Aid, Growth and Employment

DRAFT
ReCom
PositionPaper

UNU-WIDER

Further inquiries: publications@wider.unu.edu

Preface

This draft position paper on "Aid, Growth and Employment" was prepared by UNU-WIDER and relates to the first and third ReCom results meetings on *"Aid, Growth and Macroeconomic Management"* and on *"Jobs-Aid at Work"*, which were held in Copenhagen on the 27 January and 8 October 2012. The initial draft of the position paper was prepared before the 1st ReCom results meeting and was subsequently updated based on comments, research inputs, and deliberations from the these two meetings as well as background papers prepared under ReCom as well as other relevant literature.

Accordingly, this draft builds on (i) the background papers prepared for ReCom by members of UNU-WIDER's global network, including a range of leading specialists in the aid area from both developing and developed countries, (ii) already existing research published in a variety of forms reviewed under the ReCom programme, (iii) original research by UNU-WIDER staff and others, and (iv) papers prepared for the UNU-WIDER/AERC conference on the Macroeconomic Management of Foreign Aid, held in Nairobi on 2-3 December 2011. Further information on the background papers and other outputs from ReCom is available at http://recom.wider.unu.edu/results.

I am grateful for all of the analytical efforts that have gone into work under ReCom, and would like to express my appreciation as well to Danida and Sida for financial support. We look forward to continuing ReCom work in 2013. Any remaining errors of fact or judgment are my responsibility.

Finn Tarp

Director

UNU-WIDER

13 December 2012

1. Background

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

Economists typically view the productive capacity of an economy as being a function of stocks of factors of production especially physical capital (factories, tools, computers, roads etc.), human capital (workers with skills) and labour (workers without skills) as well as technology. Economists also posit a crucial role for institutions, which provide frameworks for organizing these factors in a manner that is productive. Poor countries lack physical capital, human capital, technology, and well-functioning institutions. As a result, the mass of unskilled labour present in the country may be highly unproductive with negative implications for nearly all aspects of well-being.

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

Second, accumulation of these attributes generally requires a forward looking mind set. In order to accumulate any of these, one must typically sacrifice something today in order to benefit in the future. This inter-temporal decision/choice can be very difficult when current resources are highly constrained, when people are unable to satisfy their basic needs, and when conflict and environmental stress make the future uncertain. In this case there is little scope for saving. *Third*, accumulation of these attributes relies on public-private partnerships. Even strongly market oriented economies, such as the United States, rely on the public sector to supply basic economic infrastructure such as roads and bridges, education, and to fund research and development for new technologies. This highlights the important role of institutions both for current and future production levels.

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

In general, to improve living standards significantly and lift citizens out of poverty, poor countries must produce more – much more. To produce more, these countries must initiate and maintain long run cumulative processes to build physical and human capital, acquire technology, and nurture institutions that facilitate growth. The role of aid for development, broadly conceived, is to support these long run cumulative processes. Thus, the success of the aid enterprise in accomplishing this objective and bring about economic growth that enhances the employability of both human and natural resources is the focus of this position paper.

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

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

Although economic growth, as measured by a rise in national income or output should not be an end in itself, it is certainly necessary as a means to an end; that end being the achievement of desired socio-economic development outcomes and hence poverty reduction. There is also empirical evidence to suggest that there is a clear association between growth and poverty reduction, even if the country-variation around means is large.[1] Our point of departure is that *sustained* and *fairly-distributed* economic growth is a necessary condition to ensure economic development.

[1]See for instance Ravallion (2001); Dollar and Kraay (2002)

The question then is how countries can achieve high quality economic growth that can lead to sustainable development? It is an uncontested fact that the process of economic growth in large measure depends on private initiative and on the internal resource mobilization efforts of developing countries (as demonstrated in many ReCom papers). However, given the narrow tax base, capacity constraints and weak institutions, local resource mobilization should not be left alone to do the job of solving the multifaceted development challenges of poor nations. There is *a priori* a strong theoretical case for aid, and foreign aid has over the years demonstrated that it can help by complementing local resource mobilization efforts and hence can assist in partially bridging existing resource and knowledge/capacity gaps. Moreover, even if other capital flows like FDI and remittances can in many cases serve similar purposes, aid has the distinct advantage that it can finance public goods and target the poor, vulnerable and marginalized sections of the society. Aid is in large measure public money that can be spent pursuing common societal needs and development constraints. The merit of aid in reducing poverty is acknowledged in the literature,[2] but despite this potential role to make a difference to the life of the poor, aid's effectiveness continues to be debated. In particular, the aid-growth issue has been a recurrent theme in various forums in development economics, and this sets the background for why this topic together with employment was chosen as the first focus area to be studied under ReCom.

It is indisputable that debate and discussion are essential parts of the learning process in the development profession, and over the last decades we have learnt a good deal as to "what works" and "what does not" in relation to aid effectiveness. At times, however, the development profession – academics and practitioners alike – has been caught up with unhelpful discussions that are not based on tangible, balanced and sold scientific evidence, and such discussions can potentially result in misguided policy. This has no doubt been observed in relation to the aid-growth debate, and recent years have witnessed a growing and unfounded pessimism about the role of aid in promoting growth; with much of the discussion relying on rhetoric instead of scientific research. It is thus high time to communicate with the wider public and policy makers about the existing and latest evidence on aid and growth and to point out where the balance of the evidence actually lies. This communication aim is core to the ReCom effort alongside the desire to generate widely respected research output. The main objective of this paper is thus to communicate evidence on "what works", "what does not" and "where we should do better" in relation to the role of aid in spurring economic growth and generating employment. In doing so, we will rely both on country specific experiences and analyses and results from contemporary cross-country and country level time-series econometric studies.

The rest of this position paper is structured as follows: after giving some background and perspective regarding the aid and growth debate in Section 2, in Section 3 we present the contemporaneous evidence based on ReCom research papers. In Section 4, the aid and employment topic is reviewed. Finally, Section 5 summarizes the key ReCom messages regarding aid, growth and employment.

[2] See for instance Gomanee and Morrissey (2002), Feeny (2003) and Gomanee *et al.*(2005) among others.

2. Aid and Growth: An overview

Empirical research on the effect of aid on growth goes back to the early 1970s. Since then numerous efforts have been made to empirically scrutinize the effectiveness of aid in promoting growth. Despite these, doubts and controversies regarding the potency of aid in spurring economic growth in recipient countries continues to date. Though some studies from the early days tended to find a positive and statistically significant impact of aid on growth,[3] subsequent work did not concur with this optimistic conclusion and instead suggested that foreign aid may have no impact on growth.[4] Mosley (1987) came up with the idea of a "micro-macro paradox" noting that while aid seems to be effective at the micro level, a positive and significant impact could not be established as one moved to a macro setting.

The above pessimism regarding the macro level impact of aid instigated, from the early 1990s, further proliferation of aid-growth empirical studies on both sides of the debate. After some time, the tone of the debate started to take a different course from "aid doesn't work" to "aid works but only under certain conditions". The emergence of the influential paper by Burnside and Dollar (2000), which suggests that "aid works" *but* only in countries with good policies, marks the beginning of this debate.[5] As is evident in a series of papers from the early 2000s, the policy conditionality argument is fragile at best, and at worst misleading.[6] For example, Hansen and Tarp (2001) have shown how a diminishing returns story, captured by an aid squared term, has the most support in the data, suggesting that aid has, on average, a statistically significant positive impact on growth for realistic data ranges. Dalgaard et al. (2004) have also contributed. They found a modest and yet significant positive effect of aid on growth suggesting that the effectiveness of aid seems to vary across geographic locations.[7] Other researchers like Clemens et al. (2004) on the other hand report a much higher effect of aid on growth by disaggregating aid into different components.

Even if a positive and yet modest impact of aid on growth at the macro level started to emerge around the turn of the millennium, scepticism and cynicism about macro level aid effectiveness has continued, particularly in recent work. Prominent here is Rajan and Subramanian (2008), who argue that aid has no systematic impact on growth, and they also claim that this holds under various model specifications. Moyo (2009), in a book titled "Dead Aid", goes a step further and

---

[3] See Papanek (1972,1973), Stoneman (1975), Dowling and Hiemenz (1983), Gupta and Islam (1983), Levy (1988), Murthy, Ukpolo and Mbaku (1994).

[4] See Mosley et al. (1987), Boone (1994) and many others.

[5] The Burnside-Dollar analysis was also at the center of the World Bank's 1998 highly influential report "assessing aid" – and its conclusions about "what works, what doesn't and why" (World Bank, 1998). Similar policy conditionality arguments can be found in Collier and Dollar (2002). Collier and Dehn (2001) also present conditional aid effectiveness argument stating that aid is more effective when it is given to countries experiencing negative export price shocks.

[6] See Hansen and Tarp (2001), Dalgaard and Hansen (2001), Easterly et al. (2004) and Roodman (2004).

[7] Dalgaard et al. (2004) concluded by pointing out that "it is very hard to believe that aid, inherently, should be less potent in the tropics. Hence the explanation is likely to be found elsewhere ……." (p.212). They indicated the need for further research to disentangle the channels through which aid matters for productivity.

argues that aid is not only ineffective in spurring growth but is also the source of development problems in Africa. As recognized by a range of commentators, this book is in general characterized by its simplistic analysis, lack of rigor and unrealistic policy recommendations. A similar pessimistic conclusion about aid effectiveness is echoed by Doucouliagos and Paldam (2009). Combining empirical evidence from 68 previous aid-growth studies and using a Meta-Analysis methodology, these authors conclude that aid is ineffective in spurring economic growth. While shying away from recommending that aid be shut down, this is certainly how their results are being read and interpreted.

At this point it is worth mentioning how a misreading of the available evidence plays its own part in fuelling the controversy in the aid effectiveness debate at the macro level. In principle, lack of evidence (what is commonly referred as an "insignificant coefficient estimate" in the parlance of econometrics/statistics) does not imply absence of evidence as to the effectiveness of aid.[8] It simply tells that one does not find enough evidence to disprove the null hypothesis i.e., to suggest the presence of "an effect" given the data and time period used for the analysis at hand. Such evidence is just one possible outcome and cannot be taken as a proof of absence of an effect in general. Therefore, studies with a statistically insignificant estimate of the impact of aid on growth should not be taken as proof of aid ineffectiveness. However, this type of misreading of the evidence is regularly observed in the aid-growth literature particularly at the macro level.

Despite the continuing scepticism and controversy about macro level aid effectiveness, there is a wealth of undisputed positive and encouraging results observed at the micro level.[9] Does this mean that the "micro-macro paradox" as termed by Mosley remains unresolved? The answer is negative. As shown in detail in the section below, the micro-macro paradox has been unravelled by well-designed and contemporary evidence compiled as part of the ReCom project – and this goes for all of the available analytical methodologies at hand.[10] This evidence also reflects an emerging consensus in the profession regarding the growth enhancing impact of aid and how this reality is becoming too obvious to be ignored.

---

[8] See Temple (2010) for further background and discussion.

[9] "…it is relevant to stress that there is widespread agreement in the literature that aid has in many cases been highly successful at the microeconomic level. The most rigorous project evaluations are done by the World Bank, and reports from the Independent Evaluation Group of the World Bank are generally encouraging. For the period 1993-2002 an average rate of return of 22 per cent has been noted and decent project rates of return have over the years been reported regularly in one survey after the other…" Tarp (2006)

[10] Reference can be made here to ReCom research that is now being explicitly referred to in the new draft British legislation following the House of Lords select committee on economic affairs call for evidence on the economic impact and effectiveness of development aid. Moreover, Senior IMF staff participated actively in the AERC/UNU-WIDER aid conference in Nairobi confirmed that ReCom research is now seen as a key reference point when it comes to aid-growth research. This is also clear from the number of hits and ranking of a ReCom paper by Arndt, Jones and Tarp (2010) as the most popular downloaded paper of the Journal of Globalization and Development – see http://www.bepress.com/jgd/topdownloads.html. Finally, the Chief Economist and Senior Vice-President of the World Bank invited UNU-WIDER to post a blog on ReCom aid-growth research as this was seen as highly pertinent to the Busan meeting – see http://blogs.worldbank.org/developmenttalk/blog/95.

3. Aid and Growth: Revisiting the Aggregate Level Evidence

As part of its objective to identify and communicate the evidence on "what works", "what does not" and "where we should do better", ReCom has taken a fresh look at the aid-growth debate which relies on econometric evidence. Accordingly, a range of research papers have been produced thus far on aid and growth, applying different methodologies and analytical approaches. Despite the controversial and somehow gratuitously pessimistic evidence regarding the macro level impact of aid on growth, the empirical results from ReCom papers provide a consistent and rather positive picture and assessment of aid's impact on growth. A brief summary of the findings of four selected studies and the corresponding key messages are presented below. We highlight that they are in broad consonance with other ReCom background and survey works. This section, in particular, addresses the following important questions: "Does aid have an impact on growth?", if so, "How big is the impact?" and "How long does it take to realize any impact of aid on growth?" These are the kind of questions that are equally relevant for both donor and recipients countries.

(i) Evidence from Cross Country Research

Despite the broad range of agreed positive impacts of aid at the micro level, the macro level impact of aid on growth remains contentious. As outlined in the previous section there has even been a particular pessimism expressed in recent years based on cross country research, the major one being the work by Rajan and Subramanian (2008). The question is then, whether one should take this pessimism serious? The answer is negative. This is demonstrated in the *Journal of Globalization and Development* ReCom paper by Arndt, Jones and Tarp (2010). These authors show both why the this pessimism is unfounded and how well-designed empirical research does indeed provide robust empirical support for a positive impact thesis, even at the macro level. Using cross country analysis and methods from the programme evaluation literature, Arndt, Jones and Tarp demonstrate how foreign aid has a positive and statistically significant impact on growth in the in both the 1960-2000 and 1970-2000 time periods.

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

The positive and statistically significant finding of Arndt, Jones and Tarp (2010), from cross country research, is consistent with what is documented in the most recent and well cited paper by Clemens et al. (2011). These authors, after making a clear-cut modification on three influential papers[11] in the aid-growth literature and by restricting aid to 'early impact aid'[12] conclude that "aid flows are systematically associated with modest positive subsequent growth (for cross-country panel data). Specifically, a one percentage point increase in aid to GDP ratio at mean aid levels is found to be followed, within several years, by an increase in investment to GDP and real GDP per capita growth with a magnitude of 0.3-0.5 and 0.1-0.2 percentage points respectively. Clemens et al. (2011) also point out that "most of the substantial disagreements in the literature's most influential studies disappear when aid is allowed to affect growth with a lag, only portions of aid relevant to short term growth are tested for a short term growth effects, and when the historical time series under observation is extended to include all available data." (p.613)

To summarize the main messages, *first*, the empirical evidence from the above cross country research confirms that pessimism about the impact of aid on growth is based on fragile evidence. Moreover, the modest, positive and significant impact of aid on growth presented above implies that the micro-macro paradox coined by Mosley (1987) is not supported by the evidence in the data.

To roughly see the real world implication of the ReCom evidence by Arndt, Jones and Tarp (2010), one can make a simple back-of-the-envelope calculation for sub-Saharan Africa (SSA). Over the period 1970-2000, the average aid to GDP ratio for the SSA region was 3.9 percent and the average GDP per capita growth rate was -0.02. In a counterfactual where SSA received no aid, the findings of Arndt, Jones and Tarp (2010) suggest that the average (counterfactual) growth rate would have been -0.53%.[13]

The *second* message is the need to be realistic about the appropriate time-frame over which any growth effects from aid can be expected to materialize. As the authors indicate, even if aid financed investments in health, institutional quality, education and other welfare enhancing services have an impact on growth; this impact is not immediate and can only be identified with a substantial delay. In addition Arndt, Jones and Tarp (2010) indicate that the volatility of the

---

[11] These papers are Boone (1996), Burnside and Dollar (2000) and Rajan and Subramanian (2008)

[12] According to Clemens et al (2012), early impact aid excludes all aid flows that "clearly and primarily funds an activity whose growth effect might arrive far in the future or not at all, such as all technical cooperation, most social sector investments, including in education, health, population control, and water, all humanitarian aid such as emergency assistance during natural disasters and food aid and donors/administrative/overhead costs and expenditures on 'promotion of development awareness' "(p.599)

[13]This is calculated by noting that the change in GDP growth is equal to the change in the share of aid in GDP multiplied by an aid-growth parameter of 0.13. Thus, the no aid (i.e., if aid to GDP were to decrease by 3.9 percentage points) scenario growth rate is as follows: -0.02-(3.9*0.13) = -0.53. If aid's share of GPD were increased by 10 percentage points, GDP growth is projected to increase by 10*0.13 = 1.3 percentage points (and growth would be -.02+1.3=1.28%). Alternatively, if SSA's aid share were increased to 10% of GDP, (equivalent to a 6.1 percentage points increase) projected growth would be (10-3.9)*0.13 = 0.79 percentage points over and above the actual growth rate of -0.02.

growth process in most developing countries, coupled with the measurement problem in almost all variables of interest in the data, makes it even harder to identify the impact of aid on growth in the short to medium run. Accordingly, the authors indicate that long time periods are the ideal choice to reliably detect the true aid-growth relationship. The evidence by Clemens et al. (2011) and the analysis therein corroborate this argument.

Finally, the findings of this paper accentuate the need to hold reasonable expectations regarding the impact of aid on growth. These authors, based on predications from recent growth theories, point out that overall expectations regarding the average impact of aid have often been excessive.[14]

(ii) Evidence from Time Series Research

The econometric aid-growth research has in most cases been dominated by cross country analysis like the one presented above as country-level time-series data in the past were either unavailable (or available only for short time periods) or of very poor quality. Analysing the impact of aid on growth based on cross country data thus appeared as the only avenue to arrive at reliable estimates (because of large sample size). Arguably, such studies also provide valuable insights (or reference points) about the overall trends and relations that can serve as an input for general policy discussions. However, it is well known (and widely accepted) that when it comes to formulating country specific policies and strategies, cross country studies have their limitations. This is because such kinds of analysis depend on averages that can potentially conceal country specific realities. This emphasizes the importance of country level time series evidence as the way forward in principle as such analysis better captures country specific circumstances. Here ReCom has broken new ground. Due to both the availability of better data and improved methodology Juselius, Møller and Tarp (2011) have been able to carry out a time series analysis on no less than 36 sub-Saharan African countries using well designed time series techniques.

The ReCom paper by Juselius, Møller and Tarp (2011), which is forthcoming in the *Oxford Bulletin of Economics and Statistics*, is a comprehensive study of the long-run effect of aid on a set of key macroeconomic variables. In particular, the authors try to identify the transmission mechanisms of the effects of foreign aid on the macro economy and establish whether foreign aid has had a positive long-run impact on investment, real GDP as well as on public and private consumption. The analysis is, as noted above, based on individual country models for no less than 36 sub-Saharan African countries from the mid-1960s to 2007.

The findings provide clear support for a positive long run impact of aid on the macro economy of recipient countries. Particularly, aid is found to have a significantly positive effect on either investment, GDP or both in 27 of the 36 SSA countries that are included in the study. For seven

[14] The use of simplistic theory models like Harrod-Domar and Two-gap models to predict the impact of aid on growth has contributed to the escalation of expectations about the effectiveness of aid in promoting growth in developing countries.

other countries, the effect of aid on GDP and investment is positive, but statistically insignificant from zero.[15] In only three countries (Comoros, Tanzania and Ghana) is the impact of aid on either GDP or investment negative and statistically significant. Moreover, a closer look at these countries is required. Especially for Ghana, the evidence may not be very strong as the observed strong positive effect of aid on GDP can potentially dominate the observed negative effect on investment. Further ReCom work is underway to help clarify the mechanism at work in Ghana as well as in Tanzania.

In addition, according to the results by Juselius, Møller and Tarp (2011), there is transmission from aid induced consumption to investment and growth. That is, even if aid (as expected) has led to an increase in private/public consumption expenditures, the long run positive impact of aid on consumption is seen to be accompanied by a positive impact on investment and GDP growth in the majority of the countries in the sample. This indicates that the aid induced rise in consumption in SSA is not growth inhibiting, implying that other transmission channels are also at work. For instance, in the case of public consumption, an aid induced rise in consumption can potentially lead to higher growth if it is channelled to growth enhancing activities like health and education.

In sum, there is convincing time series country level evidence to support the view that aid has a positive long run impact on investment and GDP growth in countries in sub-Saharan Africa. The qualitative results as to effectiveness of foreign aid are found to be similar in the majority of SSA countries, while these countries are found to be rather heterogeneous with respect to the transmission of aid to the macro variables. As indicated by Juselius, Møller and Tarp (2011), this emphasizes the need to focus more on country level time series analysis in order to give proper policy advice on individual countries.

Another main message is that the claim that foreign aid primarily leads to (wasteful) consumption without much improvement in investment or GDP growth appears to be unfounded. There is clear evidence that a positive consumption effect of aid has been accompanied by positive investment and growth effects in the majority of SSA countries.

Overall, though a couple of cases merit further research as indicated above, the overall message is clear and compelling: In light of the ReCom empirical time series evidence by Juselius, Møller and Tarp (2011), to suggest that aid has no impact on growth and investment in recipient countries is simply not well founded.

Above all, the convergence of results from sound and up-to-date cross country and time series analysis regarding the positive impact of aid on growth at the macro-level is worth noting. This

[15] Please recall, this implies absence of evidence of impact, not evidence of absence of impact.

reconfirms the absence of a micro-macro paradox in aid effectiveness. Instead, the paradox is embedded in inappropriate use of existing econometric methodologies and/or data issues.[16]

(iii) Evidence from Meta–Analysis

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

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

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

[16] One recent example of how inappropriate use of existing methodologies and data in time series analysis can lead to misleading conclusions is the paper by Dreher et al. (2012). Another ReCom time series paper is underway to show how this is the case and how proper use of data and time series methodology can give meaningful results that are broadly consistent with the available evidence.
[17] We highlight that while Mekasha and Tarp have pursued this line of enquiry under the ReCom umbrella this does not entail a methodological endorsement of the meta-analysis approach in the case of aid and growth.
[18] Publication bias is said to arise when researchers, editors, and reviewers tend to favor statistically significant findings causing studies that yield relatively small and/or insignificant results to remain unpublished. See Stanley (2005)

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

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

(iv) Aid and Growth: Unpacking the Aggregate Evidence

Relatively little attention has been given in macro-econometric cross-country and country level works to unpack the relationship between aid and growth. The majority of the research on aid effectiveness focuses on investigating the direct impact of aid on final outcomes such as economic growth. Consequently, there is limited evidence and hence knowledge regarding the channels through which the impact of aid on growth is transmitted. Cognizant of this gap, the latest ReCom research paper by Arndt, Jones and Tarp (2011) addresses the need to unpack the aggregate impact of aid on growth head-on by making a broad assessment of aid effectiveness.

The main objectives of this paper are: to quantify the causal impact of aid on a range of final outcomes (like economic growth, poverty, inequality and structural change); intermediate outcomes – both economic and social (such as investment, consumption, tax, health and education) and finally to unpack aggregate aid effectiveness by quantifying the transmission channels from the key intermediate outcomes to economic growth. In so doing, the authors try to answer an important question, namely, "What has aid accomplished over the past four decades?" As pointed out in the paper this is a relevant policy question that is equally important for both donors and recipients as its answer determines whether it is worth giving and receiving aid, respectively.

The results of the paper show a positive and statistically significant impact of aid on the different final outcome measures considered in the study. In particular, aid is found to have a positive and significant impact on growth.[19] In addition, while aid is found to significantly lower the level of poverty (as measured by poverty headcount index), the results show no evidence that aid leads to inequality. Furthermore, aid is found to be associated with a more rapid expansion of the

[19] This result corroborates the finding from Arndt, Jones and Tarp (2010), and we note that the data period for the present paper is extended until 2007 and therefore provides an excellent robustness check.

industrial sector and a relative decline in agriculture's GDP share. This is consistent with the structural transformation inherent in the development process.

The results also show positive and significant impact of aid on various intermediate outcomes including investment, government expenditure, government revenue and social outcomes. As further depicted in the results, health and physical capital investments are the channels through which the growth enhancing effect of aid is realized.

Finally, and to be specific, Arndt, Jones and Tarp (2011) find that a constant flow of foreign aid valued in real terms at US$ 25 per capita per annum (which is close to the mean) has yielded an annual growth bonus of about 0.5 percentage points.[20] This corresponds to an approximate internal rate of return (IRR) of 16% over the 37 year period from 1970 to 2007.[21] This IRR calculation involves the following steps:

(a) Assume a starting income (GDP) of US$ 650 per capita and a counterfactual constant real growth rate of 1.5%.[22] Put together, (i.e., compounding the income annually) this yields a projected series for per capita income over a specified horizon, in this case 37 years (1970-2007). This is the base case, "without aid" scenario.

(b) Calculate a "with aid" scenario, which is the base case modified to include a constant real growth rate of 2%, which is the base case plus the growth dividend due to aid of 0.5% (1.5% + 0.5% = 2%).

(c) Calculate the cash flow associated with aid. For each year this is given by the difference in per capita income between the "with aid" and "without aid" scenarios, minus the cost of aid ($25).

(d) Based on the series of annual cash flows, the IRR is calculated as the discount rate that sets the net present value of this cash flow to zero.

The above finding of an annual IRR of 16% means that the higher average rate of economic growth attributable to aid has yielded benefits substantially in excess of the costs of aid and certainly on a par with market returns (cost of credit) in many developing countries.

---

[20] Note this calculation is also entirely consistent with Arndt, Jones and Tarp (2010). For instance, 3.9% of US$ 650 equals just over US$ 25; as previously noted, 3.9% is the average aid/GDP ratio for sub-Saharan Africa, which was associated with a 0.51 percentage point contribution to growth.

[21] The internal rate of return (IRR) is the compound annual rate of return from a given "investment project" which takes into consideration upfront and on-going costs, as well as subsequent cash flows. In other words, it is a measure employed to evaluate the entire cash flow of a project, including its costs, over a specified period of time. In the private sector, projects that yield IRRs above a specified hurdle rate, such as a market rate of return or cost of capital, are typically considered as good investment prospects. In the minimum, a positive IRR indicates that the positive cash flows from a project exceed its costs.

[22] The choice of starting income is subjective in nature, but we note that $650 represents an approximate 1970 starting income per capita (at PPP) for low income aid dependent countries, such as Burkina Faso ($669), Mali, Uganda and other (as per the AJT10 data set). We also note that the lower the starting point, the lower the IRR as the 0.5% growth bonus from aid is "working" on a smaller base.

In summary, unpacking the aid-growth black box is crucial as the primary focus of most foreign aid programmes, particularly with reference to the MDGs, is on intermediate (social) outcomes rather than economic growth. This helps to answer not only the question 'whether aid works' but also 'how (in what ways) it works'. The main message from the above unpacking empirical evidence is that there is no ground to suggest that development assistance in the last 40 years has had an *overall* harmful effect on development outcomes. Rather, consistent and coherent results emerge regarding the positive impact of aid on a range of meso and macro-level outcomes. The current evidence clearly shows that aid has promoted structural transformation, reduced poverty, and stimulated growth, and one should note that an annual IRR of 16% is very respectable indeed. According to the evidence, there is no basis to suggest that aid inhibits structural transformation as implied by the Dutch Disease theory or weakens domestic revenue mobilization as claimed by aid sceptics. Besides, aid is found to improve educational outcomes. In light of this, suggestions to cut back foreign aid on the grounds that it is not useful are tenuous.

Furthermore, the unpacking evidence gives some guidance on useful aid priorities. It underlines the importance of physical and human capital accumulation as key transmission channels from aid to growth. However, one should not expect a "quick win" as the evidence shows that the "Long Run" is the appropriate time horizon over which the positive impact of aid through the above transmission channels is likely to be revealed.

(v) Key Messages and Lessons Learnt on Aid and Growth

The main objective of this section was to reconsider the aid effectiveness evidence based on contemporary scientific research papers, implemented under the ReCom project, other literature and a variety of meetings. Despite the underlying differences in methodology, data coverage and analytical approach, consistent and coherent evidence on the impact of aid on growth at the macro level has emerged from the ReCom research effort. In particular, ReCom aid-growth research points to a positive, and statistically significant, impact of aid on growth performance in aid receiving countries. The pessimism expressed in recent aid–growth literature in general and the claim of a micro-macro paradox in particular is unwarranted.

At the same time, no well-informed individual believes that aid has been beneficial in all places at all times, and there are certainly instances where aid, like any other development intervention, has failed to fully meet its intended objectives for various reasons. This does not, however, undermine the case for the principles underlying aid. Rather, it points to a need for redoubling our efforts to learn what works and could work – a central objective of ReCom. It is important to see failures as part of a learning process about one of the most difficult enterprises faced by humanity. Only by drawing on lessons from both success and failure can one arrive at a balanced view on the aid-development relation and aid's real potential in helping bring about development.

Moreover, while ReCom has contributed frontier research evidence, which is more or less in line with theoretical priors, the answer to aid's impact will in the final analysis depend on how the aid is structured; there is a lot of heterogeneity in the aid-growth data, across countries, aid modalities etc. If aid is structured and designed so that it reinforces rent-seeking on the side of government officials and reinforces the weaknesses of institutions, it is likely to have a low impact.

Another take away message from this position paper is that there is a limit to what and how much aid can do; aid should not be seen as a universal remedy. We thus need to hold realistic expectations both in relation to the size of the impact of aid on growth, and the time horizon over which we expect to see any impact. As predicted by growth theory, and confirmed by the ReCom empirical research; the impact of aid on growth is (while respectable) "modest" in comparison to needs and is only realized over the "long run".

There is a recurring need to strive at unpacking the aggregate aid-growth relation and identify the transmission channels through which aid affects economic growth. In this connection, it is important to study the impact of aid on other social outcomes that are important in their own right. In general, economic growth should not be taken as the sole benchmark against which aid effectiveness is assessed/measured, particularly in light of the focus that is being given to social sectors in association with the MDGs.

Last but not least, as is also pointed out by Tarp (2006), we have to continue to make a distinction between "aid being less effective than possible" versus "aid doing real harm" in terms of its growth impact. It is in the case of the latter that one should seriously reconsider the overall relevance of aid, while in the former what is called for is improved aid design. The good news is that there is no evidence to suggest that aid, on net, has done positive harm in recipient economies over the long run (here defined as 1979-2007).

We know that aid may influence institutions both positively and negatively. The important point emerging is that any negative impact does seem to be outweighed (on average) by positive effects over the longer run. Accordingly, giving up on the poor and cutting back aid flows does not appear as a prudent way to overcome unintended, yet avoidable, potential macroeconomic and institutional challenges, especially in light of an estimated internal annual rate of return of about 16% in typical country cases.

Overall, the growth enhancing impact of aid presented above is encouraging news both for donors and recipients alike. However, as pointed out in our introduction, economic growth per se cannot be considered as an end unless the aid driven growth is translated into poverty reduction. In other words, economic growth in isolation will not be sufficient to lead to poverty reduction unless a major difference is made on issues that are really important for the livelihood of the poor. Among these, the issue of decent and remunerative employment appears top of the list. For poor people labour is the major and often the sole endowment that they own. As Fields (2012) puts it, what makes the poor who they are is either they are badly paid for the work they do or they are unemployed and hence receive nothing. In view of this, creating more and better quality jobs should be at the centre of any policy dialogue that aims to achieve poverty reduction. Thus, assessing the impact of aid on jobs and employment creation is timely so as to make aid interventions more focused, targeted and effective.

The aid employment nexus, though important, has not gotten the attention it deserves and the question as to how aid and employment are related remains challenging. Due to this, UNU-WIDER under the ReCom umbrella took the initiative to document the evidence on aid and employment by assessing the existing limited evidence, identifying the research gap and carrying out primary research on the area. The following section is thus devoted to exploring the link between aid and employment based on the evidence that ReCom has documented so far. Having highlighted the issues related to employment and the labour market in developing countries in section 3, section 4 will concentrate on understanding the link between aid and employment. In particular, it explores ways in which aid can help to generate more and better quality jobs in aid recipient countries.

4. Unemployment in Developing Countries: Getting the Facts Right

In this section we aim to shed light on certain facts and realities regarding the employment and labour market situation in developing countries in general and Africa in particular. Since the conventional narrative on unemployment by and large focuses on quantity rather than quality of jobs, much less is known about the labour market conditions in developing countries, especially the types of jobs that the poor are engaged in.

One distinguishing feature of the labour market in developing countries relates to the fact that a very large section of the population is engaged in informal sector activities that mainly take the form of self-employment and family businesses. For instance, as pointed out in the ReCom research paper by Jones and Tarp (2012), in Mozambique and other low income and agriculture dependent African economies, like Tanzania, Burkina Faso and Mali, the informal sector is the most important source of employment in both rural and urban areas. The authors, drawing on evidence from micro level data from Mozambique, indicate that "[i]n rural areas in particular, only 5% of [the] jobs are plausibly located in the formal sector; this rises to a little over 30% in urban areas. The largest category in both locations is the self-employed, which represents approximately one half of all Mozambican workers", Jones and Tarp (2012, p.20). These authors also point out that, at the aggregate level, only 12 percent of all workers report receiving a wage, out of which men account for nearly 80 percent.

As Fields (2012) also puts it "[i]n most cases developing country workers work on farms and in their own micro enterprises, not in factories or offices" (p. 3). Similar facts about the dominance of informal sector employment in developing countries are also reflected in the International

Policy Centre-IPC (2008) report on “Poverty in Focus”. According to this source, informal sector employment constitutes from two third up to three quarters of total employment in developing countries, of which three quarters or more are found in Sub-Saharan Africa (SSA) and South Asia.

Overall, the above evidence is a reminder of how informal and non-wage employment is the norm rather than the exception in Africa and the developing world at large. The huge reliance of the poor on informal sector jobs potentially implies that this sector is the source of opportunity for the poor as it serves them as the main source of income and livelihood. However, there is also evidence which suggests that, informal employment is at the same time a source of risk and vulnerability. In most cases such poor quality jobs are characterized by low productivity, high exposure to negative income shocks and precarious working conditions that can potentially have health risks.[23]

In relation to this, the ILO (2011) report uses a notion called ‘vulnerable employment’[24] as a tool to evaluate decent work deficits in developing countries. The evidence in this report shows that, even if the vulnerable employment rate in sub Saharan Africa(SSA)[25] has shown a decline from 2001 to 2008, the region’s vulnerable employment rate in 2008 appear to be 75.5 per cent and remains among the highest in the world. Among individual countries, there are also instances where the vulnerable employment rate even increased/marginally decreased despite an improvement in economic growth. For instance, in Botswana the report shows that vulnerable employment increased from 17 per cent to 36 per cent between 1996 and 2006 although the rate is still less than half of the regional average. Similarly, in Mozambique, despite encouraging economic growth, vulnerable employment only shows a slight decline from 87 per cent to 85 per cent between 1997 and 2007. Though the calculations of these figures are not very accurate, they lend clear support to the argument regarding the poor quality of most informal sector jobs in SSA.

In addition, most of the people working in the informal sector are working poor and their income is too meagre to lift them out of poverty. Fields (2012, p. 4), in describing developing countries’ employment problem states that “what most developing countries have is primarily a problem of

---

[23] This is not to demean the important role that some informal employments play in creating better quality jobs and enhancing productivity. Despite this reality, the downsides of informal employment stated here can characterize most of the informal sector in the developing world.

[24] “Vulnerable employment consists of the sum of the status groups of own-account workers and contributing family workers [as a share of all employed]. In developing economies, these workers are less likely to have formal work arrangements, and are therefore more likely to lack elements associated with decent work such as adequate social security and recourse to effective social dialogue mechanisms. Vulnerable employment is often characterized by inadequate earnings, difficult conditions of work that undermine workers’ fundamental rights, or other characteristics pointing at decent work deficits, including low productivity.” ILO (2011:58)

[25] For countries that do not report employment by status, the rate is calculated using imputations and the imputations are carried out by employing information which is available for all countries, like economic growth rates .

working poverty, not a problem of unemployment...most of the poor are poor because, despite working, they do not earn enough to enable their households to escape from poverty; they are not poor primarily because of unemployment. Not enough 'good jobs' are available for all who want and can do them".

In view of the above, if informal sector job for the most part are characterized by high risk, vulnerability, low productivity and working poverty; then the immediate question is why we see such a huge share of informal employment in the developing world, particularly in Africa? In other words, what factors contribute to such proliferation and pervasiveness of informal sector jobs in poor countries? Why aren't there enough 'good jobs' out there? Although part of the explanation for the existence of a huge informal sector can be attributed to efforts to evade taxes and other costs related to formalizing a business, the main reason, however, rests on other factors related to supply and demand for labour.

On the supply side, low levels of education, limited experience, underdeveloped work skills and lack of training are among the major problems that make individuals unsuitable for formal sector jobs and force them to switch to informal employment. These supply side problems can also explain why informal sector businesses fail to transform into formal sector businesses and remain pervasive in these countries. Although supply side problems have an obvious part in justifying the growing tendency for informal sector jobs, the lion's share of the informality story, particularly in urban areas, is more of a demand side issue.[26] Specifically, the limited capacity of the formal economy to generate an adequate number of jobs that can absorb the new entrants in the labour market is the major factor that prompts the proliferation of informal sector jobs.[27]

This sluggish progress in formal sector job creation in Africa can be better understood by looking at the kind of structural transformation the region is experiencing today. An economy undergoing structural transformation is expected to gain in aggregate labour productivity and hence economy growth through the reallocation of labour from a less productive sector to a higher productive sector. In the case of SSA countries, this can happen when labour moves out of the less productive agricultural sector to other high productive sectors like manufacturing. Evidence based on disaggregated data shows that such a reallocation of labour between sectors appear to be an important source of productivity growth among fast growing East Asian economies. For instance, in China and Vietnam structural change accounts for 4.1 and 2.6 percentage points out of the respective 7.3 and 4.2 percent annual growth in aggregate labour

[26] "For a long period, public sector jobs were offered to young college graduates. But as the fiscal space for continued expansion in public sector employment shrank, "queuing" for public sector jobs became more prevalent, leading to informality, a devaluation of educational credentials, and forms of social exclusion. A fairly well-educated and young labor force remains unemployed, or underemployed, and labor productivity stagnates." WDR (2013:7)

[27] For instance, in the Mozambican case, Jones and Tarp (2012) indicate that despite the rapid economic growth in Mozambique, the share of workers in both formal and informal job categories remain stable over the years; which is one indication that the Mozambican economy did not generates new jobs in the formal sector.

productivity in the past decade WDR (2012). In SSA, however, such kind of gain in labour productivity through structural change are yet to happen.

As documented in ILO (2011), between the periods 1991-2000 and 2000-2008, even if the share of the labour force in agriculture in SSA fell, the share of labour force employed in the industrial sector did not show reasonable growth. Actually, it decreased by around 1 percentage point in the years 1991-2000 and increased slightly, by roughly 1 percentage point, during 2000-2008. Similarly, according to Fox and Sekkel (2008), between 1995 and 2005, the share of employment in agriculture as a share of total employment in SSA fell from 70 per cent to 63 per cent. In contrast, the share of labour and output in the service sector increased during the same period. In commenting on the rise in service sector employment, the authors argue that the jobs in the service sector are unlikely to be paid and salary jobs. On the other hand, the evidence in Fox and Sekkel (2008) shows a fall in the growth of manufacturing in Africa. Citing the World Bank (2005a) and ILO (2006) these authors state that in SSA (without South Africa) industry accounted for 12 per cent of the labour force in 1990. But this share had gone down to 9 per cent in 1995 and has stayed there. [28] This decline in the share of labour force in the industrial sector despite a fall in agricultural labour is contrary to what one expects to see in the early stages of structural transformation.

Similarly, the micro level evidence from Mozambique presented by Jones and Tarp (2012) is broadly consistent with what is presented above. This evidence shows that between 1996/97 and 2008/09 the percentage of the labour force in Mozambican agriculture declined from 85% to 80% while the share of the labour force in manufacturing sector stayed the same in both periods (at 2.7 per cent). Then again, during the same period, the share of workers in services increased from 2.7 to 2.9 per cent. The authors indicate that "[t]he small relative shift that has occurred out of agriculture therefore can be understood as largely an urban phenomenon with the preferred destination sector being some form of services, typically (petty) commerce" (p. 25)

Overall, although the evidence shows a relative decline in the share of the labour force in agriculture, this decline is by and large translated to a rise in the labour force in the service sector making the labour reallocation from agriculture to services rather than to manufacturing where the potential for formal job creation is immense. What makes matters even worse is that, as pointed out above, in poor countries most of the employment in the service sector is likely to be self-employment or family businesses instead of wage or salary job.[29] In light of the above, the role of labour intensive manufacturing sector in formal job creation in SSA is declining over time or stagnant at best. Moreover, it is not an exaggeration to say that structural change in

[28] The authors added that in the past two decades, a large part of the growth in industrial value added in Africa is originated from mining sector which is rather more capital intensive and has very limited capacity for generating domestic employment. It is also indicated that the labor intensive manufacturing sector which has an enormous potential to create new jobs in Africa only constitutes 14% of GDP.

[29] Such an employment is likely to be dominated by low quality jobs and low productivity. For instance, in Africa most of the non-farm informal employment in service sector related activities in rural areas is a reaction to the discouraging performance in agriculture.

Africa is not only sluggish but also going in the wrong direction given the informal nature of service sector activities in most African countries. Thus, a shortage of labour intensive manufacturing industries is the major underlying reason for the slow job creation in the formal sector.

The above facts also show how agriculture continues to be the most dominant sector in Africa employing the majority of the labour force. For instance, according to World Bank (2008), agriculture in SSA constitutes a higher share of GDP and employment with an average of 34 and 64 per cent, respectively. Moreover, agriculture comprises nearly 40 percent of foreign exchange earnings in Africa and serves as the main source of industrial raw material accounting for two thirds of manufacturing sector value added. Despite this huge importance of agriculture for African economies, productivity in agriculture remains very low and the sector is lagging behind other sectors. So enhancing agricultural productivity not only increases income for agricultural labourers which can further create demand for manufacturing goods but it also facilitates structural transformation. This can be through releasing cheap labour and supplying agricultural raw material to the labour intensive manufacturing sector.

Moreover, the lack of labour-intensive manufacturing firms in Africa is a manifestation of the paucity of private investments, which is partly a symptom of the poor investment climate in the region (Fox and Sekkel (2008)). The deficiency in private investment can also be attributed to lack of infrastructure, low education and skills to operate new technologies and other disincentives such as high taxes and burdensome bureaucracies to start up business. Accordingly, one suggestion to tackle the above problem of stagnant manufacturing sector is to encourage private investment in Africa particularly in relation to large scale labour intensive manufacturing firms through creating a level playing field for private investors.

The discussion so far shows the limited capacity of the formal sector to generate an adequate number of jobs. Nowadays, this limited capacity of the formal sector is being further jeopardized by demographic pressure as the available opportunities are being overcrowded by the rapidly increasing population pressure. According to the WDR (2013) report to which ReCom contributed, in Sub-Saharan Africa there are 10 million entrants to the labour force each year. The demographic pressure is more stringent in urban areas as many people migrate to major urban cities in search for better job opportunities. In light of this population pressure the role of the formal sector as a job creator further diminishes. In this regard the IPC (2008) report indicates that the pace of expansion of formal sector jobs cannot absorb the bulk of future urban job seekers even when one considers the best case scenario. The report further adds that the non-farm informal sector continues to be major source of job creation and poverty reduction. Moreover, given the dismal forecast for urban labour market growth, the non-farm informal sector in Africa, despite all its problems, will continue to be a major player in absorbing the bulk of the rapidly growing labour force in the coming 10-20 years.

To summarize, in light of the limited capacity of the formal sector, the rising demographic pressure and the fact that low productivity and hence earnings in agriculture are still lower than those in the informal sector, [30] the informal sector in Africa is likely to continue as the dominant sector despite all its problems. Projection evidence also indicates that informality will continue to be the major source of jobs in Africa. For instance, the projection evidence from Jones and Tarp (2012) shows that over the next generation a large share of jobs in Mozambique will be generated from the informal sector. Thus, as the overall evidence presented above shows, despite its risks and challenges, the informal sector is and will continue to be the major absorber of the growing labour force in developing countries in general and in Africa in particular.

The main point should then be how to maximize the opportunities offered by informal sector job creation and minimize the risks that come along the way. As Jones and Tarp (2012) puts it "...addressing the jobs challenges now, which are pressing, thus must involve promoting good jobs within the informal sector." (p. 67). Promoting good jobs in the informal sector should start from understanding the root causes of the problem in this sector. In light of this, some of the questions that one should ask include: 1) what are the underlying causes of the challenges and risks associated with informal sector job creation and what factors make them to persist? 2) Can labour market problems take all the blame for the pervasiveness of indecent and vulnerable informal sector jobs in Africa or does the story lay somewhere outside labour market issues? 3) Finally, and most importantly, is there a role for foreign aid (donor community) to help in this situation? In general, answering the above questions is crucial both from donor and recipient country points of view as this helps to make policies and aid interventions more focused and targeted.

In addressing these questions in what follows, we rely on the inputs associated with the ReCom results meeting on "Jobs-Aid at Work" which was held in Copenhagen on 8 October 2012. During this meeting, various points were raised regarding the underlying causes of the poor quality and vulnerability of jobs in the informal sector. The major points raised can be summarized as constraints related to: human capital, financial capital, infrastructure and data on employment outcomes. In the first category lack of skills, particularly entrepreneurial skill, managerial skill or limited business knowhow to exploit new windows of opportunities, and lack of training are indicated as being a major problem. Secondly, the financial constraint was repeatedly raised during the meeting and is identified by many as one of the most binding constraints. Thirdly, the infrastructure deficit is identified as another stumbling block for improving the quality of jobs and hence earnings in the informal sector. These include, but are not limited to, lack of regular access to electricity, absence of good roads that can connect producer destinations to major markets, limited access to mobile phones that makes information very costly leading to a higher transaction costs etc.

[30] See Fox and Sekkel (2008)

Last but not least lack of reliable data regarding the whereabouts of informal sector jobs is the other issue which was repeatedly raised during the ReCom jobs conference. It was pointed out that this lack of information and hence knowledge about micro businesses and self employed people in the informal sector activities makes aid interventions difficult to target.

Coming to the second question mentioned above, that is, if labour market problems should take all the blame for the pervasiveness of poor-quality and vulnerable informal sector jobs in Africa? The available evidence suggests that they do not. That is, while labour market policies do potentially, and undeniably, have a role to play in shaping employment outcome of the informal sector, in the African context the challenges and risks surrounding the informal sector go much beyond labour market issues. As indicated in WDR (2013) most of the barriers for job creation are found outside the labour market. Moreover, Fox and Sekkel (2008), after analysing labour market conditions in Africa, conclude that the binding constraints in Africa's job creation lay outside the labour market. These authors point out that policies and investments that can help to reduce costs and risks of informal sector activities. Among others, they indicate investment in infrastructure, availability of credit, reduction of transaction costs as potential ways to promote job creation in Africa. In particular, in relation to the informal sector jobs, the following citation from the IPC (2008) report directly answers the above question:

> *"…a large fraction of total employment in developing countries is not governed by formal labour market institutions at all. Self-employment, particularly in the informal sector is often not subject to labour market regulations. Informal wage employment by definition lies outside the formal regulatory sphere…The low quality of employment in many developing countries, at least for the majority of the workers, should not be seen as labour market problem but as rather a development challenge. Meeting this challenge requires a coordination of different policy areas-macroeconomic policy, financial sector reform, productive sector support and of course appropriate labour market regulation (IPC p. 19)"*

Thus, although the labour market in developing countries in principle needs to have a mechanism to accommodate informal employment, one cannot solely attribute the current indecency and vulnerability of informal sector jobs to labour market issues. As it is clearly stated above, problems related to informal sector jobs by and large are by-products of broader development challenges and addressing these development challenges is where the role of aid can kick in. Another equally important question is whether the focus of aid should be restricted to interventions related to informal sector jobs or whether there is a role for aid in expanding the limited job creation capacity of the formal sector and if so how? Answering these questions will be the focus of the next section.

5. Aid and Employment: What can be done?

As we pointed out earlier, creating more and better quality jobs needs to be at the centre of any policy dialogue that aims to achieve poverty reduction. Cognizant of this, the ReCom project at UNU-WIDER held its third results meeting on 'Jobs-Aid at work' to examine the role of aid in decent and remunerative job creation. The main purpose of the meeting was to study 'what works', 'what does not' and 'what can be done' regarding aid and employment based on the research inputs and real world experiences of scholars and practitioners on the area. This section therefore aims at identifying the areas where aid can potentially help in improving employment outcomes in developing countries by mainly relying on reflections and deliberations from the ReCom results meeting on Jobs.

Increasing knowledge on aid and employment

As indicated above, understanding the aid-employment nexus is crucial in examining the role of aid in promoting economic growth and poverty reduction. Despite this, very little attention has been paid to this issue in the aid effectiveness debate and the available evidence on aid and employment is quite limited. One major reason for this limited availability of evidence, as is also pointed out by several of the participants in the ReCom jobs meeting, is a lack of data on employment especially in the case of informal sector jobs. In this regard, lack of interest by most African governments in informal sector activities[31] coupled with efforts by some businesses to evade taxation were indicated in the meeting as the major contributors to this problem. As a result, official data on informal sector jobs is almost non-existent or distorted at best except for some survey evidence which cannot always be accessed by anyone who is interested to know about informal sector jobs. This lack knowledge about micro businesses and self employed people not only makes the evidence on aid and employment hard to identify but also creates a challenge in targeting aid interventions.

Even if lack of employment data is undoubtedly a challenge in itself, the limited attention that has been given to evaluating and monitoring the impact of previous aid interventions on employment outcomes plays its own part in the lack of knowledge on aid and employment. According to the DAC (2007) report, "[l]ittle or no evaluative material is available on the employment impact of past interventions, although donors agree that this is an area where progress needs to be made" (p.4) The other major factor that can explain lack of progress in evaluation efforts is the ambiguity on the part of donors whether to treat employment as a target in itself or as an indirect outcome of other development interventions. In this regard, again the DAC (2007) report indicates that for many donors job creation has not been an objective in itself, instead most donors treat job creation as an (indirect) outcome of various sector programmes.

Therefore, donors' inclination not to target employment creation as a direct outcome of aid intervention makes monitoring and evaluation efforts of employment outcomes very limited. As is also indicated in the ReCom meeting, donors need to be clear about what they wish to achieve in relation to aid and employment by setting a clear objective, a specific target and realistic instruments that can be linked with the stated objectives. Moreover, expected outcomes,

[31] In the case of Mozambique for instance the current urban policy stance, rather than encouraging household enterprises, has a tendency to consider them as a source of problem and dreadful competition with the formal sector. (see Jones and Tarp(2012))

quantitative and qualitative indicators of the outcomes and monitoring and evaluation methods need to be spelled out from the outset. One good lesson in relation to the above is the business sector development programmes that DANIDA is implementing in different developing countries. In this programme, according to the DAC (2007) report, DANIDA has explicitly included employment and labour market issues. One example that is given in this regard is DANIDA's program in Mali which has an explicit objective regarding employment creation particularly for youth and women; the programme is implemented in close collaboration with the Malian Ministry of labour.

Overall, the current knowledge about aid and employment is limited. In order to fill the knowledge gap donors need to help recipient countries to build their capacities in collecting good quality and reliable data on employment. In this regard particular attention should be given to informal sector jobs where little is known compared to the formal sector jobs. Donors need to also encourage and support countries to design labour market policies that can accommodate informal sector businesses and treat them as sources of opportunities than threats to their economies. As Fields (2012, p.10) puts it "the informal economy should be nurtured not repressed." On top of this, donors' efforts to have a clear objective regarding job creation and proper evaluation and documentation of the employment impact of past interventions matters for increasing the knowledge and understanding about aid and employment.

Private Sector development-major source of jobs

The role of the private sector in job creation was another main message that emerged from the ReCom jobs meeting.. The informal sector is the major job creator in developing countries constituting two thirds to three fourth of the total employment. On top of this, the private sector also creates a huge amount of jobs even in the formal sector. For instance, Ayyagari, Demirguc-Kunt and Maksimovic (2011), cited by Page and Söderbom (2012), indicates that, worldwide, close to 80 per cent of the employment in the formal sector in low income countries is generated by small and medium size firms that have with less than 250 workers. The authors add that when one accounts for micro and informal firms, the employment share of small, micro and medium sized enterprises increases to nearly 90 per cent. The role of the private sector in job creation is also clearly emphasized by the WDR (2013) which refers the private sector as a major engine of job creation.[32] In this regard it is stated that nearly 9 out of every 10 jobs in the world is created by the private sector. Furthermore it is found that microenterprises in Ethiopia constitutes 97 per cent of manufacturing jobs. It is thus in light of the above facts that the ReCom Jobs meeting emphasized the need for donors to help private sector development. In view of this, the important thing to ask is what are the incentives for the private sector to generate jobs?

[32] WDR (2013) gives different examples regarding the role of private sector in job creation. In this regard, the Chinese experience is stunning. In the 1981, 2.3 million workers were employed in the private sector and back then State Owned Enterprises (SOEs) created far more jobs amounting to 80 million workers. But after 20 years private sector jobs created 74.7 million workers exceeding the 74.6 million jobs created in SOEs.

It is uncontested that in relation to private sector growth recipient governments should play the leading role by setting an enabling environment for private sector led development. The job creation outcome of the private sector by and large hinges on polices that countries are following. In this regard the three layered policy approach suggested in the WDR (2013) and also discussed in Fields (2012) can give a good insight/guidance regarding the role that governments can potentially play to support the private sector and speed up the process of job creation: 1) Getting the fundamentals right: This is the first layer and consists of, but is not limited to, macroeconomic stability, creating an enabling business environment, human capital accumulation and the rule of law including property rights and other fundamental rights. 2) Labour policy: In the second layer governments need to design labour policies that can facilitate job creation and enhance the returns from jobs. Here polices can target to correct distortions but the range over which the government can do this should be identified first in order to avoid unnecessary intervention that can retard job creation. 3) Priorities: This layer of policy is all about knowing the country's potential and make a priority when removing market imperfections and institutional failures that inhibit the creation of pro-development jobs.

In addition to the efforts by recipient governments, donors can have a role to play – both indirectly and directly – in supporting private sector development and hence job creation. The indirect role is to help governments to identify the constraints for private sector job creation and give the necessary support to accelerate reforms that are conducive to private sector development. In this regard, the ReCom research evidence presented during the jobs conference by Page and Söderbom (2012) gives a good direction for donor interventions. According to these authors aid can help expedite the expansion of more and better quality jobs by supporting public actions to improve the investment climate including regulatory, institutional and physical environments under which both small and large firms can function. In commenting on past donor interventions on institutional and regulatory reforms, the authors pointed out that too much emphasis was given in the past to regulatory reforms that can be easily measured but with less impact. On the other hand, it is stated that efforts on the part of donors in relaxing physical constraints like infrastructure are still too limited.

On this issue Page and Söderbom (2012) point out that the World Bank Doing Business Ranking 2011 which is commonly used as a standard for measuring regulatory burden in recipient countries is an inappropriate tool to identify regulatory constraints that retard the growth of firms at the country level. In relation to this Page and Söderbom (2012) argue that the doing business indicator was originally designed for making cross country comparison based on some commonly agreed criteria which are equally weighted. On the other hand, the authors added, at the country level not all reforms are uniformly weighted. Overall, it is indicated that using the doing business indicator as a means to identify binding constraints to enterprise growth is misguided. It is thus suggested that regulations and institutions that give the largest scope for developmental reforms need to be identified at country level with close collaboration between the public and the private sector. Thus, supporting and facilitating such collabouration and ensuring the implementation of investment policies that support private sector growth is one area where aid can play an indirect role.

Moving to the direct role that aid can play in promoting private sector development and hence job creation, the following are the major potential targets for intervention.

Relaxing Financial Constraints

Even if factors like managerial skills, employees' knowhow, levels of training and technology etc are important for business development, any of these cannot make a major difference unless the necessary finance is available. As already pointed, access to finance is one of the binding constraints in improving the quality and availability of jobs and the more so in the informal sector where many small and micro businesses are found. According to the evidence based on survey questions, access to finance is positioned as the second biggest problem for small firms, see Page and Söderbom (2012). In general, businesses in self-employment based on small and micro enterprises do not have access to affordable credit in most cases. As a result, such enterprises lack working capital which inhibits them from expanding, adopting new and better technologies and moving upwards in the value chain. This in turn adversely affects the quality of jobs and hence earnings in these activities.

Making the necessary finance available to the private sector is thus one of the direct roles that donors can have in speeding up the job creation process. Accordingly, during the ReCom jobs meeting the role of microfinance in augmenting the job creation potential of small and micro enterprises was duly emphasized. For instance, the power of micro finance in promoting job creation is shown in ReCom research by Simpassa, Adeleke and Shimeles (2012). These authors present illustrative evidence on aid and employment based on a total of 300 AfDB projects which were funded between the years 1990 and 2010. Out of these projects, information on employment is available only for 51 of them.[33] Of the total jobs created, finance supported projects and projects that get benefit from lines of credits via intermediation of financial institutions appear to have the highest share. The authors add that this is mainly because many people have benefited from the micro credit interventions; among other reasons. This evidence shows that a project intervention in microcredit which amounts to approximately 1.5 million USD (1 million UA) has generated more than 1,600 jobs. This indicates how micro finance can help job creation. Moreover, other ReCom research by Page and Söderbom (2012) also suggests microfinance as one effective instrument to lessen the financial constraints that small firms face.

[33] According to evidence a total of 789.5 million Unit of Account (approximately 1.2 billion USD) in financing was spent on these projects and following this nearly 200,000 jobs (both direct and indirect) were created. In per capita terms, following a 1 million UA (approximately 1.5 million USD) spending in project financing, more than 250 jobs were created at sectoral level with 4,000 jobs per project intervention.(see Simpassa, Adeleke and Shimeles (2012:2))

One major problem for microcredit is the very high interest rate that the poor are required to pay. In illustrating this fact, Fields (2012) indicates that in Chennia, India, the interest rate is 4.69 per cent per day; it is in the Philippines 40 per cent per month while it is 10 per cent per month in many other developing countries. This author argues that such an exorbitant interest rate can be avoided and risk sharing mechanisms can be designed. For instance, it is indicated that in the Grameen Bank in Bangladesh, the interest rate is 12-17 per cent per year and the bank gets almost 100 per cent repayment rate. Moreover, in the Indian state of Andra Pradesh, a group of women gets a loan from banks at 12 per cent a year and if the group pays its debt in good time, then the state pays 9 per cent of the rate and the group only pays 3 per cent. The author suggests that other places and development banks need to learn from such micro credit programmes and aid can have a role in funding such schemes.

In addition, coupling microcredit with business training is a good strategy for achieving the best results. ReCom study by Sonobe and Otsuka (2012), while discussing about the role of training in fostering cluster based MSE development, argue that giving micro credit can serve as an incentive and encouragement for managers who tend to procrastinate participation in a training program. It is also indicated that the purpose of credit in high performance firms is not only to invest in capital goods but also to shift from original industrial clusters to more spacious and better equipped industrial zones. Another advantage of giving training before offering credit is that such an arrangement can potentially increase repayment rates. According to Sonobe and Otsuka (2012) if training is given in advance, it is much easier to identify innovative and promising entrepreneurs that have a higher probability to repay loans.

In sum, microcredit is a very essential element in job creation as it relaxes the financial constraints of micro, small and medium sized enterprises where the bulk of jobs are found in developing countries particularly in Africa. Above all, giving the necessary finance to these businesses helps them to move to better and more productive jobs that can make a difference in their standard of living and aid can have a clear role in this regard.

Closing the Infrastructure and Skill Gap

Infrastructure and skills are two important gaps and yet the most lacking elements in economic development and in developing countries in general and Africa in particular.

Infrastructure plays a pivotal role in job creation both directly and indirectly. "Investments in infrastructure can not only support social cohesion through their direct employment impact, they can also be a step in preparing for future private sector job creation." WDR (2013:19). Despite this, the infrastructure gap in Africa is enormous. In relation to the infrastructure gap, evidence based on firm level studies on productivity shows that infrastructure deficiencies are a major obstacle for enterprise growth in Africa (see Page and Söderbom, 2012). On all infrastructure measures, Sub-Saharan Africa lags behind the average for low income countries by at least 20 percentage points. Moreover, narrowing Africa's infrastructure gap will necessitate close to 15 per cent of Africa's GDP which is nearly 93 billion US dollar a year. Out of this total spending needs, power alone accounts for 40 per cent of total spending. In addition, Jones and Tarp (2012) point to the important role that affordable access to infrastructure can play in job creation.

Nevertheless, addressing the gap in infrastructure receives very little attention by donors. In particular, Page and Söderbom (2012) point out that little interest has been shown by traditional donors to finance infrastructure. The evidence shows that ODA to infrastructure as a share of total ODA has been declining since the early 1970s despite the urgency in narrowing the infrastructure gap and the relevance of infrastructure for job creation through private sector development. Thus, if donors have the target of creating more and better quality jobs, addressing the gap in infrastructure in Africa should be a major priority. It was also indicated during the ReCom meeting that since donor money cannot do the entire job, recipient countries (particularly resource rich ones) need to channel some part of the resource revenue into infrastructure development.

Moving to the skill gap, lack of skill and capabilities is another fundamental problem and a major impediment for private sector development and this problem directly affects the quality and productivity of jobs. Firm level evidence by Page and Söderbom (2012) shows a huge skill differential across firms that are being reflected in wage differentials. Thus addressing the skill and capability gap is another area where donors can target their interventions. During the ReCom meeting FDI and management training were two ways suggested to address the skill and capability gap in developing countries. In relation to FDI it was pointed out that donors can help in the establishment of effective FDI promotion agencies at the country level. Here even if FDI can be one way to transfer skill, it cannot single-handedly address the skill problem unless the firms in the receiving country have the capacity to absorb the skill and knowledge. This is where the importance of training comes in. Sonobe and Otsuka (2012) argue that attracting FDI per se will not have a major impact on development of local indigenous industries if local industries have little capacity to learn from abroad to "assimilate and adopt" the borrowed technology. These authors argue that management training not only helps in self-development but can also help firms to move from one industrial cluster to a higher and well equipped industrial zone. One success story in training is the Kaizen management institute which was established in Ethiopia in collaboration with JICA. In this institute Japanese experts train promising local young staff with the aim of transferring management skills that are adapted to local contexts.

This institute can be taken as a role model for donors that want to promote entrepreneurship and MSE development in Africa. Thus, skill and capacity development through context specific training programmes is one way for donors to nurture entrepreneurship and enhance quality and productivity of jobs in Africa. In this way donors can achieve their objective of decent and remunerative employment.

Supporting Structural Change and Agricultural Productivity

As already emphasized, in developing countries the jobs problem is not as such open unemployment but rather working poverty. The majority of the people in low income countries are engaged in the informal sector where productivity and quality of jobs are very low. As we have already pointed out earlier, promoting structural change can help in reducing working poverty by moving people from low productivity-low paid jobs to high productivity-high paid jobs. But the evidence shows that structural change in Africa is slow and not moving in the right direction. As a result African countries have a difficulty to create good jobs that have the potential to meaningfully reduce poverty. Thus, as emphasized in the ReCom jobs meeting promoting structural change and helping people to move into more productive jobs is one area of intervention that donors can target. This can be done, as suggested in Jones and Tarp (2012) by supporting the growth of labour intensive export oriented secondary and tertiary industries. Each of the potential intervention areas that we discuss above also plays its own role in promoting such industries.

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

6. Key Messages and Lessons Learnt on Aid and Employment

In conclusion, creating more and better quality jobs is critical in poverty reduction and hence in improving the standard of living of the poor. The fact that job creation appears as the main theme of the World Development Report 2013 to which ReCom contributed also highlights the attention that multilateral donors like the World Bank is giving to the jobs agenda. Despite this importance of the jobs agenda, much is not known about the link between aid and employment. This knowledge gap not only makes impact assessments difficult but also creates a challenge in targeting aid interventions. As we emphasized earlier, even if lack of data on employment, particularly in the informal sector, can partly explain this knowledge gap, donors' efforts to have a clear objective regarding job creation is also very important. In this regard, making job creation a target in itself and developing clear outcome and qualitative and quantitative indicators is crucial. Besides, proper evaluation, documentation and communication of the employment impact of past interventions matters for increasing the knowledge and understanding about aid and employment.

The main message that can be derived from the aid and employment theme of ReCom is the key role that the private sector – both formal and informal – is playing in job creation in developing countries. However, as shown in our discussion, the immense potential of this sector in generating jobs is being repressed by many challenges that mostly lie outside the labour market. Our analysis shows that the majority of the challenges are indeed development problems rather than labour market issues. Thus, we tried to address the major question which is how aid can help in alleviating these development problems and speed up job creation in developing countries?

In answering this question we relied on the research outcome and deliberations from the ReCom results meeting on Jobs. Given that the private sector is found to be the major job creator, we identified areas where donors can potentially play both direct and indirect roles in alleviating the constraints in private sector development. The direct roles include for example relaxing financial constraints in small and micro enterprises particularly in the informal sector, investment in infrastructure, enhancing managerial skill and capabilities through training for small and medium sized enterprises, coupling training with low interest credits, augmenting agricultural productivity and facilitating structural transformation. On top, donors can help the private sector indirectly by encouraging recipient governments to design the right policies that can create a level playing field for private sector development. Moreover, aid can also help countries to attract FDI by supporting the establishment of investment promotion agencies. Overall, the above are major areas where aid can potentially help in private sector development and hence promote remunerative job creation. Though this is not an exhaustive list of constraints in the private sector, it can serve as an input for designing employment related aid interventions.

However one should also keep in mind that aid cannot be considered as a panacea for the employment and labour market problems in developing countries. Countries also need to get their "house in order" by designing the right policies and strategies that can create more and better quality jobs. The role of aid should only be seen as a catalyst – filling unavoidable resource gaps and promoting implementation of pro-employment policies in aid receiving countries.

From a donors point of view another issue that is important is the need to align donor interests with needs in recipient countries. In this regard, interventions need to be demand driven and donors should have a close dialogue with recipient countries in order to have a targeted intervention. Since every country is unique and context matters, local knowledge about what has been working is crucial and aid modalities should be adapted accordingly. Accordingly, donors need to keep in mind that a one size fits all strategy will mislead policy in job creation. As was underlined in the ReCom jobs meeting, the nature of jobs varies across countries as skills vary. It was indicated that this variation depends on the level of development, resource endowment, geography and quality of institutions. For example, an aid policy for job creation that takes a resource rich economy to the next level cannot necessarily do the same in an agrarian country as the priorities and potentials differ in the two cases. Thus, understanding the nature of the country is important before targeting aid interventions geared towards job creation.

Last but not least, the need for an exit strategy was one of the major messages at the ReCom meeting. In this regard, the importance of developing taxation and revenue systems which can make recipient countries less aid dependent were emphasized, noting as well that recent this will require close attention the management of natural resources and associated income.

References

Arndt, C. (2000), Technical Cooperation, in Tarp, F. ed. Foreign Aid and Development: Lessons of Experience and Directions for the Future. London: Routledge

Arndt, C., Jones, S. and Tarp, F. (2010), Aid, Growth, and Development: Have We Come Full Circle? *Journal of Globalization and Development* 1(2), Article 5

Arndt, C., Jones, S. and Tarp, F. (2011), Assessing aid over the long run, *WIDER Working Paper* 2011/44, UNU-WIDER

Arndt, C., Jones, S. and Tarp, F. (2007), Aid and Development: the Mozambican Case, in Lahiri, S. (ed.), *Theory and Practice of Foreign Aid*, Frontiers of Economics and Globalization, Volume 1, Amsterdam: Elsevier

Berg, E. (1993), Rethinking Technical Cooperation: Reforms for Capacity Building in Africa, Technical report, Regional Bureau for Africa, United Nations Development Programme, New York

Boone, P. (1994), The Impact of Foreign Aid on Savings and Growth, *London School of Economics CEP Working Paper*1994 (677)

Burnside, C. and D. Dollar (2000), Aid, Policies, and Growth, *American Economic Review* 90: 847-68

Clemens, M., Radelet, S., & Bhavnanni, R. (2011). Counting Chickens When They Hatch: Timing and the Effects of Aid on Growth, *The Economic Journal*, vol. 122 issue 558:

1-28

Collier, P. and Dehn, J. (2001), ‘Aid, shocks and growth’, *World Bank Working Paper 2688*, The World Bank, Washington, DC.

Collier, P. and Dollar, D. (2002), ‘Aid allocation and poverty reduction’, *European Economic Review, vol. 45,* pp. 1470–500

DCD/DAC/POVNET (2007). Review of donors’ policies and practices related to employment and labour markets. 15

Dalgaard, C. and L. Erickson (2009), Reasonable Expectations and the First Millennium Development Goal: How Much Can Aid Achieve, *World Development* 37: 1170-81

Dalgaard, C., and Hansen, H., (2001), On aid, growth and good policies. *Journal of Development Studies 37*, 17-41

Dalgaard, C., Hansen, H.and Tarp, F., (2004), On the empirics of foreign aid and growth. *Economic Journal 114*, 191-216

Dollar, D., & Kraay, A. (2002). Growth is good for the poor. Journal of Economic Growth, 6, 95–225.

Dowling, J.M., Hiemenz, U., (1983), Aid, savings, and growth in the Asian region. *The Developing Economies 21*, 4-13

Easterly, W., Levine, R., and Roodman, D., (2004), Aid, policies, and growth: Comment. *American Economic Review 94*, 774-80 (Comment to Burnside and Dollar, 2001)

Feeny,S., (2003), The impact of foreign aid on poverty and human well-being in Papua New guinea. *Asia-Pacific Development Journal Vol. 10, No. 2*

Fields, G., (2012), Aid, Growth and Jobs. UNU-WIDERWorking Paper No. 2012/86

Fox and Sekkel (2008), Working out of poverty: Job Creation and the quality of growth in Africa .World Bank, Washington DC

Gomanee, K., and Morrissey, O., (2002), Evaluating aid effectiveness against a poverty reduction criterion, *Prepared for the DESG conference*, Nottingham

Gomanee, K., Girma, S., and Morrissey, O., (2005). Aid, public spending and human welfare: evidence from quantile regressions. Journal of International Development J. Int. Dev. 17, 299–309

Gupta, K.L., Islam, M.A., (1983), Foreign Capital, Savings and Growth – an International Cross-Section Study. Dordrecht, Reidel Publishing Company

Hansen, H., and Tarp, F., (2001), Aid and growth regressions. *Journal of Development*

Economics 64, 547- 70

International Labour Organization-ILO (2011). Towards Decent Work in sub-Saharan Africa Monitoring MDG Employment Indicators.

Sparreboom T., and Albee A. (eds) International Policy Centre-IPC (2008), Poverty in Focus: Jobs, Jobs, Jobs: the Policy Challenge. Number 16

Jones, S., and Tarp, F., (2012). Jobs and Welfare in Mozambique: Country Case Study for 2013 World Development Report. UNU-WIDER

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

Levy, V., (1988), Aid and growth in Sub-Saharan Africa: The recent experience. *European Economic Review 32*, 1777-95

Masud, N. and Yontcheva, B. (2007), Does foreign aid reduce poverty? Empirical evidence from Non-Governmental and Bilateral aid.*IMF Working Papers 07/100*,I MF.

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

Mekasha, T. J. and Tarp, F. (2011), Aid and Growth: What Meta-Analysis Reveals, *WIDER Working Paper* 2011/22, UNU-WIDER

Mosley, P. (1987), Overseas Aid: Its Defence and Reform. Brighton: Wheatshead Books

Moyo, D. (2009),Dead Aid: Why Aid Is Not Working and How There Is a Better Way for Africa. London: Allen Lane

Murthy, V.N.R., Ukpolo, V., Mbaku, J.M., (1994), Foreign aid and economic growth in Cameroon: Evidence from cointegration tests. *Applied Economics Letters* 1, 161-63

Page, J., and Söderbom M., (2012). Is Small Beautiful? Small Enterprises, Aid and Employment in Africa. Paper presented at the UNU-WIDER ReCom Results Meeting: Jobs—Aid at Work, Copenhagen, Denmark 8 October

Papanek, G. F. (1972),The Effect of Aid and Other Resource Transfers on Savings and Growth in Less Developed Countries, *Economic Journal* 82 (327): 935-50

Papanek, G. F. (1973), Aid, Foreign Private Investment, Savings, and Growth in Less Developed Countries, *Journal of Political Economy* 81 (1): 120-30

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

Ravallion, M. (2001). Growth, inequality and poverty: Looking beyond averages. *World Development*, 29, 1803–1815

Roodman, D. (2007), The Anarchy of Numbers: Aid, Development, and Cross-Country Empirics, *The World Bank Economic Review* 21(2): 255–277

Simpassa A., Adeleke S., and Shimeles A., (2012). Employment Effects of Multilateral Development Bank Projects: The case of the African Development Bank

Sonobe T., and Otsuka K.,(2012). The Role of Training in Fostering Cluster-Based MSE Development. National Graduate Institute for Policy Studies

Stoneman, C., (1975), Foreign capital and economic growth. World Development 3, 11-26

Tarp, F. (2006), Aid and development, *Swedish Economic Policy Review* 13(2): 9–61

Temple, J. (2010), Aid and Conditionality, Chapter 67 in D. Rodrik and M. Rosenzweig (eds.) *Handbook of Development Economics*, Amsterdam: Elsevier

World Bank (1998), Assessing aid: what works, what doesn't, and why, Oxford University Press, Oxford

World Bank (2008). World Development Report, Agriculture and Development Washington DC. The American Economic Review, Vol. 51, (1961) pp. 566-593.

World Bank (2012). World Development Report 2013: Jobs. Washington, DC: World Bank.