

New Issues in Development Assistance

OED Conference on Effectiveness of Policies and Reforms

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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
- The fate of developing countries is mostly in their own hands. But for the poorest and weakest states, most dependent on foreign aid, “reform” is needed on the donor side too.

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
- It's not easy to judge the quality of "institutions": MCA, CPIA
- Institution building takes time

#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 |
|---|---|---|
| Senegal Sri Lanka Uganda Indonesia Nepal Rwanda | Vietnam Pakistan Rwanda | Bhutan India Mauritania Senegal Burkina Faso Indonesia Mali Pakistan |

Note: The security gap measures conflict in low-income countries 1998-2003, and the level of conflict is used as a proxy for how effectively governments can preserve internal security.

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 Bangladesh Malawi Moldova Mozambique | - - - - Mozambique | 2 2 3 3 3 |
| Missed MCA by one indicator (out of 16) | Countries actually selected for the MCA | |
| Benin Burkina Faso Georgia India Mali Mauritania Sao Tome and Principe Togo | Benin - Georgia - Mali - - - | 2 2 4 1 2 1 5 5 |
| | Additional countries selected for the MCA | |
| | Cape Verde Vanuatu | 1 4 |

Sources: Radelet (2003) "Challenging Foreign Aid," The Center for Global Development; the International Development Association (2004), <http://siteresources.worldbank.org/IDA/Resources/PBAAR4.pdf>.

#1. Institution Building Takes Time

Donors are Impatient

- Institution building is slow, risky and difficult to measure
- Signs of donor impatience:
 - Pressure to disburse once commitments are made
 - Pressure for policy change, abstracting from political constraints
 - Limited financing of “long-term” training (more than one year)
 - Project implementation units (though these are now a last resort)
- Possible donor fixes?

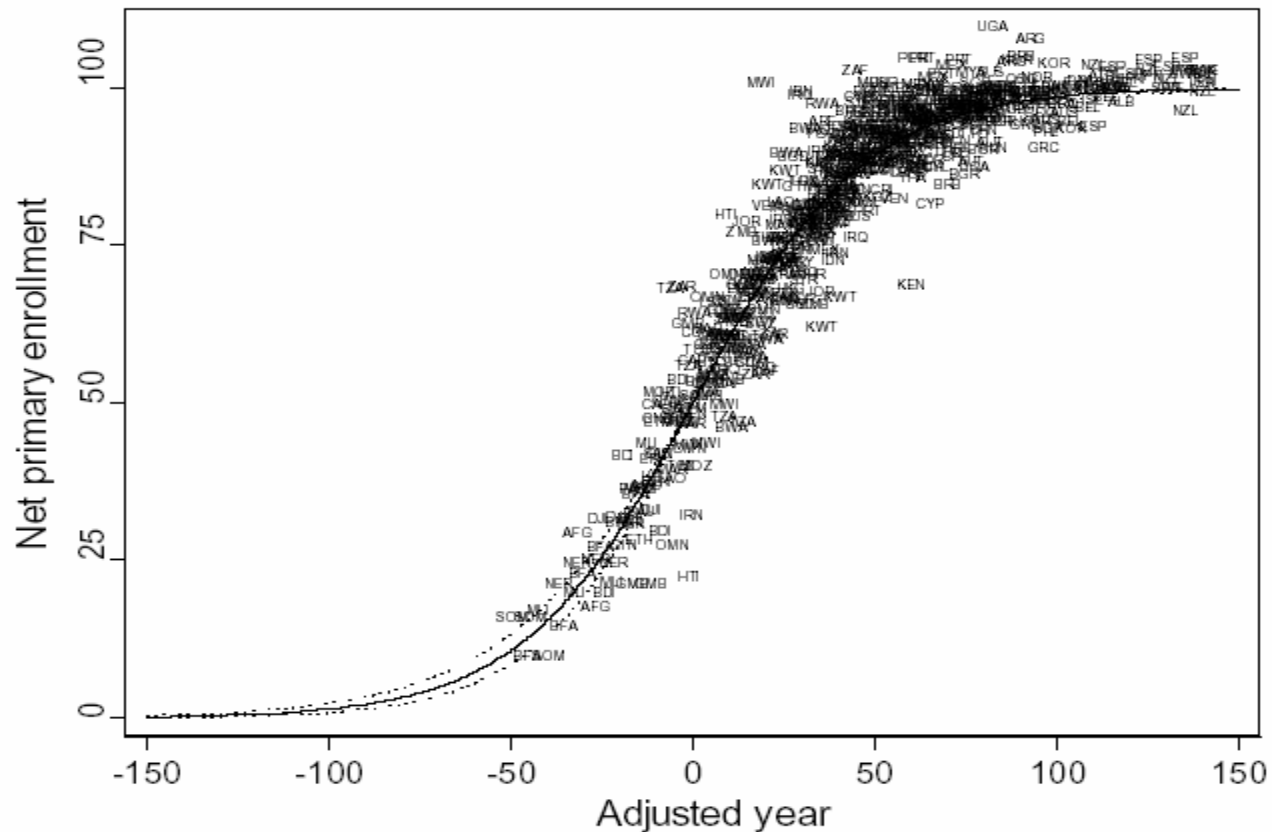
#1. (Impatience and the MDGs)

The Millennium Development Goals:

- Positive: a long-term planning horizon
- Negative: countries can be succeeding by historical standards but still judged “off-track”

#1. The MDGs: Impatience?

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

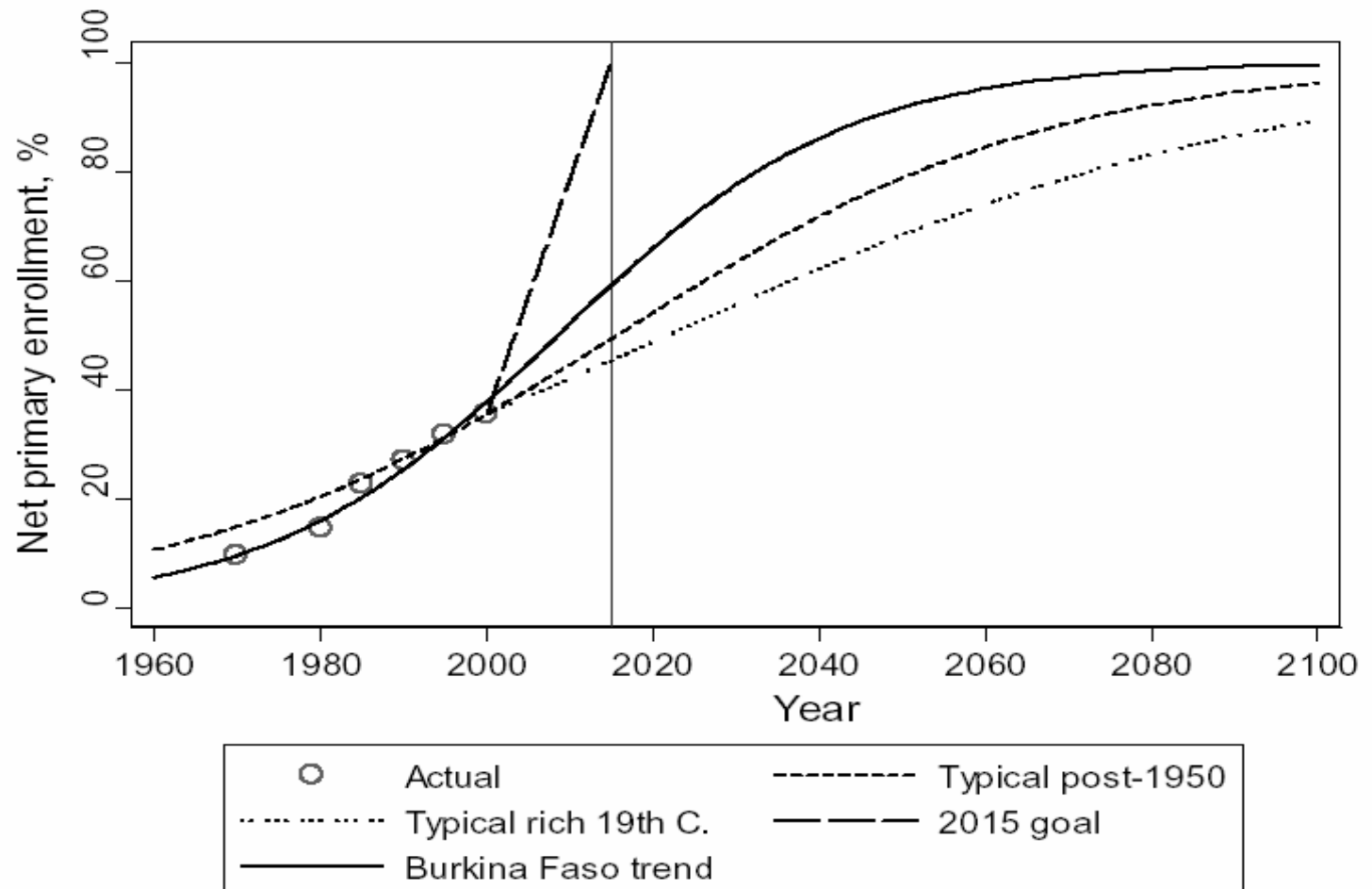


Notes: “Adjusted years” are the elapsed time since 50% enrollment. Datapoints show country-years, spaced quinquennially.

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 endemic
- . . . from countries, until it is too late to support the good guys
- Yet readiness to exit might create impetus for better initial design

#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 |

Out of these countries, only Bangladesh, Pakistan and Uganda achieved annual per capita growth rates above 2% over the period from their first adjustment loan to 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

Internal Spending on Evaluation

| | 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

Reports Calling for Independent Evaluation

- Meltzer Commission Report (2000)
“Independent evaluations of the [World Bank’s] effectiveness should be published annually.” p. 90
- Overseas Development Council (2000)
“The Fund’s activities should also be subject to more external evaluation than presently... A tightly focused, independent, external evaluation unit should be established...” p. 18
- Carnegie Endowment (2001)
“Shareholders should also create a mechanism for independent, third-party evaluation of the effectiveness of the MDB’s programs...” p. iv

Sources: Meltzer Commission Report (2000); ODC Task Force Report (2000); Findings of the Commission on the Role of the MDBs in Emerging Markets (2001).

#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
- 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

“The impact of participation is difficult to assess because of the lack of clear and shared objectives among stakeholders.”

World Bank (2004), p. 13

“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), p. 3

#4. Sloth

One Possible Option: 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: IEO (2002) "Evaluation of Prolonged Use of IMF Resources. Evaluation Report," p. 141.

#4. Sloth

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.

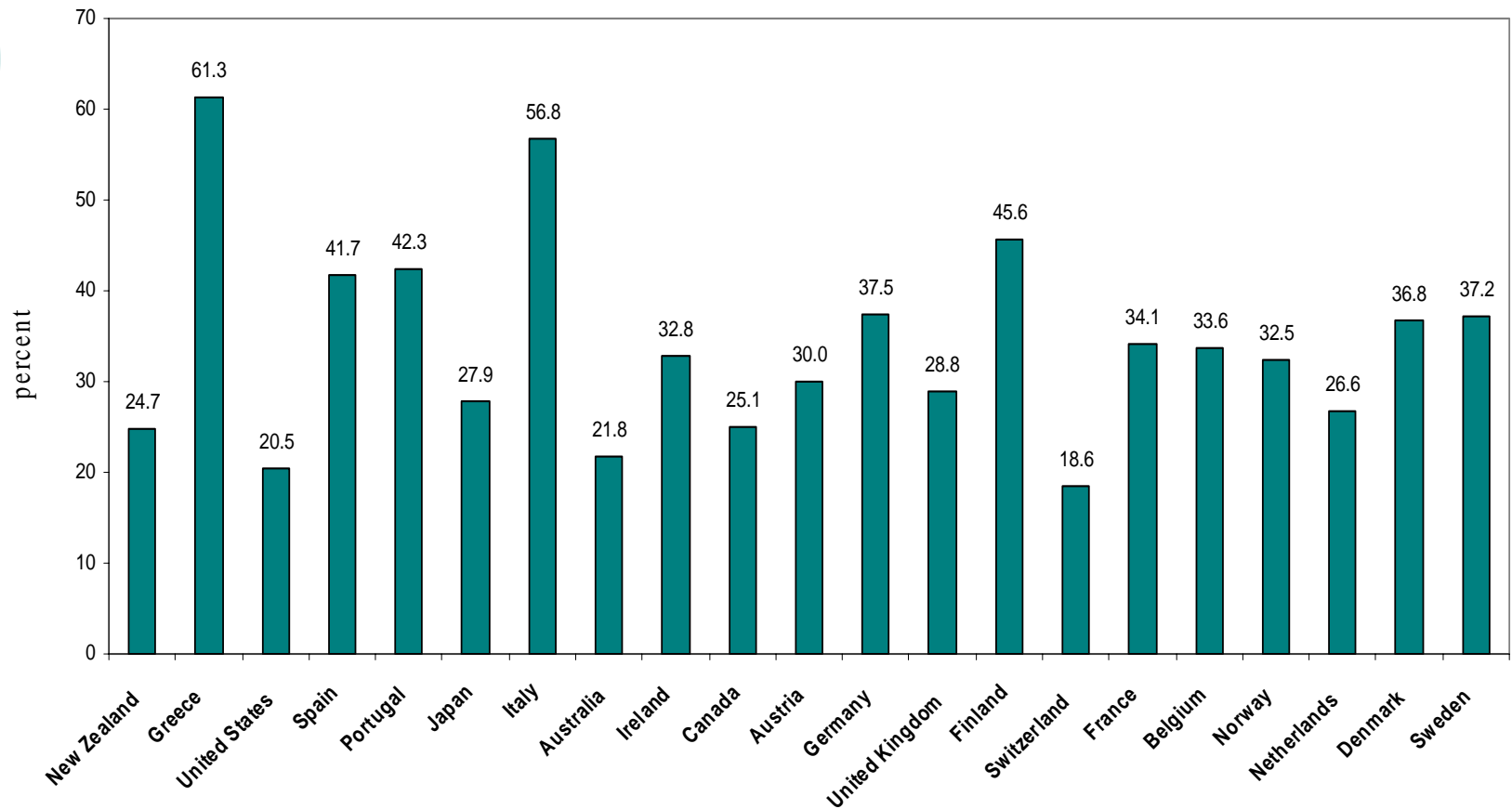
#5. Envy

Failure to Collaborate

- Multilateral funding better than bilateral funding, but still no real common pool of donor funding
- Neither real collaboration, nor real competition among donors
- Fragmentation: donors want to be everywhere
- Project proliferation: recipient countries cope with many projects and programs

#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 lowest ranked country.

Source: OECD/DAC Database

#5. Envy

Fragmentation of donor resources

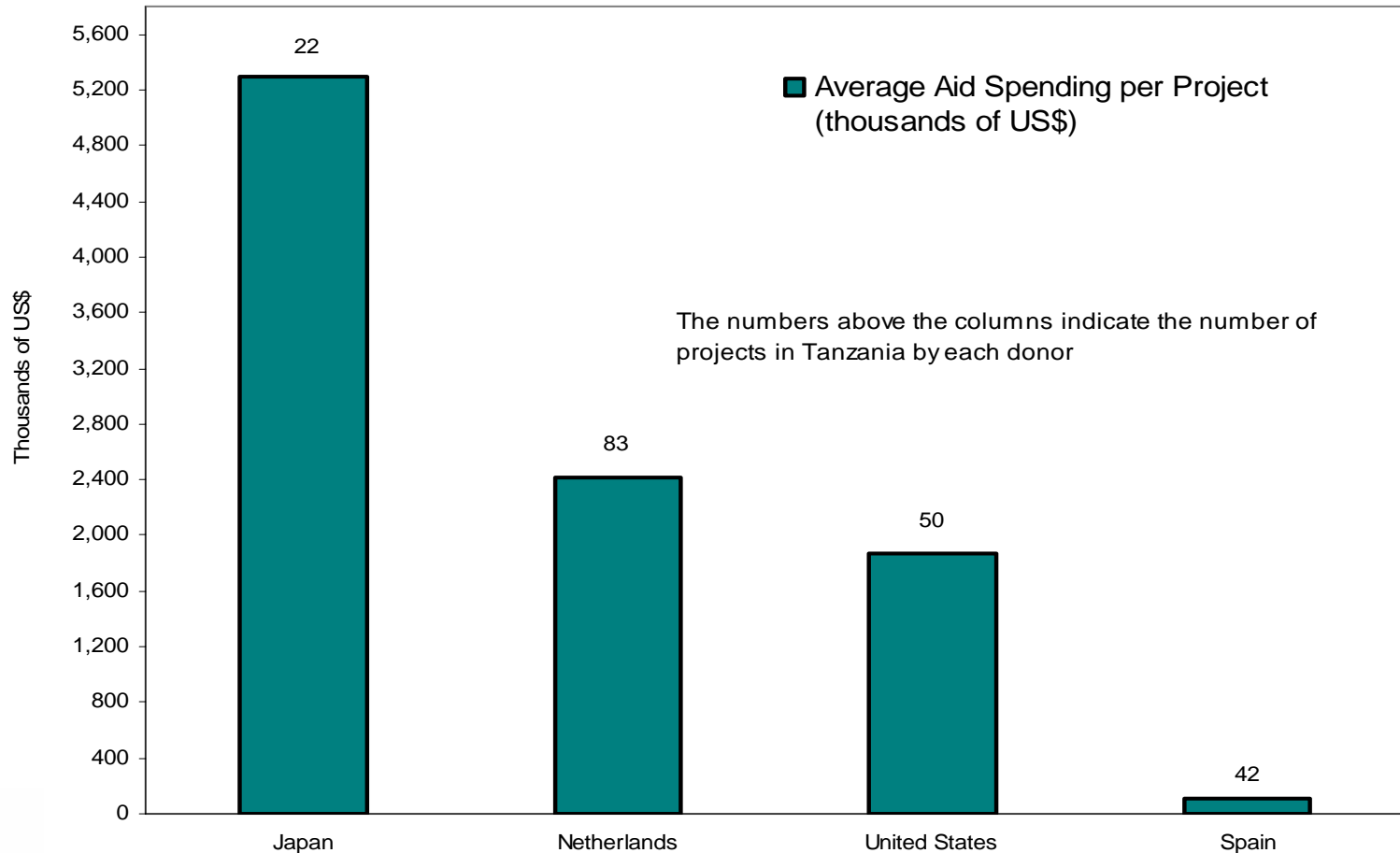
Share of recipients receiving less than 1 percent of the total aid disbursed by the donor, all aid events (1999-2001 average)

I.e. 83 percent of UK aid recipients received less than 1 percent of total UK aid between 1999-2001

| | |
|-----------------------|------------|
| 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% |
| <u>United Kingdom</u> | <u>83%</u> |
| United States | 87% |

#5. Envy

Tanzania: Average Aid Spending per Project by Each Donor 2000-2002



Source: CGD/FP Commitment to Development Index 2004

#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.”

Birdsall and Deese (2004)

#6. Greed

Stingy and Unreliable Assistance

- Development assistance is stingy compared to domestic transfers and stated goals
- 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 |

Note: *standard deviation/mean.

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

Sources: Atkinson (2003) "Innovative Sources of Development Funding – Global Public Economics;" 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/Fixes

- 1) **Impatience** Institution building is vital to sustainable development. Donors are naturally impatient. How to support institution building?
- 2) **Pride** Instruments that make exit the default for failures are needed
- 3) **Ignorance** Donors must collectively finance truly independent evaluation
- 4) **Sloth** Greater representation of developing countries in global institutions would enhance ownership at home of their own reforms
- 5) **Envy** “Donor coordination”: More multilateralism is only a modest step. Big rethink of aid architecture is needed
- 6) **Greed** Predictable financing as well as more is required
- 7) **Foolishness** More financing of regional public goods