CDI Review Recommendations: A Summary of the Findings of Three Experts on the Future of the CDI

Lee Robinson, Ian Mitchell, Caitlin McKee

Intro

The purpose of this document is to synthesise and summarise the findings of three academic reviews of the Center for Global Development's (CGD) Commitment to Development Index (CDI) to inform a discussion on the future of the Index.

The CDI uses quantitative measures to assess and compare the policy efforts of high-income countries to promote the development of poorer countries. Its aim is to raise the profile of those policy areas - especially those beyond aid - to achieve poverty reduction, and to start a discussion with policy-makers with the ultimate aim of improving those policies.

Launched in 2003, the CDI is CGD's 'flagship' product. The Index was created by Nancy Birdsall and David Roodman and is based on evidence on what matters to development. It uses quantitative measures to assess the efforts of 27 wealthy countries (all OECD members) across seven policy areas: aid, environment, finance, migration, security, technology, trade. Its aim is to start a discussion about how policies in these areas affect and can do more for development, especially for the poorest countries, and has been successful in getting governments to think more broadly about development[1]. The CDI has continuously evolved with small methodological changes and the inclusion of additional countries. After 15 years the CGD team is initiating a holistic review process to look fundamentally at how the CDI could be updated to reflect current development thinking.

As a first stage of this process, three expert reviewers, Pierre Jacquet, President of the Global Development Network (GDN); Stephany Griffith-Jones, Financial Markets Director at the Initiative for Policy Dialogue at Columbia University; and Ravi Kanbur, T.H. Lee Professor of World Affairs, International Professor of Applied Economics, and Professor of Economics at Cornell University, were asked to review the Index and provide recommendations on how they think it could be improved. Specifically, CGD asked the experts the questions

- Are we measuring the policies that matter most to development, and how can we improve the CDI in terms of measured actors and policies?

[1] For example, it has recently featured in development strategies in the UK and the Netherlands; has formed the basis of a number of discussions at Ministerial level and also attracts widespread media coverage: in 2018 it featured in more than 180 media outlets in 18 countries; and was seen by more than 1.85 million readers online

- If you were to create your own Index of high-income countries' policy efforts and their spillover effects on other countries, what would this Index look like?

The three reviewers answered these questions and did so across several areas which will be grouped thematically in the text that follows.

The reviewers *Recommendations and comments* are shown in italics and numbered to enable easy reference.

1. Purpose and Approach

The reviewers conclude that quantitative indexes are valuable (1b) resources for stimulating discussion and that the CDI plays a valuable and unique role in looking at international spill-overs of policy on development and poverty (rec 1a). But its impact should be measured (1c) and perhaps should try to reflect a consensus on what affects development rather than the current more deterministic approach (rec 2b).

Kanbur and Jacquet point out that no index perfectly captures the reality it seeks to measure so the technical objective is to compress the essential elements of the subject in a useful way, which in this regard depends on the index's purpose. The CDI's purpose is to measure and rank countries' efforts on policies to support development - especially those beyond aid - to stimulate discussion and improvement of those policies.

Griffith-Jones concludes that CDI is both valuable and fairly unique in its broad approach to high-income countries policies' spillovers. Amidst a proliferation of indexes, Kanbur argues that the CDI has a specialized niche and that no other Index comes close to its goals. But he also feels that it is unclear whether it is having the desired impact on government ministries and civil society beyond the media interest that greets its launch each year. He recommends that there be *an independent impact assessment of the CDI*, which would add great value. He also raises the issue of credibility as it relates to funding, and namely that there is overlap between the countries that perform well in the CDI and those that fund it, which could be interpreted as a conflict of interest, *and recommends this perception be addressed (rec 1e).* Jacquet recommends that *the CDI should shift stance from promoting its indicators as leading to development in a deterministic way and instead adopt the (perhaps humbler) tone that they rather reflect a consensus within the development community on the matters currently thought to positively affect development (rec 1d).*

2. Structure of the Index

The reviewers recommend that the index should be more succinct and could perhaps be organised into fewer themes (2a)

Jacquet notes that an index should be an instrument for debate, but in compressing reality with this goal, trade-offs are made in which aspects to emphasise or neglect. One such trade-off, Kanbur notes, is between the number of different dimensions assessed, and simplicity. In emphasising development's multifaceted nature, the CDI has tended towards dimensionality. Kanbur argues this is a flaw, and the CDI has grown too complex. There are over 100 indicators, so a change in one has a marginal impact on overall score. Jacquet agrees there are too many indicators and that some possibly contradict each other but recognises that to be credible with policy-makers the index needs to evolve its accuracy and take account of the latest thinking.

Kanbur thus proposes *an exercise of limiting the CDI to 30-35 indicators (without amalgamating any)- recommendation 2a* - to force a tight focus on the development essentials. Jacquet argues that while the CDI captures multidimensionality, it has a rigid, deterministic structure. Because development is "movingly multipronged", it would be preferable to look more closely at a few specific, fundamental recognized dimensions. A possibility, for example, would be to distinguish the three dimensions involved in "sustainable development", reformulated as: economic growth, human development, environmental protection.

3. Theoretical Questions

The theoretical recommendations include considering policy sustainability through public support and holding off from poverty weighting indicators.

Time Horizon

Jacquet points out that the CDI does not distinguish between the long term and short term. One angle of this is that for development policies to be sustainable over the longer term, they must have broad public support. The implication is that *the CDI should reward those countries that generate the consensus to support sustainable development policies (rec 3a)*. Another angle is that there are some trade-offs in development impacts, for example between short term economic growth and longer-term environmental degradation, which are not accounted for in the CDI.

Poverty Weighting

Jacquet argues that social measurements are not neutral. In economic growth and social justice, for example, one might measure the average performance of society or the improvement of the poorest segments. Kanbur frames the question globally: should we poverty weight most (or all) indicators the way we currently do with migration and trade? This is a deeply conceptual question, he notes. Is it preferable that a development policy lifts someone from poverty in a middle income country or does so in a poor country? A true globalist should be indifferent to these. We might weight policies because of poverty incidence, he argues, but *these arguments are currently too undeveloped to warrant major shifts in the CDI (3b)*. In any case, this would make the CDI more technical and complex, which runs counter to his recommendation that it be simplified.

Domestically Focused Policies

As mentioned previously, Jacquet argues that the CDI reflects a snapshot of consensus on effective development policies, but this dates to 2003. Today's world no longer has a clear North-South divide. It has the Sustainable Development Goals (SDGs) supplanting the Millennium Development Goals (MDGs) and great divergence in the size and performance of developing countries, and a decline in support for multilateralism. In this environment, he argues, one of the best contributions to international development a country might make is by focusing on its own sustainable development performance. This will have the effect of reinforcing support for development among its citizens and for development policies by showing them to work domestically.

4. Country Focus and Coverage

All three reviewers argue for extending the coverage of the CDI to include New Development Actors (rec 4a). Griffith-Jones argues that the CDI is lacking by not covering China and other large developing countries in the CDI. While Jacquet argues that under the approach of measuring domestic development policies he suggests (4c), it would be worthwhile to also include the BRICS countries (Brazil, Russia, India, China, South Africa).

Kanbur argues that not including the newly resurgent countries such as China and India alongside the old OECD countries means the CDI risks growing irrelevance. He recognises that the challenge of including them is one of data availability. But in this particular trade-off of more countries versus less data (fewer indicators), the CDI should opt for more countries (4b).

5. Data Collection & Research

A novel approach that Jacquet proposes *the CDI could take is to include a research based, data collection initiative (rec 5a)*. He argues that one of the CDI's limitations is that it relies on existing datasets and is thus constrained by them in its structural choices. Developing new datasets could allow the inclusion of important but unmeasured phenomena.[2]

6. Existing Components & Indicators

This section outlines the reviewers' recommendations for amending existing components and indicators. *Overall, the reviewers did not highlight any specific components to exclude (rec 6a)*.

Aid Quantity

Jacquet argues that *the CDI should consider its own definition of aid quantity* (rec 6b). If this subcomponent truly seeks to measure 'commitment' then it should capture what a country really gives: the taxpayer contribution to ODA, rather than total grants and loans, as are currently measured. This is challenging, he notes, given the number of ODA reporting lines. Perhaps this would be one area for the data collection exercise he also suggests.

Jacquet also criticises the choice of categorising loans with greater than a 25% grant element as ODA. He argues that this is arbitrary, that grants can build dependency, and, anyway, that loans can in fact be developmental. He also argues that Other Official

[2] The CDI includes some original data work performed for us by expert consultants. The arms export indicator in the security component, the IPR measurements in the Technology component, the international investment agreements and the assessment on beneficial ownership in the Finance component, for example, result in original quantitative assessments. Yet these are still based on public data.

Flows (which is in the finance component) should not be included in a development index if they are not directed towards development spending.

Aid Quality

Jacquet argues that *there are too many indicators in this sub-component and some should be dropped (6c)*. Specifically, he questions the intent behind the "Reducing Burden" set of indicators, critiques the indicators measuring donor fragmentation and "Share of allocation to well-governed countries", and makes suggestions to add a quality perceptions survey within countries by which to measure aid quality.[3]

Environment

Griffith-Jones argues that in the environment component, there should be an indicator that captures efforts to promote green investment, such as through non-concessional bilateral flows through development banks (6d).

Security

Jacquet argues that promoting peace overlooks the fact that development can be, and has been, achieved by economically progressive regimes ousting corrupt and nepotistic ones through force. Supporting peacekeeping implicitly supports a status quo. Therefore, *the indicator that currently amalgamates humanitarian interventions and peacekeeping commitments should only include the former (rec 6e)*.

Technology

Jacquet argues for a *re-weighting of the indicators (rec 6f) in the component*. In particular, the rationale to discount business R&D incentives by 25% is unconvincing as there is no reason to assume that commercial innovations cannot have development applications (one might invoke fintech). Furthermore, the legitimate concern that concerns over profitability might stem dissemination of technology is covered by the intellectual property rights (IPR) indicators. Jacquet also recommends *the sub-components' weights be reversed so that the IPR sub-component is two thirds of the component's weight and government support is one-third (6g)*.

7. New Components & Indicators

This final section outlines the reviewers' suggestions of new elements to add to the CDI with an emphasis on macroeconomic stability. Further detail on this is included in Appendix A of this document.

Macroeconomic Stability

Both Jacquet and Griffith-Jones r*ecommend adding measurements of macroeconomic stability (7a)*. The rationale for a macroeconomic stability component is, as Jacquet points out, that

[3] The foundation of the aid quality sub-component is QuODA (Quality of Official Development Assistance). This is a quantitative assessment that CGD produces composed of 24 indicators across four themes. QuODA is currently undergoing a review process, both as a stand-alone product for measuring progress on the aid effectiveness agenda and also as an input to the CDI. For more information see https://www.cgdev.org/topics/quoda.

developing countries are vulnerable to macroeconomic shocks originating in developed countries, so policy to attenuate these shocks should be measured positively as supporting development. Griffith-Jones argues they should be measured by their net impact on both the originating country and the developing world. The three indicators that are recommended for inclusion within a macroeconomic policy component are Financial Risk, Monetary Policies, and Fiscal Policies. *These are discussed in detail in the annex.*

Development Research

Jacquet proposes adding a component (or perhaps an indicator) *measuring the degree to which developed countries promote or support research into economic development in developing countries* (7b). The rationale is that this would improve ownership, increase the degree of local and tacit knowledge in such research, and promote evidence-based policymaking at the local level. He points out that there is little existing data measuring this, however, so it could be an avenue for the original data collection project he proposes.

8. Conclusion and Next Steps

This synthesis paper outlined the views of the three expert academic reviewers. The main recommendations to come out of their reviews are outlined below. The next steps are that CGD will host a discussion event on December 7th, 2018, where the reviewers will present their views in greater detail and attendees will have the opportunity to raise questions and discuss the implications of these views and possible future directions of the CDI. At this event, CGD will also present its preliminary findings on the possibilities of extending coverage to other important economies. In early 2019, more concrete decisions will be taken on the future direction of the CDI, which will draw on the reviewers' findings and the ideas emerging from the December 7th event.

Recommendations

Below are a summary of the recommendations and comments raised by at least one of the reviewers.

1 Purpose and Approach

a) The reviewers agreed the CDI plays a distinct role in assessing spillovers of policy to development

b) Indexes are valuable in general, so long as they abstract in ways that are useful to their objectives. The CDI does this but could do so better.

c) The CDI should have an independent impact assessment.

d) It should be pitched as reflecting a consensus rather than as a deterministic set of rules on what matters to development.

e) The perception of conflicts of interest due to the funding model should be addressed.

2 Structure

a) There should be fewer indicators, and they could perhaps be organised along some recognised thematic dimensions.

b) There was no concern expressed for the current structure of seven major components.

3 Theoretical Concerns

a) The long term versus short term should be considered.

b) Whether to poverty weight indicators is an interesting conceptual question but thinking on this is as yet too undeveloped too to justify changing the CDI and doing so would anyway increase complexity.

4 Country Coverage

a) The reviewers agreed large emerging economies (and China is emphasised here) should be included to keep the CDI relevant.

b) Although this would result in less data, that means it would also result in a more succinct index.

c) Domestically focused policies should be included as they increase sustainability of support for development and test the effectiveness of development policies.

5 Data Collection Initiative

a) The CDI should be supported by an original data collection project.

6 & 7 New and Existing Components and Indicators

- Existing components reforms could occur in Aid quality and quantity, Security, Technology, Environment, and Finance (6a-f).

- New components should include macroeconomic stability (7a) and developmental research (7b). The latter should include measures of financial risk, monetary policy spillover, and the degree and counter cyclicality of fiscal policies.

Appendix: Macroeconomic Spillovers Theory

The background theory and resulting recommendations on macroeconomic spillovers is rather technical so it is presented here as an appendix item both to better enable brevity in the main document and to explore its depth as a somewhat standalone section here.

The indicators that the reviewers recommended a macroeconomic policy should include are financial risk, monetary policies, and fiscal policies.

Financial Risk

The 2008 crisis showed how financial markets in the West can have strong 'spillover effects', markets affecting the economies of countries outside of their own nations' borders. This can be through volatile demand patterns or through global portfolio composition decisions, for example, that impact on the real and financial economies of developing countries. Griffith-Jones therefore argues that the finance component should measure regulations to achieve financial stability in developed countries: their quality, strength and comprehensiveness[4]. CDI indicators should capture whether regulation has clear and robust macro-prudential elements. The IMF's Financial Sector Assessment Programmes (FSAP) could be useful for evaluating such measures, for example. The FSAPs are comprehensive and in-depth assessment of countries' financial sectors, which analyse the resilience of the financial sector, the quality of the regulatory and supervisory framework, and the capacity to manage and resolve financial crises.

Jacquet argues that capturing the volatility of short-term capital flows would add value as developing countries are vulnerable to sudden reversals in investment. Unsustainable macroeconomic policies in developed countries can make markets hypersensitive to news indicating likely policy shifts, which in turn increases the volatility of capital flows. Measuring all the various macroeconomic indicators that financial markets might respond to is impractical, so Jacquet proposes using broad proxies of policy sustainability: IMF indicators of the domestic and external debt sustainability of the countries from which spillovers could occur, for example.

Monetary Policies

The majority of Griffith-Jones's review paper focused on macroeconomic policies, and monetary policies for the most part, and this next section draws almost entirely from her work.

Monetary policies have international spillovers. That is, actions taken by central banks affect economic conditions abroad. There is recognition of spillover effects to varying positive degrees, but central banks still have domestic mandates. The effects of monetary policy can broadly be categorised as demand creating and demand switching. These are illustrated by reference to the US:

[4] To prevent institutions sidestepping regulations through subsidiaries or vehicles.

- **Demand creating** the effects of lower US interest rates include cheaper money in the USA means US demand is increased for all products, including imports from developing countries.

- **Demand switching** lower US interest rates leads to dollar depreciation, which makes US goods cheaper internationals and thus increases external demand for them.

The net effect, and whether it is positive or negative, depends on the relative magnitude of these effects. Other issues relating to monetary spillovers include:

- Timing and suddenness: quick consolidations can lead to sudden capital reversals and shocks to developing countries. This ties to Jacquet's point on the sustainability of policy.

- Monetary expansion, which boosts outflows of US capital, can drive foreign investment in developing countries. But it can also lead to overheating if the volume of these flows is large relative to an economy. And as Jacquet pointed out, if expansionary policy is viewed as unsustainable, this can make markets skittish.

- Monetary consolidation can lead to demand for US securities being increased at the expense of other capital markets. This effect will be stronger when investors are flightier. Countries with fixed exchange rates and low reserves are more vulnerable to such capital flight. And those with high debt burdens, especially if they are denominated in foreign currency, would be hardest hit by it.

- If the interest rate sensitive segments of a developing country's economy are already highly leveraged, then low global interest rates might not lead to increased borrowing and investment in these segments, whilst the economy would still experience demand switching effects.

- With higher proportions of commercial creditors to developing, as has been the trend in recent years, crises are harder to resolve.

Measuring Monetary Policy Spillovers

A challenge of including a macroeconomic policy component is measurement. Griffith-Jones outlines some possible avenues for this. An overall approach could be to measure whether macro policies are net positive for the originating country and for the developing world. Their impacts on poorer countries could be weighted higher.

- **Green**: Net positive effects in both. Few adverse spillovers and should be encouraged

- **Orange**: Policies that lead to immediate gains but longer term adverse could be orange.

- **Red**: anything from negative to minor positive effects domestically but with negative effects abroad.

The netting challenge therefore becomes to offset the legitimate need to respond to economic conditions at home with the effect resulting policies have overseas, and this must be partly informed by the stage of the economic cycle that the originating country is in.

The IMF's growth at risk approach could be used, which assesses growth vulnerability to shocks in developing countries. Mishra and Rajan suggest a set of new rules or principles, which describe the limits of acceptable macroeconomic policy behaviour, which could lead to higher welfare in all the countries. An ambitious next step to measuring rules-based behaviour might be to codify the requirements of international cooperation and codes of conduct. And how the articles of multilaterals, like the IMF, could be altered to capture this sort of cooperation.

Griffith-Jones notes that the literature largely focuses on international transmission of exchange rates or bond yields, rather than macroeconomic spillovers. So modelling analysis might be a better route than database indicators.

Offering central bank liquidity swaps is a way that spillover effects could be alleviated, and is a possible measurable indicator for the CDI in this component.

Fiscal Policies and current accounts

In the period of recent, post-crisis years, policymakers have used unconventional monetary policies, such as quantitative easing (QE), but have been reluctant to use fiscal policies. But the IMF has measured fiscal spillovers and shown them to have spillover effects, but only in a significant way when coming from large economies. They find that a) economic slack and policy constraints, like monetary policy at the effective lower bound, imply larger spillovers from fiscal policy, but such spillovers are relatively smaller in normal times (again, the stage of the originating country's cycle must be considered in measuring spillovers), and b) the type of policy matters, with government spending having larger and more persistent impact than tax cuts. This is because spending directly affects demand whereas tax cuts do so through an intermediate layer of taxpayer decisions. Unsurprisingly, the size of an exported shocks varies positively with size of the originator's economy: a 1% US fiscal expansion provides a larger experiencer stimulus than a 1% German expansion. Trade linkages are also at work, with shocks greater on those closer to an economy's gravity. The US stimulus would affect Latin America more than would the German one.

Another consideration in fiscal stance is that countries with high current account surpluses, like Germany and the Netherlands, export deficits, which can increase macroeconomic vulnerabilities. These countries have large space for fiscal expansion, so their spillovers should be measured in this context.

Jacquet proposes negatively scoring the cyclicality of fiscal policies under the rationale that spillovers from booms and busts affect developing countries. Conversely, smoothing these fluctuations creates reliable and predictable demand patterns abroad. He proposes measuring the direction and degree of cyclicality with the product of the structural fiscal balance and the GDP output gap (with the caveat that the latter has proven difficult to measure precisely).