

## Chapter 9

# ODA to and External Debt in LDCs: Recent Trends

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### 9.1 Introduction

Official development assistance (ODA) has been a major source of external finance since the 1970s in least developed countries (LDCs). Aid, as a share of their gross domestic product (GDP), has increased significantly since then. Developed countries and donors have made commitments to scale up their contribution of ODA further at various international platforms. The Millennium Development Summit in 2002 of the United Nations (UN), the UN Conference on Finance for Development in Monterrey in 2002 and in Rome in 2008, and the UN Conferences on LDCs are examples of initiatives which have emphasised the need for higher ODA flow to LDCs. Ironically, while the commitment is strong on paper, the implementation remains weak on the ground as most donor countries are yet to fulfil their commitments.

The challenge for LDCs is, however, not only to receive higher ODA, but also to ensure the effectiveness of aid in order to achieve higher economic growth. The issue is thus not only how much aid is given, but also how it is given and what it achieves. The number of donors has increased, and so has the number of recipients of ODA. However, the effectiveness of ODA remains a concern for the international community. In view of the realisation that aid could not deliver the expected results, the international commitments agreed to improve the effectiveness of aid through various funds. High level forums (HLFs) on aid effectiveness, such as the Paris Declaration on Aid Effectiveness in 2005, Accra Agenda for Action (AAA) in 2008 and Busan Aid Effectiveness Forum in 2011, have made recommendations towards improving the overall efficiency of official aid.

In this context, the Istanbul Programme of Action (IPoA) observes that, given the slow growth of ODA flow to LDCs, there is a clear need for much more determined efforts by developed countries to fulfil and enhance their ODA commitments to LDCs. Actions by LDCs and their development partners are of particular importance to achieve these goals. In this respect, the IPoA spelt out four specific actions to be undertaken by LDCs and 13 by development partners.

The other issue related to ODA is external debts of LDCs, given the fact that debt service takes up a large part of LDCs' scarce resources, representing an obstacle for economic growth, poverty eradication and the achievement of internationally agreed development goals including the Millennium Development Goals (MDGs). The IPoA observes that the Heavily Indebted Poor Countries (HIPC) Initiative, the Multilateral Debt Relief Initiative (MDRI) and debt relief from bilateral

donors have considerably reduced LDCs' debt vulnerability. In this regard, the IPoA suggests pursuing policies and measures to achieve sustainable debt levels in all LDCs and specific debt relief measures for LDCs that are not HIPC on a case-by-case basis.

The present chapter takes stock of the progress as regards the IPoA commitments on ODA and external debt in the context of LDCs, based on existing data from various sources including OECD Statistics.<sup>1</sup> This report uses constant prices for 2011. However, data in terms of current prices are also used here due to unavailability of data on constant prices. The chapter also builds on two expert group meetings in September 2012 and February 2013.

The chapter is organised as follows. Following the introductory section, a short discussion on the role of ODA in LDCs has been undertaken in Section 9.2, based on evidence in the literature. Section 9.3 provides an overview of LDCs' dependence on ODA and presents major trends of ODA to LDCs. IPoA targets and actions on ODA and external debt and progress made so far in these areas are discussed in Section 9.4. The focus of this section is on the status of fulfilment of ODA commitments to LDCs, the alignment of ODA with national priorities of LDCs, the progress on quality of ODA, the issue of new innovative mechanisms and the responsibility of LDCs to make aid more effective in their respective countries. The chapter concludes in Section 9.5 by making a few suggestions to improve the delivery of IPoA indicators on ODA and external debt.

## 9.2 Role of aid in LDCs: evidence in the literature

The influence of ODA on economic growth of LDCs through stimulating their investment is well recognised in the literature. The theoretical perspective shows the necessity of capital accumulation for economic growth of the country. The Keynesian growth theory suggests that productive activity of an economy is influenced by the aggregate demand or total spending of the economy (Keynes 1936). When a government receives development assistance, it can be used to invest in infrastructure and public sector development. If so, this increases the economy's income by creating new business opportunities and employment, and thus increases the total demand on the economy. ODA in one way boosts the overall economic activity and in an other way reduces the fiscal deficit (Galí 2012). The Harrod–Domar model (Harrod 1939; Domar 1946) states that economic growth is influenced by savings and productivity of the capital, and both these are the major development constraints in LDCs. Development assistance plays a major role in removing such constraints and increasing investment activity (Hagemann 2009). Solow (1956) further added that the economy converges to the steady-state output level when the economy accumulates further capital, and development assistance is needed for LDCs to accumulate such capital. It has been claimed that, in general, ODA has a three-dimensional macroeconomic impact: first, it influences core macroeconomic indicators such as GDP per capita, investment, income, savings and consumption; second, it reduces poverty by increasing the standard of living and life expectancy; third, it increases public expenditure that accelerates economic growth (Chirino

and Melián 2006). New development theories argue that LDCs always remain in low-level equilibrium and in a vicious circle of poverty. People living in poverty have low income, savings and investment. The investment financed from development assistance increases their per capita income and savings, and breaks the poverty trap by increasing productivity and growth of the economy (Mercieca 2010).

Several country case studies have found positive, stable and statistically significant effects of ODA on economic growth of countries (Rotarou and Ueta 2009; Feeny and McGillivray 2010; Mohey-ud-din 2005). Rotarou and Ueta (2009) analysed time series data of Tanzania from 1970 to 2007 to determine the impact of ODA on foreign direct investment (FDI) and trade balance on GDP growth. The finding shows that ODA has been the most influential factor for the country's economic growth in comparison to other factors. Moreira (2005) finds a positive impact of aid on growth for all countries in his sample, which included India, China, Brazil and Bangladesh. There are also multicountry panel data analyses that show the relationship between ODA and economic growth (Bjerg et al. 2011; Irandoust and Ericsson 2004; Guillaumont 2011). Bjerg et al. (2011) analysed the potential of foreign aid for elevating economic growth of 38 sampled LDCs. They show that LDCs can use foreign aid for finance debt reduction and productive investment and, when disbursed aid is used to repay the debts, it reduces their growth-depressing debt burden. Thus, the positive association between aid and economic growth is likely to exist in LDCs.

The theoretical underpinnings on the importance of ODA do not always hold ground as the impact of ODA in reality has been far from universal across countries. Duc (2006) finds that foreign aid has a negative impact on growth for East Asia, Central Asia and all other regions in his sample for both sub-periods of 1975–91 and 1992–2000, except for South Asia where the effect was positive for the sub-period of 1992–2000. However, the overall effect was still negative. The impact of aid on economic growth of recipient countries is not unconditional and straightforward. Aid is found to have a positive impact on the economy if good fiscal, monetary and trade policies are in place in the recipient countries (Johansson 2010; Obstfeld 1999; Dalgaard 2007; Collier and Dollar 2001; Burnside and Dollar 2000; Moreira 2005; Bjerg et al. 2011; Durbarry et al. 1998; The World Bank 1998; Schwalbenberg 1998). It is often said that foreign aid is generally used as a financial resource to import improper technology that distorts domestic income distribution and encourages an inefficient and corrupt government structure in most of the developing countries (Griffin and Eno 1970; Weisskoff 1972; Boone 1994; Easterly 2006). Of course, domestic policies can also play a role in bringing technologies that are not suitable to importing countries.

A number of studies reveal that foreign aid has some controversial features which can be detrimental to the growth of LDCs. Donors are increasingly playing the role of policy advisors rather than resource providers (Sobhan 1996, 2002). In the same way, Rajan and Subramanian (2008) did not find any robust relationship between aid and economic growth, and better policy and geographical environment do not influence the effectiveness of aid. Moreover, the bureaucracy of foreign aid has become a major obstacle to serving the overall interests of LDCs, as the poor have

neither the financial capacity nor the political power to address their desperate needs and motivate donor countries to address their requirements (Easterly 2006). On the other hand, Lessmann and Markwardt (2012) find mixed effects of aid on growth for all regions in their sample including sub-Saharan Africa, Latin America and East Asia. Therefore, there is no broad consensus on the impact of aid on economic growth of recipient countries. The findings of various studies can be summarised in three broad categories: (i) aid has a positive impact on growth; (ii) aid has a positive impact on growth, but the effectiveness depends on appropriate policies; and (iii) aid has a negative effect on economic growth of recipient countries.

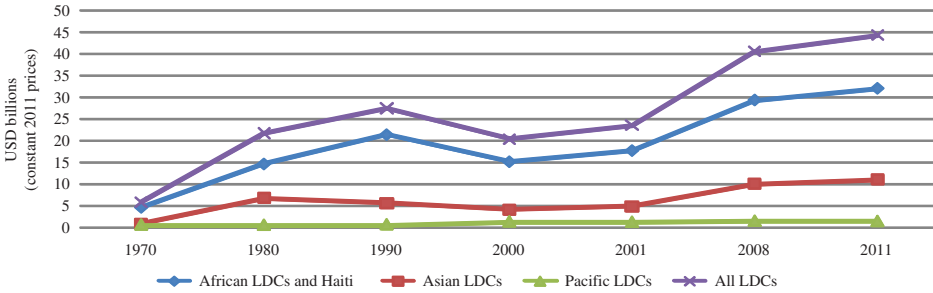
Despite mixed evidence, the positive role of aid in promoting growth is generally recognised by poor aid-recipient countries. However, this recognition is explained in a more nuanced manner which supports the idea that ODA can drive economic growth in the right circumstances, which include a number of pre-conditions, such as (i) the level of development, governance, policies and political situation of the recipient country; (ii) the commitment of donors, co-ordination between donors and recipients, and monitoring and evaluation of aid; (iii) the type of aid, that is whether aid is flowing to the productive sectors or to disaster management (OECD 2012a).

### 9.3 ODA flow to LDCs: some major features

Before going into the discussion on various aspects of ODA, we will find it useful to revisit its definition. According to the Organisation for Economic Co-operation and Development (OECD), ODA is defined as those flows to countries and territories on the Development Assistance Committee (DAC) list of ODA recipients and to multilateral development institutions which are provided by official agencies, including state and local governments, or by their executive agencies. Each transaction of these agencies (i) is administered with the promotion of the economic development and welfare of developing countries as its main objective; and (ii) is concessional in character and conveys a grant element of at least 25 per cent. In addition to financial flows, technical co-operation and debt forgiveness are also included in ODA. Moreover, ODA also includes other types of aid that do not necessarily involve a transfer of funds to developing countries, such as administrative costs and costs for refugees and students within the donor country. Grants, loans and credit for military purposes are excluded.

#### 9.3.1 Net ODA to LDCs

ODA to LDCs has experienced fluctuations during the last decades. Performance of quantifiable ODA indicators such as net ODA received by LDCs, ODA as a percentage of gross national income (GNI) of respective LDCs and per capita ODA in LDCs reveals that during 1970–80 ODA flow was higher than in the following decades. During 1990–2000, ODA to LDCs declined significantly, but in the following decade (2001–11) it improved to a significant level (Figure 9.1). In this most recent decade, net ODA received by LDCs increased in 2011 compared with 2008 in most countries, except for 22 LDCs (Annex 9.1). The top ten LDCs received 62.6 per cent of total

**Figure 9.1 Net ODA received by LDCs**

Source: OECD (2012b)

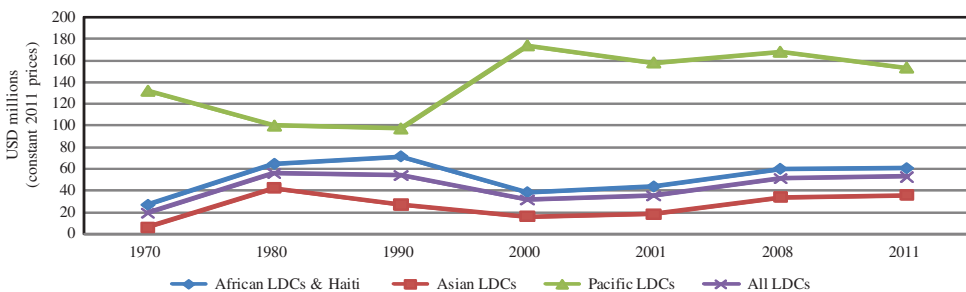
ODA to LDCs while the bottom ten LDCs received only 1.9 per cent of total net ODA to LDCs in 2011.

### 9.3.2 Per capita ODA

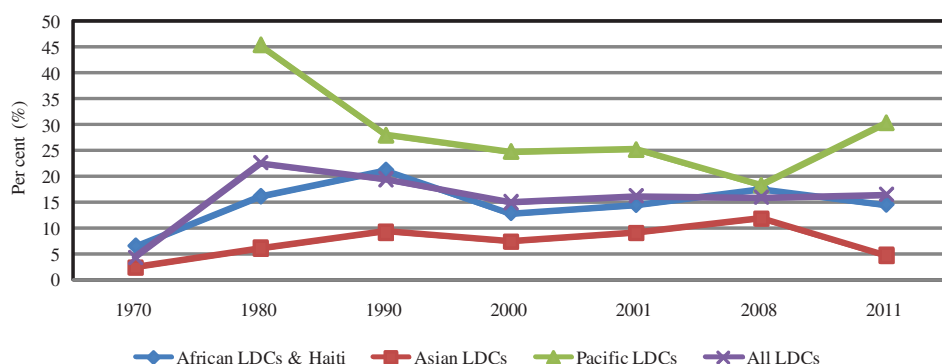
As opposed to net ODA flow, a smaller number of LDCs experienced an increase in per capita ODA during 2008–11. The African LDCs and Haiti have seen an increase in per capita ODA from USD 58.1 in 2008 to USD 60.5 in 2011. On the other hand, per capita ODA in the Asian LDCs increased from USD 33.4 in 2008 to USD 36.3 in 2011 (Figure 9.2). Angola, Bangladesh and Myanmar received less than USD 10 per capita as ODA in 2011, while Vanuatu received USD 3,972 as per capita ODA. The other highest recipient countries are Kiribati, Solomon Islands, Samoa, São Tomé and Príncipe, Timor-Leste, Tuvalu, Afghanistan, Bhutan and Liberia. Interestingly, five countries receive about half of the total aid while the remaining 43 LDCs receive the other half.

### 9.3.3 ODA as percentage of LDCs' GNI

Most LDCs did not experience any change in ODA as a percentage of GNI over time. A comparison among LDC groups shows that the share of Asian LDCs' ODA as a percentage of their GNI was lowest (10.1 per cent) while that of Pacific LDCs was the highest in 2011 (Figure 9.3). A few countries, such as Afghanistan, Haiti, Liberia

**Figure 9.2 Per capita ODA flow to LDCs**

Source: OECD (2012b)

**Figure 9.3 ODA as percentage of LDCs' GNI**

**Source:** OECD (2012b)

and Solomon Islands, received ODA equivalent to more than 40 per cent of their respective GNI.

### 9.3.4 Regional distribution

The regional distribution of LDCs shows that the highest volume of ODA goes to Africa, where most of the LDCs and countries not on course to achieve the MDGs are located. The share of ODA to LDCs on average has increased during 2008–11 compared with the developing countries, even though LDCs received only 31.45 per cent of ODA in 2011 (Table 9.1). In terms of regional share of per capita ODA, Pacific LDCs receive

**Table 9.1 Regional share (%) of net ODA received (USD million in constant 2011 prices)**

Region	Percentage of total ODA	2001	2005	2008	2011
Asian LDCs	% of total ODA to LDCs	19.98	21.48	24.36	24.66
	% of total ODA (LDCs + DCs)	5.48	5.15	7.42	7.76
African LDCs and Haiti	% of total ODA to LDCs	75.21	74.98	72.27	72.38
	% of total ODA (LDCs + DCs)	20.62	17.97	22.02	22.77
Pacific LDCs	% of total ODA to LDCs	4.80	3.54	3.36	2.97
	% of total ODA (LDCs + DCs)	1.32	0.85	1.03	0.93
LDCs' share	% of total ODA (LDCs + DCs)	27.41	23.97	30.47	31.45

**Note:** 'DCs' stand for developing countries.

**Source:** OECD (2012b)

the highest (USD 403.1), followed by African LDCs and Haiti (USD 60.4). Asian LDCs receive the lowest per capita ODA (USD 36.3). A similar trend is observed in the previous years too.

## 9.4 IPoA targets on ODA and external debt: a review of progress

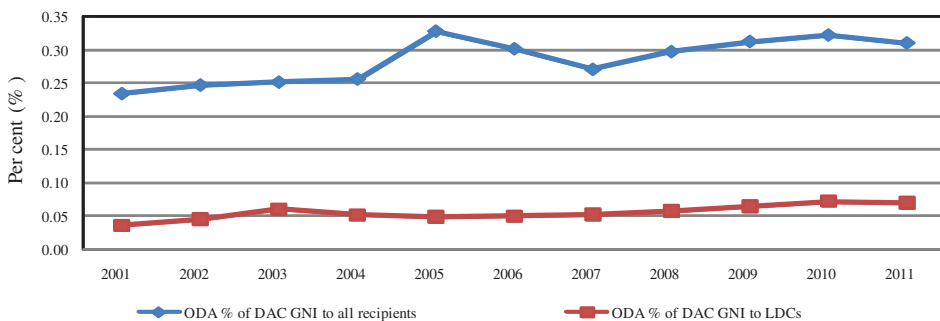
Recognising the importance of increased and effective ODA, the IPoA sets two goals, namely (i) to ensure the fulfilment of ODA commitments to LDCs and (ii) to ensure alignment of aid with LDCs' national priorities. The IPoA sets three targets on external debt: (i) to achieve sustainable debt levels in all LDCs; (ii) to monitor their debt situation; and (iii) to provide specific debt relief measures for LDCs that are HIPC on a case-by-case basis. In order to achieve these goals, LDCs and development partners have to undertake a number of actions as mentioned in Annex 9.2.

### 9.4.1 Fulfilment of ODA commitments to LDCs

A major theme of international development co-operation agreements is the fulfilment of the commitments made by donors. Out of 13 actions to be undertaken by development partners, the first six talk about donor countries' efforts to fulfil their commitments to provide, ODA equivalent to 0.15–0.2 per cent to LDCs. However, the trend of ODA to LDCs tells a different story. Even though the volume of ODA as a percentage of GDP of developed countries has increased compared with the 1980s, the increase is nominal. Thus the internationally agreed upon goals are yet to be met. The net ODA-to-GNI ratio of many large donor countries remains below the IPoA target of 0.15–0.20 per cent (Figures 9.4 and 9.5). In 2011, only five countries (Denmark, Ireland, Luxembourg, Norway and Sweden) exceeded the UN target of providing 0.15 per cent of their GNI as ODA to LDCs, compared with seven countries in 2008. The USA continued to be the largest donor by volume with net ODA flows amounting to USD 9,315 million in 2011, even though this was 0.06 per cent of its GNI in 2011 (OECD 2012b).

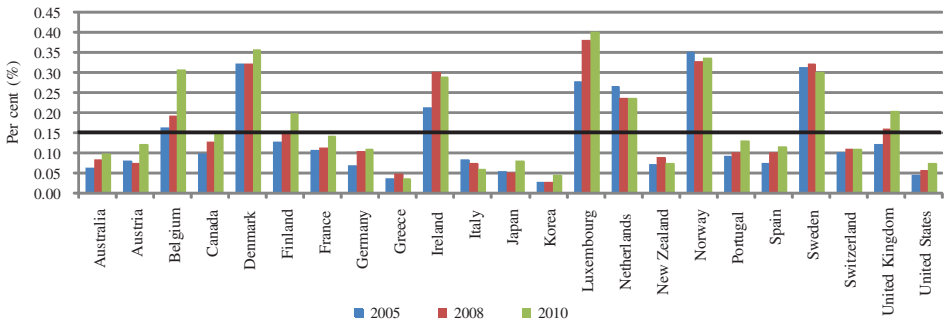
The general trend of commitments and disbursements is, on average, increasing, except for 2011 (Figure 9.6). Commitment by the DAC declined in 2007 and 2009 while

**Figure 9.4 Trends in OECD DAC net ODA as percentage of GNI to LDCs**



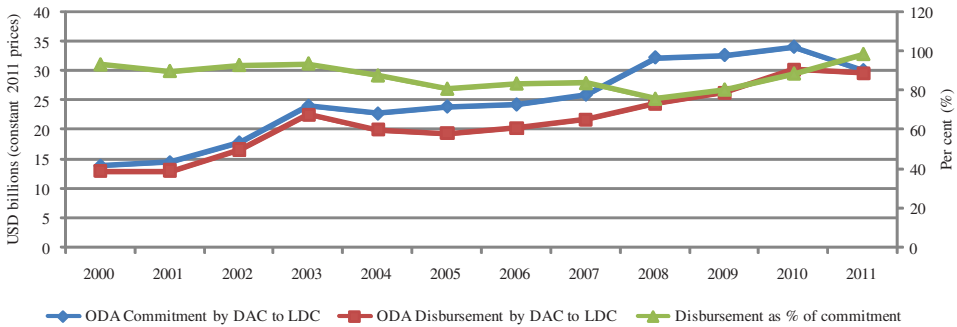
Source: OECD (2012b)

**Figure 9.5 DAC disbursement of bilateral ODA to LDCs as percentage of their GNI**



Source: OECD (2012b)

**Figure 9.6 ODA commitment and disbursement by DAC**



Source: OECD (2012b)

disbursement decreased in 2006, 2007, 2008 and 2009. Gross disbursement of DAC countries was a little over 92 per cent of their average commitment during 2001–11. The disbursement was highest in 2011 at 98.6 per cent of the commitment. ODA targets of DAC members were generally unmet. Moreover, aid for LDCs from nine donors declined in 2011 compared with 2008 (OECD 2012b). Among these are countries – Luxembourg, Ireland and Norway – which have met the criteria to provide 0.15 per cent of their GNI as ODA to LDCs. It was estimated earlier (2011) that, in order to achieve the minimum target of 0.15 per cent of their GNI as ODA to LDCs, donors would have to provide USD 58 billion as net ODA. Moreover, in order to provide 0.2 per cent of their GNI as ODA to LDCs, donors will need USD 77 billion (United Nations 2011b).

*Alignment of aid with LDCs' national priorities*

The quality of ODA is enhanced to a large extent if ODA is aligned with LDCs' national priorities. This plays a catalytic role in eradicating poverty and promoting economic growth in LDCs.<sup>2</sup> The national development documents such as the Poverty Reduction Strategy Paper (PRSP) and other medium-term plans of LDCs have identified priority areas for their development. In order to establish the ownership by taking control of their own development agenda and formulating their own plans,

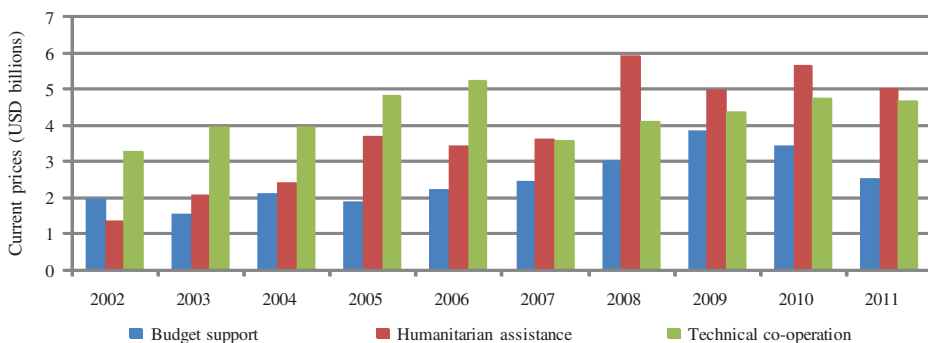
donors have to align their activities with these plans set by LDCs. Alignment of ODA also includes the use of LDCs' own financial and budgetary systems by donors so that there is transparency in the planning and utilisation of resources.

If one looks at the modality of ODA, it is seen that ODA in the form of budget support to LDCs has been declining since 2009 whereas humanitarian and technical co-operation are much higher than budget support. Budget support as a percentage of total aid to LDCs shows a declining trend (Figure 9.7).

Though LDCs' priority areas include the development of infrastructure and the productive sectors, DAC donors put higher focus on the social sectors such as health and education and also on governance throughout the 2000s in order to enable LDCs to achieve the MDGs. This, however, has changed since 2007 when DAC donors started to reposition their aid priorities to LDCs. They paid more attention to recipient countries' priorities for development of economic infrastructure to achieve growth. As a result, ODA flow to the economic infrastructure and the productive sectors has increased (Annex 9.3). Sector-wise disaggregation shows that allocation for the government and civil society, a traditionally higher recipient sector, observed a decline in 2011 compared with 2008, while ODA to economic infrastructure, health and water supply and sanitation experienced an increase in 2011 (OECD 2012b). A disaggregated analysis across various groups of LDCs indicates that the share of ODA to economic infrastructure and productive sectors is higher in Asian LDCs than in African and Pacific LDCs. The lower flow of ODA to these sectors in the African LDCs could be due to their higher share of humanitarian aid.

Country-wise sectoral allocation reveals that five countries (Afghanistan, Tanzania, Mozambique, Uganda and Mali) receive about 42 per cent of total ODA disbursed for agriculture, forestry and fisheries. Except for population and reproductive health and tourism, Afghanistan features as the top recipient of ODA in all other 13 sectors in 2011. Ethiopia and Tanzania are among the top five recipients of ODA in nine sectors, Bangladesh is among the top five ODA recipients in seven sectors and Uganda is among the top five ODA recipients in six sectors. Table 9.2 presents the percentage share of aid received by various sectors in LDCs.

**Figure 9.7 ODA disbursement for budget support, humanitarian assistance and technical co-operation to LDCs**



Source: OECD (2012b)

**Table 9.2 Largest aid-recipient LDCs by sector**

Sector	Largest aid-recipient LDCs in 2008	Largest aid-recipient LDCs in 2011	Top 5% share		Amount disbursed (USD million in 2011 constant prices)	
			2008	2011	2008	2011
Agriculture, forestry and fisheries	Afghanistan (12.66)	Afghanistan (16.77)	41.7	41.6	1,904.1	2,727.9
	Tanzania (9.01)	Mali (8.65)				
	Mozambique (7.48)	Sudan (5.89)				
	Uganda (6.78)	Ethiopia (5.65)				
	Mali (5.76)	Burkina Faso (4.68)				
Education	Afghanistan (8.46)	Afghanistan (11.20)	34.7	40.7	2,905.5	3,369.6
	Bangladesh (7.99)	Bangladesh (10.83)				
	Mozambique (6.32)	Ethiopia (8.68)				
	Mali (6.29)	Nepal (5.07)				
	Senegal (5.61)	Mozambique (4.90)				
Health	Democratic Republic of the Congo (9.35)	Democratic Republic of the Congo (10.20)	37.3	40.4	3,048.5	3,791.8
	Tanzania (8.94)	Ethiopia (9.72)				
	Afghanistan (7.00)	Tanzania (7.78)				
	Bangladesh (6.14)	Afghanistan (7.15)				
	Ethiopia (5.85)	Bangladesh (5.54)				
Population and reproductive health	Ethiopia (12.80)	Ethiopia (13.13)	51.9	52.3	2,783.6	3,425.5
	Tanzania (11.99)	Tanzania (11.98)				
	Zambia (10.23)	Uganda (9.58)				
	Uganda (8.75)	Zambia (9.54)				
	Mozambique (8.17)	Mozambique (8.07)				

(continued)

**Table 9.2 Largest aid-recipient LDCs by sector (continued)**

Sector	Largest aid-recipient LDCs in 2008	Largest aid-recipient LDCs in 2011	Top 5% share		Amount disbursed (USD million in 2011 constant prices)	
			2008	2011	2008	2011
Water supply and sanitation	Tanzania (11.13)	Bangladesh (10.57)	38.6	39.9	1,469.3	1,811.7
	Mauritania (9.58)	Tanzania (9.23)				
	Burkina Faso (6.18)	Ethiopia (8.25)				
	Ethiopia (6.09)	Afghanistan (5.98)				
	Mozambique (5.58)	Burkina Faso (5.90)				
Government and civil society	Afghanistan (24.40)	Afghanistan (38.61)	45.3	54.3	5,769.8	6,466.2
	Sudan (5.86)	Democratic Republic of the Congo (6.77)				
	Bangladesh (5.79)	Haiti (3.16)				
	Democratic Republic of the Congo (4.64)	Solomon Islands (2.97)				
	Tanzania (4.60)	Tanzania (2.82)				
Other social infrastructure and services	Afghanistan (18.04)	Afghanistan (16.04)	54.6	52.5	1,470.7	1,288.2
	Ethiopia (17.96)	Ethiopia (12.63)				
	Tanzania (7.46)	Tanzania (7.99)				
	Bangladesh (6.64)	Bangladesh (7.97)				
	Democratic Republic of the Congo (4.53)	Uganda (7.87)				
Communications	Uganda (11.91)	Sierra Leone (12.00)	41.5	46.9	108.3	140.3
	Bangladesh (8.24)	Liberia (9.98)				
	Mozambique (7.94)	São Tomé and Príncipe (9.92)				
	Ethiopia (7.16)	Mali (8.74)				
	Rwanda (6.30)	Afghanistan (6.23)				

(continued)

**Table 9.2 Largest aid-recipient LDCs by sector (continued)**

Sector	Largest aid-recipient LDCs in 2008	Largest aid-recipient LDCs in 2011	Top 5% share		Amount disbursed (USD million in 2011 constant prices)	
			2008	2011	2008	2011
Energy	Bangladesh (16.62)	Afghanistan (17.59)	54.8	47.2	1,384.5	1,513.8
	Afghanistan (13.51)	Bangladesh (11.49)				
	Sudan (9.52)	Ethiopia (7.26)				
	Ethiopia (7.87)	Rwanda (5.56)				
Banking and financial services	Uganda (7.23)	Tanzania (5.31)				
	Bangladesh (15.13)	Afghanistan (10.47)	52.0	43.0	310.7	385.9
	Tanzania (12.86)	Cambodia (8.91)				
	Togo (9.35)	Uganda (8.51)				
Business and other services	Afghanistan (8.74)	Tanzania (7.73)				
	Madagascar (5.92)	Haiti (7.40)				
	Afghanistan (39.94)	Afghanistan (41.91)	68.9	62.4	532.8	481.8
	Bangladesh (14.14)	Bangladesh (6.27)				
	Tanzania (6.64)	Tanzania (5.22)				
	Ethiopia (5.39)	Democratic Republic of the Congo (4.74)				
Industry, mining, construction	Mali (2.83)	Mali (4.31)				
	Madagascar (16.02)	Haiti (12.29)	50.8	46.8	392.4	515.7
	Togo (11.05)	Afghanistan (10.65)				
	Senegal (10.02)	Burkina Faso (9.79)				
	Zambia (8.20)	Uganda (7.35)				
	Bangladesh (5.54)	Bangladesh (6.74)				

(continued)

**Table 9.2 Largest aid-recipient LDCs by sector (continued)**

Sector	Largest aid-recipient LDCs in 2008	Largest aid-recipient LDCs in 2011	Top 5% share		Amount disbursed (USD million in 2011 constant prices)	
			2008	2011	2008	2011
Trade policies and regulations	Afghanistan (32.49)	Afghanistan (23.34)	69.9	62.1	164.3	185.3
	Bangladesh (88.77)	Rwanda (14.65)				
	Senegal (8.76)	Democratic Republic of the Congo (13.03)				
	Cambodia (5.43)	Uganda (5.87)				
	Tanzania (4.42)	Burundi (5.23)				
Tourism	Laos (21.20)	Tanzania (26.63)	58.8	78.8	10.4	37.9
	Bhutan (11.93)	Yemen (25.01)				
	Tanzania (11.87)	Laos (18.69)				
	Cambodia (7.52)	Nepal (6.31)				
	Senegal (6.26)	Ethiopia (2.12)				

**Note:** Figures in the parentheses present percentages of ODA received for the relevant sectors

**Source:** OECD (2012b)

### *Enhancing quality of ODA in line with the Paris Declaration and the AAA*

Though the Paris Declaration on aid effectiveness has been criticised for being too technocratic, as it does not have any targets for development as MDGs, it provides a set of goals for making aid more effective through development co-operation. The principles of the Paris Declaration include ownership, alignment, harmonisation, managing for results and mutual accountability, under which there are 12 monitorable indicators of progress<sup>3</sup> (Table 9.3). AAA and the Busan Aid Effectiveness Forum reiterated the need for improving the quality of ODA through achievement of the indicators of the Paris Declaration.<sup>4</sup>

The OECD baseline surveys on the Paris indicators show that targets are yet to be met as the progress in some areas is slow in both donors and recipient countries. This emphasises the need for continuous work to be carried out towards achieving these goals. In the latest survey of OECD in 2010, 32 countries participated, of which 18 were LDCs. Some of the major findings of the survey are discussed below.

**Ownership** is the major prerequisite for aid to be effective, as the aim is to make governments in aid-receiving countries accountable to their own people and constituencies rather than to donors. This of course presupposes a democratically accountable government system in the recipient countries. Table 9.3 indicates that in the case of having operational development strategies in place, LDCs were only half way to meeting the target of 2010. Between 2005 and 2010 there was some progress in terms of having stronger country ownership with better development and resource mobilisation strategies. Among LDCs, Tanzania, Rwanda and Zambia are found to have strengthened country ownership while Burundi, Congo and Afghanistan exhibited the least progress on country ownership, reflecting the fact that conflict countries and countries in special development situations have difficulties in making progress towards country ownership of ODA. These are the countries with poor development strategies.

**Alignment** is better reflected through the use of public financial management (PFM) and procurement systems. Donors traditionally try to rely on their own rules and procedures. Even though both reliability and use of country PFM systems have been increasing since 2005, as reported by an OECD survey on aid effectiveness, they were far from meeting the 2010 targets. High aid-receiving LDCs such as Burkina Faso, Mozambique and Rwanda have higher scores in terms of having a reliable PFM system in 2010. The use of parallel project implementation units (PIUs) is still double the number projected for 2010. The results of the OECD survey presented in Table 9.3 indicate that the percentage of countries moving up on the PFM systems since 2005 has increased in 2010, but is behind the target level of that year. Against a target of 85 per cent, only 46 per cent of aid for the government sector was reported on the government's budget, indicating low alignment of aid to national priorities. In the matter of fulfilling the target of technical co-operation implemented through co-ordinated programmes consistent with national development strategies, the achievement of the target is satisfactory. However, aid to LDCs' government sector is not using partner countries' PFM systems at the same pace as is targeted. The total

**Table 9.3 Quality of ODA in LDCs**

Indicators		2005	2007	2010	2010 target
Ownership	Operational development strategies (%)	19	–	37	75
Alignment	Reliable public financial management (PFM) systems (%) <sup>a</sup>	0	–	38	50
	Aid flows are aligned on national priorities (%) <sup>b</sup>	44	48	46	85
	Strengthen capacity by co-ordinated support (%) <sup>13c</sup>	49	61	50	51
	Use of country PFM systems (%) <sup>d</sup>	40	45	48	55
	Strengthen capacity by avoiding parallel project implementation units (PIUs) (number) <sup>e</sup>	1,696	1,525	1,158	565
	Aid is more predictable (%) <sup>f</sup>	42	47	43	71
	Aid is untied (%) <sup>g</sup>	87	84	>87	89
Harmonisation	Use of common arrangements or procedures (%) <sup>h</sup>	43	47	48	66
	Joint missions (%) <sup>i</sup>	20	24	22	40
	Joint country analytic work (%) <sup>j</sup>	41	44	44	66
Managing for results	Results-oriented frameworks (%) <sup>k</sup>	7	–	22	38
Mutual accountability	Mutual accountability (%) <sup>l</sup>	44	–	50	100

<sup>a</sup> Per cent of countries moving up at least one measure on the PFM/CPIA (Country Policy and Institutional Assessment) scale since 2005.

<sup>b</sup> Per cent of aid for the government sector reported on the government's budget.

<sup>c</sup> Per cent of technical co-operation implemented through co-ordinated programmes consistent with national development strategies.

<sup>d</sup> Per cent of aid for the government sector using partner countries' PFM systems.

<sup>e</sup> Total number of parallel PIUs.

<sup>f</sup> Per cent of aid for the government sector disbursed within the fiscal year for which it was scheduled and recorded in government accounting systems.

<sup>g</sup> Per cent of aid that is fully untied.

<sup>h</sup> Per cent of aid provided in the context of programme-based approaches.

<sup>i</sup> Per cent of donor missions to the field undertaken jointly.

<sup>j</sup> Per cent of country analytic work undertaken jointly.

<sup>k</sup> Per cent of countries with transparent and monitorable performance assessment frameworks.

<sup>l</sup> Per cent of countries with mutual assessment reviews in place.

**Source:** OECD (2011)

number of parallel PIUs has been far too high until now and could not meet the 2010 target.

Predictability of donor aid is one of the most discussed elements in alignment. Without predictable aid flow, implementation of national budget and spending commitments is hampered. Most of the project costs are recurring and need sustainable flow of

spending. Unpredictability of aid can lead to cancellation of ongoing projects and delay in implementation of programmes. Predictability of aid is higher in Malawi, Cambodia and Ethiopia, which have a significant amount of aid disbursed through a programme-based approach. Predictability of aid is not ensured, and only 43 per cent of aid for the government sector was disbursed within the fiscal year for which it was scheduled and recorded in government accounting systems, against the target of 71 per cent in 2010 (Table 9.3).

The other important aspect of alignment is the issue of untying aid. The cost of goods and services can go up with tied aid, because those might have to be brought from the donor countries at a higher price as part of the aid package. The argument for tied aid is that it is required to build support for aid programmes in donor countries. The proportion of untied aid has increased significantly in recent years compared with a decade ago. There are however, some gaps in statistics. Untied aid does not cover technical co-operation, food aid and donor administrative costs. Another concern is that despite reduction in tied aid there may be a situation when aid is tied informally. For example, local companies may be excluded from participation in open bidding due to lack of access to information. The OECD survey indicates that the percentage of untied aid has increased during the period 2007–10, and is close to the target of the Paris Declaration.

**Harmonisation.** Aid fragmentation has been a major obstacle towards aid harmonisation. It requires donors to work together among themselves and be transparent on their policies and monitoring systems to other donors. Harmonisation also requires recipient countries to be involved in the development of joint assistance strategies, implying a demand on recipient countries' time and effort. In 2011, LDCs received ODA from 23 OECD DAC donors. With bilateral aid providers of South–South co-operation the number of donors would increase. The large number of donors makes the situation complicated for achieving aid effectiveness as more time and resources have to be devoted for administrative activities. The OECD surveys on aid effectiveness indicate that harmonisation in terms of increase in programme-based aid and higher joint field missions and country analytic work is still quite low (Table 9.3).

**Managing for results.** In order to make aid more effective 'results-based management' of resources has become essential. A number of LDCs such as Mozambique, Tanzania and Uganda have stronger results-based monitoring management mechanisms, whereas the post-conflict and other countries in special development situations had the weakest management. The target of the Paris Declaration to reduce the proportion of countries without transparent and monitorable performance assessment frameworks by one-third by 2010 has not been fulfilled (Table 9.3). This reiterates that recipient countries have to develop cost-effective results-oriented reporting and performance assessment frameworks, and donors need to use such arrangements and should not require separate reporting.

**Mutual accountability.** Another important criterion for improving aid effectiveness is to make both donors and recipient countries accountable to each other instead of having a 'principal-agent' relationship where donors ask recipient countries to fulfil some conditions. The Paris Declaration suggests that all partner countries have mutual assessment reviews in place through country-level mechanisms of

mutual progress in implementing agreed commitments on aid effectiveness. The OECD survey shows that the progress on mutual accountability has reached only half the target set in the Paris Declaration (Table 9.3). Efforts are, however, ongoing to improve mutual accountability. For example, some LDCs such as Benin, Mali, Rwanda and Zambia have customised their review process for their aid programmes (ECOSOC 2010).

### *Exploring new innovative finance mechanisms*

In view of the limited resources of donors to meet the increasing demand for international development, innovative finance mechanisms are called for. The number of actors in the global aid architecture has increased significantly over the last few years. For example, in addition to DAC donors, official non-DAC donors, private funds, foundations, charities, new global special funds and non-governmental organisations are the other players in the aid system. However, resources provided by these sources seem to fall short of the global demand. The OECD defines innovative financing mechanisms as those which have (i) new approaches for pooling private and public revenue streams; (ii) new revenue streams such as new tax, charge, fee, bond raising, sale proceed and voluntary contribution schemes; and (iii) new incentives such as financial guarantees, corporate social responsibility and reward or recognition.<sup>5</sup>

At present there are several mechanisms in place as sources of innovative finance. Solidarity levy on airlines ticket, the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM), International Finance Facility for immunisation (IFFim) framework of the Global Alliance for Vaccine and Immunisation (GAVI), debt conversions (swaps), sustainable investible bonds, diaspora bonds, Advance Market Commitments (AMCs) for a pneumococcal vaccine, carbon emissions trading, and a 2 per cent share from the sale of certified emissions reductions (CER) are some of the examples of such new funds. A number of new funding mechanisms are also being discussed. Some of these include financial transaction tax (FTT), carbon tax, global solidarity tobacco levy and special drawing rights (SDRs).

Both the existing and proposed new funding mechanisms focus on areas in which LDCs have special interest. For example, innovative financing mechanisms such as IFFim and AMCs are dedicated to the health sector while other funds such as carbon emission trading, CER and carbon taxes are for climate adaptation and mitigation. As both health and climate change are issues of interest for LDCs, they could explore resources from these new sources. While LDCs can take advantage of these funds, they have to examine two critical issues related to various innovative financing mechanisms. These are (i) whether these will be additional funds; and (ii) whether they will enhance the efficiency of public and private financial flows. There is still a lack of awareness among LDCs as regards various new funding opportunities.

The need for innovative development finance (IDF) was felt strongly when the effort to meet the MDGs started. Raising funds for specific purposes (like ensuring environmental sustainability and combating HIV/AIDS, malaria and other

**Table 9.4 Sources of IDF during 2006–10 in USD million**

	GFATM	GAVI	GEF
African LDCs	4355.89	860.27	44.57
Asian LDCs	495.01	298.01	11.45
Pacific LDCs	1.51	1.01	0.00

**Note:** IDF is the sum of GEF, GAVI and GFATM disbursements from 2006 to –2010

**Source:** GEF disbursements, [www.climatefundsupdate.org/listing/gef-trust fund](http://www.climatefundsupdate.org/listing/gef-trust-fund)

GAVI disbursements, [www.gavialliance.org/results/disbursements/GFATM disbursements](http://www.gavialliance.org/results/disbursements/GFATM-disbursements):

<http://portfolio.theglobalfund.org/en/Home/Index>

Net ODA and GDP are taken from World Development Indicators

diseases) from ‘innovative sources’ has its appeal but even though the concept of innovative financing has been developing for almost a decade now, it is still hard to find information exclusive to this form of financing. Therefore, some of the widely recognised sources of IDF, namely the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM), GAVI and the Global Environmental Facility (GEF) (even though major portions of funds from these sources are implemented through ODA) are looked into in this section. A number of key factors may be highlighted in this regard: (i) of the 49 LDCs, 35 are from Africa, so it is not surprising to see that nearly 87 per cent of IDF goes to this region; (ii) the share of IDF<sup>6</sup> in ODA is only 3 per cent; (iii) almost 80 per cent of the disbursed IDF comes from GFATM; (iv) GFATM-approved projects are worth nearly USD 27 billion to date, of which USD 21 billion has been disbursed; (v) LDCs account for 47 per cent of GFATM-approved project funds and 46 per cent of its disbursed funds; and (vi) no funds were disbursed from GFATM, GAVI or GEF to three Pacific LDCs, namely Kiribati, Samoa and Vanuato. Samoa does not receive any funds from these sources.<sup>7</sup> Table 9.4 presents sources of innovative funds flowing to various regions.

### *Funds to the health sector*

In January 2000, with global immunisation rates stagnating, GAVI was launched to fund vaccines for children in the world’s 70 poorest countries. GFATM was created in 2002 to dramatically increase resources for the fight against the three pandemics. The reason why funds from these sources are considered innovative is that rather than implementing projects themselves, both of these initiatives implement programmes by developing partnerships among government, civil society, the private sector and communities living with the diseases. This improves the chances of funds being implemented as committed, since a keen eye of the civil society is always on the government.

Since its inception, GAVI has committed itself to fund projects worth USD 8 billion, of which it approved USD 6 billion and disbursed USD 5 billion. Of the latter, around 56 per cent (USD 2.9 billion) was disbursed to LDCs. The largest LDC recipient of disbursed GAVI funds was Ethiopia (USD 468 million), followed by Bangladesh (USD 295 million). Other large recipients of this fund include Afghanistan, Togo, Sudan and Tanzania.<sup>8</sup> Annex 9.4 presents accumulated commitments and

disbursements of GAVI since its inception. To date, GFATM has approved funds of over USD 26 billion and disbursed nearly USD 21 billion all over the world, of which 46 per cent (USD 9.5 billion) has gone to LDCs. The largest recipient of this fund in the case of GAVI is Ethiopia (USD 1.3 billion). Other large recipients of GFATM funds are Tanzania, Zambia, Rwanda and Malawi.<sup>9</sup> Details of GFATM disbursements are shown in Annex 9.5.

### *Funds to climate change*

The GEF was established in October 1991 as a USD 1 billion pilot programme of the World Bank to assist in the protection of the global environment and to promote environmental sustainable development. It uses the same principle as GAVI and GFATM while implementing its project, i.e. the partnership of international institutions, civil society organisations (CSOs) and the private sector to address global environmental issues while supporting national sustainable development initiatives. GEF accounts for only around 1 per cent of the total disbursed IDf funds, of which the largest amount (USD 9.9 million) goes to Tanzania.<sup>10</sup> Annex 9.6 gives an idea of the share of IDf in total ODA and GDP of African LDCs during 2006–10.

### *LDCs' responsibility in utilising aid effectively*

One of the important actions to be performed by LDCs as suggested by the IPoA is to enhance aid transparency and combat corruption in the ODA process. As mentioned in Section 9.2, aid may sometimes lead to corruption in recipient countries, leading to the wiping out the positive impact of aid. However, corruption is prevalent also on the donors' side. For example, bribes in the contracting process of projects, cheating by supplying poor-quality products, gifts to government officials in the form of financing children's education, providing employment in international agencies or supporting foreign travel are common methods of fraudulence in the ODA mechanism (OECD 2012a). The counter argument on the linkage between aid and corruption suggests that aid is not the reason for corruption, rather the corrupt system in recipient countries cause corruption in the aid process. In this regard, it has been argued that foreign aid instead reduces corruption since recipient countries have to comply with stringent requirements of donors (Tavares 2003). The role of aid in promoting democracy has also been referred to by others (Knack 2000).

In reality, however, instances of corruption in foreign-funded projects are plentiful, and aid is blamed for opening up opportunities for corruption (Transparency International 2006). Such practices increase waste of resources and reduce the effectiveness of aid. In extreme cases, corruption in aid projects can lead to cancellation of the project itself. Corruption in aid-supported projects erodes the image of recipient countries, which could discourage other donors to refrain from supporting them. For example, in Cambodia, the World Bank has stopped all aid projects and pulled out its staff since 2010 on suspicion of corruption and the government's inability to reduce corruption.<sup>11</sup> Weak governance and spasmodic

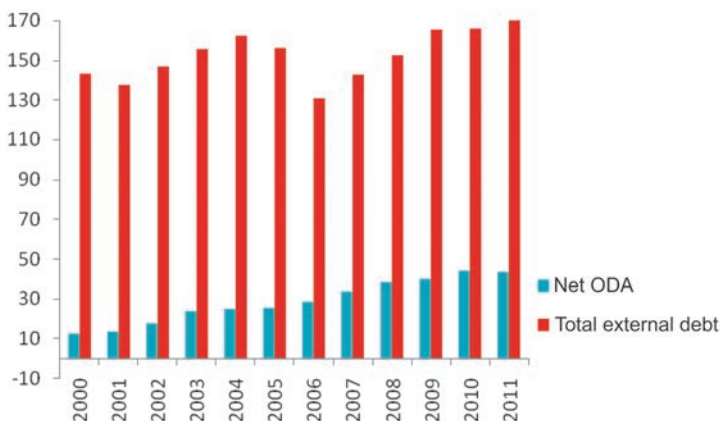
application of the rule of law in LDCs encourage corruption to persist. While stern measures by donors could alert LDC recipients to the consequences of corruption in aid, LDCs themselves will have to be motivated to fight against corruption and support long-term development. They have to work together with donors in this challenging mission.

### 9.4.2 External debt

A major constraint to reaching the expected economic growth by LDCs is heavy external debt and fiscal deficit of the government. This constrains LDC governments to meet their growth target and break the poverty circle. It has been observed that LDC governments use their ODA to meet interest payments or cover part of the principal of their external debt. This limits the ability of governments to invest in productive public capital such as infrastructure (Bjerg et al. 2011; Johansson 2010).

External debt is the portion of total country debt that is owed to creditors outside of the country. While creation of debt can be considered as a natural consequence of economic activity, more often than not countries face the question of debt sustainability, that is whether a country can service its debt on a continuous basis and not default. Figure 9.8 shows the total external debt and net ODA in LDCs. There are two very basic indicators of debt sustainability: stock-based and flow-based indicators. Stock-based indicators compare total external debt stock to other national aggregates such as GDP or government revenues to see how well a country can service its debt. The most commonly used stock-based indicators are debt-to-export ratio and debt-to-GDP ratio. An increasing debt-to-export ratio implies that total debt is growing faster than the economy's basic source of external income, indicating that the country may have problems meeting its debt obligations. Annexes 9.7 and 9.8 summarise debt-to-export ratios of Asia and African LDCs. In 2011, Gambia had the highest debt-to-export ratio among the LDCs, rounding up to a massive 997 per

**Figure 9.8 Total external debt and net ODA in current USD (millions)**



Source: World Development Indicators

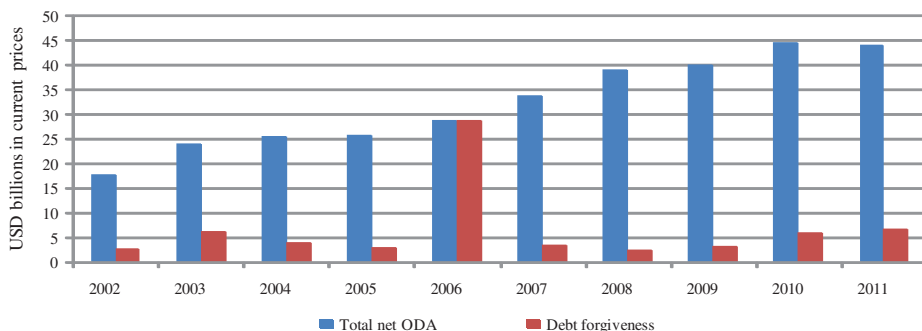
cent, followed by Solomon Islands at 776 per cent. However, the debt-to-export ratio for LDCs has been generally decreasing since 2005 (World Development Indicators).

Flow-based indicators compare total debt service with other national aggregates. Debt service provides information on the resources that a country has to allocate to servicing its debts and the burden it may impose through crowding out other uses of financial resources. Comparing debt service with a country's repayment capacity indicator, such as export earnings, acts as a good indicator for analysing whether a country is likely to face debt-servicing difficulties. Debt servicing as a percentage of export earnings is declining in most LDCs. Annexes 9.9 and 9.10 depict debt servicing as a ratio of export earnings for LDCs in Asia and Africa.

For countries burdened with excessive debt servicing, debt has turned out to be one of the major obstacles to sustainable development. From what is observed from the external debt situation of LDCs it is clear that most LDCs are in serious need of debt relief. Only low-income debt-distress countries that borrow from the World Bank's International Development Association (IDA) qualify for HIPC relief. These countries must go through a two-stage process. One of the basic structural problems of HIPC is the fact that it takes nearly six years to even qualify for the full set of debt relief offered by the World Bank and the International Monetary Fund (IMF).<sup>12</sup> In the meantime their debts get accrued as usual and by the time they receive some sort of relief they are still paying high amounts on debt servicing, even after relief. Critics also point out that the HIPC framework is basically more concerned with extracting as much debt servicing as possible from the poor debtor countries without getting in the way of progress towards MDGs. In order to meet the MDGs by 2015 the G8<sup>13</sup> made a proposal that took the HIPC framework one step further. In July 2006, it proposed that three multilateral organisations (IDA, IMF and African Development Fund [ADF]) cancel 100 per cent of the debt they owe from those countries that have reached the completion point of the HIPC or are in the path towards it.

Foreign debt is normally denominated in USD, so whenever local currency depreciates against the dollar the debt burden goes up. Moreover, an increase in interest rates in the international market increases the total amount payable in terms of debt servicing. To make things worse, most of the African LDCs export mainly agricultural products which are subject to huge price fluctuations. Therefore, even though these countries may expect that their growth rate will be enough to service their debt sustainably, that may not happen. Even though the overall flow-based and debt-based indicators are improving, their ratios are so high that the amount of funds that is spent on debt servicing slows down the LDCs' economic development process. Moreover, many of the LDCs do not even qualify for the relief because they are considered as sustainable by donors even though their debt burden could be at an unprecedentedly high level. Imposing new and revised criteria makes the process of debt relief lengthier and clumsier, and the overall cancellation of debt can help boost economic growth of LDCs which in turn can spill over to other parts of the world.

The share of external debt in LDCs' GDP has been declining since 2001 (OECD 2012b). African LDCs have experienced the highest fall during 2001–11. This is

**Figure 9.9 Flow of net ODA and debt forgiveness to LDCs**

**Source:** OECD (2012b)

due to a large debt forgiveness to the Democratic Republic of the Congo in 2003. From an external debt of 52.1 per cent in their GDP in 2008, on average, the African LDCs and Haiti have managed to bring it down to 33.1 per cent in 2011, which is close to that of Asian LDCs (35.1 per cent). It is observed that in 2011 LDCs such as Bhutan, Lao People's Democratic Republic, Samoa, Gambia, Guinea, Mauritania, São Tomé and Príncipe had external debt more than 50 per cent of their GDP. On the other hand, Haiti is the only country whose share of external debt in GDP is around 10 per cent. In 2006, an unusually large amount of debt was forgiven for several countries such as Burkina Faso, Democratic Republic of the Congo, Ethiopia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Rwanda, Senegal, Tanzania, Uganda and Zambia. The total amount of debt forgiveness in 2006 stood at USD 34,325 million in constant prices as opposed to a total ODA of USD 32,045 million (Figure 9.9).

## 9.5 Conclusions and recommendations

The analyses in this chapter reveal that the IPoA commitments on ODA and external debt are yet to be fulfilled. There exists a significant gap between commitment and disbursement of ODA by DAC donors and a discrepancy in aid distribution due to higher allocations for fragile and conflict countries. As a result, the need for other LDCs may be overlooked at times. To reduce this heterogeneity of aid across LDCs, donors need to rearrange the aid policy towards the under-aided countries. Hence, a demand-based aid allocation framework needs to be in operation to enhance the use of aid effectively. In this regard, monitoring and evaluation strategies also have to be efficient for better use of allocated aid. Based on the findings, this chapter makes a number of recommendations as follows.

1. **Increased allocation.** Given that most donors' aid allocation for LDCs is below the target level of 0.15–0.2 per cent of their GNI, they should take proactive measures to meet their targets. ODA should be provided on the basis of need and vulnerability of LDCs. The allocation pattern of aid should be changed to provide more support to the under-aided countries. Since economic infrastructure and productive sectors are the priorities for LDCs to achieve

economic growth, and many countries, particularly African LDCs, are lagging behind in investing adequate resources for these sectors, special attention should be given in this case.

2. **Need-based assessment.** Aid should be allocated on the basis of institutional performance of receiving countries, and on their poverty and income levels. Therefore, the need assessment and distribution criteria should be developed for aid allocations. There has been discussion on preparing an 'Aid Orphan List' to address the issue of under-aided countries. Such initiatives are essential for regularly monitoring the aid distribution mechanism. All LDCs should be supported evenly for implementing their national development strategies.
3. **Selection of priority sectors.** More aid should be targeted to sectors such as infrastructure, agriculture and productive capacity in order for LDCs to achieve high growth. Aid allocation to LDCs should be monitored in order to ensure equitable and even distribution of funds within each sector.
4. **Enhanced quality of ODA.** Both donors and recipient countries have to continue to work together towards improving the quality of aid through fulfilling the principles of the Paris Declaration and AAA. In particular, country-level ownership has to be improved to ensure long-term development results. LDCs should ensure that aid projects are aligned with nationally devised development strategies. Donors should provide predictable finance to increase aid effectiveness. Besides, in order to avoid multiple requests for information and save time and capacity, there is a need for co-ordination among different donors so that activities of different aid agencies can be streamlined.
5. **Innovative financing.** Although the role of innovative finance has been increasing in view of limited global resources, its flow to LDCs is still insignificant. More efforts are needed from the global community to increase resources from non-traditional donors. However, such resources should not be a substitute for but additional and complementary to ODA. With the growing role of such funds there is a need for co-ordination with the DAC aid process and to follow DAC goals on aid effectiveness and transparency.
6. **Capacity building.** In order to have a sustainable result of development, capacities of LDCs should be improved. These should range from human to institutional capacity building for meaningful participation in joint activities with donors. Such capacity is essential not only for dealing with several donors at a time, but also to maintain information on aid. Monitoring the aid process becomes difficult without real-time disaggregated data. There should be a data bank on ODA at the country level on the basis of which concerned departments and agencies can analyse the trend and other aspects of aid.

## Annex 9.1 LDCs that experienced decline in ODA

LDC	Net ODA received (USD million, 2011 constant)		Per capita ODA (USD, 2011 constant)		ODA as percentage of LDCs' GNI			
	2008	2011	LDC	2008	2011	LDC	2008	2011
Angola	381.6	199.6	Angola	21.16	10.17	Angola	0.52	0.22
Bangladesh	2,153.74	1,497.75	Bangladesh	14.80	9.95	Bangladesh	2.39	1.25
Burkina Faso	1,033.39	990.03	Benin	79.17	74.42	Benin	9.62	9.26
Cambodia	805.17	792.25	Burkina Faso	66.06	58.35	Burkina Faso	11.99	9.72
Djibouti	144.78	141.62	Burundi	68.06	67.52	Burundi	32.14	24.82
Equatorial Guinea	32.1	24.19	Cambodia	58.25	55.38	Cambodia	7.55	6.44
Eritrea	144.56	135.88	Central African Republic	63.31	60.61	Central African Republic	13.12	12.57
Guinea	338.31	207.9	Djibouti	169.21	156.39	Chad	6.31	5.54
Guinea-Bissau	135.95	118.78	Equatorial Guinea	48.47	33.59	Equatorial Guinea	0.28	0.19
Laos	539.6	396.67	Eritrea	29.22	25.09	Eritrea	10.48	5.26
Liberia	1,283.71	765.49	Ethiopia	42.87	41.77	Ethiopia	12.48	11.2
Madagascar	872.38	408.85	Guinea	35.39	20.34	Guinea	9.83	4.35
Malawi	947.94	798.33	Guinea-Bissau	93.52	76.78	Guinea-Bissau	16.04	12.21
Mauritania	467.51	370.23	Laos	89.60	63.08	Laos	9.55	5.17
Mozambique	2,046.72	2,046.5	Liberia	350.89	185.41	Liberia	180.78	73.32
Myanmar	571.35	376.11	Madagascar	44.63	19.18	Madagascar	9.02	4.19
Senegal	1,103.7	1,051.97	Malawi	67.69	51.90	Malawi	22.8	14.8
Sudan	2,657.74	1,122.81	Mauritania	141.87	104.54	Mauritania	12.5	9.67
Timor-Leste	314.91	283.76	Mozambique	91.65	85.52	Mozambique	21.55	16.03
Uganda	1,688.65	1,580.29	Myanmar	12.09	7.78	Nepal	5.49	4.7
Vanuatu	109.18	92.06	Niger	43.64	40.38	Niger	11.44	10.9
Zambia	1,150.38	1,072.89	Senegal	93.64	82.39	Senegal	8.01	7.45
			Sudan	81.93	32.72	Sierra Leone	19.74	19.5
			Tanzania	56.94	52.90	Tanzania	11.38	10.38
			Timor-Leste	292.15	241.32	Uganda	11.59	9.62
			Uganda	53.88	45.79	Vanuatu	15.69	11.56
			Vanuatu	478.77	374.81	Yemen	1.72	1.6
			Zambia	92.93	79.62	Zambia	8.43	6.08
			Total no. of LDCs = 28			Total no. of LDCs = 28		

Source: OECD (2012b)

## **Annex 9.2 Actions by LDCs and development partners on ODA and external debt**

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### **Actions on ODA**

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#### **Actions by LDCs**

1. Integrate and align ODA within their national plans and priorities
2. Use aid to achieve the overall development goals contained in the Programme of Action
3. Build synergies among all forms of financing for development to enhance quantity and quality of support for development effectiveness
4. Enhance aid transparency and combat corruption by making information on aid quantities, sources and uses publicly available

#### **Actions by development partners**

1. Donor countries providing more than 0.20 per cent of their GNP as ODA to LDCs: continue to do so and maximise their efforts to further increase ODA to LDCs
2. Other donor countries which have met the 0.15 per cent target: undertake to reach 0.20 per cent expeditiously
3. All other donor countries which have committed themselves to the 0.15 per cent target: reaffirm their commitment
4. Other donor countries: exercise individual best efforts to increase ODA to LDCs
5. Donor countries should review their ODA commitments in 2015 and consider further enhancing resources for LDCs
6. Provide LDC governments with timely information in a transparent manner on annual commitments and disbursements
7. Use country systems as the first option for aid programmes in support of activities managed by the public sector
8. Align aid with national priorities and strengthen capacity development in accordance with national ownership and leadership
9. Enhance the quality of aid in line with the 2005 Paris Declaration on aid effectiveness and the 2008 AAA
10. Improve donor co-ordination and harmonisation
11. Continue to make progress on untying aid
12. Align the allocation of ODA to LDCs' priorities, with particular focus on productive capacities
13. Explore new innovative finance mechanisms and strengthen and scale up existing ones

### **Actions on external debt**

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#### **Joint actions**

1. Further ensure the provision of debt relief by all countries taking part in the HIPC Initiative, including non-Paris Club creditors, especially in countries where a large proportion of debt is not owed to Paris Club creditors

*(continued)*

## Annex 9.2 Actions by LDCs and development partners on ODA and external debt (continued)

### Actions on external debt

#### Actions by LDCs

1. Promote and pursue responsible borrowing and public debt management policies in order to avoid an unsustainable debt burden

#### Actions by development partners

1. Provide full and timely financing for the implementation of the HIPC Initiative and Multilateral Debt Relief Initiative (MDRI), including for the remaining eligible LDCs in completing the HIPC Initiative process
2. Strive to ensure that resources provided for debt relief under the HIPC Initiative and MDRI do not detract from ODA resources intended to be available for LDCs
3. Further explore, where appropriate and on a mutually agreed, transparent and case-by-case basis, the use of new and improved debt instruments and innovative mechanisms such as debt swaps
4. Consider taking additional measures and initiatives aimed at ensuring long-term debt sustainability through increased grant-based and other forms of concessional financing, including through multilateral institutions
5. Emphasise the need for co-ordinated policies aimed at fostering debt financing, debt relief and debt restructuring, as appropriate (while noting also that LDCs can seek to negotiate, as a last resort, on a case-by-case basis, and through existing frameworks, agreements on temporary debt standstills between debtors and all creditors in order to help mitigate the adverse impacts of the crisis and stabilise negative macroeconomic development)

**Source:** United Nations (2011a)

## Annex 9.3 Sectoral share in total ODA of respective LDC groups (%)

LDC	Economic infrastructure		Productive sectors	
	2008	2011	2008	2011
African LDCs & Haiti	9.3	9.5	5.8	6.8
Asian LDCs	12.4	13.3	6.0	7.9
Pacific LDCs	11.5	13.6	8.4	8.5
All LDCs	10.1	10.5	5.9	7.1

**Source:** OECD (2012b)

**Annex 9.4 GAVI commitments and disbursements to date**

<b>Country</b>	<b>Disbursement in USD million</b>	<b>Commitments in USD million</b>
Afghanistan	122	213
Angola	75	107
Bangladesh	295	575
Benin	62	72
Bhutan	1	1
Burkina Faso	67	133
Burundi	71	92
Cambodia	37	48
Chad	34	45
Comoros	2	3
Congo, Democratic Republic of the	15	22
Djibouti	3	4
Eritrea	11	15
Ethiopia	468	740
Gambia	15	23
Guinea	23	30
Guinea-Bissau	4	7
Haiti	6	31
Kiribati	0	0
Lao People's Democratic Republic	13	23
Lesotho	3	6
Liberia	16	31
Madagascar	82	123
Malawi	136	177
Mali	90	146
Mauritania	8	16
Mozambique	71	121
Myanmar	53	109
Nepal	59	110
Niger	58	117
Rwanda	85	136
São Tomé and Príncipe	1	1
Senegal	55	91
Sierra Leone	33	50
Solomon Islands	1	3
Somalia	10	21
South Sudan	10	21
Sudan	168	221
Tanzania	157	281
Timor-Leste	1	5
Togo	20	39
Uganda	176	253
Yemen	131	175
Zambia	82	121
LDCs	2,361	4,559
Grand total	5,016	8,404

**Source:** GAVI Alliance, [www.gavialliance.org/results/disbursements/](http://www.gavialliance.org/results/disbursements/)

**Annex 9.5 GFATM approvals and disbursements**

<b>Country</b>	<b>Disbursement in USD million</b>	<b>Approval in USD million</b>
Afghanistan		142
Angola	182	214
Bangladesh	247	363
Benin	139	247
Bhutan	10	11
Burkina Faso	254	302
Burundi	178	261
Cambodia	320	398
Central African Republic	76	98
Chad	85	161
Comoros	14	18
Congo, Democratic Republic of the	51	87
Djibouti		29
Equatorial Guinea		31
Eritrea	158	187
Ethiopia	1,331	1,690
Gambia	108	137
Guinea	71	116
Guinea-Bissau	49	80
Haiti	253	289
Kiribati		
Lao People's Democratic Republic	108	122
Lesotho	133	193
Liberia	128	196
Madagascar	246	295
Malawi	609	813
Mali	117	259
Mauritania	15	21
Mozambique	325	378
Myanmar	126	432
Nepal	107	154
Niger	105	136
Rwanda	759	905
Samoa		
São Tomé and Príncipe	13	16
Senegal	163	225
Sierra Leone	108	180
Solomon Islands	4	7
Somalia	161	337
South Sudan	219	
Sudan	293	337
Tanzania	930	1,227
Timor-Leste	34	42
Togo	146	209
Tuvalu		
Uganda	441	580
Vanuatu		
Yemen	57	69
Zambia	629	667
LDCs	9,504	12,659
Grand total	20,834	26,700

**Source:** Grant Portfolio of GFATM, <http://portfolio.theglobalfund.org/en/Home/Index>

## Annex 9.6 IDF in African LDCs (2006–10)

Country	GFATM	GAVI	GEF	IDF <sup>a</sup>	ODA	GDP	Share in ODA	Share in GDP
Angola	100.0	35.7		135.8	1,257.0	344,379.8	10.8	0.0
Benin	71.8	24.0	1.8	97.6	2,886.3	29,988.5	3.4	0.3
Burkina Faso	125.2	42.0	1.3	168.5	4,998.2	38,508.6	3.4	0.4
Burundi	81.1	25.1	1.8	108.0	2,623.4	8,007.5	4.1	1.3
Central African Republic	40.0	0.0		40.0	1,070.9	9,120.2	3.7	0.4
Chad	45.5	15.2	1.8	62.4	2,116.8	37,088.9	2.9	0.2
Comoros	5.7	0.6		6.2	236.2	2,476.8	2.6	0.3
Congo, Democratic Republic of the	34.5	6.6		41.1	11,219.8	54,825.0	0.4	0.1
Djibouti	16.8	1.0		17.8	667.6	4,777.0	2.7	0.4
Equatorial Guinea	25.5	0.0		25.5	205.9	56,158.3	12.4	0.0
Eritrea	81.4	5.1		86.5	731.9	7,883.1	11.8	1.1
Ethiopia	823.8	220.2		1044.0	15,264.7	123,476.8	6.8	0.8
Gambia	54.4	4.7	1.8	60.9	513.8	4,272.1	11.9	1.4
Guinea	22.1	3.0	5.4	30.4	1,157.9	19,709.5	2.6	0.2
Guinea-Bissau	27.8	13.1		40.9	629.0	3,780.1	6.5	1.1
Haiti	85.7	0.1	2.0	87.7	6,379.8	30,363.6	1.4	0.3
Lao People's Democratic Republic	49.0	5.2	1.8	56.1	2,088.2	26,134.1	2.7	0.2
Lesotho	64.6	1.7		66.3	721.8	8,577.7	9.2	0.8
Liberia	56.5	10.5	1.8	68.8	4,144.7	4,640.9	1.7	1.5
Madagascar	118.0	30.3		148.3	3,432.2	39,679.1	4.3	0.4
Malawi	291.1	40.5		331.6	4,184.6	21,470.6	7.9	1.5
Mali	71.2	47.3	1.0	119.4	4,921.6	40,392.5	2.4	0.3

(continued)



**Annex 9.7 Debt as percentage of exports of Asian LDCs**

Country	2005	2006	2007	2008	2009	2010	2011
Afghanistan				115.04	106.91	66.99	
Bangladesh	177.05	157.76	153.69	131.89	144.41	118.92	100.20
Bhutan		198.79	127.13	106.62	133.52	149.06	139.17
Cambodia	87.86	70.76	60.10	65.07	77.94	69.03	58.34
Lao People's Democratic Republic	384.55	316.08	383.57	347.41	395.64	250.50	256.21
Myanmar	167.52	142.88	126.36	113.95	123.18	101.10	92.77
Nepal	248.68	275.78	251.70	216.21	244.92	241.28	212.42
Timor-Leste		0.00	0.00	0.00	0.00	0.00	0.00
Yemen	81.07	72.54	79.15	62.06	94.95	72.15	64.76

Source: World Development Indicators

**Annex 9.8 Debt as percentage of exports of selected LDCs**

Country	2005	2006	2007	2008	2009	2010	2011
Angola	50.3	29.7	26.7	24.1	41.0	36.9	31.0
Benin	201.0	67.9	57.2	56.7	79.4	77.7	
Burkina Faso	366.9	169.5	197.8	171.7	182.4	115.4	
Burundi	1,347.4	1,473.5	1,573.9	912.8	523.9	355.7	266.4
Cambodia	26.3	20.9	22.2	20.5	12.5	10.4	7.7
Djibouti	168.5	184.6	279.2	239.1	231.8	187.3	190.0
Ethiopia	34.6	32.6	26.4	10.7	14.8	11.0	8.0
Gambia, The	1,591.0	1,556.3	1,232.9	982.6	1,123.7	1,158.5	997.1
Guinea-Bissau	1,078.9	1,350.3	777.8	639.4	743.1	662.1	
Haiti	222.6	221.3	205.5	236.8	155.8	122.8	77.0
Lesotho	99.9	86.3	78.4	74.9	97.2	84.6	64.9
Liberia	1,143.4	853.5	696.6	416.7	407.5	104.9	35.8
Madagascar	378.6						
Malawi	525.0	110.7	99.0	97.2	84.9	85.1	74.5
Mali	234.4	86.7	95.8	80.6	103.9	101.1	
Myanmar	167.5	142.9	126.4	114.0	123.2	101.1	92.8
Niger	355.1	136.3	151.9	94.7	106.9	99.9	
Rwanda	594.3	157.2	178.1	129.8	168.9	150.2	123.3
Sierra Leone	128.2	116.2	50.3	39.9	43.4	43.4	42.9
Solomon Islands	2,644.3	1,162.4	1,159.6	1,060.2	1,593.3	1,184.4	776.1
Somalia							
South Sudan							
Sudan	351.7	310.0	212.0	166.7	244.3	190.7	202.8
Tanzania	282.7	118.9	123.3	107.8	148.0	141.1	134.6
Togo	207.7	215.9	215.4	144.3	145.2	95.8	
Uganda	287.9	74.5	68.7	75.4	82.5	95.7	91.0
Zambia	216.7	56.9	59.7	58.5	82.8	57.1	48.2

Source: World Development Indicators

**Annex 9.9 Debt servicing as percentage of export earnings of Asian LDCs**

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Afghanistan												
Bangladesh	10.55	9.61	10.24	8.17	7.00	7.61	5.52	7.02	5.05	5.59	4.72	5.46
Bhutan							2.79	4.90	11.89	12.77	13.47	11.13
Cambodia	1.71	1.04	0.90	0.96	0.82	0.77	0.62	0.54	0.65	0.85	0.90	1.03
Lao People's Democratic Republic	7.96	8.91	19.57	21.88	22.69	17.41	16.24	15.28	13.60	14.75	13.24	
Nepal	7.54	7.85	10.44	10.16	9.05	8.27	9.98	8.90	8.33	10.09	10.50	9.45
Yemen	5.89	7.00	4.41	4.08	4.38	3.06	2.89	3.35	2.71	3.66	2.80	2.75

**Source:** World Bank Data, <http://data.worldbank.org/indicator/DT.DOD.DECT.CD>

### Annex 9.10 Debt servicing as percentage of export earnings of African LDCs

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Angola	20.9	33.1	17.0	15.3	13.6	10.8	13.2	9.9	2.5	8.5	4.5	4.2
Benin	13.6	8.7	9.0	5.2	5.0	6.0	4.2	2.2	3.5	2.5	2.5	
Burkina Faso	18.8	13.8	14.2	12.0	8.9	7.8	6.1	5.2	4.2	3.8	2.5	
Burundi	40.9	50.5	60.1	64.2	134.8	40.4	19.6	18.4	12.0	16.5	2.1	3.4
Central African Republic												
Chad												
Comoros						6.8	5.9	37.6	15.2	14.9		
Congo, Democratic Republic of the						7.9	9.2	7.6	7.7	12.4	3.1	2.4
Djibouti	6.9	5.2	5.3	5.7	6.9	5.6	7.7	8.4	8.4	8.5	8.1	
Equatorial Guinea												
Eritrea	4.3											
Ethiopia	13.7	18.4	7.9	7.3	5.9	4.8	6.2	4.9	3.1	3.0	3.9	6.1
Gambia, The				14.8	21.0	15.1	14.8	12.5	5.1	6.5	8.1	7.5
Guinea	20.7	12.6	12.6	14.2	20.8	16.8	13.6	11.2	8.8	10.1	4.8	11.2
Guinea-Bissau		7.1	6.0	10.8	11.7	6.7	12.6	7.5	5.7	6.4		
Haiti	9.2	6.3	7.0	11.5	19.5	9.6	8.6	10.4	6.8	4.7	15.8	0.5
Lesotho	7.5	8.2	7.7	5.5	3.7	5.7	3.1	6.0	2.2	2.5	1.9	
Liberia					0.4	0.5	0.4	114.4	119.7	13.6	1.4	
Madagascar	9.7	5.0	4.9	5.8	5.8	8.3	3.6	1.5	1.7	2.8	3.7	2.1
Malawi	13.5	9.5	7.7	6.7	10.5	12.5	8.9	3.8	3.1	2.9	1.7	1.3

(continued)

**Annex 9.10 Debt servicing as percentage of export earnings of African LDCs (continued)**

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Mali	14.1	8.9	7.6	6.6	8.0	6.9	4.4	3.2	2.6	3.1	2.5	
Mauritania							5.8	7.5	3.1	4.7	4.7	3.6
Mozambique	13.4	8.7	6.2	6.0	4.6	4.2	1.6	1.2	1.1	1.4	2.8	1.6
Niger	8.0	8.3	7.6	8.7	7.7	6.8	26.7	4.0	2.6	3.8		
Rwanda	25.7	11.8	14.5	15.3	13.0	9.9	8.8	6.1	2.2	2.2	2.4	
São Tomé and Príncipe	25.4	27.8	24.3	26.9	39.7	36.8	31.5	31.7	11.9	9.8	6.4	5.4
Senegal	16.3	14.6	14.0	12.8	15.0	8.3	7.4	6.3	4.8	6.1		
Sierra Leone	76.4	112.8	13.5	10.6	10.1	6.9	7.8	2.9	1.7	2.1	2.7	3.8
Somalia												
South Sudan												
Sudan	13.5	13.7	6.9	10.7	8.5	8.0	5.1	4.0	3.0	5.6	4.2	
Tanzania	11.9	7.8	5.3	3.9	4.5	4.4	2.5	1.6	1.1	3.1	3.0	2.0
Timor-Leste												
Togo	6.6	7.5	2.7	2.7	2.8	2.5	3.1	1.7	16.0	4.4		
Uganda	10.6	7.1	9.8	9.8	8.9	10.8	5.6	2.7	2.4	2.1	1.8	1.7
Zambia	21.2	17.4	19.8	43.5	22.2	11.2	3.5	2.6	3.2	3.7	1.9	2.1

**Source:** World Bank Data

## Notes

- 1 See: <http://stats.oecd.org>
- 2 PRSP was initiated in 1999 under the aegis of the International Monetary Fund (IMF) and World Bank by low-income aid recipient countries including Bangladesh. As of the end-January 2014, 126 full PRSPs have been circulated to the IMF's Executive Board (IMF 2014).
- 3 See: [www.oecd.org/dataoecd/11/41/34428351.pdf](http://www.oecd.org/dataoecd/11/41/34428351.pdf)
- 4 See: <http://siteresources.worldbank.org/ACCRAEXT/Resources/4700790-1217425866038/AAA-4-SEPTEMBER-FINAL-16h00.pdf>
- 5 See: [www.oecd.org/dac/effectiveness/44087344.pdf](http://www.oecd.org/dac/effectiveness/44087344.pdf)
- 6 See: Assuming  $IDF=GFATM+GAVI+GEF$ .
- 7 See: [www.gavialliance.org/results/disbursements/](http://www.gavialliance.org/results/disbursements/)
- 8 See: [www.gavialliance.org/results/disbursements/](http://www.gavialliance.org/results/disbursements/)
- 9 See: <http://portfolio.theglobalfund.org/en/Home/Index>
- 10 See: [www.climatefundsupdate.org/listing/gef-trust-fund](http://www.climatefundsupdate.org/listing/gef-trust-fund); [www.gavialliance.org/results/disbursements/](http://www.gavialliance.org/results/disbursements/); <http://portfolio.theglobalfund.org/en/Home/Index>
- 11 See: [www.reuters.com/article/2011/08/09/cambodia-worldbank-idUSL3E7J920D20110809](http://www.reuters.com/article/2011/08/09/cambodia-worldbank-idUSL3E7J920D20110809); <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/CAMBODIAEXTN/0,,contentMDK:21510697~pagePK:1497618~piPK:217854~theSitePK:293856,00.html>
- 12 During the first three years, a country has to carry out economic reforms such as deregulation and privatisation of state enterprise according to the World Bank's and IMF's suggestion. Countries must provide evidence of carrying out poverty reduction programmes through preparing PRSPs with support from IMF and the World Bank. The end of this period marks the decision point, at which the World Bank and IMF decide whether, even after all the policy reforms, the country's debt is still unsustainable. If it does, the country receives a partial debt relief, i.e. a small part of its debt is cancelled. During the second three years, the country has to undergo another set of reforms suggested by the World Bank and IMF, following which a country reaches the completion point when it is considered fit to receive the full package of debt relief.
- 13 G8 countries include Canada, France, Germany, Italy, Japan, Russia, the United Kingdom and the United States.
- 14 Per cent of technical co-operation implemented through co-ordinated programmes consistent with national development strategies.

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