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AID, DEBT RELIEF AND NEW SOURCES OF FINANCE FOR MEETING THE MILLENNIUM DEVELOPMENT GOALS

Tony Addison, George Mavrotas and Mark McGillivray

The Millennium Development Goals (MDGs) now provide a clear set of objectives for mobilizing the international development community, notably in the area of development finance. The recent Millennium Project report recommends that high-income countries should increase official development assistance from 0.25 percent of donor GNP in 2003 to 0.44 percent in 2006 and 0.54 percent in 2015. This would amount to doubling official world aid from its current level, to approximately $120 billion per year. The call for increased aid as well as more debt relief and the creation of new sources of development finance has increased since the UN Financing for Development Summit in Monterrey and the subsequent report of the panel chaired by then President Ernesto Zedillo of Mexico on development finance. The February 2005 meeting of G7 finance ministers pledged more aid and more debt relief, and similar statements can be expected from world leaders in the run-up to the UN Millennium summit in September 2005. If action were measured in words rather than dollars, then the problems of development finance would have been solved long ago.

The urgency of mobilizing increased external resources cannot be overemphasized. The current projections for the MDGs are stark: The principal MDG target—reducing the proportion of people living in extreme poverty to half the 1990 level by 2015—will not, on current trends, be achieved in Sub-Saharan Africa (SSA). Even seemingly optimistic forecasts suggest the MDG income poverty target will not be achieved in SSA until 2147—132 years late. SSA of course faces deep development problems, but the picture is only somewhat better elsewhere; primary education enrolment rates remain low in South Asia and HIV/AIDS is rapidly spreading in the Asia-Pacific region. Poor-country governments cannot mobilize enough domestic resources to meet these challenges alone; generous external assistance is imperative.

Yet despite the evidence that aid broadly works, our review of trends in aid shows that aid has fallen for much of the recent period, with serious consequences...
Addison, Mavrotas and McGillivray

for growth and poverty reduction in the developing world. We will highlight aid flows to Sub-Saharan Africa given the plight of that region and its importance to the overall achievement of the MDGs. We will also examine recent proposals to mobilize additional finance for development, focusing on those that have emerged from a recent study by UNU-WIDER for the UN General Assembly.

THE EFFECTIVENESS OF AID AND DEBT RELIEF

Aid’s contribution to meeting the MDGs is premised on two fundamental assumptions, namely that aid raises economic growth (thereby reducing poverty when the growth process is pro-poor) and that aid relaxes the budgetary constraints impeding development spending (including pro-poor services and infrastructure). These assumptions also underpin arguments that aid can promote human security; growth fosters peaceful livelihoods and increased development spending may redress grievances, reducing the need to resort to violence as a livelihood or to express frustration with the status quo.

However, aid’s role in development is constantly questioned, no more so than in the present debate on aid effectiveness, and it would be fair to say that criticism is especially strong in the United States, where some highly influential people have concluded that aid is a complete failure in achieving development, and indeed downright harmful. Typical of such a stance is a recent editorial in The Wall Street Journal, which states, “For the record, we don’t put much faith in foreign aid as a development tool. There is no evidence that the two are connected.” By extension, critics also dismiss debt relief as well as proposals to create new sources of development finance.

It is certainly the case that there are aid projects and programs that were either ill-conceived or had unexpected and adverse development (and poverty) effects. For example, aid for large infrastructure projects such as dams is especially controversial, but this is also true of projects in the commercial world. In failing to meet their objectives, some aid projects may nevertheless yield extremely valuable lessons, just as some of the best commercial projects incorporate the lessons of previous failures (as do some of the best philanthropic initiatives). Thus, the true test of aid effectiveness is not the existence of bad projects or programs, but whether aid does or does not contribute to overall economic growth and human development. This is also the true test for other forms of external development finance such as foreign direct investment (FDI).

However, uncovering the macroeconomic and development impact of any external financial flow—be it aid, debt relief or FDI—is far from a straightforward task.
Nevertheless, research in this area, most of which involves the econometric analysis of panel data sets, has shown considerable progress, especially over the last decade. This reflects advances in methodologies and greater availability of data, giving us as much confidence in the resulting findings as in other areas of economics.

So what does the evidence show? When we review the literature we find that the overwhelming majority of recent empirical studies conclude that aid increases economic growth, and we cite below more than 30 studies that find that growth would be lower in the absence of aid. There is also evidence that aid increases public expenditure, including expenditures that are pro-poor in orientation (such as primary education and basic health care). One can reasonably infer that on the basis of these findings, poverty would be higher in the absence of aid. Much of the criticism of aid is not supported by research, and we submit that it is research and not anecdotal evidence that should guide aid policy. This is not to say that aid delivery cannot be improved upon nor, as we indicated before, that there are no bad aid projects. Fundability, insufficient alignment between donor and recipient government policies, ties to the for-profit corporate world, proliferation of donor activities within recipient countries, and insufficient policy coherence within and among donor activities are among the problems that need to be addressed in order to make aid work better.

After decades of little or no clarity over its effectiveness, aid now appears to work at the macro level, and the reason for that is a matter of speculation. However, it is widely accepted that, following the demise of the Cold War, donors are paying more attention to developmental criteria in the design and application of aid activities. Another plausible reason why aid is now thought to have a positive impact is that recent studies employ better empirical methods and have access to better data, making it possible to observe such an impact. This of course implies that aid might always have been effective, and that earlier studies simply lacked the tools to observe such an impact.

There is evidence that aid’s impact on growth is contingent on the policies of recipient countries, so that while aid works in all countries it works better in countries with better policy regimes. Nevertheless, there is evidence that suggests that aid works in countries irrespective of the policy regime. Regardless of whether policy is important for aid effectiveness, it must be emphasized that both groups of studies agree that aid works, in one way or another. They agree that in the absence of aid growth would have been lower and, to the extent that growth and poverty are positively associated, poverty would have been higher. Thus, the debate should not be over the importance of policy per se, but should be on whether it is possible to validly observe a robust aid-policy-growth relationship from an econometric analysis of panel data. There is some acceptance among researchers that better policies, howev-
Addison, Mavrotas and McGillivray

er defined, should in all probability result in more effective aid. One would also expect that, with the exception of a few extreme cases, aid provided to countries with bad policies (however defined) can still have positive impacts.

It is important to note that the studies referred to above used diverse samples of countries, such as those that were structurally vulnerable, in a post-conflict scenario, undergoing trade shocks, democratic, highly populated and so on. Most importantly, the samples include developing countries from all regions, and some of the studies provide results that are region-specific. Each of these studies concludes that growth in the countries under consideration would have been lower in the absence of aid. It necessarily follows that disappointing growth records in Sub-Saharan Africa cannot be attributed to aid ineffectiveness. In that regard, aid has not failed Sub-Saharan Africa.

Aid is subject to the law of diminishing returns.

Aid can of course contribute to poverty reduction or enhance well-being in general through channels other than growth. This is important, as growth is not the only way to reduce poverty nor is it necessarily the most efficient way. Gomanece et al. looked at aid and pro-poor expenditures and found that aid is associated with increases in these expenditures and the resulting improvements in well-being. Stephen Kosack found that, subject to the extent of democracy in recipient countries, aid is positively associated with the level of well-being among countries as measured by the human development index. Related literatures look at the impact of aid on various categories of public expenditure and revenue. Included in the expenditure categories are those that support the provision of health and education services important to MDG achievement. In general, the conclusion is that aid results in increased public expenditure, although it can also result in decreases in tax revenue and increases in public sector debt.

However, it is possible to have too much of a good thing. A number of studies show that aid is subject to the law of diminishing returns, i.e., aid is positively related to growth up to a certain level (relative to recipient GDP) and negatively related thereafter (studies find the turning point to be between 15 and 45 percent of GDP). Beyond a certain point an increase in the amount of aid may push up the real exchange rate, thereby creating a disincentive to the production of tradable goods (the so-called “Dutch Disease” effect) and constrain export-led growth. Governments may also be limited in the amounts of aid they can use effectively. Donors therefore need to be conscious of absorptive capacities and to work with recipient countries to remove bottlenecks that impede aid effectiveness. This is an important matter that needs to be addressed if aid flows are increased substantially in order to achieve the MDGs.

This is especially an issue for the group that has been labeled “fragile” or
“stressed” by the donor community; the UK Department for International Development (DFID) has assembled a list of 46 fragile states, while the World Bank lists approximately 30 “low-income countries under stress” (LICUS). These are countries that are often marked by violent conflict (including those in “post-conflict” recovery) and have limited state capacities where the government’s ability (or willingness) to help the poor has been low. Donors will need to invest heavily in building up central and local state institutions in order to make aid effective in these countries.

The Heavily Indebted Poor Countries (HIPC) Initiative launched in 1996 (and “enhanced” in 1999) aims to reduce debt-servicing to sustainable levels in eligible countries. Unfortunately, rich countries remain divided over how or whether to be more generous. The communique issued by the February 2005 meeting of G7 finance ministers is ambiguous; it promises “as much as” 100 percent debt relief for highly indebted poor countries. However, the rich countries were divided as to how this will be financed, if at all.

Critics of aid are also critics of debt relief, arguing that the HIPC Initiative will do little for development. These critics ignore what the research actually shows. Debt relief can raise growth by reducing the so-called debt-overhang effect, which is a disincentive to private investment, and by making available more resources for growth-enhancing (and poverty-reducing) public investments that would otherwise have gone into servicing debt. The negative effect of high debt on growth, in particular the destructive effect of debt overhang, is borne out by empirical research. This indicates that debt relief can raise growth and, by implication, reduce poverty, with the caveat that the scale of poverty reduction is very much dependent on the character of the growth process. If debt relief is not part of the total financial aid package—for example, if donors substituted debt relief for aid—then growth is unlikely to increase. The literature stresses the importance of the additionality of debt relief resources. Debt relief must therefore go hand in hand with more aid.

**Desp**ite research findings that aid is broadly effective, aid flows have declined substantially from the 1990s onwards (figure 1). Total official development assistance (ODA) peaked at $58.3 billion in 1991, dropped sharply to $43.2 billion by 1997 and partially recovered in the latter 1990s, so that total ODA by the end of 2002 was at a level that was actually lower than 11 years before. The overall trend in total ODA was largely driven by a “pull-back” in bilateral aid. Multilateral ODA has been more stable and has been rising modestly from 1960 to 2002. Total ODA for Sub-Saharan Africa, the region most in need of aid, fell from a peak $17.3 bil-
Developing countries attract, of course, development-oriented foreign financial transfers in addition to official development assistance. From Organisation for Economic Co-operation and Development (OECD) countries, they attract official flows that do not qualify as official development assistance and private flows. The OECD reports data on both flows, labeling the former as other official financing (OOF) and the latter simply as private flows, which consist mainly of foreign direct investment. A reduction in ODA might be mitigated by increases in these flows, although there is less clarity over the impact of OOF and (to a lesser extent) private flows on growth and poverty reduction. Such mitigation has not occurred. As figure 3 shows, OOF flows to Sub-Saharan Africa have trended downward since the late 1980s, and were negative in each of the years 1996 to 2001. OOF increased sharply
New Sources of Finance for Meeting the MDGs

in 2001, but its level that year was much less than that which prevailed in the mid-to late-1980s. Private flows have been much more volatile. They fell dramatically in 1984, recovered in 1989 and trended downward thereafter.

While declines in official development assistance might be mitigated by increases in other inflows, it should be recognized that this potential is somewhat limited in the case of Sub-Saharan Africa. This is made clear by Table 1, which shows percentage breakdowns of foreign inflows reported by the OECD. Official development assistance accounted for almost 90 percent of total flows to Sub-Saharan Africa during 1991 to 2002, indicating that many of the countries in this region find it very difficult to attract private capital. Not only is this share more than twice that for all developing countries for the same period, but it is substantially higher than for the 1970s and 1980s overall. Official development assistance dependency is a reality in Sub-Saharan Africa. Thus, even if OOF and private flows were to continue to increase to Sub-Saharan Africa, such increases would have to be dramatic and sustained over many years for them to reduce the region’s dependence on ODA.

What can we infer from trends in aid and other foreign inflows to developing countries in light of the findings of the literature on the macro level impacts of official aid? There would appear to be one inescapable conclusion from the above data. Given that the vast majority of the literature finds that aid is effective in promoting growth and by implication in reducing poverty, that this result holds on average for all countries, and that reductions in aid have not been offset by increases in other development-oriented inflows, poverty is clearly higher in Sub-Saharan Africa as a result of the declines in aid to this region during the 1990s. This in turn means that the MDGs will be harder to achieve there than would otherwise have been the case. While recent increases in aid to this region are to be welcomed, there remain many significant challenges for governments in Sub-Saharan Africa and the international donor community.
The "traditional" mechanisms of aid and debt relief can only take us so far, and there has recently been much discussion of "new" or "additional" sources of development finance; in late 2004 the General Assembly discussed these at its Second Committee (Economic & Financial) meeting, the governments of Brazil, France, Chile and Spain organized a heads of state meeting on "Action Against Hunger and Poverty" at the UN which focused on finance, and President Chirac of France subsequently made a presentation on the theme at the 2005 Davos conference. Potential new sources include international taxes such as the currency transactions tax (otherwise known as the "Tobin tax") as well as taxes on environmental pollutants and international travel (the French proposal to tax airline fuel), novel measures to leverage funds for aid programs from the international capital markets (the UK International Finance Facility), and measures to stimulate additional or new private flows, including migrant remittances and philanthropy as well as schemes such as the global lottery and the global premium ("prize") bond. This is obviously a very mixed bag, and the proposals involve quite different combinations of private and public initiative. Some require major and comprehensive international agreement, others can be put in place by individual countries or groups of countries, and still others are purely dependent upon private action. Although some of the proposals have been on the table for quite a long time (notably the Tobin tax), they remain "new" in the sense that they have yet to be enacted and may offer potential for the future either as a modest supplement to conventional aid and debt relief or as major sources of development funding in their own right.

Debate on new sources of finance at the 2004 UN General Assembly was focused around a new analysis by United Nations University-World Institute for Development Economics Research (UNU-WIDER) undertaken in cooperation with United Nations-Department of Economic and Social Affairs (UN-DESA) following an earlier call for a rigorous study by the General Assembly after the 2002 UN Financing for Development conference in Monterrey. The UNU-WIDER study was led by Anthony Atkinson of Oxford University, and we summarize the main findings here.

The UNU-WIDER study first looked at global taxation, and specifically the currency transactions tax (CTT) which would apply to transactions in the foreign-exchange markets (spot, forward, future, swaps and other derivatives), and the study also examined one global environmental tax (a tax on the use of hydrocarbon fuels according to their carbon content). These taxes have "double dividends" in that they meet some other goal than simply raising taxation for development purposes; in the case of the CTT it is reducing exchange-rate volatility, while the carbon tax will contribute to reducing global warming. However, the UNU-WIDER study con-
**Table 1:** Total net disbursements of total official and private flows, by type, 1971-2001.

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<tr>
<td><strong>All Developing Countries</strong></td>
<td></td>
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<tr>
<td>Official Development Assistance (ODA)</td>
<td>36.7%</td>
<td>50.8%</td>
<td>43.6%</td>
</tr>
<tr>
<td>Bilateral</td>
<td>29.0%</td>
<td>38.3%</td>
<td>30.9%</td>
</tr>
<tr>
<td>Multilateral</td>
<td>7.7%</td>
<td>12.5%</td>
<td>12.7%</td>
</tr>
<tr>
<td>Other Official Flows (OOF)</td>
<td>8.7%</td>
<td>6.6%</td>
<td>4.3%</td>
</tr>
<tr>
<td>Private Flows</td>
<td>50.7%</td>
<td>38.2%</td>
<td>47.7%</td>
</tr>
<tr>
<td>Grants from NGOs</td>
<td>3.9%</td>
<td>4.4%</td>
<td>4.8%</td>
</tr>
<tr>
<td>Total</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
<tr>
<td><strong>Sub-Saharan Africa</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Official Development Assistance (ODA)</td>
<td>59.5%</td>
<td>77.8%</td>
<td>88.3%</td>
</tr>
<tr>
<td>Bilateral</td>
<td>42.0%</td>
<td>52.9%</td>
<td>54.2%</td>
</tr>
<tr>
<td>Multilateral</td>
<td>17.5%</td>
<td>24.9%</td>
<td>34.1%</td>
</tr>
<tr>
<td>Other Official Flows (OOF)</td>
<td>11.2%</td>
<td>14.4%</td>
<td>0.2%</td>
</tr>
<tr>
<td>Private Flows</td>
<td>29.3%</td>
<td>7.9%</td>
<td>11.5%</td>
</tr>
<tr>
<td>Grants from NGOs</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
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<tr>
<td>Total</td>
<td>100.0%</td>
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centrated on the financing objective, and its main finding is that these taxes can raise quite substantial sums at modest tax rates (below the rates proposed by those whose main concern is with exchange-rate volatility and global warming). Thus the CTT could generate $15 to 28 billion per year, while a carbon tax could raise $50 billion; both these taxes alone would therefore provide enough revenue to more than double existing levels of aid (although governments would no doubt also wish to spend some of the revenues on increasing the provision of global public goods).23 But although such global taxes are promising from a revenue-raising perspective (as is the French proposal for an airline fuel tax), they need a large amount of political agreement internationally; the present US administration is firmly opposed, and the French government has yet to win consensus on the issue within the European Union.

There are alternatives to global taxation, and the United Kingdom’s proposal for the International Finance Facility (IFF) is one of these, as is the idea of creating Special Drawing Rights (SDRs) for development purposes. The IFF’s fundamental aim is to provide predictable and stable flows within an agreed disbursement mechanism, thereby effectively guaranteeing funding for the poorest countries and overcoming the volatility in aid that bedevils current donor practices.24 Long-term pledges of a flow of annual payments to the IFF would leverage additional money from the international capital markets through a securitization process (IFF bonds). The IFF could achieve a flow of $50 billion during the crucial years 2010 to 2015 (i.e., up to the target date for the MDGs), building up from 2006 and falling to zero by 2020. A major advantage of the IFF over global taxes is that it requires a smaller subset of countries to get the measure off the ground; indeed, the IFF does not
Addison, Mavrotas and McGillivray

require the participation of all high-income countries (it appears that Canada and the United States are unlikely to sign up, in part because of doubts as to whether the IFF is consistent with their budgetary procedures). EU countries are politically the most likely to press ahead if the United Kingdom can persuade them (France, Germany and Italy appear to be supportive), but one as-yet-unresolved problem is whether the IFF is consistent with the European Union’s stability and growth pact, which aims to contain the fiscal deficits and debt levels of member states. The UK intention is to have the IFF bonds accounted for on the books of a new IFF agency, but if the bonds are counted as being on the balance sheet of participating governments then they will add to the problem that these countries already have in meeting the so-called “Maastricht criteria.” Other issues to be resolved are what happens after 2020, and what form the new IFF organization will take.

Still, despite these difficulties, the IFF remains one of the most promising of the new financial proposals and, in the minds of many commentators, more likely to be realized than global taxes, which require much more international political unanimity. The IFF is also much more likely to be implemented than the separate proposal to create SDRs for development purposes, with donor countries making their SDR allocation available to fund development. The UNU-WIDER study estimates that an SDR allocation of $25 to $30 billion could make a significant contribution to the overall financing needs of poor countries (as well as a potentially positive impact on the global macroeconomy by generating economic growth in the South. But any expansion in SDRs for this purpose requires the proposal to be ratified by 100 IMF members (85 percent of the voting power of the Fund). This is much more difficult to achieve than assembling what the UK development minister, Hilary Benn, refers to as a “coalition of the willing” for the IFF.

There is much less disagreement between governments over expanding private flows of finance to developing countries, in part because such flows—in particular remittances and philanthropic donations—are already sizeable and growing (a more cynical view is that initiatives in this area do not require governments to commit much, if any, public money). Proposals on remittances are “new” in the sense that they aim to reduce the transfer costs involved in remitting money back to home countries (as well as complementary measures to remove the irregular residency status of migrants, which can make them reluctant to use lower-cost channels for remitting). Given that remittances are running at $80 billion annually (much more than annual aid flows), a reduction in transfer costs could have significant benefits and may directly contribute to meeting the MDGs when remittances flow to poorer households and communities. However, all of these efforts also have to be squared with recent national legislation in the areas of money laundering and counter-terrorism.

Philanthropy can raise substantial sums as well. In the United States, it accounts
New Sources of Finance for Meeting the MDGs

for more than 1.5 percent of income. However, much charitable giving is directed to domestic causes, rather than to development (Germany has the largest fraction going to overseas development). Charitable donations for development by individuals and firms can certainly be increased by tax incentives, global funds and corporate giving (including measures that encourage payroll giving). But we must also recognize that while responses such as that to the recent tsunami disaster in Asia have been outstanding, and need further encouragement, charitable giving in one area can expand at the expense of another. Moreover, as desirable as they may be, direct donations to communities and nongovernmental organizations cannot substitute for aid to fund government budgets, particularly spending on building comprehensive, nation-wide education and health systems (nor can charitable donations fund large-scale infrastructure projects, such as rural electrification, that can transform livelihoods).

Finally, the UNU-WIDER study examines the proposal for a global lottery, an idea given impetus by the Crisis Management Initiative (a Finnish NGO led by the former Finnish President Martti Ahtisaari). A global lottery could be organized to fund development, either by means of national-run versions sold parallel to existing state and local lotteries or through a single global lottery sold worldwide through the Internet. Its revenue potential is obviously hard to estimate, but the UNU-WIDER study comes out with a rough figure of $6 billion a year (which is feasible given that the world market for lottery products is at least $120 billion per year, and gambling, in all its forms, is a $1 trillion per year business). Although some people will buy into a global lottery for philanthropic reasons (and this may take money away from direct charitable donations), this may be less important to revenue generation than its ability to compete with other lottery and gambling products. No doubt some people will question the ethics of financing development in this way, but it must be said that lotteries are now a very common means for national and regional governments to fund themselves across the world—and the MDGs are a cause that is at least as worthy as many existing uses of lottery revenues. An alternative proposal in the UNU-WIDER study is to create a global premium bond for development modeled on the very successful UK premium bond (which provides funding for the British government); bonds are entered into a monthly prize draw, and the prizes provide an income stream (which depends on the bondholder’s luck) with no loss of the initial investment (in contrast to the purchase of an unlucky lottery ticket). This may be more ethically acceptable than a lottery product. Governments may oppose both ideas if either threatens their own funding (lotteries and casinos have grown increasingly important to the finances of local governments in both Australia and the United States, for example), and commercial gambling operators often have power.

The overwhelming majority of recent studies conclude that aid increases economic growth.
ful political friends. However, not all governments have to sign up to put these products into the marketplace, and since their purchase is voluntary they do not face the political difficulties inherent in increasing aid from general tax revenues or from introducing new global taxes.

In summary, a range of possibilities now exist that can provide more development finance (and we have only discussed a subset in this paper). A key point is that these opportunities should not crowd out existing official flows but must supplement them. For example, in pressing the case for global taxes governments should not allow these to substitute for increasing their bilateral and multilateral aid flows. As with debt relief, additionality is crucial.

CONCLUSIONS

This paper has examined the macroeconomic impact of official aid, paying special attention to its contributions to growth and poverty reduction. It showed that the empirical literature, published over the last seven or eight years, concludes overwhelmingly that growth in developing countries would have been lower in the absence of official aid. As such, it is reasonable to conclude by extension that poverty would have been higher in the absence of these flows. The paper then highlighted a substantial downturn in world aid flows in the 1990s. It also highlighted downturns in aid to Sub-Saharan Africa, where the MDGs will be hardest to achieve, and in non-aid, development-oriented flows. Given that the vast majority of the literature finds that aid is effective in promoting growth, and by implication in reducing poverty, that this result holds on average for all countries, and that reductions in aid have not been offset by increases in other development-oriented inflows, the paper argued that poverty is clearly higher in Sub-Saharan Africa as a result of the declines in aid to these regions during the 1990s. This in turn means that the MDGs will be harder to achieve in this region than would otherwise have been the case. While recent increases in aid to this region are to be welcomed, there remain many significant challenges for governments in Sub-Saharan Africa and the international donor community.

The obvious challenge is to sustain recent increases in official aid to Sub-Saharan Africa. Another appropriate response is to look to other innovative sources of external finance to assist in the achievement of the MDGs. A number of possible sources have been recently proposed. These include the Tobin Tax, the International Finance Facility, a global lottery, a global premium bond, development-focused special drawing rights and global environment taxes. These sources should be seen as an augmentation of official aid, building on the positive impact of these flows while at the same time increasing the poverty-reducing impact of this category of inflow. Ultimately, it is a case of not throwing the baby out with the bathwater.
NOTES

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2 On pro-poor growth the reader is referred to Anthony Shorrocks and Rolph van der Hoeven, eds., Growth, Inequality and Poverty: Prospects for Pro-Poor Economic Development (London: Oxford University Press for UNU-WIDER, 2005).


4 In addition to the 30 published, peer-reviewed, or widely empirical circulated studies cited below, the authors are aware of a further 15 empirical papers that conclude that aid and growth are positively associated. Note that these studies report results from different (in some cases revised or updated) empirical exercises, using different data or estimation techniques. The only exceptions are the Paul Collier and David Dollar studies, which report (identical) results obtained from a single empirical investigation. See Collier and Dollar, "Can the World Cut Poverty in Half? How Policy Reform and Effective Aid Can Meet the International Development Goals," World Development 29, no. 11 (2001): 1787-1802; Collier and Dollar, "Aid Allocation and Poverty Reduction," European Economic Review 26 (2002): 1475-1500; Collier and Dollar, "Development Effectiveness: What Have We Learnt?," Economic Journal 114, no. 496 (2004): F244-F271.

There are a handful of studies that either struggle to find evidence of a link between aid and growth or conclude that the link is negative. However, these studies are very much in the minority. For further details, see Michael Clemens, Steven Radelet and Rikhil Bhavnani, "Counting Chickens When They Hatch: The Short-term Effect of Aid on Growth," Centre for Global Development Working Paper no. 44 (Washington, DC: Center for Global Development, 2004); Mark McGillivray, Is Aid Effective? (Helsinki: World Institute for Development Economics Research, United Nations University, 2005).


Addison, Mavrotas and McGillivray


9 This can make empirical work more difficult and cause one to doubt the robustness of the results obtained. In the case of the literature cited above reasonable steps were taken to handle this diversity.

10 Lensink and Morrissey (2000) and Gomane, Girma and Morrissey (2003), for example, report findings that are specific to Sub-Saharan Africa. Others provide results that are country-specific. Gounder (2001, 2002) and Feeny (2004) look at the cases of Fiji, Solomon Islands and Papua New Guinea, respectively.


New Sources of Finance for Meeting the MDGs


20 All data shown in this section are taken from OECD's *International Development Statistics Online* (Paris: OECD, 2004) and relate to aid flows emanating from countries belonging to the OECD Development Assistance Committee (DAC). All dollar amounts are in constant 2001 prices. As mentioned, the measure of aid used is ODA, which is defined by the DAC as grants or loans to developing countries which are a) undertaken by the official sector, b) with the promotion of economic development and welfare as the main objective, c) at concessional financial terms (a loan must have a grant element of at least 25 percent). In addition to financial flows, technical cooperation is included in ODA. Grants, loans and credits for military purposes are excluded. The flows shown in Figures 1 to 3 are net ODA disbursements, which are the actual international transfer of resources from donor to recipient, less any repayments on ODA loans from previous periods. Total net ODA is simply the sum of bilateral and multilateral ODA. See OECD’s *Geographical Distribution of Financial Flows to Developing Countries* (Paris: OECD, 2003) for further details. The latest available comparable international aid data are for 2002.


29 Atkinson, ed.
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