

New Issues in Development Assistance

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Nancy Birdsall

President

Center for Global Development

Washington, D.C.

New Issues in Development Assistance

- Developing countries have been major recipients of development assistance and have undertaken structural reforms to promote development over the last decades
- Still, the growth and development performance of many developing countries has been very poor
- Donors and researchers have responded by focusing on changing how development assistance is designed and delivered

Seven Deadly Sins

Reflections on Donor Failings (and Possible Fixes)

- 1) **Impatience** (with institution building)
- 2) **Pride** (failure to exit)
- 3) **Ignorance** (failure to evaluate)
- 4) **Sloth** (pretending participation equals ownership)
- 5) **Envy** (failure to collaborate)
- 6) **Greed** (stingy and unreliable financing)
- 7) **Foolishness** (underfunding of global and regional public goods)

#1. Impatience with Institution-Building

- Changing ideas about sources of growth. Today: institutions are fundamental
- But donors cannot import or substitute for local institutions. Institution building must be local.
- And institution building takes time
- And it's not easy to judge the quality of "institutions": MCA, CPIA

#1. Most Low-Income Countries Have Institutional Problems

Countries doing poorly with respect to		
the Security Gap	the Capacity Gap	the Legitimacy Gap
Ethiopia	Bhutan	Angola
Indonesia	Mali	Pakistan
Nepal	Nigeria	Sudan
Sri Lanka	Sierra Leone	Uzbekistan
Uganda	Somalia	Vietnam

Source: "On the Brink. Weak States and U.S. National Security." A report of the Commission on Weak States and U.S. National Security. Sponsored by the Center for Global Development 2004.

#1. But it's not easy to judge Inconsistency in Country Rankings

Countries in the top two quintiles of the CPIA <i>and</i> with a Security Gap	Countries in the top two quintiles of the CPIA <i>and</i> in the bottom two quintiles of the Legitimacy Gap	Countries in the top two quintiles of the CPIA <i>and</i> in the bottom two quintiles of the Capacity Gap
India Senegal Sri Lanka Uganda Indonesia Nepal Rwanda	Vietnam Pakistan Rwanda	Bhutan India Mauritania Senegal Burkina Faso Indonesia Mali Pakistan

Source: International Development Association (2004) and "On the Brink. Weak States and U.S. National Security." A report of the Commission on Weak States and U.S. National Security. Sponsored by the Center for Global Development 2004.

#1. But it's not easy to judge Qualifying (or not) for the MCA

Eliminated from MCA by corruption criteria	Countries actually selected for the MCA	CPIA ranking by quintile 2002
Albania	-	2
Bangladesh	-	2
Malawi	-	3
Moldova	-	3
Mozambique	Mozambique	3
Missed MCA by one indicator	Countries actually selected for the MCA	
Benin	Benin	2
Burkina Faso	-	2
Georgia	Georgia	4
India	-	1
Mali	Mali	2
Mauritania	-	1
Sao Tome and Principe	-	5
Togo	-	5
	Additional countries selected for the MCA	
	Cape Verde	1
	Vanuatu	4

Source: Radelet (2003) "Challenging Foreign Aid." The Center for Global Development and the International Development Association (2004).

#1. “Weaker” States

Donor Impatience with Institutions

- Institution building is slow, risky and difficult to measure
- Signs of donor impatience:
 - For disbursement and for policy change
 - Short-term training and project implementation units
- Possible donor fixes?

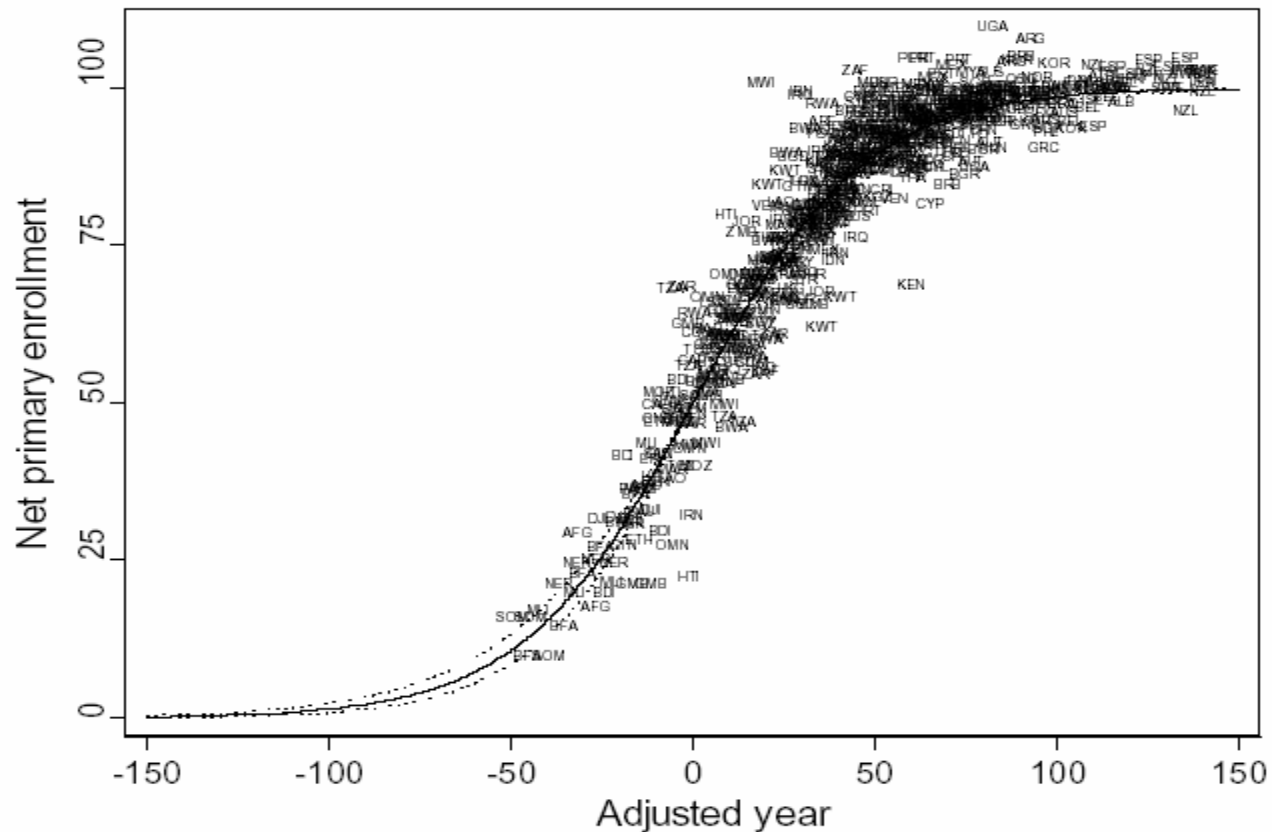
#1. Impatience and the MDGs

The Millennium Development Goals:

- Positive: a long planning horizon
- Negative: countries can be succeeding but temporarily “off-track” and so undeservedly penalized by performance criteria
- Impatience can be healthy – or destructive

#1. The MDGs: Impatience?

The Transition in Net Primary Enrollment: All Countries 1960-2000

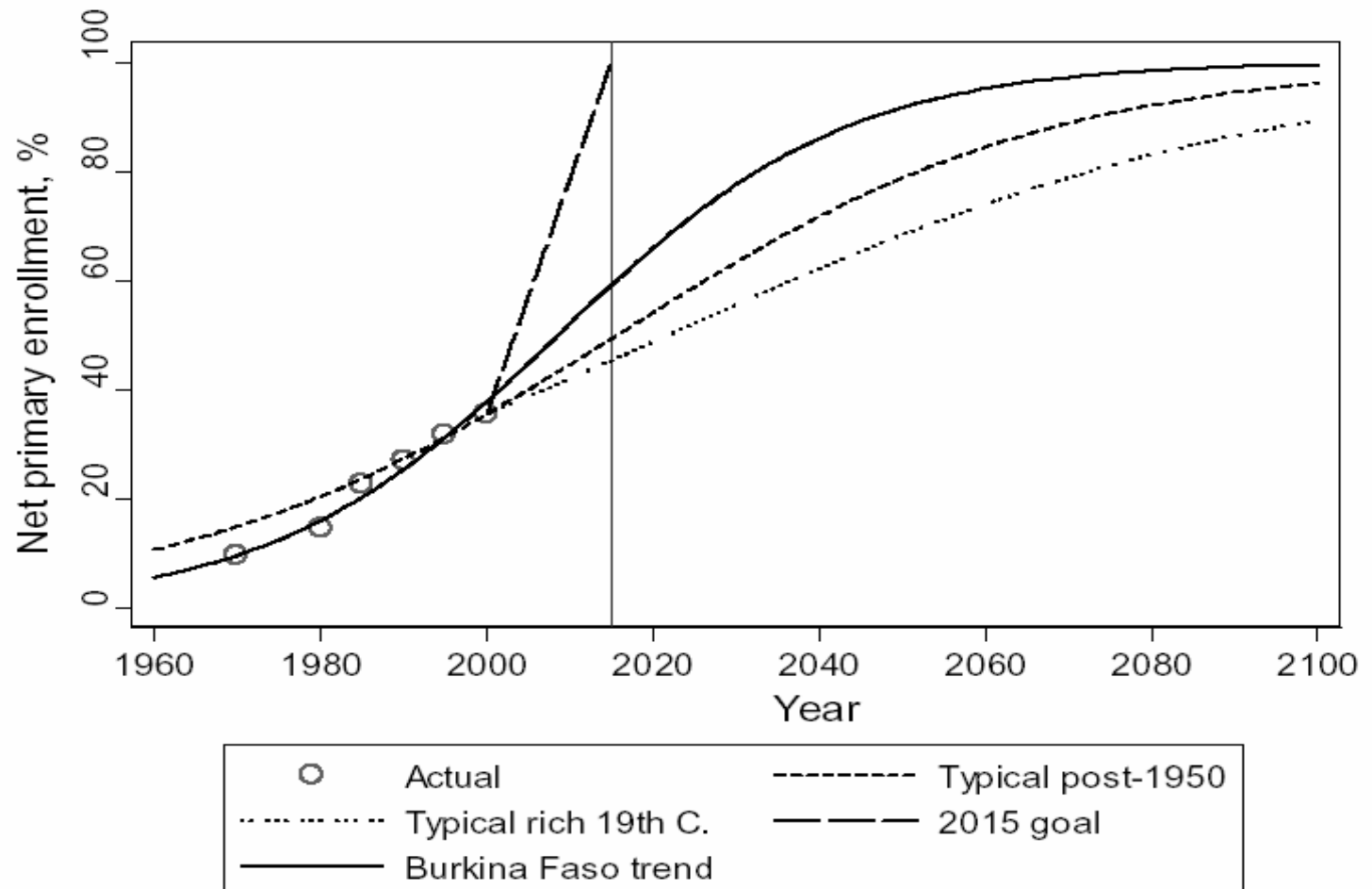


Notes: “Adjusted years” are the elapsed time since 50% enrollment. Datapoints show country-years, spaced quinquennially.

Source: Clemens (2004) “The Long Walk to School: International Education Goals in Historical Perspective.” Center for Global Development working paper 37.

#1. Impatience?

Burkina Faso - Unlikely to Meet the School Enrollment MDGs but Performing Strongly by Historical Standards



#2. Pride

Failure of Donors to Exit

- . . . from adjustment programs, even when conditions are not met
- . . .from the social sectors, even when patronage and fraud are well-known
- . . . from countries, until it is too late to support the good guys
- Yet readiness to exit might create impetus for better initial design
- A fix: Make exit the default.

#2. Pride Failure to Exit

Number of Adjustment Loans to the 20 Countries with Most Adjustment Loans Over the Period 1990-1999.

14-19 loans	Niger, Zambia, Madagascar, Togo, Malawi, Mali, Mauritania, Kenya, Bolivia, Philippines, Jamaica, Bangladesh
20-25 loans	Senegal, Uganda, Mexico, Morocco, Pakistan
26-30 loans	Côte d'Ivoire, Ghana, Argentina

Of these, only Bangladesh, Pakistan and Uganda achieved annual per capita growth rates above 2% over the period 1980-1999.

Notes: These are IMF and World Bank adjustment loans. The average number of adjustment loans for these countries over the period is 19 compared to the average of 7 for all developing countries.

Source: Easterly (2002) "What Did Structural Adjustment Adjust? The Association of Policies and Growth with Repeated IMF and World Bank Adjustment Loans." Center for Global Development Working Paper 11.

#3. Ignorance

Failure to Evaluate

- Incentives for donors to evaluate are weak since “failure” puts aid budgets at risk politically
- Statistical research on the relationship between aid and growth is inconclusive. Do policy and institutions matter? For all kinds of aid?
- Meta evaluations of donor delivery mechanisms and modalities are worrying (HIPC; SALs; TA)
- Rigorous evaluation of project outcomes is rare (except possibly in health)

#3. Ignorance

Failure to Evaluate: How Much Spending? Is Internal Evaluation Sufficient?

	Annual Spending on evaluation as a share of total administrative spending	Annual spending on evaluation	Annual total spending on administrative budget
	(percent)	(millions of US\$)	
The World Bank (Operations Evaluations Department)	1.29	19.8	1,531.8
The Inter-American Development Bank (Office of Evaluation and Oversight)	1.30	4.7	360.2

Source: World Bank Annual Report (2003), Inter-American Development Bank Annual Report (2003)

#3. Ignorance Failure to Evaluate

A proposal:

Donors agree on a common “tax” on their disbursements, to finance an independent evaluation facility.

The facility’s function would be to outsource to existing university and other research groups evaluation of selected donor activities, at the program and project level, and donor modalities.

#4. Sloth

Pretending Participation is Sufficient for Ownership

- Conditionality without ownership wasn't working
- “Participation” seen as a substitute for ownership
- Theory vs. practice
- Civil society participation . . . But: Are socially excluded groups included? Is the role of local governments, legislatures, undermined?

#4. Sloth

Pretending Participation is Sufficient for Ownership

“Ordinary people, and in particular excluded groups, faced the greatest difficulty in gaining access to the PRSP processes in their countries [Rwanda, Malawi and Bolivia]. Each government made some attempts to facilitate the participation of excluded groups (notably women’s groups), but the impact of these efforts was minimal.” Christian Aid (2002)

#4. Sloth

Alternative: Assess the Politics and the Institutions of Pro-Poor Growth

	Stakeholder Analysis	Institutional Analysis
Trend Extrapolation	Reforms under way Decision-making style Attribution of agency	Institutional mapping Veto point analysis Capacity assessment
Impact Analysis	Impact on balance of power	Impact on institutional setup

Source: IMF Independent Evaluations Office (2004)

#4. Sloth

Who Owns the IFIs?

Then Who “Owns” IFI Policies?

	Voting Share (%)				Directors				Total	President
	US	Other G-7	Other non-borrowers	Developing country borrowers	US	Other G-7	Other non-borrowers	Developing country borrowers		
IMF	17.1	28.2	16.7	38.0	1	6	6	11	24	Non-borrower
WB	16.4	26.6	18.2	38.8	1	6	7	10	24	Non-borrower
IADB	30.0	15.7	4.3	50.0	1	4	0	9	14	Borrower
ADB	13.0	27.4	14.6	45.0	1	4	1	6	12	Non-borrower
EBRD	10.1	46.5	30.2	13.2	1	6	12	4	23	Non-borrower
AFDB	6.6	21.0	12.4	60.0	1	4	1	12	18	Borrower

Source: Birdsall (2003) Why It Matters Who Runs the IMF and the World Bank. Center for Global Development working paper 22.

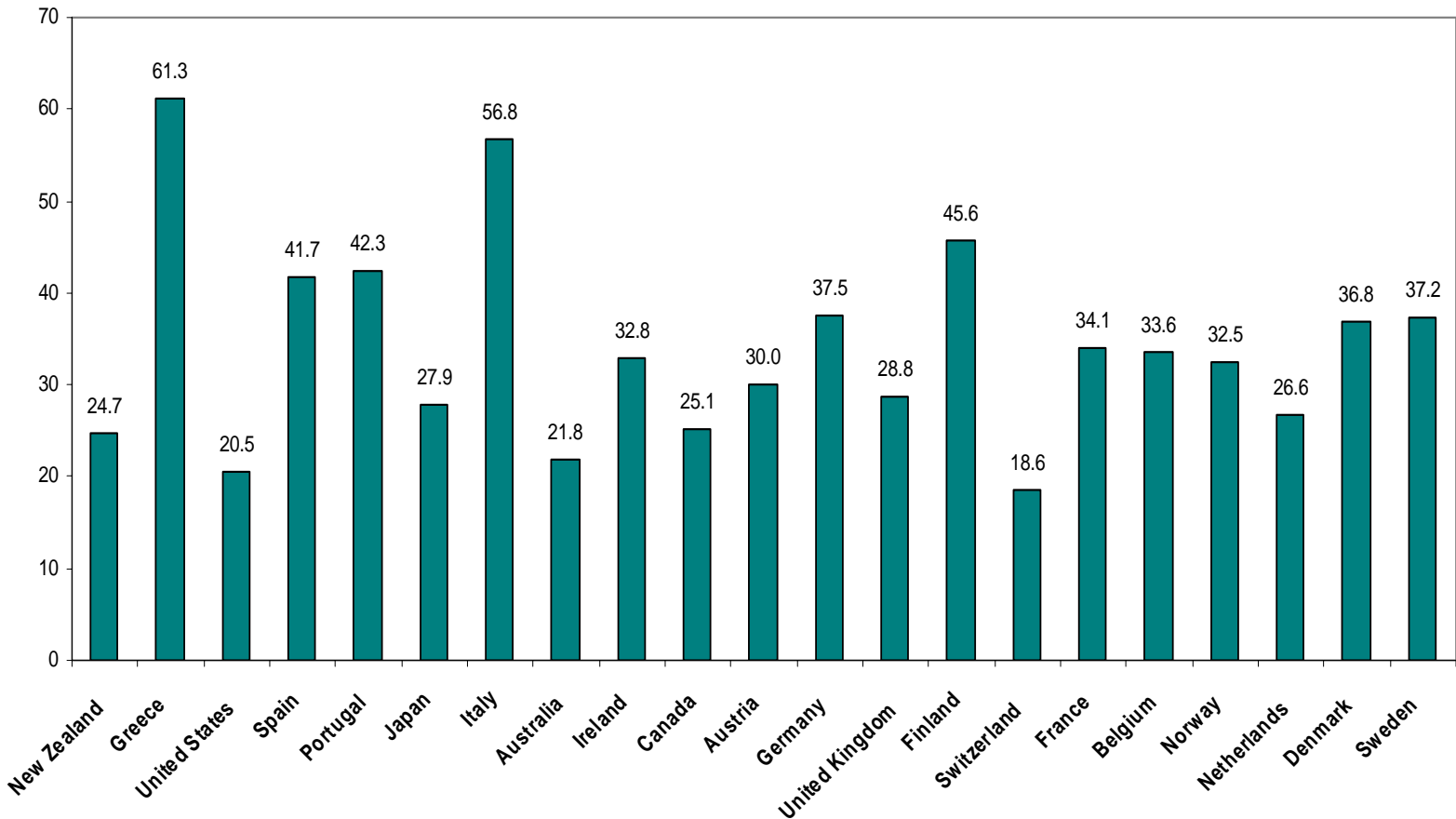
#5. Envy

Failure to Collaborate

- Still no real common pool of donor funding
- Neither real collaboration, nor real competition among donors
- Fragmentation: donors want to be everywhere
- Project proliferation (e.g. Tanzania 1,800+ projects)

#5. Envy

Share of Each Donor's Assistance Allocated to Multilateral Institutions and Programs



Note: The donors are ranked according to the aid component of the CDI, starting from the left with the low est ranked country.

Source: OECD/DAC Database

#5. Envy

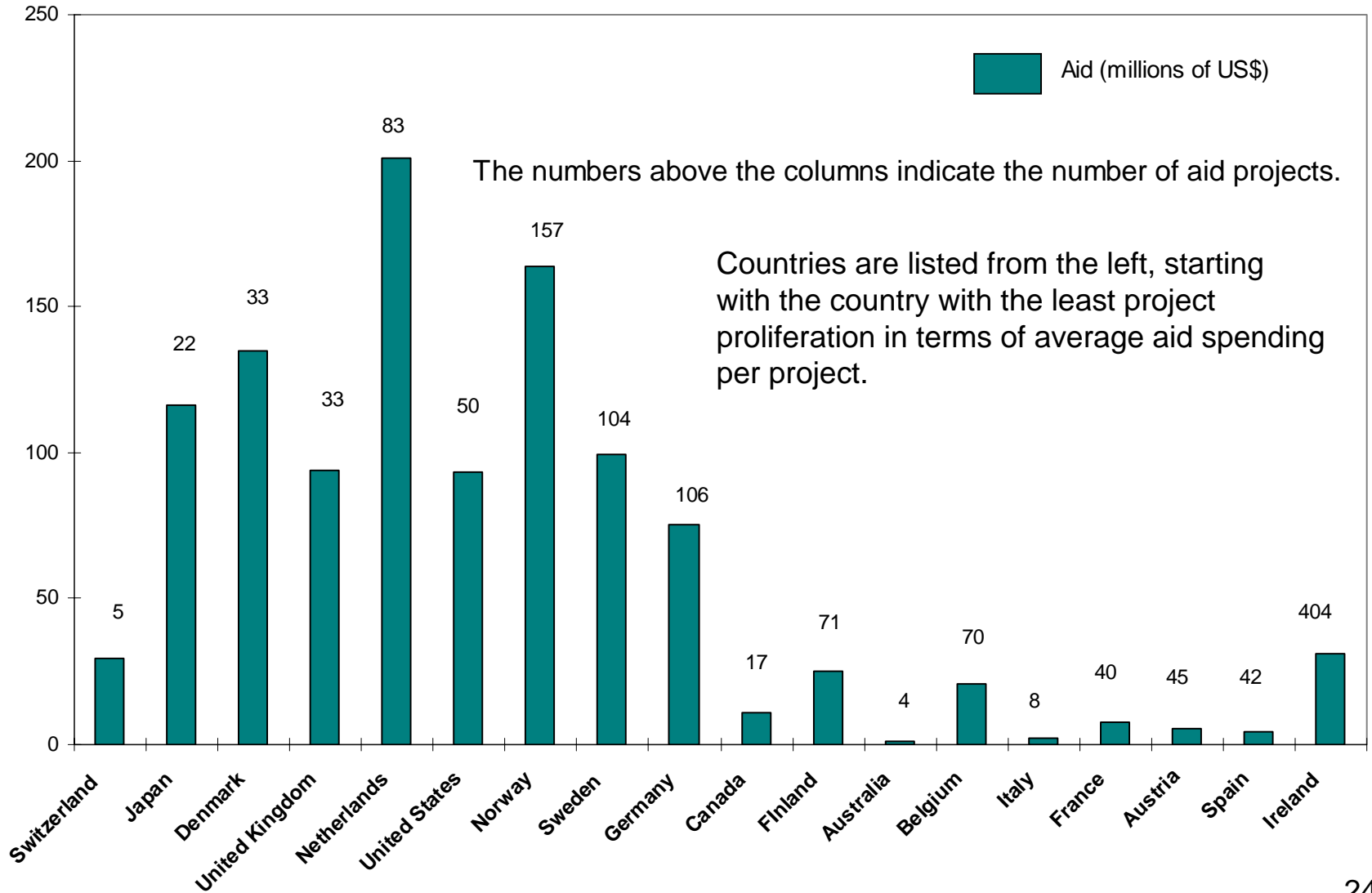
Fragmentation of donor resources

Share of recipients receiving less than 1 percent of the total aid disbursed by the donor (1999-2001 average). All aid events

Australia	82%
Austria	82%
Belgium	71%
Canada	73%
Denmark	82%
Finland	76%
France	87%
Germany	76%
Greece	90%
Ireland	84%
Italy	90%
Japan	90%
Luxembourg	70%
Netherlands	76%
New Zealand	78%
Norway	76%
Portugal	88%
Spain	79%
Sweden	75%
Switzerland	70%
United Kingdom	83%
United States	87%

#5. Envy

Total Aid and Number of Aid Projects in Tanzania 2000-2002



#5. Envy Failure to Collaborate

Where Tanzania once had hosted a few hundred discrete donor projects, by the mid-1990s it was hosting an estimated 1,500 projects.

By the end of the decade, the country's Ministry of International Cooperation prepared 2,400 donor reports every quarter and hosted 1,000 meetings a year.

#6. Greed

Stingy and Unreliable Assistance

- Development assistance is stingy compared to domestic transfers and stated goals
- And development assistance is volatile and unpredictable

#6. Greed

Volatility of Aid Flows to Malawi 1992/93-1998/99 (percent of GDP)

	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	Coefficient of variation
Total Aid	10.1	11.3	20.6	10.9	12.0	8.1	18.7	0.36
Program Aid	2.9	9.4	9.3	5.8	8.7	4.2	12.1	0.44
Project Aid	4.6	1.9	4.8	5.1	3.3	3.9	6.6	0.35
Food Aid	2.6	0.0	6.5	0.0	0.0.	0.0	0.0	1.92

Source: Bulir and Hamann (2001) "How Volatile and Predictable are Aid Flows and What are the Policy Implications?"

#6. Greed

Stingy and Unreliable Financing

New ways of financing development assistance:

- Tobin Tax (currency transactions tax)
- Global Environmental Taxes
- Global Lottery
- Creation of New Special Drawing Rights
- International Finance Facility
- Mobilize IMF gold

Source: Atkinson (2003) "Innovative Sources of Development Funding – Global Public Economics" and Birdsall and Williamson (2002) *Delivering on Debt Relief*.

#7. Foolishness

Underfunding of Global and Regional Public Goods

- Donors direct almost all their development assistance to individual countries, not to regional or global programs
- Global public goods (and “bads”) such as biodiversity and global warming, global health, tropical agricultural research, and the international financial system receive some attention from donors
- While regional and other multi-country infrastructure and institutions have largely been ignored

#7. Foolishness

Underfunding of Global and Regional Public Goods

Donor commitments to Regional Programs and Projects: Selected Multilateral Donors (millions of US\$)						
	Total		Sub-Saharan Africa		Other Regions	
	2002	1990-2000	2002	1990-2000	2002	1990-2000
World Bank	301	847				
Inter-American Development Bank	20				20	
Asian Development Bank	37	25			37	25
European Bank for Reconstruction and Development	124				124	
UNDP¹	39					
WHO²	138					
United States	303	681	56		247	
United Kingdom	98	52	6		92	

Notes: 1. 2001 data. 2. Latest available data from 1998-1999.

Source: Birdsall (forthcoming) "Underfunded Regionalism: A Donor Opportunity?"

Conclusions

- Making development assistance more effective involves a change in behavior not only of developing countries but also donor countries
- Greater donor cooperation and consolidation of funds are necessary to reduce the waste of donors' and recipients' resources
- Donors must learn to evaluate programs and projects and to exit if unsuccessful
- Institution building is vital to sustainable development and donors should encourage and support this process even if it is slow