Mitigating the Risks of Increased ODA Flows

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At the United Nations Major Event, the Millennium Development Goals (MDGs), adopted back in 2000, were reaffirmed. In New York, the EU countries presented their timetable for increasing ODA[1] to 0.7 percent of GNI by 2015 and made concrete pledges to increase it to 0.56 percent by 2010. Other industrialized countries also undertook to increase their ODA. Implementation of these pledges would increase global ODA by USD 50 billion to some USD 130 billion by 2010. This gives us the chance to lend massive support to the development efforts of our partner countries in the South.

Yet it would be naïve to think that increased financial transfers through more ODA will automatically lead to more development. It is an acknowledged fact that development occurs when domestic conditions provide a conducive environment. This can, and should, however, be flanked by a positive environment for development at international level. The set of eight goals contained in the Millennium Declaration (MDGs) which was agreed at the 2000 Millennium Summit is therefore right to emphasize open markets, debt relief and more ODA. Because development can only be successful when endogenous and exogenous factors positively reinforce each other, attention was also drawn during the run-up to the G8 summit in Gleneagles and the Major Event to the risks of massively increased ODA.

This paper examines these arguments and outlines ways of designing ODA so as to minimize the negative side-effects and achieve the MDGs. In part 1 it outlines three key motivations for development cooperation and ODA and in part 2 investigates the various risks of increased ODA. In part 3, seven conclusions are drawn on the right way to design development cooperation.

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1. In this paper, the terms ODA (Official Development Assistance) and development cooperation are used interchangeably.

1. Motivations for Funding Development

With the end of the East–West conflict in 1989/90, the major political motivation for ODA, namely the stand-off between the opposing systems, largely ceased to exist. For far too long, ODA had been granted even to regimes that had patently failed to achieve development. The 1990s saw a distinct decline in the tendency to ask whether a regime's loyalties lay with what was seen as the right bloc; instead, donors looked for good governance and the willingness to reform. Since September 11, it has been impossible to ignore the repoliticization of ODA allocation, the emphasis now being on security (particular focus on »failed states«). In general, it is possible to distinguish between three major motivations for development cooperation, all of them closely linked and, to some extent, overlapping.

1.1 Increasing the Supply of Global Public Goods

The countries of the world have become more and more dependent on each other in their search for peace and security, prosperity and welfare, and a sustainable living environment. There is a particularly intimate interdependency between the OECD countries; yet for the industrialized nations it is also becoming increasingly important that the developing countries be integrated sustainably not only into the global economy, but also into an ecologically, socially, and politically volatile world risk society.[2]

If they wish to achieve sustainable development, Germany and the other OECD countries must therefore of necessity have an interest in working closely with the developing countries. This interest is focused on all developing countries, from failing states like Afghanistan and Somalia, which can provide the breeding ground for terrorist activity, to the more advanced newly industrializing and anchor countries, which must rapidly be brought into conformity with higher environmental and social standards in the interests of the entire international community.

1.2 Avoiding Humanitarian Crises

Another motivation for development cooperation is our global moral responsibility. Human compassion and solidarity between nations is man-

2. Keohane and Nye (1987).

ifested in reaction to famines (Niger), natural disasters (tsunami) and emergencies engendered by violent conflict (Sudan). Yet humanitarian concerns could also be defined more broadly – based on our moral responsibility to ensure that everyone in the world has their basic social needs fulfilled (basic health, basic education).

1.3 Poverty Reduction

Since the 2000 Millennium Summit it has been (largely) acknowledged that the main task of development cooperation is to boost the partner countries' economic and social development so as to reduce poverty. Yet there is still little consensus as to *how* that aim is to be achieved. It can, however, be assumed that – given the limited volume and reach of external ODA – the first thing to be done to fight poverty in the long term is to create a more attractive climate for private investment. This means both investments in physical assets (roads and production plants) and investments in health and education. The state must therefore create a positive environment for the private sector by making public investments and establishing an efficient regulatory framework. An effective public sector is therefore of vital importance for positive development, as can be seen from failing states, where the collapse of the government and private capital flight are manifest.

2. Risks of Massive Increases in ODA[3]

2.1 Limited Absorptive Capacity

Anyone who has worked in a developing country knows that administrative capacities are limited. Empirical evidence also indicates that there is a close correlation between the quality of institutions – and the policies that determine how well they can function – and economic development

3. There are a number of risks that are not dealt with in any greater detail here. One major problem, for example, is that a massive inflow of external financing can make public expenditure highly dependent on a fluctuating source of financing. This can undermine the partner governments' budgetary management and make them also politically dependent on external donors. A number of commentators have pointed to the pro-cyclical and fluctuating nature of ODA: see Bulir and Javier Hamann (2001), for example, and Pallage and Robe (2001). Collier (1999) concludes, however, that ODA has remained relatively stable for the 36 African countries studied.

(in particular, economic growth).[4] The varying levels of economic growth in different countries can be attributed to the quality of their institutions (transparency, secure property rights, low levels of corruption, competent and efficient public authorities).[5] This also explains why most African countries have a poor record of economic development and have made little progress on poverty reduction. Generally speaking, the poorest countries also have relatively poor institutions, as indicated, for example, by the World Bank's CPIA.[6]

Two conclusions may be drawn from this:

a) Countries with functioning institutions are better able to make good use of ODA resources. Public (and indeed private) capital imports only have a direct productive effect in countries with relatively efficient institutions and a relatively high degree of good governance.[7] It may be concluded, then, that in a good policy environment with good institutions, ODA promotes economic growth.[8] In countries with a poor policy environment and poor institutions, on the other hand, there is a greater risk of external funding being used ineffectively (to the extent that it may encourage massive corruption and capital flight).

b) Given the limits on absorptive and administrative capacities, it must be assumed that ODA is subject to the law of diminishing marginal returns. This means that as ODA increases, each increase is of progressively less benefit to the recipient country. This is due mainly to the recipient countries' limited administrative and managerial capacities.[9] Collier and Dollar (1999) have concluded that even in countries with a good policy environment and good institutions, the benefits of additional ODA already begin to verge towards zero when ODA rises to between 15 percent and 20 percent of GNP. If total ODA flows, including

4. See IMF (2003).
5. Senghaas (2004), in particular, comments on the »civilisatory hexagon,« pp. 30–41.
6. The Country Performance and Institutional Assessment is a system used by the World Bank to measure the quality of institutions and policies in the recipient countries.
7. See World Bank (2001).
8. »Poor countries with sound economic policies benefit directly from the policies, and in this environment aid accelerates growth. In highly distorted economies, however, aid is dissipated in unproductive government expenditure« (see Burnside and Dollar 2000). This statement has, however, come in for some criticism: cf. Easterly (2003), for example.
9. Various studies have indicated that high ODA flows can put a strain on the management capacities of the government concerned.

the additional sums pledged (bringing ODA up to the 0.7 percent goal), were to be concentrated on the poorest countries (per capita income up to 500 dollars) with a relatively good policy environment, ODA would on average account for 32 percent of GNP. In some countries, such as Ethiopia, Kyrgyzstan, Burundi, and Uganda, that percentage would be even higher.

2.2 Debt and Aid Dependency

By taking out foreign loans, countries accumulate debts in foreign »hard« currency. Furthermore, repayments rise if the national currency depreciates, as often happens in structurally weak developing countries. Poor developing countries are generally more vulnerable to external shocks given the great fluctuations in revenue from basic commodities and generally cyclical and, on the whole, deteriorating terms of trade. ODA loans can also themselves pose repayment problems, even if most of this lending is on highly concessional terms (long grace period, long loan duration, low interest).

One particularly pressing problem is that of debts from multilateral development cooperation, particularly with the World Bank and the regional development banks.[10] In recent years, the poorest countries have owed an increasing proportion of their debts to these institutions. Most HIPCs (Heavily Indebted Poor Countries) now owe between 50 percent and 60 percent of all outstanding debt to the multilateral institutions. This problem is, however, likely to be mitigated in the future through two initiatives. Firstly, following a decision at the G8 Summit in Gleneagles, the HIPC countries are to be relieved of their debts to the World Bank subsidiary, the International Development Association (IDA), the African Development Bank (AfDB), and the IMF. Secondly, a Debt Sustainability Framework has been agreed on within the IDA. This should ensure that ODA lending is set at a level that does not jeopardize the debt sustainability of the country in each case.

Nevertheless, at least one problem remains. The recipient countries use ODA to develop new capacities, for example in their economic infrastructure or in the health or education sectors. The upkeep of roads, schools, and hospitals brings with it recurring costs and follow-up invest-

10. In the past these institutions have provided financing almost exclusively in loan form, whilst most bilateral donors have long been providing grants.

ments, which in part means imports. The countries concerned thus run the risk of growing dependency on external aid. A slight variation on the same phenomenon occurs when external grants are used for consumption purposes (for example, food aid); here, too, countries may become dependent on imports due to the emergence of certain patterns of consumer behavior (for example, eating white bread instead of the local millet). The relatively high volatility of ODA can also make this dependence on external ODA flows problematic.

Growing dependence on ODA can have an extremely distorting effect on economic incentives. It may appear more profitable to work in the »aid business« rather than in the productive sectors of the economy. When staff are drawn away from other areas, not least public authorities, and towards more lucrative jobs with foreign donors, it can weaken all levels of the state. Following the organizational decentralization of the World Bank and other donors, this has become a widespread phenomenon.

Further evidence of how a massive influx of capital can distort the national economy can be found in the adverse developments that can be observed in some oil-producing countries. When countries blessed with a new source of revenue go down the wrong path, that money can, in development terms, prove to be a curse.

2.3 Tendency towards Exchange Rate Appreciation and Loss of Competitiveness

A rapid rise in the volume of development loans and grants can result in appreciation of the national currency, thus threatening the country's competitiveness. Real exchange rate appreciation not only jeopardizes the country's export activity but can also make domestic products – agricultural produce – uncompetitive on the domestic market. In larger and more advanced developing countries, this is unlikely to happen, since ODA is of relatively low significance for the economy.[11] In countries where ODA makes up a high proportion of the national product, however, real exchange rate appreciation does indeed pose this threat.

Governments have made various attempts to maintain the real exchange rate by offsetting the expansive effects of additional spending in local currency by selling off foreign exchange reserves or issuing bonds

11. This group of countries can, however, face similar risks if they experience a considerable inflow of private capital. This paper does not go into that problem.

(known as a »sterilization policy«). This, however, usually poses its own risks. In particular, sterilization tends to push up the domestic interest rate and also implies a risk of increased domestic debt, private capital exports, and/or dollarization. It can also stunt development of the domestic financial market.

A number of factors influence whether ODA does in fact lead to real exchange rate appreciation. It has been observed that the appreciation problem is less severe:

- the greater the proportion of additional external funding that is used for imports;
- the more domestic demand focuses on domestic goods and services;[12]
- the more opportunity domestic consumers have to turn instead to imported goods in reaction to increased prices for domestic goods;
- the more the country starts out with unused production capacity; where this is the case, the additional demand generated by ODA can mean that capacities (labor and production plants) are used more efficiently without any resulting rise in domestic prices.

It can be concluded from this that it depends greatly on conditions in the country concerned whether increased ODA flows make the recipient country uncompetitive. It is, however, difficult to prove empirically whether and to what extent ODA has in the past contributed to a real appreciation of exchange rates.[13]

3. The Optimum Form of Development Cooperation

Whilst the media – not least in Germany – is very fond of meta-debates on the pros and cons of ODA, such debates tend to be predicated on generalizations that do not accurately reflect reality and, to a greater or lesser extent, overstate the relative potential impact of ODA. With such a complexity of factors at work, it is in any case virtually impossible to examine empirically whether and to what extent ODA has helped to boost economic development, productivity, and poverty reduction in the recipient

12. These are, to be more precise, what are known as nontraded goods, in other words domestically produced goods that are not in competition with imported goods, such as personal and social services or, to some extent, construction work.
13. Heller and Gupta (2002) refer to recent studies that have identified this phenomenon in Burkina Faso, Côte d'Ivoire, Senegal, Togo, Malawi, and Sri Lanka.

countries. All available studies to date have ultimately been unable to provide the (positive) proof that ODA works or the (negative) proof that it does not.[14] There is, however, a vast body of experience that suggests that ODA has not worked in some countries, whilst in other countries – very often those where there have been other contributory factors – it has undoubtedly had a positive impact.[15]

In view of the planned increase in ODA, therefore, the task we face is to design development cooperation in such a way as to promote achievement of the Millenium Development Goals while at the same time minimizing or avoiding the aforementioned risks. In these efforts, the following seven focuses are of particular importance.

3.1 Good Governance and Institutional Reform

In essence, ODA can only be as good as the recipient's ability and capacity to use the resources effectively. That is why ODA should be concentrated on countries with relatively efficient institutions.[16] As a criterion for allocating ODA, this approach is today relatively uncontroversial. The same goes for a second allocation criterion, namely that a higher proportion of ODA should be channeled towards poor countries, as measured by their per capita income. This approach creates very special problems, however, since a concentration of ODA on the poorest countries would result in a massive rise in the average ODA to GNI ratio.[17] This implies the risk of

14. Rajan and Subramanian (2005) emphasize that it is impossible to prove the positive benefit of past ODA. In this context, it is important to differentiate, however, between the various types of development cooperation and their different aims (as outlined above). Emergency aid, for example, cannot be expected to boost the economy. The same is true, at least in the short term, for measures aimed at ensuring the supply of basic social services or, for example, conflict prevention, however useful these measures may be in themselves. It has been shown that development measures focused directly on boosting the economy have made a major contribution to economic growth (cf. Radelet, Clemens, and Bhavnani 2005). It is important, therefore, to assess the actual results achieved on the basis of the specific ODA measures aimed at achieving those results.
15. Several successful South-East Asian countries, for example, received considerable amounts of development funding.
16. Burnside and Dollar (2000 and 2004) attempted to prove that development cooperation in well governed countries increased growth. Their findings have, however, been questioned by various others.
17. cf. Heller and Gupta (2002).

these countries not being able to cope in terms of macroeconomic and microeconomic absorptive capacity. It is for this reason that it is argued that allocation should not be based too strongly on the criterion of per capita income.

In fact, widespread poverty also exists, for example, in countries with a per capita income of between USD 500 and USD 1000, or even USD 1200, and these countries also have great financial needs. The aforementioned microeconomic and macroeconomic absorptive problems would be lessened if countries such as Bangladesh, Kenya, Vietnam, Indonesia, and Pakistan were to benefit from additional ODA. It is clear that the absorptive problems associated with additional ODA flows are lessened the further the bar is »lifted« in terms of the list of countries that are to benefit. However, funding should, as already mentioned, then be focused strictly on promoting global public goods and poverty reduction.

Absorptive problems can also be mitigated if donors take, not a static view of institutional quality, allocating ODA on the basis of the present quality of the institutions in recipient countries, but instead a dynamic view, taking into account how the quality of the institutional environment has been evolving. ODA increases should therefore also benefit countries which may have a relatively poor institutional framework at present but which are moving in the right direction and can show an improvement in their institutional indicators. This could act as a strong incentive to other recipient governments to make demonstrable improvements to their institutions.

One further aspect is relevant in this context. Development cooperation should help to improve institutional development and governance in the partner countries. Absorptive capacity and the above figures on the marginal productivity of ODA are not cast in stone. With measures specifically aimed at improving the institutional framework, absorptive capacity and the productivity of ODA can be increased. This is, admittedly, easier said than done. For decades now, donors have been trying to achieve this through their technical cooperation, with varying degrees of success. Some general thoughts have been put forward on capacity building and promoting institutional development (BMZ 2004). There is, however, a lack of practicable solutions. This is hardly surprising given that there can be no institutional blueprints; each country must learn through its own experience how politically viable solutions can be found. Purely theoretical concepts tend to be of limited use.

We know, for example, that property rights and their effective enforcement are vitally important to economic development and poverty reduction. Yet we also know that most developing countries, particularly in Africa, will not be able to develop a system of formal land rights within the medium term; the administrative process would be far too complicated and lengthy.[18] Here, as in other areas, then, it is a matter of finding a viable interim solution. China and India, for example, confounded the experts by experimenting successfully with long-term land use rights.[19]

Generally speaking, development cooperation has only limited means to improve institutions and the domestic environment within the partner countries. Institutions, broadly defined to also include standards and informal rules, are rooted in the history, economic structure, political systems and culture of each particular country and, needless to say, cannot be changed radically overnight. That is one more reason why ODA increases must be sequenced, take the long view, and be coupled with specific efforts to promote institutional capacities. One key aspect is to promote transparency and checks and balances in the political arena, thus improving supervision and public accountability.

3.2 »Productive« Use

As we have seen, the macroeconomic impact of ODA depends largely on the specific situation in the recipient country. That means that no generalized answer can be given to the question of how to design ODA increases in such as way as to preclude the macroeconomic risks. Instead, a precise analysis must be undertaken of the existing situation, at least for recipient countries where ODA makes up a relatively high proportion of GNI. That is a task which the IMF in particular should take on.

In cases where a country risks losing competitiveness due to a real exchange rate appreciation, one option worth examining is to provide as much of the additional ODA as possible in the form of commodity aid. In this way, the additional resources would be absorbed directly and domestic demand would remain unaffected.

18. A recent World Bank study concludes that it would take at least 20 years to produce legal records of all urban settlements in Namibia (cf. Deininger 2003). This is partly due to the conflicting claims to title that would have to be resolved and the need to produce land registers and develop the necessary administrative structures.
19. Rodrik (2004).

One possibility, for example, would be to provide large quantities of HIV/AIDS medication to developing countries where this is relevant. In such a case, the influx of foreign exchange would not be converted into local currency. Such an option presents two problems, however. Firstly, absorptive capacity for this form of ODA is also quite clearly limited. HIV/AIDS medication can only be used effectively if, for example, the right health facilities exist on the ground, which particularly in the very poorest countries is not necessarily a given. Secondly, these kinds of measures would have to be integrated into the country's own strategies and thus into the Poverty Reduction Strategy Papers (PRSP) process. The same applies to ODA used to buy services from foreign providers (for example, technical know-how), which is wherever possible pooled and put out to tender.

The most important conclusion to be drawn from this, however, is that ODA should in future be used more for investment purposes with the aim of stimulating broad-based growth. To improve debt sustainability and competitiveness, it is vital that foreign aid boosts investment and that this then brings in increased revenues and foreign exchange which enable the loans to be serviced.[20] The increase in exports should be enough to at least offset the increase in debt service payments.

It is vitally important, therefore, that ODA should help to diversify the economies of the recipient countries, make them more efficient and productive, and promote investment for the benefit of the broader population. For this to succeed, country strategies (or PRSPs) must identify the key obstacles to growth and ways of tapping into sources of growth. The difficulty is that this requires a case-by-case analysis of each country's investment needs, be it in the public infrastructure, basic social services, or secondary or tertiary education. This question must therefore be examined systemically for all relevant countries. The World Bank has an important role to play in this.

3.3 Grant Funding

The bilateral donors have already largely switched to grant funding for the very poorest countries. Recently, the development banks have also been providing more of their funding in grant form. Under IDA 14 (Four-

20. In parallel with this, government budgets would have to improve since it is the state that normally has to service the debt.

teenth Replenishment of IDA Resources), for example, around 30 percent of funding is to be provided as grants. The Debt Sustainability Framework, agreed on within the World Bank and the IMF, sets out the criteria for grant funding. The primary consideration is that countries that already have relatively poor debt indicators should in future only receive ODA in grant form. The key factor in deciding whether a country receives grant funding is therefore its debt sustainability.

This is, in essence, the right approach; it acknowledges the need for sustainable financing for all government spending *in its totality*. This puts the country strategies (PRSPs) in the spotlight. These strategies, and the funding of them, must be designed in such a way as to maintain debt sustainability. There are nevertheless some powerful arguments for providing partial grant funding for certain types of expenditure or ODA measures. ODA measures aimed at protecting the global environment, for example, or measures to promote global public goods do not, by definition, benefit only the recipient countries; this expenditure should therefore be largely grant-funded.

Furthermore, all expenditure that does not, at least in the short term, stimulate economic growth and increased productivity could be largely grant-funded – particularly spending on basic health and basic education. ODA spending in these areas is informed by a very particular moral responsibility. It is ultimately very hard to say with any certainty whether this expenditure will actually increase the productivity of the labor force and thus boost economic growth; even if it does, it will take a long time for the effects to be felt. Another major problem is that development measures in these areas are generally associated with recurrent costs (teachers' salaries, maintenance of schools and hospitals). A long-term commitment from the donors to cover these costs would therefore be vitally important. But this also means that donors need to explain to the general public and tax-payers that this is a special kind of ODA. Protecting the global environment and delivering basic public services to regions of the world with no immediate prospect of self-sustaining growth and thus no prospect of financing these efforts themselves are tasks for the donor community, tasks that will require a long-term financial commitment. By their very nature, these tasks call, at least in part, for a long-term pledge of grant funding. Since classic ODA is relatively volatile and its volume is hard to predict, there is a need to develop long-term and relatively stable sources of financing for these tasks, for example by introducing global taxes.

3.4 Global Public Goods

It is estimated that some USD 20 billion annually would be needed to meet the worldwide requirement for global public goods. At present, classic ODA provides only a small percentage of that amount. This leaves a considerable funding gap that could in part be filled by the additional ODA. One problem would, however, be that ODA, which is supposed to benefit in full the recipient countries, would then be used in part for measures that are in the interests of the international community and thus, not least, the industrialized countries (global environmental protection and stability of the international financial markets, peacebuilding, counter-terrorism). Funding such expenditure through ODA would, however, be justified if the measures also significantly benefited the recipient countries: for example, fighting communicable diseases.

Particularly in middle income countries and the so-called »anchor countries,« countries of special regional and global importance, there are many areas where funding is required for global public goods; we need think only of the key role played by India and China in global environmental protection. A massive drive to promote environmentally-friendly production techniques and renewable energies would serve both the interests of the international community and the long-term interests of the developing countries themselves, particularly given the energy dependency of their economies. Absorptive capacity, both macroeconomic and microeconomic, should not pose any problems in such countries.

3.5 Debt Relief

Debt relief is less likely to cause the microeconomic and macroeconomic problems mentioned above. It therefore provides an attractive ODA instrument.[21] It must be said, however, that the scope for further debt relief is dwindling. Following completion of the enhanced HIPC initiative and the G8 initiative to cancel IDA, AfDB, and IMF debts, low-income countries in Africa will be largely debt-free. Middle income countries are not really suitable candidates for debt relief. So the number of countries that could benefit from further debt relief is relatively limited.

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21. It can, however, bring its own problems, particularly by establishing adverse incentives for creditors and debtors (»moral hazard«).

Yet the HIPC initiative (particularly for those countries whose debt relief has not yet been included in the current financing plan), and above all the implementation of the G8 Gleneagles initiatives, will call for considerable ODA financing over the coming years. (The G8 initiative alone will cost up to USD 55 billion.) The donors will therefore be called on to provide more financing, especially if the additionality of this multilateral debt relief – as agreed on in Gleneagles – is to be guaranteed beyond IDA 14 in the shape of watertight commitments to future IDA replenishments.

3.6 Program-oriented Joint Financing

The microeconomic risks of increased ODA could be largely avoided if more aid were given in the form of general and sectoral budget support and other program-oriented approaches. This type of aid puts less of a strain on the administrative and institutional capacities of the recipient countries than the classic types of project aid. The macroeconomic risks remain, however, and should be countered by designing budget support appropriately, as described in 3.2.

It should also be ensured that countries receiving increasing budget support step up their own efforts to mobilize domestic resources. Tax revenues, for example, should be improved by strengthening the tax system; savings must also be mobilized and the financial system developed. Where need be, the necessary reforms should be prompted by building the appropriate conditions into the budget support program or tying ODA allocations to the mobilization of internal funding.

At the same time, continued efforts must be made to increase the transparency and efficiency of budgetary processes. Countries that have achieved good governance provide the right environment in which external funds, and particularly budget support, can be used efficiently. That is the main reason why it is these countries above all that should benefit from budget support. Yet budgetary support should also be an incentive to other countries to improve their budgetary processes. »Entry requirements« for budget support should therefore not be set too high. Consideration should be given in particular to countries with a good recent track record of reform.

3.7 Innovative Spending on Research

Development cooperation, in line with the OECD's definition of ODA, has so far been concerned mainly with funding development measures in the partner countries. There should, however, be the option of using ODA to fund research of direct benefit to developing countries.

Currently, the pharmaceutical industry spends only a fraction of its resources on research that is relevant to developing countries. ODA could be used to fund more research into tropical diseases, for example by having aid agencies pledge to purchase the drugs that are to be developed, a process known as »advanced market commitments.« The G7 has already commissioned work to investigate the possibility of developing new vaccines by using advanced market commitments.

The situation in agricultural research is similar. Despite the impressive achievements of the research institutes that form the Consultative Group on International Agricultural Research (CGIAR) alliance, there is still an urgent need for seed that is adapted to agricultural conditions in the tropics. Advanced market commitments in this area, too, would provide an innovative instrument for channeling increased ODA in a positive direction.

There is no doubt that microeconomic and macroeconomic absorption problems do exist. The proposals set out in this paper aim to show, however, that the risks associated with increased ODA can be overcome. This unique chance to fight global poverty and press forward with international cooperation for peace, sustainable development, and security must be seized.

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