The 2008 Commitment to Development Index: Components and Results

By David Roodman*

The Commitment to Development Index (CDI) ranks 22 of the world’s richest countries on their dedication to policies that benefit the five billion people living in poorer nations. Moving beyond standard comparisons of foreign aid volumes, the CDI rates countries on:

- Quantity and quality of foreign aid
- Openness to developing-country exports
- Policies that influence investment
- Migration policies
- Environmental policies
- Security policies
- Support for creation and dissemination of new technologies.

Scores on each component are scaled so that an average score in 2008 is equal to 5.0. A country’s final score is the average of those for each component.

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In an increasingly integrated world, rich countries cannot insulate themselves from global poverty and insecurity.

Throughout, the CDI adjusts for size in order to compare how well countries are doing in reducing their own poverty and insecurity. Poverty and weak institutions can spread like waves around the world. Another reason is fairness. Current trade policy, for example, places disproportionate burdens on poor countries. Finally, the Index looks at whether countries are consistent in their values. No human being should be denied the chance to live free of poverty and oppression and to enjoy a basic standard of education and health. The CDI countries, all signatories to international agreements and charters, clearly regularly promote these same concerns in the rest of the world.

Aid

Foreign aid is the first policy that comes to mind when people in rich countries think of helping poorer countries. Aid donors give grants, loans, food, and advice to poor countries to support everything from road building to immunization programs in tiny villages. Most comparisons between donors are based on how much aid each gives, either in absolute terms or as a percentage of GDP. For the CDI, quantity is merely a starting point in a review that also assesses aid quality. The Index penalizes “bad aid,” which recipients are required to spend on products from the donor nation, this prevents them from shoplifting around and raises project costs by 15-30 percent. The Index also subtracts debt payments the rich countries receive from selling developing countries on world markets. Aid looks good, favoring poor, unsuspecting nations. Aid to Iraq, for instance, is counted at $14 billion, since in Iraq corruption is rampant and rule of law weak. Aid to Mozambique, on the other hand, with its high poverty and relatively good governance, is counted at $847 million. Finally, donors are penalized for overloading recipient governments with too many small aid projects. When projects are many and recipients are few, the obligation to host visits from donor officials and fill regular reports becomes a serious burden.

Aid donors are open and clear about why they give aid. The Index rewards governments for letting taxpayers write off charitable contributions, since some of those contributions go to Oxfam, CARE, and other nonprofits working in developing countries. All CDI countries except Austria, Finland, and Sweden offer such incentives. Since the Index is about government policy, it counts only private giving that is attributed to tax incentives. Private giving to developing countries is higher in the United States than in most countries, at $41 per person per day. But even adding that to the $104 a day in government aid and leaves the United States well short of donors such as Denmark and Sweden, which give $107 and $111 a day in government aid alone.

The differences between countries in raw aid quantity are dramatic, and as a result they heavily influence the overall aid score. The Netherlands and the Scandinavian countries take the top two spots on aid, while Japan and the United States end up near the bottom. But quality matters too. Norway edges out the Netherlands for second place on sheer aid quantity, as a share of GDP, but falls to fourth in the CDI for funding smaller, more selective projects and for being less selective. And the United States would score higher if it did not give so many percent of its aid and if it gave less to corrupt or undemocratic governments in Iraq, Jordan, Pakistan, and elsewhere.

Trade

The system of rules that governs world trade has developed since World War II through a series of major international negotiating “rounds.” Because rich countries have been able to call the shots, their barriers to some of the goods poor countries are best at producing—including crops—are largely in place. Yet when rich countries tax food imports and subsidize their own farmers’ production, they cause overproduction, dumping on world markets, which lowers prices and hurts poor farmers’ incomes. Industrial tariffs also tend to be antiproportional, with low rates for raw commodities and high rates for labor-intensive, processed goods. U.S. tariffs on imports from India, Indonesia, Sri Lanka, and Thailand brought in $2.86 billion in 2005—twice what the United States committed to these countries for tsunami relief the same year. For the Index’s trade component, each country’s complex collection of tariffs and subsidies is converted into a flat, across-the-board tariff representing its total effect on developing countries.

New Zealand does best on trade in the 2008 Index, with Australia, the United States, and Canada not far behind. In general, EU nations share common trade and agriculture policies, so they score essentially the same on trade. Japan’s rice tariffs have sunk in recent years relative to the rising world price of rice, but are still high at 500 percent (equivalent to a 500 percent sales or value-added tax on imports). High tariffs on meat, dairy products, sugar, and wheat from poor countries—put non-EU members Norway and Switzerland near the bottom. South Korea finishes last owing to 98 percent tariff rates on rice, the highest of all CDI countries.

Investment

Foreign investment can be a significant driver of development in poor countries. Many of East Asia’s fastest-growing countries—South Korea, Malaysia, Singapore, and Thailand—benefited from investment from abroad. However, foreign invest-
ment can also breed instability (witness the 1997 Asian finan-
cial crisis) as well as corruption and exploitation, a prime example being the pollution and unrest in Nigeria’s oil-produc-
ing regions.

The Index looks at what rich countries are doing to promote investment that is actually good for development. It looks at two kinds of capital flows: 1) foreign direct investment, which occurs when a company from one country buys a stake in an existing company or builds a factory in another country, and 2) portfolio investment, which occurs when foreigners buy secur-

ities that are tradable on open exchanges. The component is built on a checklist of policies that matter. Do the rich countries encourage companies to invest in poor countries whose political climate would otherwise be deemed too insecure? If so, do they filter out proj-
ects likely to do egregious environmental harm or exploit work-
kers? Do they have tax provisions or treaties to prevent overseas investors from being taxed both at home and in the investment country?

The lowest scorers are Ireland and New Zealand, which do not provide political risk insurance and do little to prevent dou-
ble taxation, and Austria, which restricts pension fund invest-
m ent in developing countries. Top-ranked Britain, Germany, and Canada do better on all these counts and have partici-
pated aggressively in international arrangements to control cor-
ruption, such as the Kimberley Process to track and eliminate trade in “blood diamonds” used to finance warlords in coun-
tries such as Angola and Sierra Leone.

Migration

Some 200 million people today—1 in 33—do not live in the coun-
try where they were born. That number should grow as aging rich societies run short of workers, which should be a boon for development. Workers who have migrated from poor to rich countries already send billions of dollars back to their families each year, a flow that surpasses foreign aid. Some immi-
grants from developing countries, especially students, pick up skills and bring them home—engineers and physicians as well as entrepreneurs who, for example, start computer busi-
nesses.

But what about brain drain? Migration has been blamed for emptying African clinics of nurses, who can earn far more in London hospitals. But CGD research fellow Michael Clemens has found little evidence that these skilled people hurt their home country by leaving it. For more able African clinics and hospitals than a lack of personnel, and personnel shortages themselves result from many forces—such as low pay and poor working conditions—unleashed by international migration poli-
cies.

The CDI rewards migration of both skilled and unskilled peo-
ple, though unskilled more so. One indicator is the gross inflow of migrants from developing countries in a recent year, including unskilled and skilled workers but leaving out illegals. Another is the net increase in the number of unskilled migrant residents from devel-
oping countries during the 1990s. (Based on census data, it cannot be updated often.) The Index also uses indicators of openness to students from poor countries and aid for refugees and asylum seekers.

Austria takes first for accepting the most migrants for its size, with Sweden and Iceland in second and third place. Austria accepted many migrants from the nearby Yugoslavia as that nation dissolved into civil war. Near the bottom is Japan, which accepts 245,000 migrants a year from developing countries. That is equal to 0.19 percent of its own population, which is less than half the CDI average.

Environment

A healthy environment is sometimes dismissed as a luxury for the rich. But people cannot live without a healthy environment. And poor nations have weaker infrastructures and fewer social services than rich countries, making the results of climate change all the more damaging. A study carried out by CGD senior fellow David Wheeler predicts that a twometer rise in sea level would flood 90 million people out of their homes, many of them in the river deltas of Bangladesh, Egypt, and Vietnam.

The environment compo-
nent looks at what rich countries are doing to reduce their dispar propor-
tionate exploitation of the global commons. Are they razing in greenhouse gas emis-
sions? How complies are they in environmental destruction in developing countries, for example by importing commodities such as tropical timber? Do they subsidize fishing fleets that deplete fisheries off the coasts of such countries as Senegal and India?

Finland tops this year’s environment standings. Its net green-
house gas emissions fell during 1996–2006, the last ten years for which data are available. Also high is Iceland, whose econ-
omy grew 6 percent per year faster in the same period than its
greenhouse gas emissions; Norway, which has the lowest net greenhouse gas emissions rate per capita thanks to expanding forests; and the U.K., which has steadily increased gasoline taxes and supported wind and other renewable energy sources. Spain finishes low as a heavy subsidizer of its fishing industry while Japan is hurt by its high tropical timber imports.

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The data and formulas in the CDI have steadily improved since the first edition in 2003. To judge consistently which countries have improved most since 2003, this table applies the 2008 CDI formulas to past years. South Korea is omitted because it is new to the CDI in 2008.

The United States is the only CDI country that has not ratified the Kyoto Protocol, the most serious international effort yet to
dealing with climate change. That gap, along with high greenhouse emissions and low gas taxes, puts the United States second in the world in greenhouse gas emissions, and last in the world in falling greenhouse gas emissions. But rich countries also support the creation and dissemination of innovations vital to developing countries. They reward government subsidies for research and development (R&D), whether delivered through spending or tax breaks. Spending on military R&D is discounted by half. On the one hand, much military R&D does more to improve the destructive capacity of rich countries than the productive capacity of poor ones. On the other, military security is important for development, and military R&D can have civilian spin-offs. Consider that the Pentagon partly funded the early development of the Internet.

Also factored in are policies on intellectual property rights (IPR) that can inhibit the international flow of innovations. These take the form of patent laws that arguably go too far in advancing the interests of those who produce innovations at the expense of those who use them. Some countries, for example, allow patenting of plant and animal varieties. In such countries, a company could develop a crop variety, say, that thrives in poor soil, patent it, and then not sell it because the poor who could use it have inadequate buying power. Other countries use their leverage to negotiate trade agreements with individual developing countries that extend certain IPRs beyond international norms in the General Agreement on Tariffs and Trade. U.S. negotiators, for example, have pushed for developing countries to agree never to force the immediate licensing of a patent even when it would serve a compelling public interest, as a HIV/AIDS drug might if produced by low-cost local manufacturers.

For More Information

For the details of the 2008 Commitment to Development Index, see “The Commitment to Development Index: 2008 Edition,” by David Roodman, available at www.cgdev.org/cdi. The web site has reports on each of the 22 countries in the CDI, as well as graphs, maps, and spreadsheet downloads. The site also links to the background materials for each policy area: David Roodman on foreign aid, William R. Cline and R. T. Frankland on trade, Theodore H. Moran on investment, Elizabeth Grieco and Kimberly A. Hamilton on migration, B. Lindsay Lowell on environment, Michael E. O’Hanlon and Adriana Lins de Albuquerque on security, Jason Alderman and Mark Staker also on security, and Keith Makita on technology.

On the impact of foreign direct investment on developing countries, read Moritz Werner’s Foreign Direct Investment (CGD, 2006). On the economics and politics of mobility of unskilled labor, see Last Pritchett’s Let Their People Come: Breaking the Gridlock on Global Labor Mobility (CGD, 2006). On the effects on sending countries of skilled health professional emigration, see Michael Clemens’s working paper, “Do Visas Kill? Health Effects of African Health Professional Emigration” (CGD, 2007). On the development implications of agricultural protection in rich countries, see Kimberly Ann Elliott’s Delivering on Doha: Farm Trade and the Poor (CGD and Peterson Institute for International Economics, 2006).

The Center for Global Development is an independent, non-profit think tank dedicated to reducing global poverty and inequality. The Center’s work focuses on the policies of the U.S. and other rich countries and the practices of global institutions that affect development prospects in poor countries. Starting with rigorous empirical research, CGD creates new ideas and fosters informed debate to promote practical, innovative policy alternatives to make the global economy work better for poor people.