births.	Mukherjee and Kizhakethalackal (2013) find that the overall effect of health aid on infant mortality is not significant overall, but health aid reduces infant mortality rates only after a threshold in education has been reached.
	Chauvet et al. (2013) find that health aid significantly reduces child and infant mortality.	Wilson (2011) finds no effect of health aid on infant or child mortality.
	Gomanee et al. (2005) find that aid contributes to reducing infant mortality and improving the Human Development Index and aid is more effective in countries with lower levels of human development.	Williamson (2008) finds that health aid is ineffective at improving child mortality and other health indicators.
	Kizhakethalackal et al. (2013) find that multilateral health aid reduces infant mortality but loses its effectiveness in countries with high infant mortalities.	
	McGillivray et al. (2011) find that aid improves child mortality, though more so for better-off consumption groups than the poorest groups.	
	Mishra and Newhouse (2009) find that health aid has a small beneficial effect on infant mortality and that doubling per capita health aid is associated with a 2 % reduction in infant mortality.	

(*continued*)

Table 4.1 (continued)

Sector	*Positive impact of aid found*	*No impact/negative impact/ mixed impact of aid found*
Income/ expenditure poverty	Alvi and Senbeta (2012) find that aid inflows reduce the \$1/day poverty headcount and poverty gap. Further, multilateral aid and grants reduce poverty but bilateral aid and loans do not.	Chong et al. (2009) find no effect of aid on poverty headcount or poverty severity.
	Arndt et al. (2014) find that aid reduces \$1.25 and \$2 poverty (2005 PPP) and show an average annual aid inflow of 5 % of GDP over the period of 1970–2007 would be expected to reduce \$1.25/day (2005 PPP) poverty by 15 percentage points.	
	Hirano and Otsubo (2014) find that aid in social sectors (education, health, and water and sanitation spending) directly and significantly benefits the poorest and aid in economic sectors (transportation, energy and communications, and financial infrastructure) increases the incomes of the poor via growth.	
	Kaya et al. (2013) find a significant relationship between agricultural aid and \$1/day poverty reduction.	
	Mosley et al. (2004) find that a combination of growth, public spending priorities, inequality, and corruption determine the effectiveness of aid in reducing \$1/day poverty.	

Source: Authors

All six studies on aid's effect on education outcomes are positive, albeit modestly so (see Table 4.1). However, cross-country studies of health are somewhat more mixed and this may relate to the number of inputs that impact on health versus the arguably less complex area of school enrolments or even school completion. Seven of the available eleven health and aid studies suggest that aid has positive outcomes. Four studies are mixed or negative. Finally, on monetary poverty and aid there are six studies of which five are positive about the effect of aid on poverty.

Studies in education find that aid in the education sector has contributed to increased school enrolments and completion rates, albeit modestly: Arndt et al. (2014) find that aid has a causal effect on average years of schooling, and secondary schooling in particular and that an average annual aid inflow of 5 % of GDP over the period of 1970–2007 would be expected to augment average schooling by 2.8 years. Birchler and Michaelowa (2013) show that education aid has a modest impact on primary school enrolment. Christensen et al. (2011) find that bilateral education aid related to primary education has a modest impact related to improved primary school enrolments. D'Aiglepierre and Wagner (2013) find that aid for primary education has a strong positive effect on primary school enrolments (and gender parity). Diminishing returns are also reported. Dreher et al. (2008) show that aid for education increases primary school enrolment but by a modest amount. And McGillivray et al. (2011) find that aid improves education (primary education completion), though more so for better-off consumption groups than the poorest.

In health, seven studies identified find that health and aid have a positive association. Afridi and Ventelou (2013) find that health aid reduces adult mortality. Arndt et al. (2014) find that an average annual aid inflow of 5 % of GDP over the period of 1970–2007 would be expected to reduce the IMR by 14 in every 1000 births. Chauvet et al. (2013) find that health aid significantly reduces child and infant mortality. Gomanee et al. (2005) find that aid contributes to reducing infant mortality (and improving the Human Development Index) and aid is more effective in countries with lower levels of human development. Kizhakethalackal et al. (2013) find that multilateral health aid reduces infant mortality but loses its effectiveness in countries with high infant mortalities. McGillivray et al. (2011) find that aid improves child mortality, though more so for better-off groups than the poorest. And Mishra and Newhouse (2009) find that health aid has a small beneficial effect on infant mortality and that doubling per capita health aid is associated with a 2 % reduction in infant mortality.

Masud and Yontcheva (2005) find that bilateral aid does not reduce infant mortality, but that NGO aid does. Mukherjee and Kizhakethalackal (2013) find that the overall effect of health aid on infant mortality is not significant overall but health aid reduces infant mortality rates only after a threshold in education has been reached. Wilson (2011) finds no effect of health aid on infant or child mortality. And Williamson (2008) finds that health aid is ineffective at improving child mortality and other health indicators.

Finally, on monetary poverty five studies are positive about the effect of aid on poverty: Alvi and Senbeta (2012) find aid inflow reduces the $1/day poverty headcount and poverty gap. Further, multilateral aid and grants reduce poverty but bilateral aid and loans do not. Arndt et al. (2014) find that aid reduces $1.25 and $2 poverty (2005 Purchasing Power Parity (PPP)) and show an average annual aid inflow of 5 % of GDP over the period of 1970–2007 would be expected to reduce $1.25/day (2005 PPP) poverty by 15 percentage points. Hirano and Otsubo (2014) find that aid in social sectors (education, health, and water and sanitation spending) directly and significantly benefits the poorest and aid in economic sectors (transportation, energy and communications, and financial infrastructure) increases the incomes of the poor via growth. Kaya et al. (2013) find a significant relationship between agricultural aid and $1/day poverty reduction. Mosley et al. (2004) find that a combination of growth, public spending priorities, inequality, and corruption determines the effectiveness of aid in reducing $1/day poverty. However, Chong et al. (2009) find no effect of aid on poverty headcount or poverty severity.

What is there to conclude from this small set of studies? The number of studies that find aid isn't effective is in the minority, but given the relatively few studies it is difficult to sustain definitive statements.

Summary

We have reviewed the last ten years of peer-reviewed cross-country analyses on the impacts of aid on first growth and then social development, namely education, health, and poverty reduction. In the first case, there is more convergence today than previously that aid has positive impacts on growth on average, albeit modest. With regard to the social sectors there are relatively few studies so caution is required other than to say that the cross-country education aid studies are positive, as are studies on income poverty (bar one) and that health aid studies are somewhat more mixed overall, although most are positive. What is worth noting is that even the smallish number of studies that do exist point towards the need to separate types of aid and types of country context.

The findings, particularly with regard to aid and growth, are worth reflecting on. They imply that the decades-old discussion about aid and growth is, at least for now, somewhat in abeyance, with the optimists holding the upper hand with regard to the evidence, albeit with one big qualification, namely that the contribution of aid to growth is modest. It seems that this latest evidence has yet to percolate into public discourse, which is still somewhat dominated by the binary yes/no debate.

However, here we must return to our caveats. At the outset we suggested a cautionary approach to this body of evidence and we maintain that it is necessary here—even if there is more agreement than in previous generations of studies, the problems with the evidence base remain and statements such as 'aid supports economic growth/social development' remain problematic. We would argue that it is better to say that aid *can* support growth and social progress, and then to consider the conditions under which that is most likely. This is precisely the question to which we turn in the following section, focusing only on aid and growth studies due to the limited number of studies we found that are related to social development.

When Is Aid Most Likely to Work?

We have looked at studies of the effects of aid on economic growth and social development and we have suggested that insofar as it is sensible to generalise at all, the evidence implies overall a positive relationship, albeit modest, between aid and growth at least, and too little cross-country evidence on social development to make generalisations. In this section we focus solely on growth and aid because of the paucity of studies of the impact of aid on social development that meet our criteria.

As we noted previously, recent generations of aid and growth studies point towards a set of conditions as to when aid is *most likely* to work. Radelet (2006, p. 11) sums this up when he states that aid has 'a *conditional* relationship with growth, helping to accelerate growth under certain circumstances'. He identifies three subcategories whereby aid's impact on growth depends on 'the characteristics of the recipient country, the practices and procedures of the donors, or the type of activity that the aid supports'.

Integrating more recent evidence and reordering somewhat, we argue that these categories can be reduced to two:

First, country context—meaning specifically:

- The characteristics of the host economy—e.g. human development levels, aid levels, financial development levels, or the governance context (political stability, quality of democracy, decentralisation, and so forth).
- The national government's policies—e.g. the role of complementary government policies such as the level of social spending or macroeconomic policies pursued.

Second, aid management—meaning specifically:

- The characteristics of aid—including the type of aid (for example, modality or sector) and aid governance, such as donor and recipient policies and approaches (this is potentially where much of the Paris/Busan agenda is relevant).

Not all these factors will matter in every situation of course and it is also essential to note that many studies suggest that one of the areas or sub-areas is the relevant one and that the other areas are largely irrelevant. Our purpose here is best illustrated in Table 4.2 where we have applied this approach to the aid and growth literature to illustrate how it can be divided into areas where there are (a) areas with convergence and (b) areas with little or no convergence or simply insufficient evidence to make any judgement. There are a number of areas one might expect to read about in a discussion of aid effectiveness (e.g. aid transparency), but if such themes are absent, it is because there is no evidence of the type used in our review (i.e. peer-reviewed, cross-country studies) upon which to build a judgement.

In each of these areas we consider whether there are signs of convergence or divergence/insufficient studies to make a judgement. We define these as follows:

- Signs of convergence: multiple studies converge on a broad area being of importance to when aid is effective in encouraging growth.
- Signs of divergence: insufficient studies to make any judgement or multiple studies on a broad area with substantial disagreements.

Table 4.2 Summary of the conditions that are supportive to aid effectiveness for economic growth

Conditions	*Signs of convergence?*	*Signs of divergence or too little evidence to form judgement?*
Country context		
1a. Characteristics of the host economy	*Levels of aid (six studies):* Aid is more effective if it is not too low and not too high as a proportion of GDP or GNI. *Domestic political institutions (five studies):* Aid effectiveness is determined by domestic political institutions in recipient countries.	
1b. The recipient government's policies		*Macroeconomic policies (seven studies):* Certain macroeconomic policies make aid more effective.
Aid management		
Characteristics of aid and policies governing it	*Aid composition (eight studies):* The effectiveness of aid depends on what the aid is intended for. *Aid volatility and fragmentation (8 studies):* Aid effectiveness is improved if aid is stable. Aid effectiveness is diminished by the presence of multiple donors in a given country.	*Grants or loans (two studies):* Aid is more effective if grant-based.

Source: Authors

Note: Some studies cover more than one issue

We recognise that this categorisation has an element of authors' subjectivity and so the purpose here is not to take the categorisation as absolute but to order studies in a useful way to inform discussion and map the literature.

Areas with Signs of Convergence

Country Context

One area of convergence regarding aid effectiveness in supporting growth is that it depends to a very large extent on the country context of the recipient, i.e. the characteristics of the recipient country and national government policies. There are two areas in particular where there are signs of a convergence: existing levels of aid and domestic political institutions. In contrast, there are no evident signs of convergence in the areas of macroeconomic policies. The following points outline the evidence on each:

Levels of aid: aid is more effective if it is not too low and not too high as a proportion of GNI or GDP.[8]

Some studies identify minimum thresholds for aid to be effective:

- Gyimah-Brempong et al. (2012) find a negative partial growth effect of aid at low levels of aid but a positive effect when the ratio of aid-to-GNI reaches a threshold of between 6.6 and 14.4 %.
- Kalyvitis et al. (2012) find that ratio of aid-to-GDP should exceed 3.4 % of a recipient's GDP to boost growth.
- Wagner (2014) finds for countries with higher levels of macroeconomic vulnerability, that the marginal impact of aid is zero or negative until an aid-to-GDP ratio of 2 %, at which point marginal returns become positive and the impact of aid on growth increases as aid rises up to an aid-to-GDP ratio of 12 %, after which marginal returns to aid become negative.

Other studies identify a maximum threshold level for aid to be effective:

- Alvi et al. (2008) find that aid is not effective above an aid-to-GDP ratio of 4%.
- Clemens et al. (2012) place the inflection point of decreasing returns at an aid-to-GDP ratio of 15–25%.
- Islam (2005) finds that the returns to aid become negative at higher levels of aid inflows; in particular, the 'turning point' is at an aid-to-GDP ratio of 5.8%.
- Wagner (2014) finds that for countries with a low level of macroeconomic vulnerability, aid has a significant impact on growth and the marginal effectiveness of growth rapidly diminishes and becomes negative as the ratio of aid-to-GDP rises above 2 %.

Institutions: aid effectiveness is determined by domestic political institutions.

Studies focus on various aspects of political institutions:

- Angeles and Neanidis (2009) find that aid is less effective for GDP per capita growth if there is a local elite with extensive political and economic power that has little concern for the rest of the population.

- Baliamoune-Lutz and Mavrotas (2009) find strong evidence that social capital and institutions enhance aid effectiveness.
- Dovern and Nunnenkamp (2007) surprisingly, find that aid is more effective in badly governed recipient countries.
- Islam (2005) finds that aid is only effective in a politically stable environment and is ineffective in an unstable environment.
- Lessmann and Markwardt (2012) find that aid contributes to growth in centralised developing countries and is less effective or even harmful in decentralised countries.

Aid Management
Turning next to aid management, there is some kind of convergence in these areas: aid composition, aid volatility, and fragmentation. In contrast, there is no convergence when it comes to the question of grants versus loans. The following points outline the evidence on each:

Composition: the effectiveness of aid depends on what the aid is intended for. Studies focus on objectives, sectors, modalities, and time horizons of aid:

- Annen and Kosempel (2009) find that technical assistance has a positive impact on growth (except in countries where aid is highly fragmented) and non-technical assistance has no statistically significant impact on growth.
- Clemens et al. (2012) find that aid effectiveness is related to the composition of aid when it is directly aimed at affecting growth (building roads, ports, and electricity generators, or supporting agriculture) and that 'early-impact' aid (budget support or 'programme' aid, project aid given for real sector investments for infrastructure or to directly support production in transportation, communications, energy, banking, agriculture, and industry) is found to be more effective than other types of aid (technical cooperation, social sector investments, humanitarian assistance, donors' administrative costs, and development awareness programmes) in contributing to growth.
- Dovern and Nunnenkamp (2007) find that short-impact aid is more effective but the results are fragile to changes in the specification.
- Feeny and Ouattara (2009) find that aid is effective for agriculture growth in income per capita but weak for industrial growth.
- Kaya et al. (2012) find that of four categories of aid (agricultural aid, social infrastructure aid, investment aid, and non-investment aid), that aid which is directed to the agricultural sector of developing

countries is positively and significantly related to growth and can affect economic growth in the short run. Other types of aid are not found to be significant in impact on growth or findings are mixed.

- Minoiu and Reddy (2010) find that 'developmental aid' (which is aid which seeks to promote economic growth or other development objectives) is more effective than 'non-developmental aid' (all other aid).
- Ouattara and Strobl (2008) find that of the four aid modalities investigated (project aid, financial programme aid, technical assistance grants, and food aid), project aid positively and significantly affects growth but with diminishing returns and financial programme aid generally impacts on growth negatively, while the impacts of technical assistance and food aid are statistically insignificant.
- Rajan and Subramanian (2008) do not find any evidence that short-impact aid is more effective than other aid. However, Bazzi and Clemens (2013) show these findings rest on weak and invalid instrumental variables.

Volatility and fragmentation: aid effectiveness is improved if aid is stable and concentrated.[9]

Most studies focus on the impact of aid volatility on effectiveness:

- Bulir and Hamann (2007) find the positive impact of aid is limited by aid volatility.
- Chervin and van Wijnbergen (2009) find that the volatility of aid flows is negatively related to growth and if aid volatility is controlled for, aid has a positive impact on economic growth.
- Hudson and Mosley (2008) find that aid volatility as a whole reduces growth but not in a uniform way.
- Kodama (2012) finds that aid unpredictability drastically hinders aid effectiveness in terms of long-run growth.
- Markandya et al. (2010) find that in the long run, aid volatility is negatively correlated with economic growth but this impact is more evident in low-income countries and countries with weak institutions. The impact is not present in middle-income countries and developing countries with strong institutions.

Some studies focus on aid fragmentation:

- Annen and Kosempel (2009) find that where aid is less fragmented it will have a larger impact on growth than more fragmented aid.

- Djankov et al. (2009) find that aid effectiveness is diminished by the presence of multiple donors in a given country because donor fragmentation is associated with greater domestic corruption.
- Kimura et al. (2012) find that aid concentration (the opposite of aid fragmentation) improves the effectiveness of aid for growth.

No Evident Signs of Convergence

Having looked at the areas where there is convergence in the literature around key aspects of aid effectiveness, we now list two areas where there is little or no convergence.

Country Context
Macroeconomic policies: certain macroeconomic policies make aid more effective.[10]

Studies focus on the extent to which an orthodox macroeconomic policy framework is associated with aid effectiveness:

- Alvi et al. (2008) find that there is a macroeconomic policy threshold (based on a policy index of the following variables: budget surplus, trade openness, and inflation) after which aid is effective for GDP per capita growth.
- Chatelain and Ralf (2014) find that the Burnside-Dollar aid-policy result is fragile if four observations are removed (in particular three observations from Botswana).
- Collier and Dollar (2004), building on Burnside and Dollar (2000) find that 'good' economic policy (orthodox economic policies) improves aid effectiveness.
- Dalgaard et al. (2004) find that the effectiveness of aid is not conditional on 'good' economic policy (as defined by Burnside and Dollar).[11]
- Easterly et al. (2004) find that the Burnside-Dollar aid-policy result is fragile when the dataset is expanded (by years and countries).
- Islam (2005) finds that aid is only effective in a politically stable environment irrespective of the quality of economic policies and is ineffective in an unstable environment even in the presence of 'good' economic policies.
- Tan (2009) finds that 'good policy' (budget surplus, inflation, and trade openness) actually reduces aid effectiveness in terms of the long-run growth rate.

Aid Management
Grants or loans: aid is more effective if grant-based.
Studies focus on the extent to which aid is concessional or not:

- Cordella and Ulku (2007) find that higher aid concessionality is good for growth.
- Dovern and Nunnenkamp (2007) argue that grants are not superior to loans and rather that the effect of an increase in the loan-to-GDP ratio is considerably larger than an increase in the grants-to-GDP ratio.

In sum, there are some clear areas of convergence and divergence in the research on aid and growth reviewed.

Notes

1. Throughout when we say aid has a positive or negative impact we mean a *statistically significant* positive or negative impact has been found.
2. On this model see later studies and reviews: Islam 2005; Gyimah-Brempong et al. 2012; Wagner 2008 and also Feeny and de Silva 2012; Feeny and McGillivray 2011.
3. Burnside and Dollar (2000) constructed a 'policy index' based on the budget surplus relative to GDP, inflation and trade openness. They also included a number of political and institutional indicators such as financial development by M2/GDP, ethno-linguistic fractionalisation, assassinations, and a measure of institutional quality.
4. Asiedu and Nandwa (2007) find that aid to primary education enhances growth in low-income countries but aid flows to higher education enhances economic growth in middle-income countries. However, that the positive impact of aid is hidden in aggregate analysis.
5. The 16 estimates are from ten papers as follows: Rajan and Subramanian (2008); Minoiu and Reddy (2010); Arndt et al. (2010); Clemens et al. (2012); Kalyvitis et al. (2012); Nowak-Lehmann et al. (2012); Lessmann and Markwardt (2012); Brückner (2013), Herzer and Morrissey (2013); and Arndt et al. (2014).
6. This may particularly be the case in the social sectors such as education and health.
7. See also: UNU-WIDER (2014b) review of aid and social sectors at both macro and micro levels. For a review of aid and health studies see, in particular, Martinez-Alvarez and Acharya (2012). For a detailed review of aid and education studies see, in particular, Riddell (2012).

8. See also Feeny and McGillivray's (2011) review of studies on these thresholds.
9. See also Hudson (2012) in particular for a literature review and discussion of which aid is most volatile.
10. We argue that there are signs of convergence on the importance of institutions but not macroeconomic policy, but clearly the two are related and not separable (in fact Dollar replaced the policy index with measures of institutions in later work).
11. Dalgaard et al. (2004) also find that the magnitude of aid effects depends on climate-related circumstances.

References

Acemoglu, D., & Johnson, S. (2007). Disease and development: The effect of life expectancy on economic growth. *Journal of Political Economy, 115*, 925–985.

Afridi, M. A., & Ventelou, B. (2013). Impact of health aid in developing countries: The public vs. the private channels. *Economic Modelling, 31*, 759–765.

Alvi, E., & Senbeta, A. (2012). Does foreign aid reduce poverty? *Journal of International Development, 24*, 955–976.

Alvi, E., Mukherjee, D., & Shukralla, E. K. (2008). Aid, policies, and growth in developing countries: A new look at the empirics. *Southern Economic Journal, 74*(3), 693–706.

Angeles, L., & Neanidis, K. C. (2009). Aid effectiveness: The role of the local elite. *Journal of Development Economics, 90*(1), 120–134.

Annen, K., & Kosempel, S. (2009). Foreign aid, donor fragmentation, and economic growth. *B E Journal of Macroeconomics, 9*(1), 1935–1690.

Arndt, C., Jones, S., & Tarp, F. (2014). Assessing foreign aid's long run contribution to growth and development. World Development. In Press.

Arndt, C., Jones, S., & Tarp, F. (2010). Aid, growth, and development: Have we come full circle? WIDER Working Paper 2010/96 Helsinki: UNUWIDER.

Asiedu, E., & Nandwa, B. (2007). On the impact of foreign aid in education on growth: How relevant is the heterogeneity of aid flows and the heterogeneity of aid recipients? Working Papers series in theoretical and applied economics, University of Kansas, Department of Economics.

Baliamoune-Lutz, M., & Mavrotas, G. (2009). Aid effectiveness: Looking at the aid-social capital-growth nexus. *Review of Development Economics, 13*(3), 510–525.

Baulch, B., & Vi An Tam, L. (2013). The progressivity and regressivity of aid to the social sectors. UNU-WIDER Working Paper 2013/075. Helsinki: UNU-WIDER.

Birchler, K., & Michaelowa, K. (2013). Making aid work for education in developing countries: An analysis of aid effectiveness for primary education coverage and quality. UNU-WIDER Working Paper No. 2013/021. Helsinki: UNU-WIDER.

Boone, P. (1994). The impact of foreign aid on savings and growth. CEP Working Paper 677. London: London School of Economics.

Boone, P. (1996). Politics and the effectiveness of foreign aid. *European Economic Review, 40*(2), 289–329.

Bazzi, S., & Bhavnani, R. (2014). Response to Roodman: A replication of 'counting chickens when they hatch'. Public Finance Review. In Press.

Bazzi, S., & Clemens, M. A. (2013). Blunt instruments: Avoiding common pitfalls in identifying the causes of economic growth. *American Economic Journal: Macroeconomics, American Economic Association, 5*(2), 152–186.

Brückner, M. (2013). On the simultaneity problem in the aid and growth debate. *Journal of Applied Econometrics, 28*(1), 126–150.

Bulir, A., & Hamann, A. J. (2007). Volatility of development aid: An update. *IMF Staff Papers, 54*(4), 727–739.

Burnside, C., & Dollar, D. (2004). Aid, policies, and growth: Revisiting the evidence. Policy Research Working Paper O-2834. Washington DC: World Bank.

Burnside, C., & Dollar, D. (2000). Aid, policies, and growth. *American Economic Review, 90*, 847–868.

Chatelain, J., & Ralf, K. (2014). Spurious regressions and near-multicollinearity, with an application to aid, policies and growth. *Journal of Macroeconomics, 39*, 85–96.

Chauvet, L., Gubert, F., & Mesplé-Somps, S. (2013). Aid, remittances, medical brain drain and child mortality: Evidence using inter and intra-country data. *Journal of Development Studies, 49*(6), 801–818.

Chervin, M., & van Wijnbergen, S. (2009). Economic growth and the volatility of foreign aid. Tinbergen Institute Discussion Paper TI 2010-002/2. Amsterdam, Tinbergen Institute.

Chong, A., Gradstein, M., & Calderon, C. (2009). Can foreign aid reduce income inequality and poverty? *Public Choice, 140*(1/2), 59–84.

Christensen, Z., Homer, D., & Nielson, D. (2011). Dodging adverse selection: How donor type and governance condition aid's effects on school enrolment. *World Development, 39*(11), 2044–2053.

Clemens, M., Radelet, M., & Bhavnani, R. (2012). Counting chickens when they hatch: Timing and the effects of aid on growth. *Economic Journal, 122*(561), 590–617.

Clemens, M., Radelet, S., & Bhavnani, R. (2004). Counting chickens when they hatch: The short term effect of aid on growth. Center for Global Development (CGD) Working Paper 44. Washington DC: CGD.

Collier, P., & Dehn, J. (2001). Aid, shocks, and growth. Policy Research Working Paper 2688. Washington DC: World Bank.

Collier, P., & Dollar, D. (2004). Development effectiveness: What have we learnt? *Economic Journal, 114*(496), F244–F271.

Collier, P., & Dollar, D. (2002). Aid allocation and poverty reduction. *European Economic Review, 45*(1), 1–26.

Collier, P., & Hoeffler, A. (2004). Aid, policy and growth in post-conflict societies. *European Economic Review, 48*(5), 1125–1145.

Cordella, T., & Ulku, H. (2007). Grants vs. loans. *IMF Staff Papers, 54*(1), 139–162.

d'Aiglepierre, R., & Wagner, L. (2013). Aid and universal primary education. *Economics of Education Review, 37*, 95–112.

Dalgaard, C.-J., Hansen, H., & Tarp, F. (2004). On the empirics of foreign aid and growth. *Economic Journal, 114*(496), F191–F216.

Dalgaard, C.-J., & Hansen, H. (2010). Evaluating aid effectiveness in the aggregate: A critical assessment of the evidence. Evaluation Study. Ministry of Foreign Affairs of Denmark.

Djankov, S., Montalvo, J. G., & Reynal-Querol, M. (2009). Aid with multiple personalities. *Journal of Comparative Economics, 37*(2), 217–229.

Dollar, D., & Pritchett, L. (1998). Assessing Aid: what works, what doesn't, and why. World Bank: Washington, DC.

Doucouliagos, H., & Paldam, M. (forthcoming, 2015). Finally a breakthrough? The recent rise in the size of the estimates of aid effectiveness. In: Arvin, M. (Ed.), *Handbook on the economics of foreign aid*. Edward Elgar.

Doucouliagos, H., & Paldam, M. (2011). The ineffectiveness of development aid on growth: An update. *European Journal of Political Economy, 27*(2), 399–404.

Doucouliagos, H., & Paldam, M. (2010). Conditional aid effectiveness. A meta study. *Journal of International Development, 22*, 391–410.

Doucouliagos, H., & Paldam, M. (2009). The aid effectiveness literature: The sad results of 40 years of research. *Journal of Economic Surveys, 23*(3), 433–461.

Doucouliagos, H., & Paldam, M. (2008). Aid effectiveness on growth. A meta study. *European Journal of Political Economy, 24*, 1–24.

Doucouliagos, H., & Paldam, M. (2006). Aid effectiveness on accumulation: A meta study. *Kyklos, 59*(2), 227–254.

Dovern, J., & Nunnenkamp, P. (2007). Aid and growth accelerations: An alternative approach to assessing the effectiveness of aid. *Kyklos, 60*(3), 359–383.

Dreher, A., Nunnenkamp, P., & Thiele, R. (2008). Does aid for education educate children? Evidence from panel data. *World Bank Economic Review, 22*(2), 291–314.

Easterly, W., Levine, R., & Roodman, D. (2004). Aid, policies, and growth: Comment. *American Economic Review, 94*(3), 774–780.

Feeny, F., & de Silva, S. (2012). Measuring absorptive capacity constraints to foreign aid. *Economic Modelling, 29*(3), 725–733.

Feeny, S., & Ouattara, B. (2009). What type of economic growth does foreign aid support? *Applied Economics Letters, 16*(7), 727–730.

Feeny, S., & McGillivray, M. (2011). Scaling-up foreign aid: Will the 'Big Push' work? *World Economy, 34*(1), 54–73.

Gomanee, K., Morrissey, O., Mosley, P., & Verschoor, A. (2005). Aid, government expenditure, and aggregate welfare. *World Development, 33*(3), 355–370.

Guillaumont, P., & Chauvet, L. (2001). Aid and performance: A reassessment. *Journal of Development Studies, 37*(6), 66–92.

Gupta, K., & Islam, M. (1983). *Foreign capital, savings and growth: An international cross-section study*. Dordrecht: Reidel.

Gyimah-Brempong, K., Racine, J. S., & Gyapong, A. (2012). Aid and economic growth: Sensitivity analysis. *Journal of International Development, 24*, 17–33.

Hadjimichael, M., Ghura D., Muhlesien, M, Nord, R., & Ucer, E. M. (1995). Sub-saharan Africa: Growth, savings and investment, 1986–1993. Occasional Paper 118, Washington DC: IMF.

Hansen, H., & Tarp, F. (2001). Aid and growth regressions. *Journal of Development Economics, 64*(2), 547–570.

Hansen, H., & Tarp, F. (2000). Aid effectiveness disputed. *Journal of International Development, 12*, 375–398.

Herzer, D., & Morrissey, O. (2013). Aid and domestic output in the long run. *Review of World Economics, 149*(4), 723–748.

Hirano, Y., & Otsubo, S. (2014). Aid is good for the poor. World Bank. Policy Research Working Paper 6998. Washington DC: World Bank.

Hudson, J. (2012). Consequences of aid volatility for macroeconomic management and aid effectiveness. UNU-WIDER Working Paper No. 2012/35. Helsinki: UNU-WIDER.

Hudson, J., & Mosley, P. (2008). Aid volatility, policy and development. *World Development, 36*(10), 2082–2102.

Islam, M. N. (2005). Regime changes, economic policies and the effect of aid on growth. *Journal of Development Studies, 41*(8), 1467–1492.

Kalyvitis, S., Stengos, T., & Vlachaki, I. (2012). Are aid flows excessive or insufficient?: Estimating the growth impact of aid in threshold regressions. *Scottish Journal of Political Economy, 59*(3), 298–315.

Kaya, O., Kaya, I., & Gunter, L. (2013). Foreign aid and the quest for poverty reduction: Is aid to agriculture effective? *Journal of Agricultural Economics, 64*(3), 583–596.

Kaya, O., Kaya, I., & Gunter, L. (2012). Development aid to agriculture and economic growth. *Review of Development Economics, 16*(2), 230–242.

Kimura, H., Sawada, Y., & Mori, Y. (2012). Aid proliferation and economic growth: A cross-country analysis. *World Development, 40*(1), 1–10.

Kizhakethalackal, E. T., Mukherjee, D., & Alvi, E. (2013). Quantile regression analysis of health-aid and infant mortality: A note. *Applied Economics Letters, 20*(13), 1197–1201.

Kodama, M. (2012). Aid unpredictability and economic growth. *World Development, 40*(2), 266–272.

Lensink, R., & White, H. (2001). Are there negative returns to aid? *Journal of Development Studies, 37*(6), 42–65.

Lessmann, C., & Markwardt, G. (2012). Aid, growth and devolution. *World Development, 40*(9), 1723–1749.

Lof, M., Mekasha T. J., & Tarp, F. (2014). Aid and income: Another time series perspective. World Development. In Press.

Markandya, A., Ponczek, V., Yi, S. (2010). What are the links between aid volatility and growth? World Bank Policy Research Working Paper 5201. Washington DC: World Bank.

Martinez-Alvarez, M., & Acharya, A. (2012). Aid Effectiveness in the Health Sector. UNU-WIDER Working Paper No. 2012/069. Helsinki: UNU-WIDER.

Masud, N., & Yontcheva, B. (2005). Does foreign aid reduce poverty? Empirical evidence from nongovernmental and bilateral aid. International Monetary Fund Working Paper WP/05/100, Washington DC: IMF.

McGillivray, M., Fielding, D., Torres, S., & Knowles, S. (2011). Does aid work for the poor? University of Otago Economics Discussion Papers No. 1114. New Zealand: University of Otago.

McGillivray, M., Feeny, S., Hermes, S., & Lensink, R. (2006). Controversies over the impact of development aid: It works; it doesn't; it can, but that depends. *Journal of International Development, 18*(7), 1031–1050.

Mekasha, T., & Tarp, F. (2013). Aid and growth. What meta-analysis reveals. *Journal of Development Studies, 49*(4), 564–583.

Minoiu, C., & Reddy, S. (2010). Development aid and economic growth: A positive long-run relation. *The Quarterly Review of Economics and Finance, 50*, 27–39.

Mishra, P., & Newhouse, D. (2009). Does health aid matter? *Journal of Health Economics, 28*(4), 855–872.

Mosley, P. (1987). *Overseas aid: Its defence and reform*. Brighton: Wheatsheaf.

Mosley, P., Hudson, J., & Verschoor, A. (2004). Aid, poverty reduction and the 'new conditionality'. *Economic Journal, 114*(496), F217–F243.

Mukherjee, D., & Kizhakethalackal, E. T. (2013). Empirics of health-aid, education and infant mortality: A semiparametric study. *Applied Economics, 45*(22), 3137–3150.

Nowak-Lehmann, F., Dreher, A., Herzer, D., Klasen, S., & Martínez-Zarzoso, I. (2012). Does foreign aid really raise per capita income? A time series perspective. *Canadian Journal of Economics/Revue canadienne d'économique, 45*(1), 288–313.

Ouattara, B., & Strobl, E. (2008). Aid, policy and growth: Does aid modality matter? *Review of World Economics, 144*(2), 347–365.

Radelet, S. (2006). A primer on foreign aid. CGD Working Paper 92. Washington DC: CGD.

Rajan, R. G., & Subramanian, A. (2008). Aid and growth: What does the cross-country evidence really show? *Review of Economics and Statistics, 90*(4), 643–665.

Riddell, A. (2012). The Effectiveness of Foreign Aid to Education: What Can Be Learned? UNU-WIDER Working Paper No. 2012/075. Helsinki: UNU-WIDER.

Roodman, D. (2004). *The anarchy of numbers: Aid, development, and cross-country empirics*. Washington, DC: Center for Global Development.

Roodman, D. (2007). The anarchy of numbers: Aid, development, and cross-country empirics. *World Bank Economic Review, 21*(2), 255–277.

Roodman, D. (2014). A replication of 'counting chickens when they hatch'. Economic Journal, Public Finance Review. In Press.

Seers, D. (1972). What are we trying to measure? *Journal of Development Studies, 8*(3), 21–36, reprinted in Baster, N. (Ed.) (1972). *Measuring development: The role and adequacy of development indicators*. London: Frank Cass.

Sen, A. (1999). *Development as freedom*. Oxford: Oxford University Press.

Stewart, F. (1985). *Basic needs in developing countries*. Baltimore, MA: Johns Hopkins University Press.

Stockemer, D., LaMontagne, B., & Charette, C. (2011). Panacea, placebo, or poison? The impact of development aid on growth. *Canadian Journal of Development Studies, 32*(1), 316.

Streeten, P. (1980). Basic needs and human rights. *World Development, 8*(2), 107–111.

Tan, K. Y. (2009). A pooled mean group analysis on aid and growth. *Applied Economics Letters, 16*, 1597–1601.

Temple, J. (2010). Aid and conditionality. In D. Rodrik & M. Rosenzweig (Eds.), *Handbook of development economics*. Amsterdam: Elsevier.

UNU-WIDER (2014a). Aid, growth and employment. Helsinki: UNU-WIDER.

UNU-WIDER (2014b). Aid and the social sectors. Helsinki: UNU-WIDER.

Wagner, L. (2008). Thresholds in Aid Effectiveness. CERDI Working Paper. CERDI: Paris.

Wagner, L. (2014). Identifying thresholds in aid effectiveness. *Review of World Economics, 150*(3), 619–638.

Williamson, C. (2008). Foreign aid and human development: The impact of foreign aid to the health sector. *Southern Economic Journal, 75*(1), 188–207.

Wilson, S. E. (2011). Chasing success: Health sector aid and mortality. *World Development, 39*(11), 2032–2043.

CHAPTER 5

Conclusion

Abstract This chapter provides a conclusion of our review of aid effectiveness. We argue that areas of convergence and divergence in the literature reviewed have implications for aid effectiveness.

Keywords Aid • foreign aid • aid effectiveness • Official Development Assistance • ODA • development aid

In this book we have reviewed the last ten years of cross-country, econometric, peer-reviewed evidence on the relationship between aid and (1) growth and (2) social development. We have done so with a view to generate information on when aid is more likely to work. We argue that rebooting the aid effectiveness debate in this way is coherent with the nature of the evidence, which suffers from both definitional and methodological problems.

Broadly speaking, we have found that the most recent studies, over the last decade, have been more positive on the role aid can play in these areas than previous generations which should, for now at least, give aid's critics some pause for thought. The public debate, which often seems divided between the pro- and anti-aid camps, has some way to go to catch up with the balance of the evidence. However, we have also cast further doubt on the legitimacy of generalised 'aid works' and 'aid doesn't work' claims. In our breakdown of what the empirical, cross-country, peer-reviewed evidence suggests on the effectiveness of aid, with a particular focus on the growth literature, we propose a set of fac-

J. Glennie, A. Sumner, *Aid, Growth and Poverty*,
DOI 10.1057/978-1-137-57272-1_5

tors that determine when aid is *most likely* to work. We have found it useful to break down the conditions governing aid's effectiveness into two categories: (1) the country context, meaning the characteristics of the recipient country and national government policies and (2) aid management, meaning the characteristics of aid and donor policies and practices.

Of the generalisations we felt able to make based on the literature, it is worth discussing the following five issues that may have direct relevance for policy decisions on aid and for the Paris/Busan aid-effectiveness discussions.

Aid Levels and Aid Effectiveness

It is logical that aid is likely to have diminishing returns as it grows relative to the size of the economy or government expenditure, even turning negative. The last decade of evidence backs this up. Evidence also suggests that aid at low levels may have little impact on growth. Perhaps unsurprisingly, given the scope of the exercise and varying methodologies, there are differences about the precise level below or above which aid is ineffective in promoting growth, which is why we have grouped this condition together under the broad heading 'Aid levels and aid effectiveness'. This is an important finding not because it is surprising—it should not be—but for the neglect that there has been in policymaking circles of this critical element of aid effectiveness. In the most important aid-effectiveness process, the Paris agenda and its successor meetings, the issue has barely merited a mention, and there appears to be no mechanism whereby donors and recipients can analyse appropriate aid levels and moderate them up or down according to effectiveness criteria. Instead, there appears to be a generalised push for more aid for the poorest and less aid for countries reaching middle-income status, a policy seemingly directed more by political concerns than by the aid-effectiveness evidence. Unlike other contextual issues, the aid levels issue is an area entirely susceptible to concerted action by donors and recipients.

Domestic Political Institutions and Aid Effectiveness

It is not a surprise that some of the batch of papers we have reviewed emphasise the role of domestic political institutions. This has been an article of faith for most aid practitioners for at least a decade or so (see Booth's 2011 summary of broader evidence than we cover here). What kind of domestic political institutions exactly are likely to increase aid effectiveness is less clear. Political stability and the levels of decentralisation are two issues that the evidence points towards.

Aid Composition and Aid Effectiveness

We find that a further issue is the composition of aid in terms of aid objectives, sectors, modalities and time horizons. In short, the effectiveness of aid depends on what the aid is intended for. For example, aid effectiveness for growth is improved if aid focuses on 'developmental aid' (which is aid which seeks to promote economic growth or other development objectives) rather than 'non-developmental aid', or the composition of aid is directly aimed at affecting growth (building roads, ports and electricity generators or supporting agriculture) or focused on agricultural aid. Further, budget support/'programme' aid and project aid given for real sector investments is likely to be more effective for growth than other types of aid, but caution is required as aid in other sectors such as health and education may only affect growth after a long period of time and thus may be difficult to detect rather than be non-existent.

Aid Volatility and Aid Effectiveness

If our first finding, on aid levels, is almost entirely absent from the dominant aid-effectiveness debates, our finding on aid volatility is ubiquitous in them. Reducing aid volatility and fragmentation has been a key feature of the Paris agenda. Unfortunately, the focus on it has not led to significant improvements. According to the 2011 Paris Declaration Monitoring Survey, only 43% of aid was predictable in 2010, compared to 42% in 2005, and there was a similarly disappointing increase in the use of common arrangements, joint donor missions and joint analytical work. The further evidence of the importance of stability and donor coherence ought to spur efforts.

Two Big Aid-Effectiveness Unknowns

We identify two areas where there is little convergence in the evidence, despite oft-cited claims to the contrary. First, on macroeconomic policies, papers published since 2004, starting with Easterly's important rebuttal, overturn a previously core belief in official development circles, i.e. that aid supports growth when the recipient country is implementing certain macroeconomic policies generally described as 'good', meaning orthodox policies. There is no consensus. Second, the debate between proponents of grants and loans also has a long history in the literature. The findings of this latest generation of evidence simply confirm that this remains a disputed area in the academic literature. This is not to say that in different contexts grants may be more appropriate than loans, or vice versa, simply that there are no generalisations that can currently be made on the subject.

In conclusion, it is these four areas where the research reviewed points towards some clarity on when aid is more or less likely to be effective.

Reference

Booth, D. (2011). Aid, institutions and governance: What have we learned? *Development Policy Review, 29*(S1), 5–26.

Annex: List of Studies by Subject

Education and Aid

1. Arndt, C., et al. (2014). Assessing foreign aid's long-run contribution to growth and development. *World Development*, 69, 6–18.
2. Birchler, K., & Michaelowa, K. (2013). Making aid work for education in developing countries: An analysis of aid effectiveness for primary education coverage and quality (UNU-WIDER Working Paper No. 2013/021). Helsinki: UNU-WIDER.
3. Christensen, Z., et al. (2011). Dodging adverse selection: How donor type and governance condition aid's effects on school enrollment. World Development, 39(11), 2044–2053.
4. d'Aiglepierre, R., & Wagner, L. (2013). Aid and universal primary education. Economics of Education Review, 37, 95–112.
5. Dreher, A., et al. (2008). Does aid for education educate children? Evidence from panel data. World Bank Economic Review, 22(2), 291–314.
6. McGillivray, M., et al. (2011). Does aid work for the poor? University of Otago Economics (Discussion Papers No. 1114). New Zealand: University of Otago.

J. Glennie, A. Sumner, *Aid, Growth and Poverty*,
DOI 10.1057/978-1-137-57272-1

Health and Aid

1. Afridi, M. A., & Ventelou, B. (2013). Impact of health aid in developing countries: The public vs. the private channels. *Economic Modelling, 31,* 759–765.
2. Arndt, C., et al. (2014). Assessing foreign aid's long run contribution to growth and development. *World Development.* In Press.
3. Chauvet, L., et al. (2013). Aid, remittances, medical brain drain and child mortality: Evidence using inter and intra-country data. *Journal of Development Studies, 49*(6), 801–818.
4. Gomanee, K., et al. (2005). Aid, government expenditure, and aggregate welfare. *World Development, 33*(3), 355–370.
5. Kizhakethalackal, E., et al. (2013). Quantile regression analysis of health-aid and infant mortality: A note. *Applied Economics Letters, 20*(13), 1197–1201.
6. Masud, N., & Yontcheva, B. (2005). *Does foreign aid reduce poverty? Empirical evidence from nongovernmental and bilateral aid* (International Monetary Fund Working Paper WP/05/100). Washington, DC: IMF.
7. McGillivray, M., et al. (2011). *Does aid work for the poor? University of Otago Economics* (Discussion Papers No. 1114). New Zealand: University of Otago.
8. Mishra, P., & Newhouse, D. (2009). Does health aid matter? *Journal of Health Economics, 28*(4), 855–872.
9. Mukherjee, D., & Kizhakethalackal, E. (2013). Empirics of health-aid, education and infant mortality: A semiparametric study. *Applied Economics, 45*(22), 3137–3150.
10. Williamson, C. (2008). Foreign aid and human development: The impact of foreign aid to the health sector. *Southern Economic Journal, 75*(1), 188–207.
11. Wilson, S. (2011). Chasing success: Health sector aid and mortality. *World Development, 39*(11), 2032–2043.

Monetary Poverty and Aid

1. Alvi, E., & Senbeta, A. (2012). Does foreign aid reduce poverty? *Journal of International Development, 24,* 955–976.
2. Arndt, C., et al. (2014). Assessing foreign aid's long run contribution to growth and development. *World Development.* In Press.
3. Chong, A., et al. (2009). Can foreign aid reduce income inequality and poverty? *Public Choice, 140*(1/2), 59–84.
4. Hirano, Y., & Otsubo, S. (2014). *Aid is good for the poor* (World Bank. Policy Research Working Paper 6998). Washington, DC: World Bank.

5. Kaya, O., et al. (2013). Foreign aid and the quest for poverty reduction: Is aid to agriculture effective? *Journal of Agricultural Economics, 64*(3), 583–596.
6. Mosley, P., et al. (2004). Aid, poverty reduction and the 'new conditionality'. *Economic Journal, 114*(496), F217–F243.

Growth (Conditions) and Aid

1. Alvi, E., et al. (2008). Aid, policies, and growth in developing countries: A new look at the empirics. *Southern Economic Journal, 74*(3), 693–706.
2. Angeles, L., & Neanidis, K. (2009). Aid effectiveness: The role of the local elite. *Journal of Development Economics, 90*(1), 120–134.
3. Annen, K., & Kosempel, S. (2009). Foreign aid, donor fragmentation, and economic growth. *B E Journal of Macroeconomics, 9*(1), 1935–1690.
4. Baliamoune-Lutz, M., & Mavrotas, G. (2009). Aid effectiveness: Looking at the aid-social capital-growth nexus. *Review of Development Economics, 13*(3), 510–525.
5. Bulir, A., & Hamann, A. (2007). Volatility of development aid: An update. *IMF Staff Papers, 54*(4), 727–739.
6. Chatelain, J., & Ralf, K. (2014). Spurious regressions and near-multicollinearity, with an application to aid, policies and growth. *Journal of Macroeconomics, 39,* 85–96.
7. Chervin, M., & van Wijnbergen, S. (2009). *Economic growth and the volatility of foreign aid* (Tinbergen Institute Discussion Paper TI 2010-002/2). Amsterdam: Tinbergen Institute.
8. Clemens, M., et al. (2012). Counting chickens when they hatch: Timing and the effects of aid on growth. *Economic Journal, 122*(561), 590–617.
9. Collier, P., & Dollar, D. (2004). Development effectiveness: What have we learnt? *Economic Journal, 114*(496), F244–F271.
10. Cordella, T., & Ulku, H. (2007). Grants vs. loans. *IMF Staff Papers, 54*(1), 139–162.
11. Dalgaard, C. J., et al. (2004). On the empirics of foreign aid and growth. *Economic Journal, 114*(496), F191–F216.
12. Djankov, S., et al. (2009). Aid with multiple personalities. *Journal of Comparative Economics, 37*(2), 217–229.
13. Dovern, J., & Nunnenkamp, P. (2007). Aid and growth accelerations: An alternative approach to assessing the effectiveness of aid. *Kyklos, 60*(3), 359–383.

14. Easterly, W., et al. (2004). Aid, policies, and growth: Comment. *American Economic Review, 94*(3), 774–780.
15. Feeny, S., & Ouattara, B. (2009). What type of economic growth does foreign aid support? *Applied Economics Letters, 16*(7), 727–730.
16. Gyimah-Brempong, K., et al. (2012). Aid and economic growth: Sensitivity analysis. *Journal of International Development, 24,* 17–33.
17. Hudson, J., & Mosley, P. (2008). Aid volatility, policy and development. *World Development, 36*(10), 2082–2102.
18. Islam, M. (2005). Regime changes, economic policies and the effect of aid on growth. *Journal of Development Studies, 41*(8), 1467–1492.
19. Kalyvitis, S., et al. (2012). Are aid flows excessive or insufficient?: Estimating the growth impact of aid in threshold regressions. *Scottish Journal of Political Economy, 59*(3), 298–315.
20. Kaya, O., et al. (2012). Development aid to agriculture and economic growth. *Review of Development Economics, 16*(2), 230–242.
21. Kimura, H., et al. (2012). Aid proliferation and economic growth: A cross-country analysis. *World Development, 40*(1), 1–10.
22. Kodama, M. (2012). Aid unpredictability and economic growth. *World Development, 40*(2), 266–272.
23. Lessmann, C., & Markwardt, G. (2012). Aid, growth and devolution. *World Development,* 40(9), 1723–1749.
24. Markandya, A., et al. (2010). *What are the links between aid volatility and growth?* (World Bank Policy Research Working Paper 5201). Washington, DC: World Bank.
25. Minoiu, C., &, Reddy, S. (2010). Development aid and economic growth: A positive long-run relation. *The Quarterly Review of Economics and Finance, 50,* 27–39.
26. Ouattara, B., & Strobl, E. (2008). Aid, policy and growth: Does aid modality matter? *Review of World Economics, 144*(2), 347–365.
27. Rajan, R. G., & Subramanian, A. (2011). Aid, Dutch disease, and manufacturing growth. *Journal of Development Economics*, *94*(1), 106–118.
28. Tan, K. (2009). A pooled mean group analysis on aid and growth. *Applied Economics Letters, 16,* 1597–1601.
29. Wagner, L. (2014). Identifying thresholds in aid effectiveness. *Review of World Economics, 150*(3), 619–638.