Global Economy
and Development
at BROOKINGS

From Aid to Global Development Cooperation

The 2011 Brookings Blum Roundtable Policy Briefs

CONTENTS

INTRODUCTION

The context for aid is changing. Globalization has spurred economic convergence, upending the 20th-century economic balance and creating a smaller world where both problems and solutions spill across national borders more readily. This has given rise to a legion of new development actors—including emerging economies, nongovernmental organizations, private businesses and coordinating networks, who have brought fresh energy and resources to the field while rendering the prospect of genuine donor coordination ever more difficult. Global integration and the competition for resources have raised the prominence of global public goods, whose equitable and sustainable provision requires international collective action. Meanwhile, poor countries are demanding a new form of partnership with the international community, built upon the principles of country ownership and mutual accountability.

From the Group of Twenty (G-20) meetings and the upcoming Fourth High-Level Forum on Aid Effectiveness in Korea to unfolding events in the Middle East and North Africa, leadership from the United States is crucial, placing pressure on the Obama administration to deliver on its promise of far-reaching reforms to U.S. global development efforts. And amidst this shifting global landscape remains the issue of how to effectively communicate the importance of global development cooperation to both national and global publics, at a time when budget pressures are being felt across many of the world's major economies.

The following policy briefs explore these issues in detail, laying out the challenges and offering a range of specific recommendations on what needs to happen and why. The briefs include:

- **Reframing Development Cooperation**: Laurence Chandy exposes some of the myths that surround development cooperation and endorses an effort to parse development activities according to a set of overarching objectives, which could then guide a more modern and useful aid taxonomy, as well as a better division of labor.
- **The G-20's Development Agenda**: Homi Kharas assesses the G-20's standing as a body that can effectively tackle the development agenda, arguing for concrete actions in the focus areas of agriculture and infrastructure and for an elevation of the development work stream within the G-20 process.
- **The Road to Busan: Pursuing a New Consensus on Development Cooperation**: J. Brian Atwood reflects on the recent evaluation of the Paris Declaration on Aid Effectiveness as he outlines essential goals for the Fourth High-Level Forum on Aid Effectiveness, which will take place in late November of 2011.
- **Governance and the Arab World Transition: Reflections, Empirics and Implications for the International Community**: Daniel Kaufmann explores the importance of misgovernance, corruption and political and economic capture by elites in Egypt, Tunisia and the broader region, and makes the case for better diagnostics and a redefined role for the international community in the Arab world.
- **The Shape of U.S. Global Development Reforms**: Noam Unger offers specific recommendations to the Obama administration on the first anniversary of its announced global development policy after highlighting those reforms that are well under way, those that are not and those that are still missing from the agenda at this critical moment.
- **Preserving American Public Support for Foreign Aid**: Steven Kull confronts the dire budget environment for U.S. foreign aid by putting forward a set of communication proposals that draw upon public opinion data and strategies that have been used to counter pressure for aid cuts in the past.

These policy briefs were commissioned for the eighth annual Brookings Blum Roundtable, held in Aspen, Colorado on August 3–5, 2011. The Roundtable convenes government officials, academics, development practitioners and leaders from businesses, foundations and international organizations to consider new ways to alleviate global poverty through cross-sector collaboration.

REFRAMING DEVELOPMENT COOPERATION

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Executive Summary

The world of development cooperation is riddled with myths. These myths affect how international development goals are defined, which policies are adopted to achieve these goals, and the extent to which they are ultimately achieved. This policy brief takes four myths and explores their origins and consequences. It argues that the prevalence of these myths is proof that development cooperation needs to be "reframed." This means fostering a more robust, faithful and up-to-date account of the role of international engagement in the development process—one that will ultimately help the development community be more effective and justify its value to its various stakeholders. It offers two recommendations for how this process can begin: First, break down the ephemeral notion of development cooperation into a cogent set of overarching objectives, upon which a new taxonomy of development cooperation can be cast. And second, initiate a discussion about the division of labor in development cooperation that focuses less on assigning responsibilities in a top-down fashion and more on encouraging greater consideration of the comparative advantage of different flows, policies and players.

What Is the Issue?

The world of development cooperation is riddled with myths. These myths affect how international development goals are defined, which policies are adopted to achieve these goals, and the extent to which they are ultimately achieved.

The origins of these myths vary: Some are simplified accounts of issues that are inherently complex; others are ideas that may have been true in the past but no longer reflect today's realities or contemporary knowledge about development. In some cases, the myths are perpetuated by the development industry itself. What is clear, however, is that these myths are increasingly unsustainable and counterproductive given the scale of today's development challenges and the changes taking place within the international development system.

Myth 1: Development Cooperation Has a Clear, Narrow Purpose

When U.S. Supreme Court justice Potter Stewart uttered the phrase "I know it when I see it," he might just as well have been attempting to define the goal of development cooperation. For although "development" is a universally understood term, it is multifarious and lacks clearly defined parameters. Development is at once about people and states, about opportunity and outcomes, about productivity and sustainability, and about freedoms that empower and institutions that impose rules. Such a breadth of issues does not lend itself to a straightforward prioritization and sequence of interventions to be undertaken by external actors or a simple process for monitoring progress.

The development community has tended to ignore this reality. Many policymakers and practitioners have found solace in the goal of poverty reduction, which is designated as the singular mission of several official aid agencies, including the World Bank and the U.K.'s Department for International Development. Stipulating such a goal provides an inspirational message and may help to prevent the diversion of resources for other causes, but it does not make the mission any more straightforward.

Development actors can still choose, for instance, between palliative measures (such as humanitarian and food aid, or social safety nets), which are relatively straightforward to deliver, and attempts to engender transformational change (capacity building, institutional and economic development), which hold the promise of more lasting results. In a world of finite resources, policy options imply trade-offs—including helping one group in preference to another—and there may be no such thing as the "right choice."

Furthermore, measuring international poverty has proven to be extremely problematic and subject to interminable delays. The most recent official estimate of global poverty is for 2005—an age ago in the context of global development, given that between then and now, the economies of the developing world have grown collectively by 50 percent. Poverty measures for India and China—two countries that officially accounted for half the world's extreme poor in 2005—face serious credibility issues that undermine the accuracy of global poverty aggregates.

The Millennium Development Goals (MDGs) provide an alternative attempt to capture the essence of development cooperation. With eight goals, 21 targets and 60 indicators, the MDG framework submits to a broader definition of development, but still leaves out as much as it includes. Its utility derives from being a rallying call for development and a basis for recording achievement, rather than an elucidation of purpose. As Lant Pritchett (2010) succinctly put it, "The MDGs are correctly interpreted as what will be accomplished when there has been development—and not vice versa."

In certain settings, the MDGs may draw resources toward the wrong priorities. Leaders of the g7+ group of fragile states agreed at a meeting in June 2011 that while the MDGs remain important to their countries, the objectives of peace building and state building are more immediate priorities. The development community has yet to come up with a reliable and relevant set of indicators to monitor progress in these critical environments.

The issues faced by fragile states serve as a reminder that the scope of development cooperation has expanded. Until recently, attention focused on stable, low-income countries, on the assumption that these countries have the most to benefit from external support. But fewer than a dozen countries still fit this description. Of the 66 countries that were classified as low-income a decade ago, only 35 remain (the others having graduated to middle-income status) and two-thirds of these are classified as fragile states. If this same focus were to be used today, there would be little left for development cooperation to do.

Instead, development cooperation is taking on new challenges. Low-income fragile states may be among the hardest countries to help, but it has been decided that they can no longer be ignored. Some of the countries that have graduated to middle-income status also remain serious concerns. Countries such as Nigeria and Pakistan have succeeded in attaining a level of economic development beyond several more stable countries, but they have not been able to translate this success into stability and improved capacity and governance, increasing the likelihood that they could slip backwards. The different circumstances faced by these groups of countries means that it no longer makes sense to think in terms of a single development trajectory along which all countries proceed.

To further complicate matters, the development community is being tasked with an even broader set of objectives under the rubric of "global public goods." Many of these global public goods remain poorly understood, but their emergence will demand new ways of characterizing development problems and solutions.

Myth 2: Development Cooperation Is Principally about Giving Aid

External actors can help or hinder development through their policies on trade, migration, climate, investment, finance, research and development, and security. When listening to Western governments discuss their policies on development, one would be forgiven for thinking otherwise as all these factors are overshadowed by talk of aid.

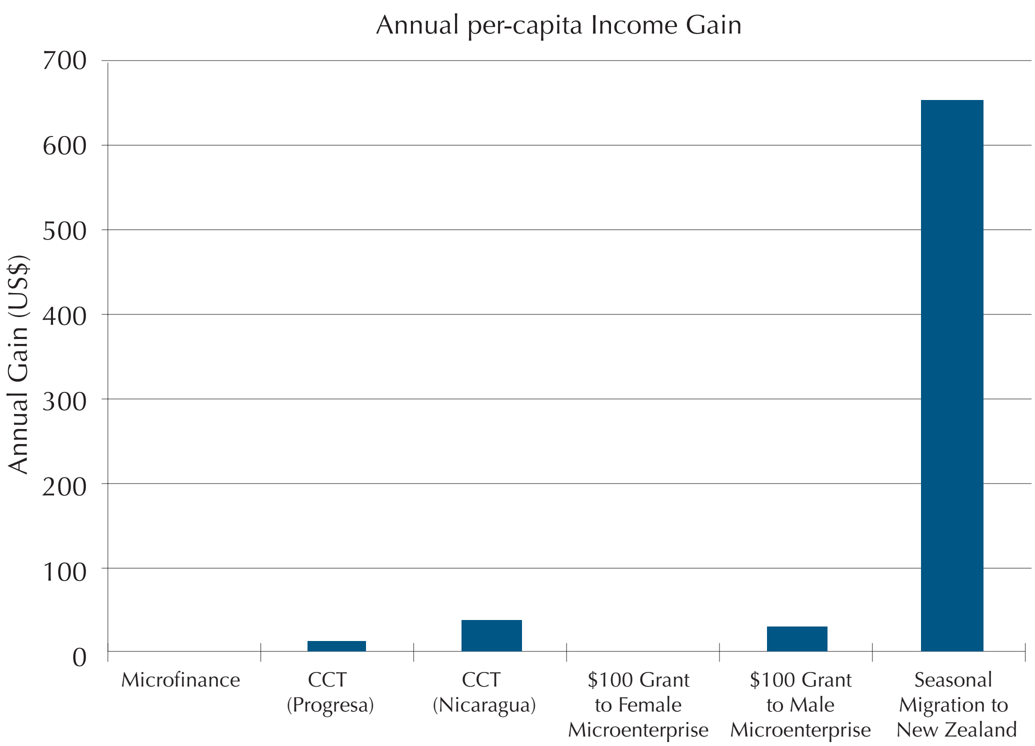
Why the focus on aid? Part of the explanation is an exaggerated sense of what aid can hope to achieve, supported by an antediluvian theory of development, which implies that aid can be a panacea for poor countries stuck in a pattern of low growth and low savings. According to this theory, aid offsets low savings, unlocking a higher rate of investment, which translates into a higher rate of growth. This theory was found to be flawed (including by its chief architect, Evsey Domar, more than 50 years ago) because neither the aid–investment relationship nor the investment–growth relationship stands up to scrutiny. Bill Easterly (2002) has shown that if the theory were to hold, Zambia would have converted the $2 billion it received in aid up to the mid-1990s into a per capita income of about $20,000, as opposed to the $600 on which its average citizen then subsisted.

Yet somehow the spirit of this theory has lived on, along with the enduring notion of a "financing gap" that stifles economic activity in poor countries and that aid money is uniquely qualified to fill. Even the rise of other financial flows to poor countries at levels far exceeding official aid volumes has failed to upend this orthodoxy. In 2010, remittance inflows to developing countries were $326 billion and net equity inflows stood at an estimated $571 billion (of which two-thirds was foreign direct investment), compared with official development assistance (ODA) flows of $129 billion.

At the microeconomic level, there has been a wave of enthusiasm in recent years for new aid-based tools such as conditional cash transfers and business grants, which are perceived as providing a powerful means of generating higher personal incomes. Yet the proven income effects of these interventions are limited and come at a high cost (figure 1).

This is particularly evident when compared with the dramatic boosts in income that have been achieved

Figure 1. Comparison of Income Returns from Different Development Interventions



Source: D. McKenzie, "The Most Effective Development Intervention We Have Evidence For?" blog post, December 7, 2010, http://blogs.worldbank.org/allaboutfinance/the-most-effective-development-intervention-we-have-evidence-for.

through seasonal worker migration programs—a distinctly non-aid instrument. In a recent study of one such program in New Zealand, participants enjoyed income gains of 30 to 40 percent. Of course, the politics of seasonal worker programs, or any other migration policy for that matter, presents something of a minefield. This helps explain aid's elevated status; of the different policies available to Western countries to support development, aid has traditionally been among the least politically fraught. However, this may now be changing after years in which the benefits of aid were oversold. The new generation of emerging economies active in development cooperation appears ahead of the curve in this respect. Their aid programs have tended to be given a lower profile compared with other instruments of development policy.

Nevertheless, it is fair to assume that the attention given to aid is not going to go away any time soon. It is all the more remarkable, therefore, that the clearest benefits of aid have gone largely unnoticed. Although aid's impact on growth and incomes during the past half-century has been modest at best, aid has had a transformative effect on living standards through its impact on human development. Arguably aid's most potent impact has been in improving standards of health, where it has combined with breakthroughs in research and technology to enable a rapid dissemination of drugs and improved medical know-how.

Myth 3: The Aid Donors Who Give the Most Aid Achieve the Greatest Development Impact

One of the seminal lessons from the evaluation of aid projects and programs is that measuring inputs is a hopeless proxy for measuring impact. Nevertheless, this is exactly how the overall aid enterprise is typically appraised, as demonstrated by the level of focus on quantities of ODA. In the words of Jean-Michel Severino and Olivier Ray (2009), "It is hard to find other examples of public policies whose performance is assessed so little on the basis of results and so much on the basis of expenses—themselves measured so imperfectly."

The disconnect between inputs and impact can be broken up into two parts. The first is the difference between the cost of aid (to the donor) and the resources made available for development. This distinction lies behind efforts to calculate "country programmable aid" (CPA), in which aid volumes are stripped of various components to capture only what is strictly available for development projects and programs. Using this measure, it can be shown, for instance, that CPA from the U.S. to Pakistan was negative for almost 25 years between 1975 and 2000. In other words, more money was flowing from the Pakistan budget to the U.S. Treasury during this period than vice versa (figure 2).

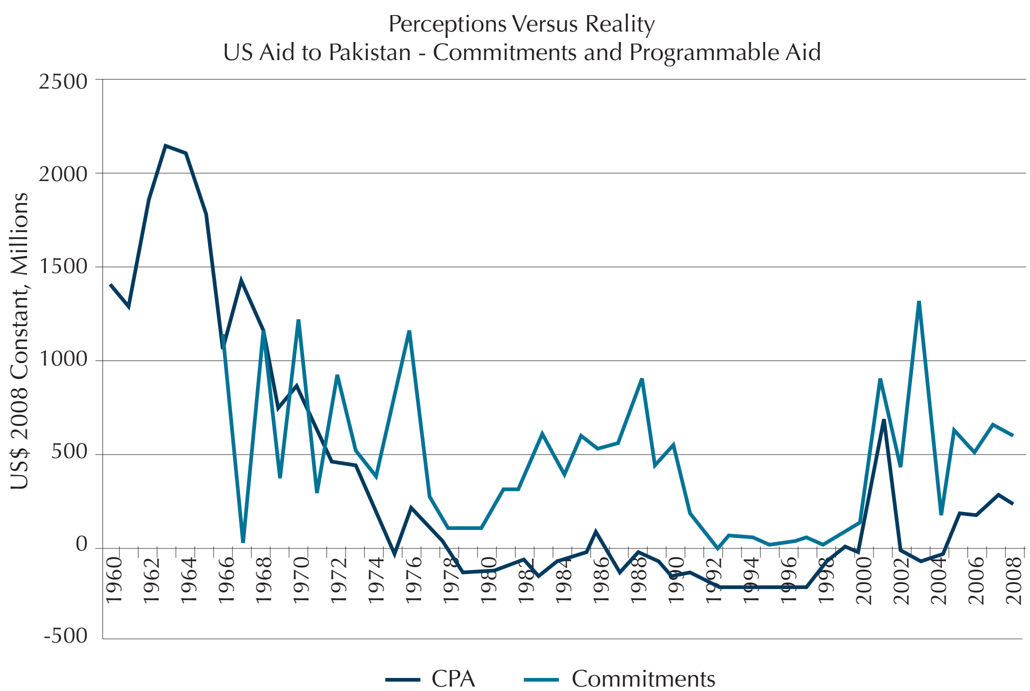
While CPA measures emphasize that some types of aid appear on the cost side of the aid ledger but do not translate into the resources side, there are other types of aid for which the opposite is true. A number of new aid instruments, such as advance market commitments and guarantees, draw resources toward development without incurring an immediate cost to donors. (Guarantees present a particularly odd case because they are only counted in ODA when they are called, and thus when their development impact is lowest.) Other aid instruments incur a cost for donors but one far smaller than the resources for which they can account. The United Nations entity UNITAID pools aid dollars intended for drug purchases, enabling it to negotiate bulk deals at a lower price.

Similarly, aid-sponsored public–private partnerships are designed to crowd in private finance, enabling aid dollars to achieve significant leverage.

The most significant omission that results from focusing on the cost of aid is the tendency to entirely forget the unofficial sector. Estimates suggest that total private aid from foundations, corporations, private and voluntary organizations, volunteers, universities and religious organizations around the world was approximately $65 billion to $76 billion in 2009. Research indicates that a significantly larger share of private aid translates into development resources than that of official aid.

Equally important as the difference between aid costs and development resources is the distinction between development resources and the impact they achieve. Today's aid effectiveness agenda (embodied in the Paris Declaration) focuses on the latter, identifying weaknesses in the way development resources are managed and delivered that limit development outcomes, and putting forward principles and approaches to address these. This agenda is backed up by a body of literature that has shown, among other things, that donor proliferation increases the imbalance between investment and recurrent expenditures, thereby undermining the sustainability of investments, and that the fragmentation of aid into smaller interventions is associated with lower effec-

Figure 2. Country Programmable Aid from the U.S. to Pakistan, 1960–2008



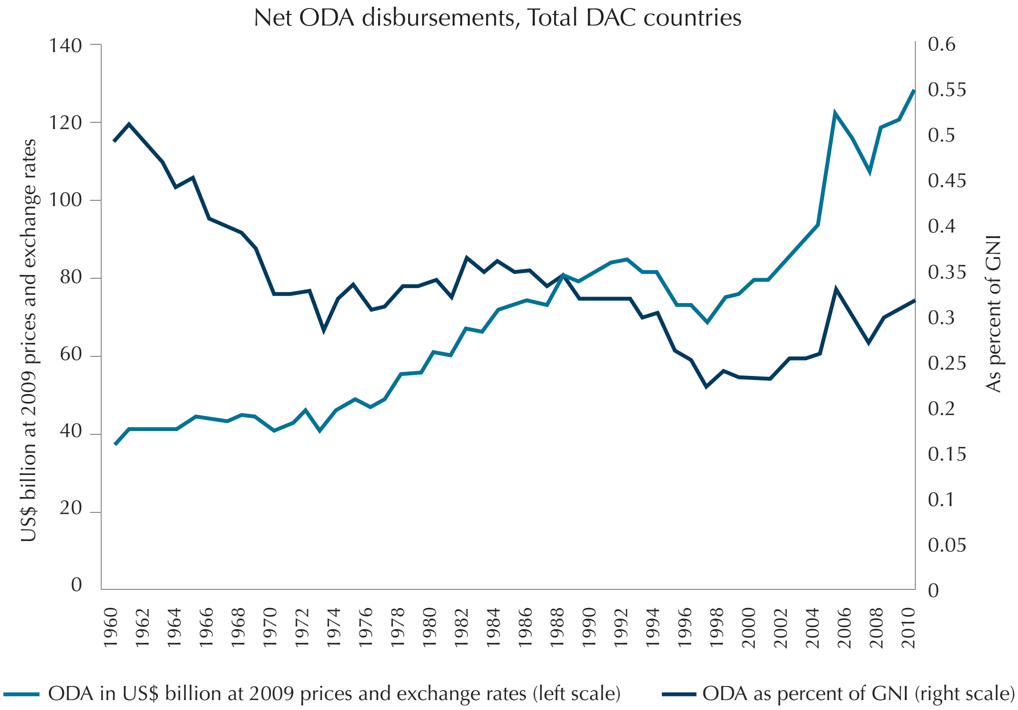
Source: Organisation for Economic Co-operation and Development, Development Assistance Committee Online Aid Database, tables 2a and 3a, given by H. Kharas, "U.S. Aid to Pakistan: Time for a New Approach," blog post, August 25, 2010, http://www.brookings.edu/opinions/2010/0825_pakistan_aid_kharas.aspx.

tiveness. Evaluations are occasionally conducted to determine the true impact attributable to particular development resources. These studies reveal a high variance in impact depending on how resources are deployed.

The past decade likely represented a high point for the focus on aid volumes. Aid levels had hit an all time low (as a share of gross national income) in the late 1990s, creating a moral case for them to later rebound (figure 3). Meanwhile, the Monterrey Consensus in 2002, ostensibly concerned with looking beyond aid volumes, revived enthusiasm for the global ODA target of 0.7 percent of gross national income that shaped the commitments made three years later at Gleneagles. Irrespective of the record of delivering on those commitments, the influence of Gleneagles has been profound in defining the current aid discourse. In terms of international prominence and political interest, Gleneagles has undoubtedly trumped Paris.

However, in the aftermath of the Great Recession, the sluggish growth rates and poor fiscal health of the countries that belong to the Organisation for Economic Co-operation and Development (OECD) mean that the era of rising OECD aid may be over. Whereas, in the past decade, it was in the interests of these countries to allow discussions of aid to focus closely on volumes, this is no longer the case.

Figure 3. Official Development Assistance Flows from Development Assistance Committee Countries, 1960–2010



Note: Total OECD-DAC aid excludes debt forgiveness and non-ODA claims in 1990, 1991 and 1992. Data for 2010 are preliminary estimates.
Source: OECD-DAC, "50 Years of Official Development Assistance," 2011, http://webnet.oecd.org/dcdgraphs/ODAhistory/.

Myth 4: Acts of Commerce and Charity Are Necessarily Distinct

In recent years, there has been increased recognition of the role of the private, for-profit sector in international development. Private corporations, financial institutions, social enterprises and business associations have each claimed a stake in the development process, whether as individual actors or through a variety of collaborative mechanisms. These actors create jobs, furnish citizens and governments with goods and services, develop and adapt technologies, pay taxes and train the workforce in developing countries.

Nevertheless, the commercial and charitable sectors are usually thought of as occupying two separate worlds. Attempts to mix these two worlds are treated with suspicion because they would appear to either compromise the purity of charitable impulses or to hinder the smooth workings of the profit motive. However, such views fail to account for how official development efforts currently operate and the value of partnerships both to foster private sector development in poor countries and to catalyze increased development resources.

The reality is that the official aid sector successfully combines both commercial and charitable elements and engages closely with the private sector. Last year, for instance, the World Bank's private lending arm, the International Finance Corporation, invested a record $18 billion in loans to private corporations operating in developing countries—$4.9 billion of which was invested in low-income countries. This represents a fivefold increase since 2002—a rate of growth that could realistically see the IFC outgrow the World Bank's government-focused lending and grant functions within the next 10 years. Such growth reflects a switch in the demand for financing in many developing countries; governments are shifting from public to private lending and from customary concessional loans to customized financial instruments. During the last three years, the IFC has plowed more than $1 billion of its profits into the International Development Association—the World Bank's window for making grants and concessional credits to governments in the world's poorest countries—enabling IDA to continue its traditional business. And the U.S. Overseas Private Investment Corporation plays a similar role to the IFC, promoting international development overseas by financing or insuring American companies' investments in risky markets. Since 2005, OPIC has contributed more than $2 billion in revenue to the U.S. government.

For emerging donors, the blending of commercial and charitable elements in development cooperation is even more fluid, with China being the apotheosis. China's assistance typically takes the form of bespoke packages of project loans made up of multiple lines of credit, alongside occasional grants and nonpecuniary elements such as training and capital goods. The loans are financed at a commercially competitive rate, often secured by natural resources from the recipient country. Although it is possible to tease apart the various elements of these packages and to categorize each according to its apparent motive based on whether it meets the OECD definition of ODA, to do so is to ignore the deliberate fusion of these parts and the deals that they together constitute.

In the new development landscape, with its many different types of actors (including nongovernmental organizations, civil society groups and foundations) and several new sources of finance, it is far from obvious that the comparative advantage of aid agencies is being a simple supplier of capital, as has traditionally been assumed. Instead, aid agencies are likely to be valued most for their expertise in supporting policy development, building technical capacity and fostering coalitions. Where aid agencies' financial heft may still be advantageous is in providing initial capital when a project incurs large sunk costs or is perceived as being high risk. This is evident in the structure and division of labor that characterize some of the multistakeholder alliances that operate successfully today in the health and urban sectors. On reflection, these roles make obvious sense for official aid agencies because they conform to government's traditional function of addressing market failures. (By contrast, private actors' strengths may include supplying capital, managerial capacities, scientific and technological innovation, and market-based solutions for achieving results at scale.)

What Needs to Happen—and Why?

Development cooperation needs to be reframed to foster a more robust, faithful and up-to-date account of the role of international engagement in the development process. This new frame should do two things. First, it should adequately explain *what* development cooperation is about. This encompasses both the overall purpose of development cooperation and its evolving agenda, to which measures and evaluations of development progress and impact should then correspond. Second, it should capture *how* development cooperation occurs. This entails the process of partnership, specialization and exchange in which various different actors and instruments are now involved. Governance structures should be redesigned to reflect this new development "ecosystem."

Reframing development cooperation in this way will help the development community become more effective and newly justify its value to its various stakeholders, which include beneficiaries, parliamentarians and the public at large. In other words, it can explain *why* development cooperation is both a critical and worthwhile endeavor. Although some may argue that a simplistic or even false account of development may prove a better sell, such a strategy is just as likely to backfire. The development community has a responsibility to be honest with its stakeholders, who are likely to respond positively to a truthful and lucid account of the challenges, opportunities, disappointments and successes encountered in their work.

Recommendations and Next Steps

All this is easier said than done. Reframing is a long-term endeavor. Where, then, do we start?

In terms of the question "what," the first priority should be an attempt to break down the ephemeral notion of development cooperation into a cogent set of overarching objectives. This should not be interpreted as an effort to reduce development cooperation to something impossibly narrow, but rather to move beyond the label "development," given its enormous breadth.

These objectives could eventually evolve into a new taxonomy by which to classify development cooperation efforts. Between now and 2015, the development community should seek to build a consensus on the best approach, in time to shape the post-MDG agenda.

There are various different ways of cutting up the pie. One proposal by Severino and Ray (2009) is to distinguish three objectives: economic convergence, social welfare and global public goods. There are clear linkages between these objectives—the authors themselves point out that many instances of development cooperation simultaneously serve two or more—but they nevertheless represent distinct ideas that can stand alone.

Progress on this front can prompt a much-needed discussion about the division of labor in development cooperation. This should be the second priority and will help address the question "how." The purpose of this discussion should not be to assign responsibilities in a top-down fashion but to encourage greater consideration of the comparative advantage of different flows, policies and players, based on the objectives of development cooperation that have been identified. Developing countries should participate in this process, both because their own expertise and expenditures are often significant shares of the total resource envelope available for development and also because they have rightly come to expect a more equal form of partnership with external development actors.

Accepting Severino and Ray's objectives for now, a division of labor quickly begins to takes shape. Among different flows, equity inflows would be most associated with economic convergence, in contrast to remittances, which naturally support social welfare. Among policies, climate change mitigation would be associated with the provision of global public goods, whereas trade policy would be a measure of support for economic convergence. And among players, the Global Alliance for Vaccines and Immunization, a public–private partnership focused on increasing access to immunization in the world's poorest countries, would be a key provider of global public goods, whereas nongovernmental organizations would be seen as guardians of social welfare.

These two steps would provide the foundations upon which a new tradition of development cooperation could be conceived, one free of the myths that afflict international development efforts today. By establishing this tradition, the development community would demonstrate its recognition of the changed development landscape and its commitment to improving the efficacy of its work.

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THE G-20'S DEVELOPMENT AGENDA

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Executive Summary

The Group of Twenty (G-20) is the latest international forum to take up the issue of development. The Seoul Development Consensus and the Multi-Year Action Plan endorsed by the G-20 in 2010 were process steps, laying out an ambitious nine-pillar agenda and a mechanism for monitoring progress and reporting back to leaders. It is now imperative that these steps be translated into concrete actions that are seen as making a difference. This will not be easy. The international landscape is littered with failed efforts to achieve development targets: The Millennium Development Goals increasingly look to be off-track for many countries; most of the Paris Declaration's targets for aid effectiveness will not be met; and the G-8's effort to increase the quantity of aid has fallen far short of promises. The G-20 must show that it can do better. Three actions are needed:

- Strengthen investments in smallholder agriculture.
- Act to unlock large infrastructure investments (especially cross-border).
- Elevate the G-20 Development Working Group to the ministerial level to provide global leadership to the aid and aid effectiveness agenda.

What Is the Issue?

At the international level, issues of development and poverty reduction have been addressed through a process of setting goals, targets, action plans, identifying and getting commitments for resources to fund coordinated strategies, and monitoring and reporting back of results. This process has had some success, but relative to the scale of the development challenge and the ambition of policymakers, it has fallen far short of expectations. The three most recent international efforts—the United Nations' Millennium Development Goals, the Paris Declaration targets of the Organisation for Economic Co-operation and Development's Development Assistance Committee (OECD-DAC) and the G-8's aid commitments—have had at best partial success.

The G-20 has the potential to be the "Goldilocks" of international groupings. Some bodies (arguably the UN) are simply too large to make effective decisions in areas where trade-offs are required. Others are too small to drive the global agenda and overcome global collective action problems. The G-8 may have fallen into that category with regard to economic issues. Still others, like the DAC, do not have the political heft to ensure that commitments made in the rush for outcomes at international gatherings are implemented in the sober days of domestic realpolitik that follow.

The G-20 is positioned to do better. As a leaders' summit of the largest economies in the world, the G-20 certainly has the political will and economic clout to drive the development agenda forward. It has representation of all the economies that matter for the exercise of a full range of global development cooperation policies—aid, trade, investment, financial flows and even migration. Unlike other more representative bodies, the G-20 is sized to be an action-oriented group that can make decisions and implement policies.

It is now time to turn this promise into reality by showing progress on the global development agenda. The G-20 should take global development seriously because it is a topic of considerable concern to the public in G-20 countries (as shown by various polls) and is also an area where consensus among G-20 members is possible despite the diversity of the group. Unlike financial regulation or the unwinding of global imbalances, taking the global development agenda forward does not require any G-20 member to trade off domestic sovereignty against a global good. This should make it easier for G-20 members to act.

Of course, a vibrant developing world would be useful for advancing the broader G-20 agenda of a "strong, sustainable and balanced" global economy. It could help unwind global imbalances in a healthy way, and investment and consumer spending in the developing world provide the most dynamic source of demand for the global economy. In fact, by taking on development, the G-20 has recognized that many global issues like tax havens, financial regulations, terrorist financing and counternarcotics are subject to a "weakest link" theory. If any country gets left behind, it could pose a systemic risk for the rest of the world.

It is this mutual dependence and corresponding mutual accountability that give rise to optimism over the G-20 as a body that can tackle the development agenda compared with other groupings. When the DAC countries failed to meet the Paris targets for aid effectiveness for 2010—and the latest evaluation suggests that donors did less well than recipients in fulfilling their commitments—there were no repercussions. Similarly, when the G-8 countries missed their Gleneagles commitments, there was little reaction except for complaints from selected international nongovernmental organizations. But if the G-20 cannot deliver on development, the complaints that the G-20 is simply an expensive talking shop will intensify.

What Needs to Happen—and Why?

Sensibly, the G-20 has selected two pillars, agriculture and infrastructure, on which to focus at the Cannes Summit later in 2011. In both areas, it has the potential to take specific actions that can directly lead to better development outcomes.

Agriculture

First, take the case of agriculture. Price increases in major crops, particularly maize, have been of major concern to governments and publics across the world, leading to a chorus of voices for some remedial action. The process followed was to ask nine international organizations to jointly "develop policy options for G-20 consideration on how to better mitigate and manage the risks associated with price volatility of food and other agricultural commodities, without distorting market behavior, ultimately to protect the most vulnerable." The G-20's agriculture ministers endorsed an action plan at their June meeting that includes steps to:

- Improve market functioning by establishing an early warning mechanism, the Agricultural Market Information System, to provide better data on crop supply, demand and food stocks.

- Improve smallholder productivity in developing countries.

- Eliminate export restrictions on food and extraordinary taxes for food purchased for international humanitarian purposes, as well as create targeted, regional emergency food stocks to ensure access for the least developed countries.

The value of the G-20 ministerial process is that it combines the technical views of international organizations with the political sensibilities of agriculture ministers. Hot button topics like the impact of biofuel subsidies were discussed in a technical paper but were not included in the action plan because of a lack of political consensus among members. But this should not be taken as a weakness of the G-20 process, as some have observed, but as a strength—a recognition of the internal trade-offs (in this case with energy policy and other domestic concerns) that each country must consider before agreeing to move forward on specific areas in an international setting. The ministerial process provided a political cross-check that has long been absent from global development meetings.

Overall, the G-20 agriculture process has resulted in concrete recommendations and in hard-nosed non-actions. For example, the political pressure to criticize speculators for causing food price spikes was intense, but the detailed analytical work failed to provide evidence for this proposition and agriculture ministers correctly concluded that derivative markets in agricultural products should be regulated in the same way and by the same authorities as other financial markets, namely, by finance ministries and organizations. This "dog that did not bark" may be one of the most valuable outcomes of the G-20 process—

well-functioning agricultural futures markets are surely indispensable to helping the world deal with the inexorable rise in food demand to feed a growing global population that will also be significantly richer than at present. The UN Food and Agriculture Organization estimates that global food demand could rise by 70 percent by 2050. Without the G-20's efforts, the risk of ad hoc and inefficient regulations on futures markets would have been considerable, and that risk has now receded. In fact, there may even be a case for broadening agricultural futures trading to developing country exchanges.

Markets by themselves, however, may not provide the answer to global and national food needs, and one area where the G-20 leaders can and should do more is on resources for smallholder productivity. Under the Global Agriculture and Food Security Program (GAFSP), which was endorsed by the G-20 at Pittsburgh, countries agreed to provide substantially more resources to smallholder agriculture. Not surprisingly, given current budget constraints, the G-20 leaders have shied away from quantitative promises of more aid, either in the aggregate or to specific sectors. But this does not mean that aid resources are unimportant. Currently, there are several developing countries with well-developed plans for agricultural and smallholder development that have been vetted and approved by regional organizations—for instance, the Comprehensive Africa Agriculture Development Program—and participating international organizations. But these lack funding due to shortfalls in GAFSP. It may be time for a rebranding and refocusing of GAFSP to link it more closely to the G-20's development agenda, and thereby bring in other G-20 countries to support it—such as Russia, China and Brazil. A concrete step for the G-20 would be to discuss such reforms and encourage member countries to lend additional moral and financial support (either bilaterally or through the rebranded platform) to country agricultural development plans so that the critical leg of smallholder productivity improvements does not get short shrift.

Infrastructure

The former president of Nigeria, Olusegun Obasanjo, captures the hopes as well as the frustrations of Africa's leadership with the slow pace of infrastructural development, writing that "the pressure is now on the French G-20 presidency, which has to translate the plan into purposeful action by November 2011 and avoid the pitfalls of past efforts—including short-term thinking, destabilizing capital surges and carbon-heavy construction. Success will be measured by the amount of capital generated and the number of projects realized, as well as by the extent to which G-20 activities complement and synergize existing efforts without supplanting or fragmenting them" (Obasanjo 2011).

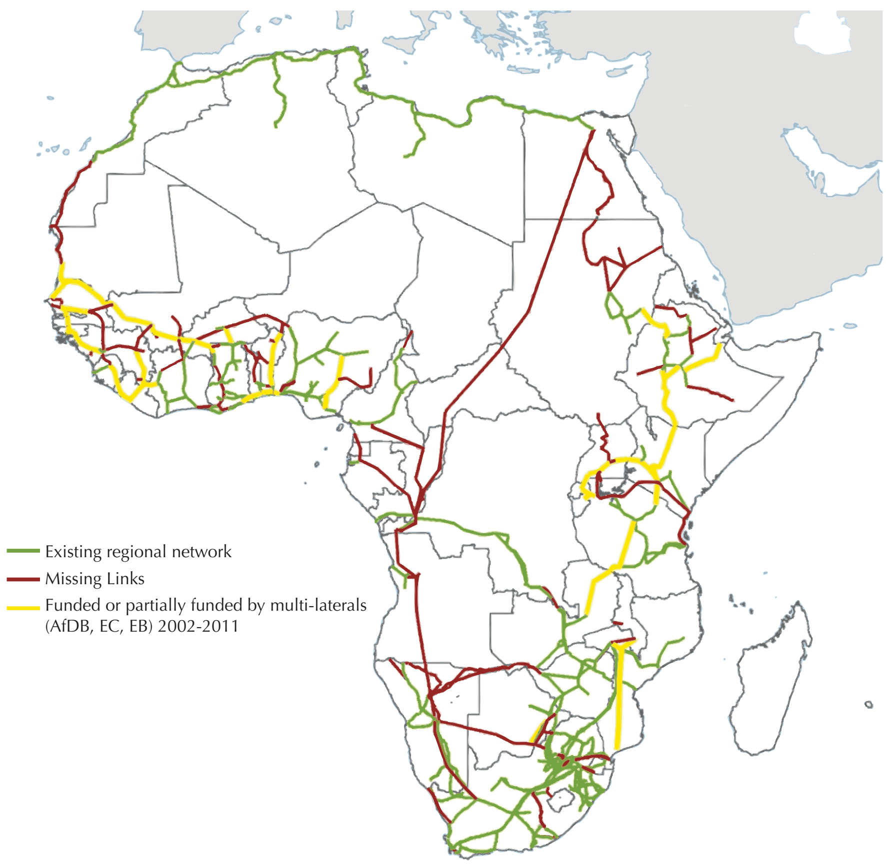
In fact, infrastructure has been diagnosed as a critical component for African growth. A flagship study on Africa's infrastructure found that infrastructure had been responsible for more than half the continent's growth performance between 2001 and 2005, and had raised per capita incomes by 1 percent between 1990 and 2005 (Foster and Briceño-Garmendia 2010). Most of this was a result of impressive information and communications technology penetration.

Not surprisingly, the study found that poor infrastructure services were a major hurdle to doing business, with productivity losses comparable to those from corruption, crime and financial market constraints. Power was cited as one of the most problematic areas. In Sub-Saharan Africa, only 30 percent of the population has access to electricity, the road access rate is about 30 percent and only 18 percent of irrigation potential is being utilized, according to the Program for Infrastructure Development in Africa (PIDA).

Africa's infrastructure networks lag significantly behind those of other developing regions, and infrastructure services, when delivered, are more costly. The causes include missing regional links (see figure 1), a difficult economic geography (low population density, a large number of landlocked countries, a rapid rate of urbanization and a large number of small economies), low investment and institutional inefficiencies. The diseconomies of scale that emerge from these factors, coupled with a lack of competition resulting in high profit margins, makes services in Africa more than twice as expensive as other places.

Why infrastructure bottlenecks remain so large is a long and complicated story. It is not because of low returns. Most infrastructure projects in developing countries have supernormal rates of return—30 percent to 40 percent in telecommunications, 40 percent in electricity generation, and 80 percent in roads (Winters et al. 2010). The problems lie on the risk side of the ledger. The policy and institutional challenges in getting the right environment for infrastructure financing in developing countries are enormous.

Figure 1. Regional Electricity Links in Africa



Source: "Africa's Infrastructure: An Agenda for Transformative Action," presented at "Scaling up Africa's Infrastructure to Meet the MDGs," sponsored by World Bank, African Union and African Development Bank, September 2010, http://siteresources.worldbank.org/AFRICAEXT/Resources/Africa_Infrastructure_Maps.ppsm.

Regional infrastructure projects, in particular, are typically large in scale and complex in scope. They suffer from all the same risks as other large infrastructure projects, but they have the added complication of needing to have synchronized policy and regulatory issues across a number of countries. Regional projects suffer from (1) coordination failures; (2) front-end risks and costs; (3) regulatory and political risks, influenced by the legacy actions of previous governments (even in neighboring or similar countries); and (4) distortions and political influences in the allocation of grant financing (Palmer 2006). It is these problems that the G-20 must resolve.

Donors have previously tried to address such risks, but with limited impact. Most notable are the new institutional arrangements—such as the Infrastructure Consortium for Africa hosted by the African Development Bank that now includes all the G-20 members as well as major multilateral institutions, the Private Infrastructure Development Group (PIDG), the New Economic Partnership for Africa's Development (NEPAD), the Infrastructure Project Preparation Facility and the Pan-African Infrastructure Development Fund. These groups have produced diagnostics, including the African Infrastructure Action Plan 2010–2015 and the longer range Program for Infrastructure Development in Africa (PIDA), but action and funding are still modest compared to the challenge.

The difficulty is that each large infrastructure project must be tackled individually, and this takes time, effort and funds. It is also taxing for the institutional capacity of the various groups that have been established. For example, the PIDG appears to be a well-functioning agency and was positively reviewed in a recent multilateral aid assessment. It has disbursed $390 million to fully finance 46 projects with $10.5 billion in private sector investments. But it is not operating on the scale that is really required.

The stage is set for another big push. A much bolder vision, which targets transformational investments in regional integration, is needed. NEPAD has built capacity through its various initiatives and is appropriately becoming more assertive. It has developed a list of priority regional projects, and for each project a sponsoring government has agreed to act as the project champion at the highest political level. Thus, the essential African leadership on this issue has been growing.

For their part, the multilateral development banks have also organized themselves to play a larger role in regional infrastructure investments. The World Bank's highly concessional facility, the International Development Association (IDA), has set aside $3.6 billion of its recent aid pledges specifically for regional projects and has developed a list of the 10 priority bankable projects.

What is lacking is a pool of money to actually prepare large projects. Thus for the IDA, the typical project preparation funding available is limited to $3 million. That is nowhere near sufficient to prepare a project like the Inga 3 and Grand Inga hydroelectric projects in the Democratic Republic of the Congo, which could cost upward of $300 million to do the full array of technical, economic, social and environmental studies. For development agency managers, all the incentives act against doing large regional projects—they are politically and technically risky, expensive to prepare, subject to delays and require huge management oversight. In short, regional projects are a bureaucrat's nightmare.

A large political push from the G-20, coupled with selective financing in critical project preparation areas, could change this situation. The political push would ensure that development agencies fix their internal incentive issues that militate against a more enthusiastic championing of high-return regional projects. And a properly sized project preparation fund would allow these large infrastructure investments to be moved toward commercially bankable projects. The money need not be a new charge for donors; they could authorize the use of existing multilateral grant resources for such purposes. With financing for up-front studies mitigating cost and risk, private capital would be likely attracted to actually undertake the investments in the high-return projects that have been identified. The goal should be to mobilize $1 billion in project preparation resources, which could leverage $10 billion to $12 billion in new investment in at least 10 major regional projects. With an announcement of an approach to large, regional project preparation, the G-20 could restore its credibility as a body that gets things done.

Recommendations and Next Steps

The G-20 must combine concrete actions with further process steps to deliver on the development agenda. Concrete actions on agriculture and infrastructure have been identified by relevant working groups but must be endorsed by leaders and, where possible, strengthened further.

Make the Development Working Group into a Ministerial Process

Of the three G-20 work streams—finance, agriculture and development—the first two have regular ministerial meetings preceding the summits, whereas development meetings are attended by the G-20 sherpas without a minister-level structure to support their efforts. In the case of agriculture, contentious ideas have been tabled and debated at both the political and technical levels. Specific recommendations have been endorsed at the ministerial level, while still leaving open the possibility for leaders to do more, especially on signaling their commitment to funding smallholder productivity.

But for infrastructure, the discussions have only been held at a technical level without benefit of a formal ministerial or political discussion. Unlike in the case of agriculture, where nine multilateral agencies developed a joint report, the infrastructure discussions are coordinated by a high-level panel of eminent individuals and then discussed in a meeting of the Development Working Group representatives, mostly the G-20 sherpas or their designees.

The Development Working Group should also submit its recommendations to debate at the ministerial level in advance of the leaders' summit. One can consider three basic models. The first would be to merge the development agenda into the finance ministers' process (perhaps inviting other ministers, according to the topic). The benefit of this would be that the finance ministers' process is already well established and smoothly functioning, being the longest-standing and original process of the whole G-20. Much of the development discussion involves funding, so a finance perspective is required in any case. Finance ministries also have close ties and representation in the international financial institutions, and they can use these links to bring the G-20 discussions into the board rooms of the major development institutions. The drawback, however, is that the finance ministers' process is already crowded, and thus development concerns may be relegated to the end of the meeting (as has happened in the past) and treated in cursory fashion.

The second option is to establish a new process, perhaps involving development ministers (or even foreign affairs ministers). The benefit would be that the development discussion is able to benefit from a full political as well as technical debate, but the drawback would be that development ministers may not have the clout to deliver in those areas where other ministries are directly involved. As the Seoul Development Consensus is a multidisciplinary agenda, requiring a coherent policy across a number of ministries, it might be hard to have effective debates on the full scope of the development agenda. As one example of the crossover nature of the Seoul Consensus, the Korean government has assigned responsibility for some areas of the agenda to its Ministry of Finance and for other areas to its Ministry of Foreign Affairs and Trade.

A third option is a hybrid of the two. There is a precedent in the finance area whereby both finance ministers and central bank governors sit together. The presence of development ministers might ensure that development issues do not get short shrift. But this option could also result in bureaucratic overload.

Making the G-20 Development Working Group into a ministerial process could help resolve one other problem in the global governance of development: the lack of global leadership. Other groups have taken up aspects of development, such as the OECD-DAC, which deals with aid. But no group systematically looks at development as a whole, in the way proposed by the Seoul Development Consensus of combining the growth and the Millennium Development Goals issues together. If the G-20 Development Working Group can be seen as an action-oriented and monitoring body for a whole-of-government approach to development while other bodies set standards and principles, a clear division of labor can be established. This year, because the G-20 Leaders' Summit in Cannes will be closely followed by the Busan High-Level Forum on Aid Effectiveness, there is an opportunity to link these international processes in a more explicit way. The G-20 Development Working Group would be a good forum to annually discuss the implementation of member countries' commitments to development made at Busan and to coherently take stock of the impact of these measures on development.

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THE ROAD TO BUSAN: PURSUING A NEW CONSENSUS ON DEVELOPMENT COOPERATION

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Executive Summary

The fourth High-Level Forum on Aid Effectiveness takes place later this year in Busan, Korea. Previous forums in Rome in 2003, Paris in 2005, and Accra in 2008 have set the stage for a deepening of aid effectiveness principles that have been embraced by many developing partner nations, civil society and member nations of the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD-DAC). New survey evidence is now available showing that behavioral patterns have changed, albeit more among partner countries than donors. In addition, a new independent study shows that implementation of the principles adopted at the Paris Forum and reinforced at Accra produces development results.

For some years now, the global aid architecture has seen the introduction of new providers of assistance and a proliferation of institutions and programs, both public and private. This increase of activity has overwhelmed partner nations and increased transaction costs. It has also led to charges that in some cases aid has done more harm than good. There is a consensus about the idea that enhanced coordination is essential. A unifying principle is that development results must be the focus of both partners and providers in a framework of mutual accountability. One of the key elements in achieving this is transparency in resource allocation, measurement and evaluation.

New providers of assistance from the emerging economies have been invited to the table and are

expected to participate fully at Busan. With national leaders more preoccupied than ever with transnational issues involving health, food, security and climate, and developing nations desiring to pursue poverty reduction with homegrown strategies, a new global compact for development is needed at Busan. The changes that are called for will require political will. If prominent political leaders participate and a broader partnership is fostered, Busan could enable more progress toward the Millennium Development Goals (MDGs) and a vital pathway to 2015, when a new consensus on global goals must be reached.

What Is the Issue?

At the beginning of the 21st century, it became clear that increases in aid financing were not producing the development impacts expected of them. Although interest in aid effectiveness itself was not necessarily new, the unprecedented consensus that emerged on what needed to be done to ensure that money spent on overseas aid and development programs produced better results marked a turning point for the international community.

The first formal agreement between donor and partner countries over the issue of aid effectiveness emerged during the Monterrey Financing for Development Conference in 2002. Under the guidance of the OECD-DAC, further agreements on ways to improve coordination among donors, as well as the first explicit commitments to support partner countries' efforts to build better institutions and more effective policies were reached at the first High-Level Forum in Rome in 2003.

Two years later, this growing group of donor and partner countries endorsed the Paris Declaration on Aid Effectiveness at the second High-Level Forum on Aid Effectiveness. The Paris Declaration was groundbreaking because it not only provided a set of common principles for improving the quality and impact of aid but also because it outlined a series of action-orientated commitments with target goals that would be measured and monitored during the following five years.

The commitment to the Paris Declaration was reaffirmed at the third High-Level Forum on Aid Effectiveness in 2008. In Accra, an even greater number of new donor and partner countries, middle- and low-income countries, civil society organizations and parliamentarians endorsed the Accra Agenda for Action (AAA), a framework of agreements intended to accelerate the achievements made since Paris and to unblock obstacles to progress in areas that were lagging behind. The AAA also stated that focus should be given to increasing partner-country ownership of development, building more inclusive partnerships for development, recognizing the diversity of approaches needed in aid for the different types of countries involved, and delivering and accounting for development results. The upcoming fourth High-Level Forum on Aid Effectiveness (HLF-4) that will take place in Busan this November will mark both the end of one journey on aid effectiveness, which began in Monterrey nearly a decade ago, and the beginning of another. In Busan, the largest and most varied mix of development stakeholders to date will meet to take stock of the achievement on commitments made in Paris and Accra, as well as to outline a future agenda for aid effectiveness that reflects the new context within which development occurs.

What Do We Know?

In addition to defining principles for effective aid and outlining an action plan to be implemented by relevant aid and development stakeholders, the Paris Declaration also called for a series of interim monitoring surveys that would be followed by a final independent evaluation at the end of the five-year time limit for implementing the Paris commitments. The surveys served as a valuable monitoring mechanism during this period and were instrumental in the recommendations made in Accra in 2008. Similarly, the final monitoring survey and final "Evaluation of the Paris Declaration" will inform much of the discussion in Busan later this year. HLF-4 will make a full assessment on the value and impact of the Paris Declaration and AAA, and hopefully will reach a consensus on what needs to happen in the future.

The Paris Declaration Matters for Developing Countries

The final independent evaluation of the Paris Declaration shows that the Paris Principles *do* matter for development results, and we have seen a wide range of subsequent agreements on development cooperation use the principles as their foundation. For example, the Bogotá Statement on South–South Cooperation (2010), the Dili Declaration on Fragile States (2010) and the Istanbul Principles for Civil Society Organization Effectiveness (2010) have taken the main aid reform principles and commitments and adapted them for their diverse situations and different needs. Similarly, we have seen that sector-level implementation of the Paris Principles has also contributed to better development results in a number of countries, particularly with regard to the health sector. By implementing many of the mechanisms and practices described by the declaration, both partner and donor countries gain a better overview of the development cooperation environment, and we have seen partner countries increase their capacity to handle greater volumes of strategic support during the past five years.

The Paris Declaration Principles themselves now serve as norms of good practice, and their widespread use has raised expectation levels from all development stakeholders. Although not all these expectations have been met, the Paris Declaration has helped to focus the divergent interests of different stakeholders on ambitious, quantifiable and action-oriented measures. As the authors of the declaration evaluation describe the situation, most partner countries evaluated "have now embedded many of these change processes, not just to manage programs better but because they serve the countries' national needs."

Full Implementation of the Paris Declaration Principles Will Take More Time than Expected

Although the Paris Principles continue to demonstrate their relevance over time, progress in implementing the agenda has undoubtedly fallen short. The preliminary results of the 2011 survey show that only one of the original 13 targets set for 2010 has been met.

Certainly, for partner countries, meeting Paris Declaration commitments has required more changes to their own systems than what has been asked of the donor countries. Partner countries face greater capacity development challenges that constrain their ability to meet the Paris commitments, and these challenges cannot be fixed rapidly by broad, top-down directives.

Partner countries have highlighted several key areas that need renewed attention in order for them to meet Paris Declaration commitments. For example, they have found that there is still a continuing need for a better alignment of official development assistance with national priorities. All assistance, regardless of its destination within a country, should be accounted for with these national priorities in mind, and policies that are not consistent with national objectives should be avoided or eliminated. Partner countries have also expressed the need for greater support in developing additional indicators, benchmarks, and other practical arrangements that would help make greater progress on declaration target areas, such as transparency, harmonization and mutual accountability.

On the other side, assumptions about the potential role of aid resources remains exaggerated in the donor countries. Donor countries' expectations for rapid, fundamental reforms by partner countries are often unrealistic and unreasonable—something especially notable given donor countries' reluctance to make the changes required of their own systems. The Paris Declaration evaluation suggests several reasons for this: "Some [donor countries and donor organizations] have been too uncoordinated and risk averse to play their expected proactive part in the relationship. Most have set high levels of partner-country compliance as preconditions for their own reforms rather than moving together reciprocally and managing and sharing risks realistically. Peer pressure and collective donor action are not yet embedded in many donor country systems, so that they are left vulnerable to uninformed policy changes, for example, when governments or ministers change."

The Paris Declaration originally aimed to improve the efficiency of assistance programs by targeting three areas for improvement: efficient delivery, the management and use of assistance, and the types of partnerships required by these interventions. Although the independent evaluation of the Paris Declaration reveals general—though slow—improvements in the management of aid and higher standards for inclusive and effective partnerships around development cooperation, the declaration has yet to achieve the sorts of efficiency gains that would reduce the overall burden of management for partner countries.

What Needs to Happen—and Why?

Over the years, the international framework of aid effectiveness agreements has evolved greatly, but so too has the context for development in which it functions. Today there is a much greater onus on local ownership, although behavioral patterns and risk aversion are hard to reverse. In the past, many low-income partners lacked the capacity to convince donors that they could risk the full implications of ownership. That has changed significantly in many partner countries, and donors have begun to respond. However, the evidence shows that taking more risks and aligning better with partner-country strategies and systems could pay large rewards.

Since the 2005 endorsement of the Paris Declaration, the development landscape has become more complex, with a greater number of organizations and countries involved in providing development assistance, growing diversity in the needs and capacities of countries receiving aid, and a greater range of instruments used to promote development outcomes. At the same time, the past few years also have seen the rise of new global challenges to development—including the evolution of food insecurity, climate change and armed conflict.

Despite this changing context for development, the overall objective of development cooperation has remained constant: The MDGs are still a universally accepted mandate for development, and official development assistance (ODA) remains one of the key instruments with which to reach the MDG targets by 2015. Busan represents the last and best opportunity for the international community to revitalize its commitment to the MDGs and form a new global consensus on what the framework for development cooperation should look like through 2015 and beyond.

The Core Aid Effectiveness Principles Should Not Be Forgotten

The Paris Declaration's Aid Effectiveness Principles are not merely the outcome of a single meeting in 2005; they are the result of decades of real-world experience from diverse actors working on complex development challenges. Although the gains in efficiency resulting from the Paris Declaration commitments have been more modest than originally hoped, the core principles have proven their relevance and adaptability over time and should not be abandoned.

These principles should serve as a basis from which work after Busan will continue. Delegates to the HLF-4 in Busan will be charged with finding ways to deepen, extend, transform and operationalize principles on inclusive ownership, transparency, predictability and mutual accountability, as well as add new areas of work that must be considered in the new framework on effective aid and development. New sets of action-oriented commitments should be formulated for each of these focus areas to ensure proper management, monitoring and implementation, and to ensure that the results stemming from this work are long term and sustainable.

Development Cooperation Must Adapt to the Needs of the Evolving World

Although the cooperative efforts around the issue of aid effectiveness have been the centerpieces of the Paris Declaration and Accra Agenda for Action, and though these efforts should surely be scaled up as the international community plans for Busan and beyond, ODA represents only one element from a whole range of actors and approaches dedicated to combating poverty, fostering sustainability and reducing inequalities in today's development landscape.

Other sources of finance should also be considered in the context of new, more unified development strategies. For example, taxation, domestic resource mobilization, private investment, aid for trade, philanthropy and climate change financing are just a few of the other sources of finance that should be considered when coming to grips with any new framework for aid and development. Similarly, new financial instruments, technology and knowledge transfers, and even public–private partnerships can be used to promote social and economic development and should be considered accordingly.

Development cooperation is important, but it is ultimately a means to an end—phasing out traditional assistance will require new partnership models, placing even greater emphasis on these other sources of development finance and their sustainability. Developing countries need to outgrow their dependence on ODA by making full use of the opportunities presented by international trade and investment, mobilizing domestic resources through effective tax systems and by expanding their domestic capital markets.

A Bigger, Better and More Inclusive Partnership Needs to Be Built

Busan will bring together the largest and most diverse mix of development stakeholders that we have seen to date. It is important that the diversity of these partners be embraced and that efforts to strengthen their capacity to work with one another be encouraged and institutionalized.

Mutual respect and mutual accountability must form the basis for this new partnership, but what is also clearly needed is more leadership for effective development coming from the low- and middle-income countries. States and their citizens must take ownership of their own development agendas in order to maximize any impact from aid and development efforts, and they will only do so if approaches to development are tailored to their unique situations.

The new partnership must recognize the importance of all development actors working today—including state and nonstate actors from OECD and non-OECD countries, as well as fragile states. Although the objective of meeting the MDG targets of reducing poverty and promoting sustainable development should remain common goals to all partners in this new development consensus, there should be differentiated responsibilities that more accurately coincide with the diverse realities of all the members of this partnership.

We Must Face Up to the Complex Nature of Development Challenges

Development takes time, and development challenges are extremely complex. There will always be risks involved in any intervention, and any successful efforts to foster development and sustainability will undoubtedly meet their fair share of stumbling blocks along the way. Development practitioners must be realistic in their objectives and expectations—designing programs around unattainable goals is wasteful. As the recent Chinese white paper on development notes, effective development means "remaining realistic while striving for the best."

Political leaders should also encourage honest and open discussion on the subject of development. In the midst of the current global recession, with development budgets around the world under greater scrutiny than ever from taxpayers, it is essential that politicians lead the discussion on the risks inherent in global development work, while also emphasizing to their constituencies that this work makes a tremendous difference in the lives of others and must continue.

Recommendations and Next Steps

If Busan is successful, it will signal a renewed global commitment to tackle poverty as a central source of the world's problems. It takes years of monitoring the implementation of agreements and commitments before victory can be declared. Yet the fourth High-Level Forum on Aid Effectiveness in Busan could be considered successful if it achieves the following:

- A broad partnership among nations at all levels of income and development, as well as private actors and nongovernmental organizations, based on a clear division of labor and transparent communication.

- A set of principles, founded on solid evidence, to guide the new consensus on development cooperation, together with a commitment to eliminate policies that present obstacles to achieving development results.

- A revitalized global effort to achieve the MDGs and focus on the need for global public goods.

- A recognition that the world's poorest and most fragile states need security and capacity, and that working with them means being willing to adapt modalities and to take risks.

- An acceptance that people, no matter how impoverished, must be empowered to participate directly in the development process.

- An acceptance that all participants in development efforts must produce measurable results and that these results must be duly reported to the citizens of all nations.

This is an ambitious set of goals, but this is what is required if Busan is to deliver a more effective aid system—one that is capable of tackling today's complex development challenges and that successfully combines the efforts of an increasingly diverse and dynamic set of development actors. Beyond the goals outlined above, there are a number of other issues which participants at Busan must consider. These include questions of how best to engage the Group of Twenty (G-20), how to integrate private and nongovernmental participation into an international dialogue on aid effectiveness in a way that is logistically feasible, how to strengthen the link between political commitment and implementation, how best to address the particular needs of fragile and conflict-affected environments, and how to achieve better coherence and effective collective action in the current aid and development arena. Busan presents the ideal forum for debating these hard questions and for creating a revitalized development agenda that is inclusive, adaptive and principled.

GOVERNANCE AND THE ARAB WORLD TRANSITION: REFLECTIONS, EMPIRICS AND IMPLICATIONS FOR THE INTERNATIONAL COMMUNITY

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Executive Summary

The evidence suggests that in the past, misgovernance in the Middle East was largely ignored by the international community, which provided increasing volumes of foreign aid to governments while their standards of voice and accountability were among the worst worldwide—and declining.[1]

Both politics and the economy were subject to elite capture—that is, the shaping of the rules of the game and institutions of the state for the benefit of the few—across the region. In Egypt and Tunisia, the old leadership has been toppled, yet even there the legacy of misgovernance and capture matters for prioritizing reforms and assistance during the transition, and calls for a revamping of the aid strategies of the international community, including the international financial institutions.

Aid strategies need to become more selective across countries and institutions, with due attention given to democratic reforms, devolution, civil society, and to concrete governance and transparency reforms. Reforms also need to mitigate capture and corruption. This policy brief offers specific recommendations for the international community as input for this process of improving strategies of assistance.

What Is the Issue?

A key lesson from the current unrest is that insufficient attention was paid to poor governance in the region. The unrest occurred following a period in which large-scale, external aid flows to the region had been on the rise. These funds were often disbursed by international financial institutions (IFIs) and other donor aid agencies, following flawed foreign assistance strategies that tended to be accommodating to authoritarian regimes and ignored civil society and these countries' deep-seated shortcomings in governance.

The strategies of many donors and IFIs were generally supported by their own partial and uncritical assessments of country performance. In fact, misgovernance and capture had been endemic throughout the Middle East and North Africa region for a long time, with practically no exceptions. Data pointing to these major governance shortcomings were available yet were often ignored.

Differences in initial conditions across the Middle East in the various governance dimensions will affect the economic and political transitions of countries undergoing an Arab Spring as well as the rest of the region. Consequently, elevating the priority of governance, both in terms of empirical assessments and strategic priorities, ought to be a critical component of a revamped strategy by the international community in the region.

What Do We Mean by Governance?

Simply put, governance can be viewed as the manner in which authority is exercised in a country. Good governance, then, has three basic aspects: the political dimension (which we measure through indicators for voice and democratic accountability and political stability and an absence of major violence), the economic dimension (government effectiveness and regulatory quality), and the institutional dimension (the rule of law, and the control of corruption and capture). Research with worldwide data suggests that the growth and development dividend of good governance is considerable, particularly in the medium to long run. Countries afflicted by a particularly insidious form of misgovernance, namely, capture—the shaping of the rules of the game and institutions of the state for the benefit of the few—tend to exhibit much lower investment and growth rates by the private sector than countries with a more level playing field.

Misgovernance and Capture: Polity, Economy and Corruption

During the past decade, many official aid institutions and commercial rating agencies were reticent in detailing the stark reality of governance in much of the Arab world. Not only were the available data on subpar and deteriorating governance in the region often ignored, but prominence was also given to aggregate official economic statistics at the expense of data on income distribution, poverty and employment.

With regard to polity, most countries in the region were characterized by a top-down, personalized, highly concentrated and noncontestable mode of governing. Economically, the region exhibited highly skewed income and asset accumulation as well as resource allocation, and a distribution of political power associated with a highly centralized power of the ruling elite. In particular, under this politically and economically captured system, neither the young nor the poor peasants were beneficiaries.

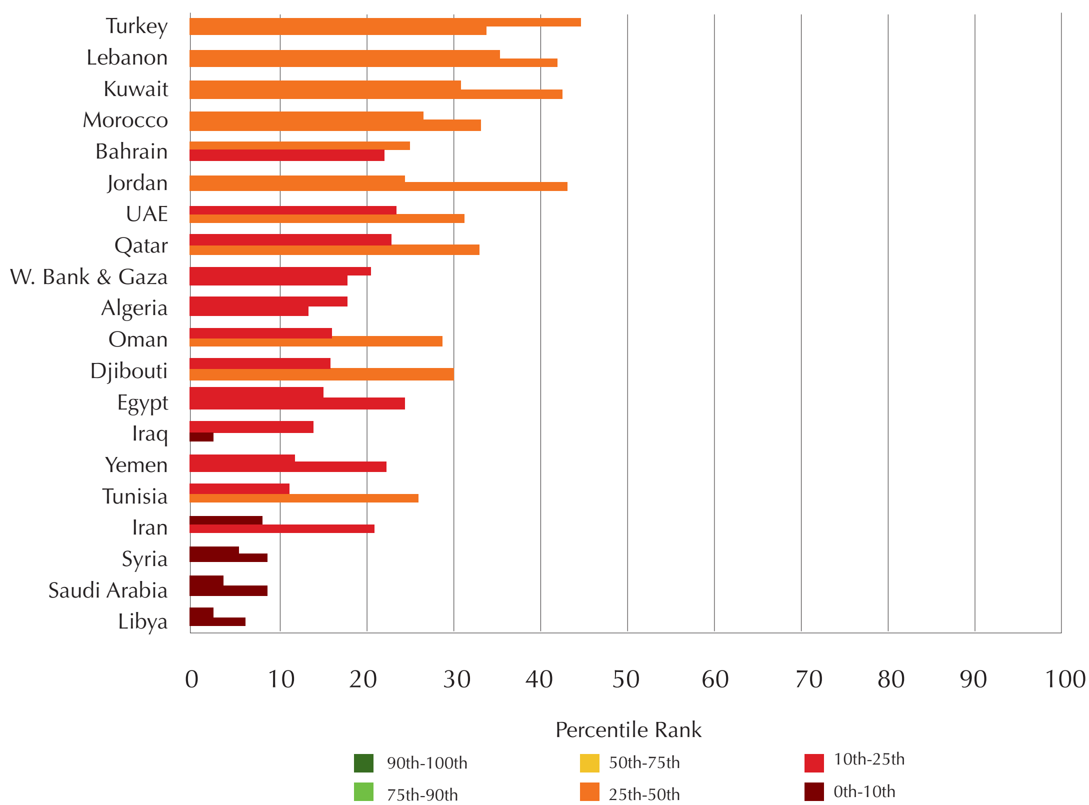
Grand corruption is exemplified by the multibillionaire clans of Qaddafi in Libya, Ben Ali in Tunisia and Mubarak in Egypt, where the ruling elites, including extended family and select cronies, captured both the polity and key segments of the economy. They abused formal and informal institutions to control the accumulation and distribution of resources and jobs to perpetuate their power and amass illicit wealth. Monopolized top-down corruption was an instrument for the capture of the polity and economy; often implemented by a ruler's spouse, son or in-laws. This is in contrast to the more decentralized nature of systemic corruption that prevails in a number of democracies.

The capture of the polity implied a clientelistic and patronage-driven system. In return for loyalty to the small ruling elite (which excluded the youth), political associates and legislators were provided with jobs (even at lower levels of the public sector) and access to resources. Paradoxically, given the well-known benefits of increasing economic openness in more competitive settings, in countries like Egypt, the elite's power and hold over political and economic resources expanded during periods of "economic liberalization."

Companies were also privatized and regulatory restrictions were relaxed in Egypt, with support from the IFIs. Yet at the same time, carefully managed privatization and public procurement processes ensured that close associates of the rulers would control these assets. This led to an entrenched rent-seeking system of crony capitalism.

In fact, during the past decade, the monopolistic capture of the polity was associated with declines in voice

Figure 1. Voice and Accountability in the Middle Eastern and North African Countries, 2000 (bottom bar) and 2009 (top bar)



Source: D. Kaufmann, A. Kray and M. Mastruzzi, "WGI: A Summary of Data, Methodology and Analytical Issues," September 2010, available at www.govindicators.org. Note that for each country the bottom bar exhibits the initial period, 2000; and the top bar exhibits 2009.

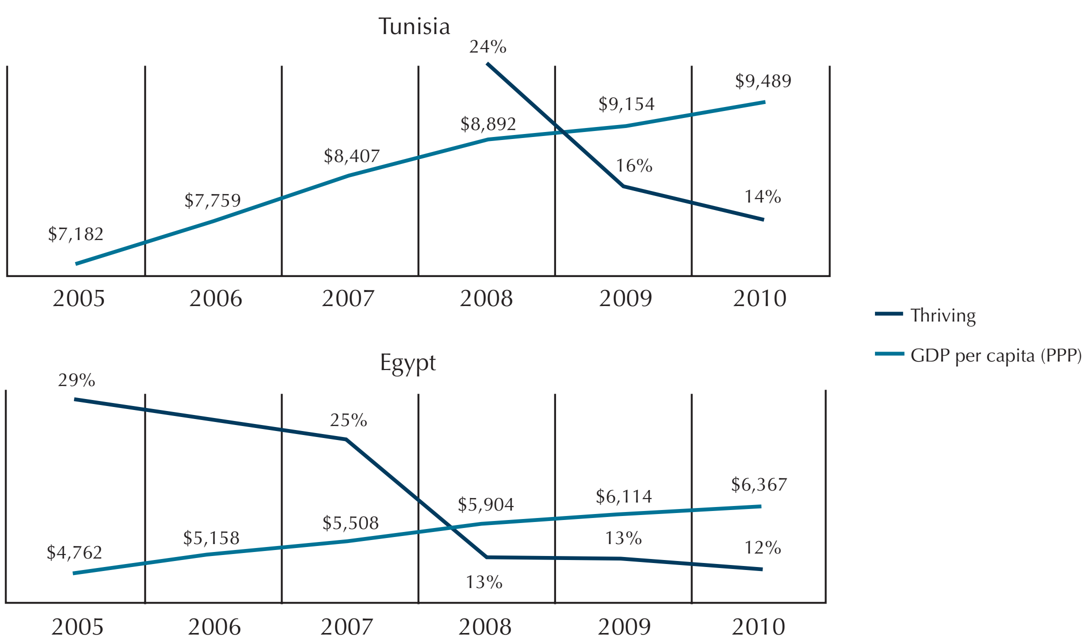
and democratic accountability in countries like Egypt and Tunisia, and the Arab world generally. Elections, when they took place, were very far from contested, clean, free or fair. The development of civil society was hindered or quashed, and freedoms of expression and press were very limited, often increasingly so.

Subpar Governance Performance: Extent, Trends, Commonalities and Differences

Although the absence of democratic governance in the Middle East was no secret, relatively little attention was paid to the deterioration of democratic governance in almost all the region's countries during the past decade. Figure 1 depicts both the subpar levels and mostly negative trends in this governance dimension for these countries—and showcases Turkey as an exception to the rule. Such subpar performance in democratic governance, coupled with a very uneven distribution of the fruits of economic growth, high levels of youth unemployment (often exceeding one in three), and the increasing net-connectivity of the young population were key factors driving the wave of unrest that ignited the region.

In this context, comparing the trends in official income per capita averages in Tunisia and Egypt and responses of citizens regarding their well-being is rather telling. Both Egyptian and Tunisian citizens reported plummeting well-being levels at the same time that official gross domestic product per capita was steadily increasing (figure 2). Official GDP per capita statistics masked the actual welfare trends of the population in

Figure 2. Trends in Official Gross Domestic Product per Capita versus Well-Being (percentage of citizens who report "thriving" in Gallup Polls)



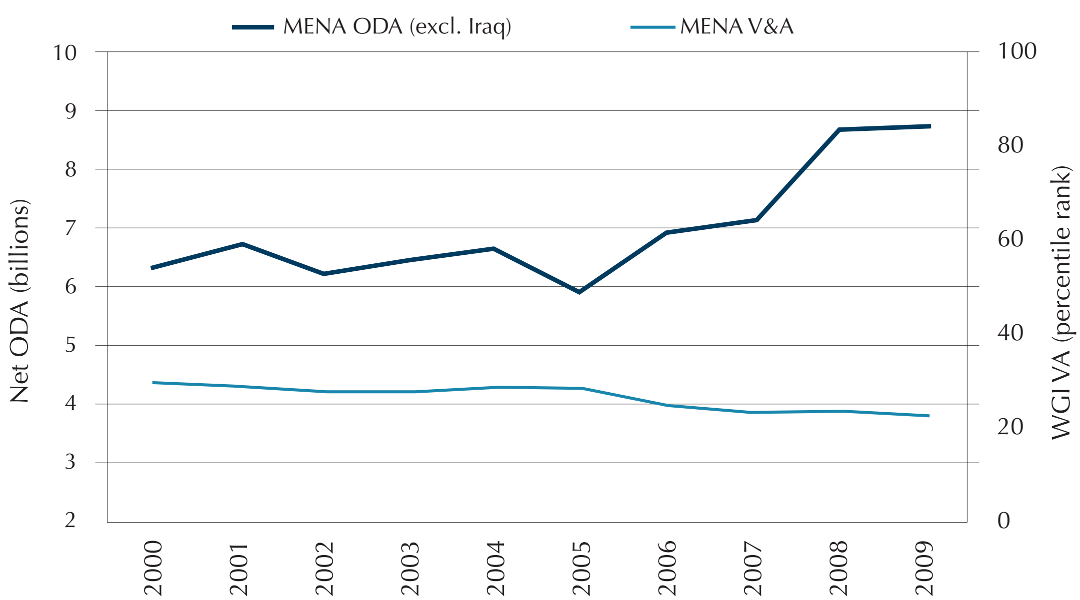
Sources: John Clifton and Lymari Morales, "Egyptians', Tunisians' Well-Being Plummets Despite GDP Gains," February 2011, available at www.gallup.com, 2005–11 data on GDP per capita from International Monetary Fund, Economic Outlook Database, available at www.imf.org; data from Gallup, Inc.

these countries. The evidence portrayed in both figure 1 and figure 2 suggests the political and economic disenfranchisement affecting these countries' populations, which was associated with the extent of political and economic capture by the ruling elites.

Official reports by IFIs, along with other traditional donors and export agencies, tended to provide a relatively positive assessment of developments in the region. Many international actors focused on aggregate economic figures, minimized the importance of social, equity and governance factors, and paid little if any attention to civil society, media freedoms and anticorruption efforts. Figure 3 encapsulates part of the problem in the relationship between the international community's policies and the governance reality in the Middle East.

In sum, initial conditions shared by many countries in the region included the low and deteriorating voice and democratic accountability, and also high youth unemployment and unequal wealth distribution, accompanied by a perceived decline in well-being. And citizens of many Arab countries, beyond Tunisia and Egypt, also reported declining well-being.

Figure 3. Evolution of Development Assistance versus Voice and Democratic Accountability in the Middle Eastern and North African Countries, 2000–2009



Note: MENA = Middle East and North Africa; WGI = Worldwide Governance Indicators; ODA = official development assistance (left hand side axis); V&A: Voice & Democratic Accountability as measured with the WGI (right hand side axis). Iraq was excluded because it represents a special case in development assistance given its current situation; it received these amounts of official development assistance from all donors between 2006 and 2008: in 2006, $9.7 billion, of which 52 percent came from the U.S.; in 2007, $9.7 billion, of which 40 percent came from the U.S.; and in 2008, $9.8 billion, of which 28 percent came from the U.S.

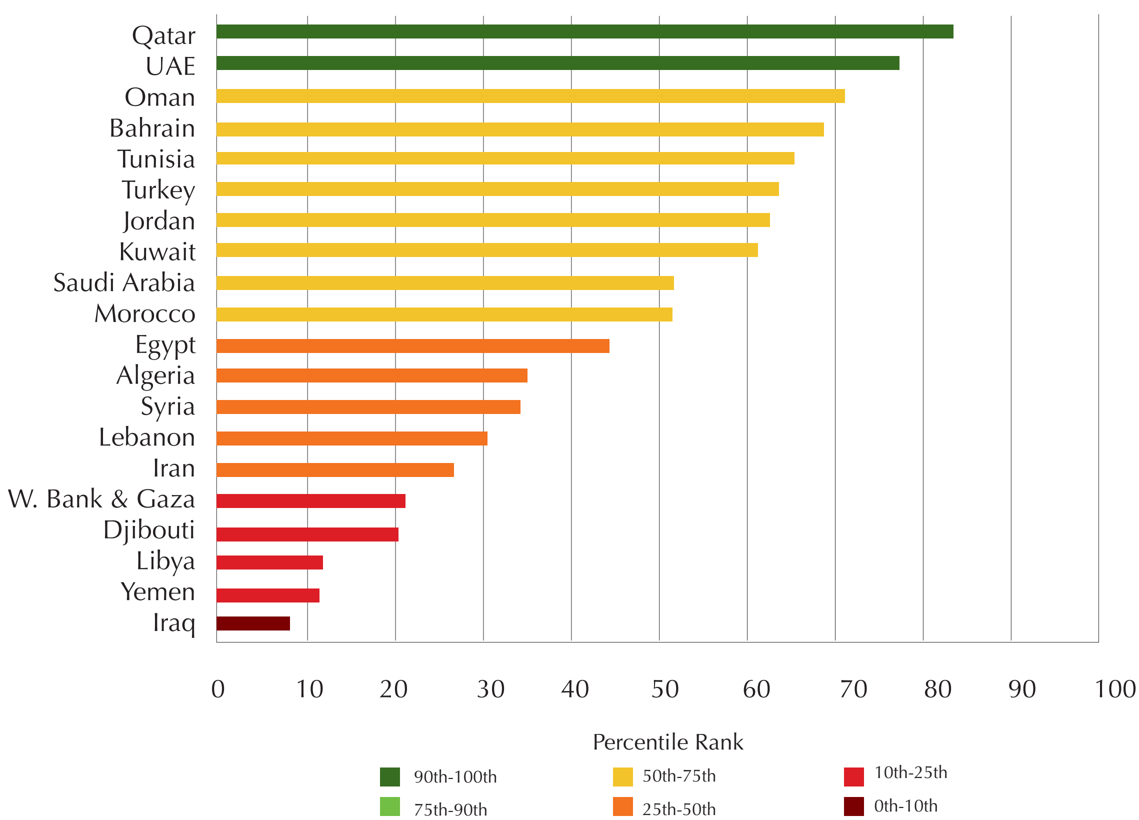
Sources: D. Kaufmann, A. Kray and M. Mastruzzi, "The Worldwide Governance Indicators: Methodology and Analytical Issues," September 2010, available at www.govindicators.org; Organisation for Economic Co-operation and Development, Development Assistance Committee Database.

Yet at the same time, there is considerable variance across the region. A large institutional gap exists between advanced industrial countries like Turkey (which is also in Europe, and neither Arab nor strictly in the Middle East region, but is included as a relevant benchmark), rich countries in the Gulf like the United Arab Emirates and Oman, and extremely underdeveloped countries like Yemen or oil-rich dysfunctional ones like Libya. Such differences across the Middle East and North Africa are exemplified by the variance in economic governance, which is proxied here by the Worldwide Governance Indicators' measure of government effectiveness (the quality of the public sector bureaucracy in formulating and implementing policies and delivering services).

Although the region, on average, saw a modest improvement in government effectiveness, this reflects both improvements in several countries and deteriorations in others (figure 4).[2] Developments on the (citizen-led, bottom-up) "demand side" of governance, which were often neglected by IFIs, were not in tandem with those on the (public sector led, top-down) "supply side" of governance, which have typically been the focus of IFIs.

There are large differences across countries in the quality of regulatory regimes. The institutional dimensions of governance (the rule of law and control of corruption) exhibit somewhat lower regional variation. Overall, most countries rate in the mediocre-

Figure 4. Government Effectiveness in the Middle Eastern and North African Countries, 2009



Source: D. Kaufmann, A. Kray and M. Mastruzzi, "WGI: A Summary of Data, Methodology and Analytical Issues," September 2010, available at www.govindicators.org.

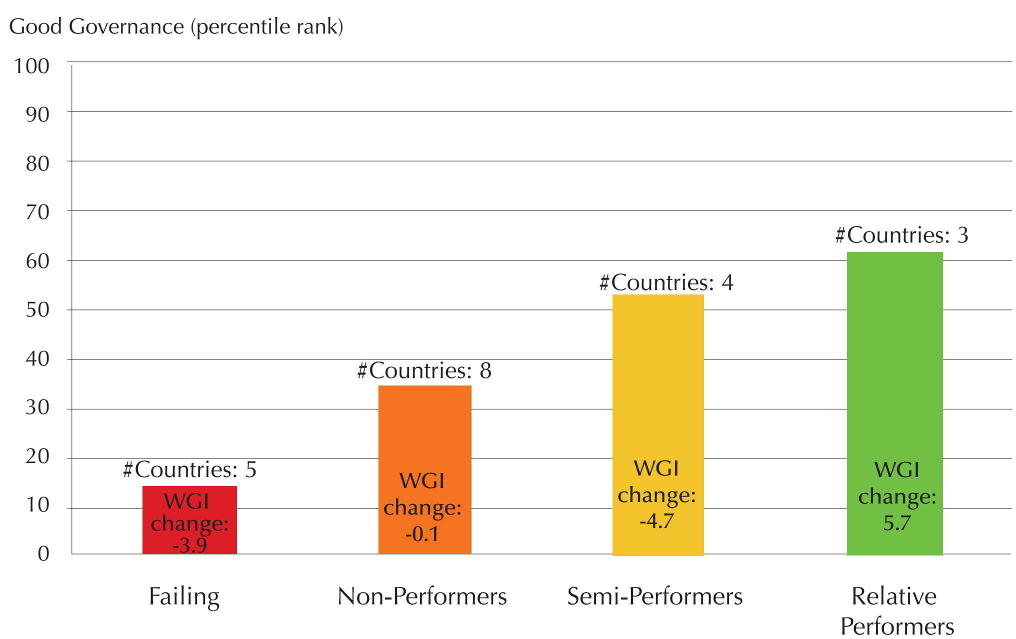
to-poor range in their quality of the rule of law and control of corruption, even if the differences between countries at the bottom and mediocre range are not small.

A Sobering Picture: The Middle East and North Africa's Governance by Performance Groups

The differences across countries on various governance dimensions suggest that it would be misleading to generalize the situation and outlook across the region, even though on average overall governance in the Middle East and North Africa (MENA) is low and, practically, there have been virtually no good governance performers in the region. Figure 5 suggests a way of grouping the MENA countries according to their governance performance, by averaging one indicator each for the political, economic and institutional dimensions of governance. Four different governance performance groups emerge.

On the basis of data from the end of the decade, the "top" group ("relative performers") averaged in the 60th percentile worldwide, implying that that they are above the median country worldwide (though about 80 countries rate higher). Only three countries fall into this category: Qatar, the United Arab Emirates (both small oil-rich and undemocratic), and (our benchmark country) Turkey. This is the only group where governance on average has improved during the past decade (by an average of almost 6 percentile points across the three selected dimensions of governance).

Figure 5. Governance Performance Groupings in the Middle Eastern and North African Countries, 2009 (average of voice and democratic accountability, government effectiveness, and control of corruption)



Source: D. Kaufmann, A. Kray and M. Mastruzzi, "WGI: A Summary of Data, Methodology and Analytical Issues," September 2010, available at www.govindicators.org.

The second group of semi-performers comprises four countries, rating at around the 50th percentile worldwide. All these countries underwent severe deterioration during the past decade. The third and lower-performing group ("non-performers") is the largest and comprises eight countries, rating below two-thirds of the world on average. The last group, "failing," comprises five countries, with countries rating around the bottom decile worldwide and experiencing deteriorating governance during the past decade (figure 5).

What Needs to Happen—and Why

In-Depth Country Diagnostics Matter

Aggregate governance indicators such as those illustrated in this policy brief are helpful for general assessments and comparisons across countries and time. But for the purposes of specific reform program formulation for any particular country, it is also important to carry out in-depth in-country governance diagnostics.

Such in-depth country diagnostics, which also quantitatively assess challenges related to corruption and capture, have been carried out in dozens of countries in other regions. Often, these diagnostics have been collaboratively carried out by in-country and international experts as well as by multiple domestic stakeholders, and have covered all the key institutions and regions of a country. Thus, they have been sufficiently thorough to have permitted a differentiation between those institutions that require a major revamp (those that are "part of the problem") and those that have high potential to play a leadership role in governance reforms and institutional strengthening ("part of the solution").

An incipient illustration of the importance of drilling down to more fine detail in diagnosing governance challenges in a country is provided in figure 6, where the extent of different manifestations of capture and corruption for four countries in the region have been initially diagnosed and quantified through a survey of firms. The extent of corruption not only varies across countries but also across types of corruption and institutions within a country. Although further in-depth analysis is needed, these data are meant to illustrate the situation and suggest that in Egypt, for instance, judicial institutions may prove to be a potential point of entry for anticorruption reforms, while other institutions are more challenged.

Different Transition Paths Require Different Strategies

It is clear that different countries will follow very different paths, partly because their initial governance and institutional conditions are rather different, and also for other reasons, such as the extent to which each country is fractured along ethnoreligious lines and has (or does not yet have) a professional army and basic governance institutions. In rich and non-reforming monarchies, it remains to be seen how long they can appease their citizens with increasing payoffs while suppressing dissent. Different institutions within a country also have different challenges, as shown in figure 6.

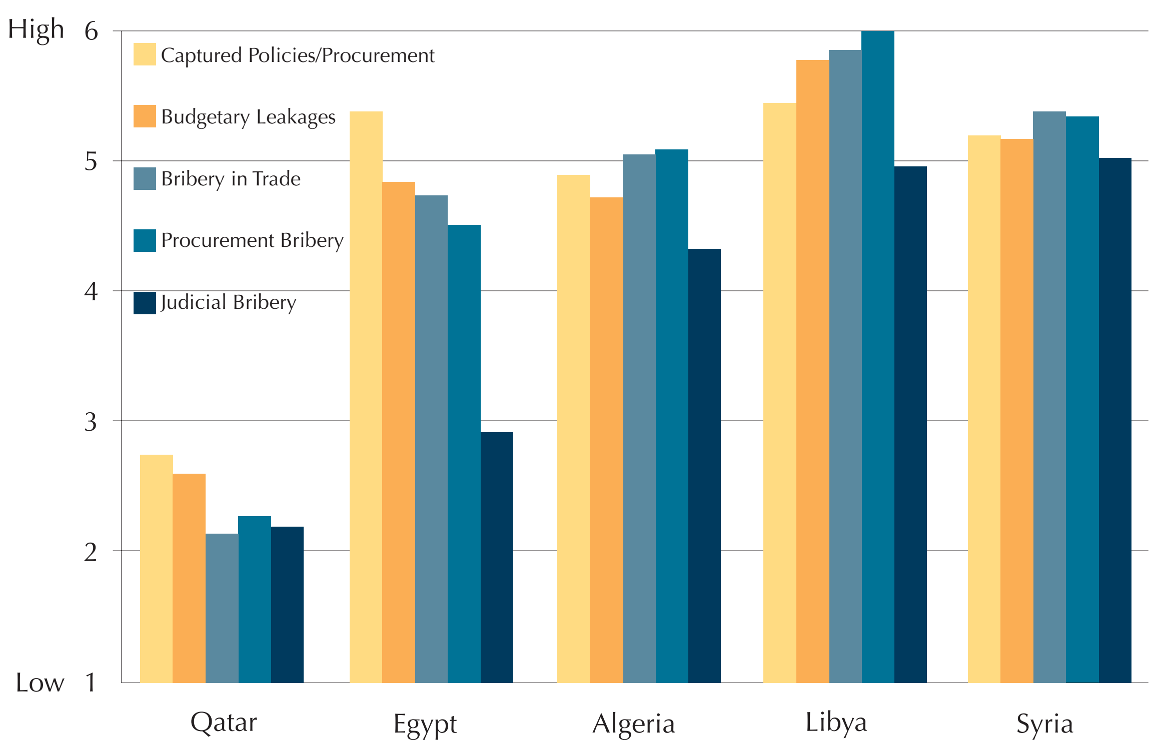
More generally, countries in the "failing" governance group (figure 5)—such as Libya, Syria, Iraq and Yemen—are already mired in internal conflict, and thus the hoped-for scenario is that they will soon enter the group of post-conflict countries and embark on the difficult path toward democratic transition. This group is distinct from the already-transitioning countries, such as Egypt and Tunisia, both of which experienced sudden regime change, largely avoiding protracted internal conflict. For Egypt and Tunisia, appropriate strategies would not come from lessons learned from post-conflict experiences but from transitions away from autocratic regimes, such as those of Central and Eastern Europe, the former Soviet Union, Indonesia, Brazil, South Africa, Chile, Turkey, and Spain (see companion box 1, on some transition lessons).

Other regimes in the region, which currently are neither mired in conflict nor in major transition, may continue to thwart a meaningful transition to democratic governance—some by offering incremental reforms (Jordan, Morocco and Gulf countries) some by combining payouts from their oil wealth to their relatively small population of nationals (Saudi Arabia and some Gulf countries), and some with further repression (Iran, Saudi Arabia).

Capture during the Transition Matters for the Economy

Although the modalities and speed of political transitions will vary, the expectation is that most countries will continue to make the transition to being led by the private sector and open markets. Serious advice and support from the international community will be important in order to avoid past mistakes. As highlighted above, a particular challenge during

Figure 6. Extent of Corruption and Capture in Four Selected Countries (from the results of a survey of firms on the frequency of various types of corruption)



Source: World Economic Forum, Executive Opinion Surveys, 2010.

these transitions concerns the evolving nature of elite capture, which can undermine the transition to a productive economic base and the broad-based sharing of the fruits of recovery. The current risk of possible reversals in progress toward economic openness and privatization is in part due to a backlash against a distorted and "captured" liberalization and privatization process.

Regime change and the rejection of the old autocratic political order do not automatically guarantee major governance improvements in the near future; hard work and major reforms will be needed, including new constitutions, competitive elections and the like. The fact that the ruling families, which were at the center of the economic capture network, are out of power does not guarantee a transition away from a captured economy.

Some of the vestiges of the old cronyism may have more staying power and ability to morph than commonly assumed. Their ability to capture economic rents may not quickly wane, and they tend to engage in capital flight. In addition, new oligarchs and cronies (such as, in the case of Egypt, associates of the military, an institution with vast economic interests) are likely to emerge during the transition. The military itself may turn out to resist abdicating economic and political power, contrasting what experts predicted when the Mubarak regime collapsed.

Box 1: Some Lessons from Previous Transitions

Previous transition experiences offer many valuable insights, which require more in-depth treatment than provided here. Yet it is worth briefly noting five points of relevance:

1. Belonging to the transition "Arab Spring" select group of countries does not automatically guarantee success. Countries in transitions can traverse into the wrong path (such as Iran, Pakistan), muddle through without meaningful reform for decades (some countries in Central Asia), evolve into "managed quasi-democracies" (Russia) or transit into the right direction in democratic governance (Chile, Turkey, Indonesia, Central Europe).
2. Even relatively successful transitions, such as in Indonesia can take at least a decade until the country is in the right path with setbacks in the early years; thus a patient longer view is needed.*
3. Role and posture of the military is essential, as is the quality of political leadership during the transition (Turkey, Spain, Chile, and South Africa).
4. Effective constitutional and electoral reforms matter, as well as institutional innovations, such as Truth and Reconciliation Commissions (South Africa, Chile).
5. The extent to which the political and economic transitions evolve into an increasingly captured economy (Ukraine) or a competitive enabling environment instead (Central Europe) matters enormously.

** Last month, Ahmed Heikal, Egypt's largest private investor, said to the Economist: "If we get things right, we could be Turkey in 10 years. If we get them wrong, we could be Pakistan in 18 months."*

More generally, these transitions often take place with little transparency and very unequal access to information and influence, in settings where checks and balances are still lacking. The Soviet transition offers a more extreme lesson in the oligarchic capture of a vast share of the nation's wealth along with the capture of the legal, regulatory and policy framework. Yet even for other parts of the world, the challenge of capture is not merely of an academic or moral-ethical nature, and it differs from the traditional call by advocacy nongovernmental organizations (NGOs) to fight against bureaucratic corruption. Capture matters enormously for the overall economy and its prospects. Given the enormity of rent seeking accrued through successful capture, a society where engaging in capture by those with access is feasible provides enormous incentives for talent and resources to be diverted away from competitive productive entrepreneurship and investment.

Rent-seeker captors tend to concentrate on large corporate and financial holdings, which are less labor intensive than small and medium-sized industries. They also tend to have significant holdings outside the country, and capital flight out of the region has been accelerating in recent months. Further, less foreign direct investment goes to countries where capture by the domestic elite prevails because prime assets are either closed to foreign investment or there is a hefty additional "tax" to partner or pay off those captors to have access. There is also the additional risk of insecure property rights in a captured economy. Therefore, domestic labor utilization, job creation and productive enterprise growth are jeopardized in a captured economy, particularly as compared with a competitive market economy.

Furthermore, captured economies, through the undue influence of well-connected large corporations, can have a more fragile macroeconomic stance because those wielding disproportionate power may pay less in taxes, place illicit assets in overseas safe havens, generate fewer taxpaying jobs, and benefit from skewed public expenditures and inefficient public investments at the expense of the country's economy.

Finally, there is also a more subtle risk of elite capture during the transition—and this refers to the broader elite, namely, the educated middle to upper class, at the expense of the poor. In Egypt, the majority of the population is still poor and not very highly educated or Internet-connected, yet such a silent majority has largely been absent in the transition so far. It is also unclear who will represent their interests. Thus, even with less visible forms of crony capture than in the past, the risk that skewed policymaking will favor the educated elite at the expense of the poor should not be ignored.

Recommendations and Next Steps

Transitions are difficult and unpredictable and, depending on a number of factors, they can lead a country onto the right path toward recovery with improved governance and sustained, shared growth—or not. In this policy brief, I have emphasized the importance of accounting for the initial quality of a country's governance and monitoring its subsequent governance path, including the challenge of addressing the "informal" institution of capture. Important challenges regarding formal institutions during the early stages of the transition, such as multiparty development and constitutional and electoral reform, as well as global security considerations, also should not be underemphasized. But the latter are already being addressed in a number of writings and are ever present in the media.

Thus, this analysis, as well as the following recommendations, focuses on the challenges regarding informal institutions such as capture and corruption, and these points apply to the members of the international community in their efforts to assist during the region's transition.

The key need is to redefine the role of the international community in the Arab world. Governance considerations should be made much more prominent, focusing on supporting the countries in transition to implement measures that improve governance, enhance transparency and move away from the risks of capture. The members of the international community, and particularly IFIs and donors, need to rapidly adapt to the new reality and be prepared to take a humbler role, working to restore their credibility in the aftermath of long years of support for autocratic regimes. IFIs and bilateral donors need to be respectful of the pace and manner in which progress takes place during the transition and remain mindful that progress is not always rapid, continuous, or linear.

Generally, they ought to revisit their policies of providing large-scale financial assistance to authoritarian regimes. Specifically, in transition countries, they must work closely with civil society groups and other institutions outside the executive branch as well. The principal old modality of focusing on large loans to central governments needs to be revisited, and new instruments for collaboration need to be developed.

In essence, a new "business model" for engagement by the international community is needed, with concrete and detailed pillars. Some organizations—like the World Bank, International Monetary Fund, and European Union—are already beginning to signal a break from the past and grapple with the need to revamp their strategies. Yet detailed feasible strategies and programs still need to be formulated, and assiduous implementation needs to begin.

The following are concrete suggestions in eight priority areas in the context of such a strategic revamping, which focus on governance and which would also help mitigate the risk of protracted capture:

- *In-depth and neutral assessment of the governance challenges and domestic politics in each country.* The international community can find new ways to address the task of country analysis. It will be important that official country reports and analyses by international agencies are carried out with some modicum of independence and written without self-censorship and cover all important areas for the country's transition, including sensitive political issues such as capture and corruption.

  Reports should not shy away from using available data on governance, and if requested in some cases, consider carrying out in-depth country diagnostics. They should be submitted for external review and scrutiny. Complementing the important role of IFIs, the research and think tank community (possibly in partnership with local and international think tanks or research institutions) can also play a more active role. In this context, an important component is to develop and disseminate more complete and transparent databases and country diagnostics on governance and capture for countries in the region. National-level governance indicators as well as firm-level surveys and in-country diagnostics will increasingly need to be factored into responses to the challenges of capture and related nontraditional forms of corruption and misgovernance.

- *Selectivity in aid flows*. The members of the international community need to become more selective in their allocation of aid to the region, paying more attention to governance in the recipient country. Nonreforming governments that do not meet minimum standards in governance, including in voice and accountability, would not receive aid. This may not preclude supporting reforming institutions and stakeholders outside the executive in countries with entrenched governments.

  Yet there should also be improved selectivity in the destination of aid within a country, including carefully selecting partner institutions (again, also including outside the executive branch), and paying more attention to the subnational level and to competitive private sector development (rather than further strengthening elites). Reforming countries committed to improved governance ought to be supported through an integrated package channeling help to governmental institutions and NGOs alike.

- *Support an integrated package of transparency-led reforms*. To mitigate capture and improve governance, major reforms to reduce information asymmetries and enhance transparency and disclosure must be a priority. Some improvements have started to take place in Egypt and Tunisia, particularly regarding the Internet and the mass media. Drawing from the concrete experiences of other countries, a 10-point program of transparency reforms in the political, economic/financial and institutional arenas could payoff in the countries in transition in the Arab world.[3]

- *Privatization and revamped procurement systems*. In most economies, including those in transition, a full-fledged level playing field of small and medium-sized enterprises is unrealistic, at least in the short to medium terms. Hence, the strategy needs to factor in the initial conditions where there are preexisting powerful vested interests along with some new ones. Within such parameters, a realistic objective would be to mitigate rather than eliminate capture. For this purpose, transparency is crucial, as are a free press and more generally the introduction of competition in the polity through democratic elections, and supporting civil society organizations (CSOs).

  Further, how the privatization of the considerable assets still in the hands of governments is undertaken will matter so to move away from capture.[4] Last but not least, a revamped procurement system, with full transparency and competitiveness, is also paramount early in the transition. New technologies, including e-procurement, are important for this dimension of reform, as for supporting many other measures.

- *Supporting the competitive small and medium scale private sector*. Agencies dealing with the private sector, such as the International Finance Corporation (the World Bank's private sector affiliate), would also need to become more strategic in ensuring that their equity and lending approaches promote a level playing field in the enterprise sector, rather than supporting and investing in monopolistic forces or elite captors. This would require not only improved due diligence by entities such as the IFC but also a redirection of their strategies, which would become much more supportive of improved governance in the corporate sector and in the private sector–public sector nexus.

- *Support a more decentralized approach, including civil society groups and a multi-stakeholder national consensus-building and action program on good governance*. Beyond the adoption of a basic tenet of not perpetuating autocratic regimes in power by providing large-scale assistance to such central governments, the international community needs to find effective ways for working at a more decentralized level and supporting CSOs and NGOs. Working with CSOs is less controversial today (except in some countries), and many organizations have pronouncements to that effect, but the modalities and priorities remain vague, and the record of agencies having worked at a more decentralized level is spotty.

  More specifically, with the rigorous input of in-depth country diagnostics, a multi-stakeholder group in the country could call for a national forum to discuss an action program of priority governance reforms. Both in action program formulation and in dissemination and implementation, it is important to support the collaborative work of a multi-stakeholder group of leaders and representatives, namely, in the executive, judiciary, legislative, realms; the private sector; NGOs; and the media—moving away from the previous top-down approach.

- *An illicit and stolen assets initiative*. Substantial capital flight from the Middle East is taking place. Some flows are ill-gotten assets by elites. They are still placed with relative ease in selected safe havens in financial centers, and not merely in the Gulf, but also in London, for instance.[5] The international community has a particular responsibility in supporting transition countries to improve governance by significantly tightening their regulations regarding their own financial centers and in identifying and restituting stolen assets (as has been done in the past for Nigeria, Peru and Haiti, for example).[6]

- *Supporting the collaborative twinning of countries*. In the context of a humbler role for the members of the traditional international community during the transition, particular attention could be placed on how they could become facilitators in some key aspects of the transition. There are useful lessons from past transitions for countries like Egypt and Tunisia, and these countries may benefit from a "twinned" close collaboration with countries that have successfully faced similar challenges in other parts of the world.

  Thus, for Egypt, along with Turkey, one possible twin is Indonesia, yet in some respects there may also be interest in a country like Brazil. For Tunisia, Chile may be of particular relevance.[7] The international community could provide seed funds to encourage twinning arrangements and sharing of know-how and expertise.

The focus of this policy brief has been on the relevance of governance factors—including voice and democratic accountability, and also corruption and capture—in the Arab transition and their implications for strategies and initiatives for the international community. I have not provided a detailed discussion of some of the important economic issues—such as macroeconomic stability, budgetary and subsidy policies—that have been treated elsewhere.

However, it is worth emphasizing that it is a fallacy to have economic and governance challenges compete with each other for attention and priority at this juncture of the Arab transition. Both *are* a priority, partly because they are closely intertwined. Sound economic policies, robust job creation and shared economic growth will not automatically unfold as a result of technocratic decrees or an infusion of external aid to a government ministry, but rather in large measure through improved domestic governance in a number of key dimensions.

I am grateful for the valuable comments from Ragui Assad, Tarik Yousef, Sheila Herrling and the participants of the 2011 Brookings Blum Roundtable, as well as the inputs from Luca Etter, Selsah Pasali, Veronika Penciakova and Katrina Koser. Given the concise nature of this brief, I have omitted some of the background evidence supporting assertions made here as well as other details. They will be available in a longer forthcoming article, which will also include full citations and a bibliography.

Endnotes

1. This contrasts the large deterioration in voice and democratic accountability during the same period (figure 1).

2. Such a 10-point transparency reform program could include the following: (1) media freedoms, media and internet development; (2) public disclosure of parliamentary debates and votes; (3) effective implementation of conflict of interest laws, and adoption of lobby laws, separating business, politics, legislation, and the executive; (4) publicly blacklisting firms bribing in public procurement; (5) adoption and effective implementation of freedom of information law, with easy access to all to government information; (6) adopting transparency standards for socioeconomic and financial data, including poverty data, fiscal/budget transparency standards; (7)e-procurement reforms: transparency (Web) and competition; (8) country diagnostic (and scorecard) on transparency and governance; (9) public disclosure of assets and incomes of candidates, public officials, politicians, legislators (and their dependents); and (10) public disclosure of political campaign contributions by individuals and firms, and of campaign expenditures.

3. Transparent and competitive auctions, open to all, are vastly preferable to individually targeted and obscure management buyouts, for instance. Thus, the modalities of the next stage of privatization will matter, and, furthermore, a review of recent privatizations (particularly for those large-scale cases that where rent seeking and capture may have featured prominently) may also be considered.

4. Given the recent tightening of financial regulations in financial centers such as Switzerland, the sense is that London, for instance, is a destination of choice for many such assets.

5. The uneven progress in financial centers' regulatory stance ought to be further examined and taken up more decisively in the context of the Group of Twenty (G-20) and other such forums.

6. Further, Tunisia, with its more European outlook, could engage in "twinning" arrangements with countries like Slovakia, Slovenia and the Baltic states.

THE SHAPE OF U.S. GLOBAL DEVELOPMENT REFORMS

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BROOKINGS

Executive Summary

Partway into reforms of the United States' global development policy and operations, leaders in the administration, Congress and the broader development community must reflect on the changes made thus far, and must do so in the current political and budgetary context. This policy brief highlights those reforms that are under way, those that are not and those that are still missing from the agenda, and it offers specific recommendations to the Obama administration on the first anniversary of its announced global development policy. The next year is critically important for consolidating gains and for setting the stage for further reforms that could elevate effective development as a central pillar of U.S. national security policy.

What Is the Issue?

When the Obama administration began, there was a strong sense within the foreign policy community—and specifically within the development community—that significant reforms were necessary. The U.S. government, having been plagued by a non-strategic approach to development, was not able to coherently apply its full array of policy instruments to adequately address the increasingly recognized challenges posed by global poverty, inequality, poor governance, conflict, climate change and other humanitarian and human rights crises. A fragmented aid infrastructure, a weakened U.S. Agency for International Development, and an outdated morass of laws, coupled with distrust between Congress and the executive branch, resulted in inefficient aid practices at a moment when U.S. development assistance had grown considerably in financial terms. One critical question was whether the necessary reforms would rise high enough on the foreign policy management agenda of a government engaged in multiple wars and facing a global economic crisis.

Inflated hopes among leading reform advocates gave way to dimmer prospects for early sweeping changes to U.S. development efforts, as policymakers tended to more immediate domestic and international priorities. The Obama administration launched new presidential initiatives in the areas of food security, global health and climate change, and it established these initiatives with some development reform principles in mind. But key development policy leadership positions remained vacant. After one year, however, top international development positions started to be filled across agencies, and multiple official policy reviews were under way.

In September 2010, after many months of consultation and deliberation, the White House unveiled the president's policy directive on development. This PPD called for a stronger focus on sustainable development outcomes; a modern organizational structure that elevates development within foreign policy deliberations and ensures greater development policy coherence across the range of U.S. government capabilities and instruments; and a new operational model that leverages U.S. leadership and makes it a more effective partner in support of development. This was followed by the publication of the Quadrennial Diplomacy and Development Review in December 2010, which was similarly the product of a lengthy process but centered at the State Department. An emerging set of agency-level reforms, launched last year by the U.S. Agency for International Development's (USAID's) new administrator, was incorporated into the QDDR. Essentially, after a less-than-expeditious start, the administration's reform effort picked up pace and visibly took shape within the past year.

During nearly three years of the Obama administration, as reforms have been planned amid an increasingly sophisticated policy dialogue on effective development support, the U.S. budget outlook has unfortunately soured. Between 2000 and 2010, U.S. investments in official development assistance steadily increased from about $12 billion to just under $30 billion (in constant 2009 dollars), but severe budget cuts are now on the table as the U.S. public focuses on economic woes. Funding levels for 2011 were cut by 15 percent from Obama's original request and 9 percent from 2010. For 2012 the Obama administration requested a marginal increase over 2010 levels, but in light of budget levels already passed in the House of Representatives and caps imposed by the recent debt deal and the accompanying Budget Control Act, it is very likely that development spending will significantly decrease yet again in 2012. Moreover, the part of the budget set aside for security-oriented overseas contingency operations is likely to grow in 2012, meaning that the total budget number for foreign assistance funding obfuscates the severity of cuts for other types of development assistance. The prospect for development assistance resources may even worsen in subsequent years as a result of looming spending cuts linked with broader efforts to curb the national deficit.

The political landscape related to U.S. global development efforts has also shifted. Republicans took control of the House of Representatives this year, making it even more difficult for Congress to pass legislation favorable to the Obama administration's agenda. And even though a bipartisan consensus seemingly formed around support for U.S. foreign assistance during the past decade, this accord has proven susceptible to current budget pressures, as evidenced by the support for massive cuts in discretionary spending on international affairs.

Additionally, 10 years into America's longest war, a weary U.S. electorate may be more attuned to criticism of nation-building efforts in Afghanistan, where the U.S. has spent more than $18 billion since 2002 (or more than $51 billion, if Department of Defense security and stabilization assistance is also counted). Afghanistan has now surpassed Iraq as the top recipient of American foreign aid and the politics surrounding relief and development are also being shaped by revolutions across the Middle East and North Africa, along with heightened instability in Pakistan and other countries—like Haiti and Sudan—that are teetering on the brink of high-profile disasters.

It is within this context of changing policies and bureaucracies, budgetary pressures and global politics that the reform of U.S. global development efforts must be assessed. Some necessary reforms have been decided on and announced; others must be considered and acted upon. Some of the announced reforms are being quickly implemented, while others are not. Some improvements are contingent on budgets and Congress, while others are less so.

Further progress on reform in the coming months could set the stage for more fundamental steps to strengthen development if President Obama is reelected in 2012. If he is not reelected, a new administration will need to assess current U.S. development policies and modernization processes and decide what to continue and what to abandon. Either way, the next year is critically important.

What Needs to Happen—and Why?

What's Moving?

Some of the reforms announced in conjunction with the administration's reviews are already under way in terms of structural or procedural changes. For example, under the leadership of Administrator Rajiv Shah, USAID has prioritized a package of proposed improvements, collectively branded as "USAID Forward."

Many initiatives are actively under way in line with the key priorities for USAID Forward. An Office of Budget and Resource Management has been established, reequipping the agency with some of the budget execution responsibilities that had been moved to the State Department under the last administration. A new Bureau for Policy, Planning and Learning has also now been set up to fill a void, positioning USAID to become a more strategic and influential institution that benefits from research and lessons from the field. This bureau oversees the newly established Country Development Cooperation Strategy process to provide better focus and results at the country level. As USAID's policy capacity is being rebuilt, it is already yielding new agency-wide policies and strategies, such as an evaluation policy meant to revitalize and restore the integrity of analytical judgments about programs and projects.

The focus on evaluation dovetails with stronger monitoring and transparency to constitute another pillar of USAID Forward. The drive for greater transparency throughout foreign aid has resulted in the creation of a public Web site—the Foreign Assistance Dashboard, which helpfully synthesizes publicly available State Department and USAID budget and appropriation data on foreign assistance in a user-friendly and accessible way. As clearly indicated on this Web site, however, the administration recognizes that the dashboard efforts to date are only a first step (see figure 1).

USAID Forward also prioritizes innovation, science and technology, leading the agency into new research partnerships and more creative efforts to invest in entrepreneurial and potentially catalytic efforts dependent on skilled risk management. The agency-wide reforms also place a premium on a modernized approach to human resources that could enable more recruitment and that, among other aims, seeks to better leverage existing expertise—especially among Foreign Service nationals. Another identified priority is the reform of aid implementation and procurement policies and processes.

Actually, many specific ongoing changes constitute USAID Forward. Some activities, like the dashboard or the establishment of new offices, are easy to identify, but others are less visible because they involve process and cultural changes within the agency. In each of these efforts, the key is to continue the momentum and fully operationalize changes. This is also true for the effort that is still behind the scenes to pilot

Figure 1. Foreign Assistance Dashboard Data

"Below is a matrix of the data currently available on this site and a preview of the data that will be added over the coming months. While only a few agencies are listed here, the aim of the Dashboard is to include all USG agencies receiving or implementing foreign assistance, humanitarian, and/or development funds. This matrix will be updated as additional data sets are added." *Source: ForeignAssistance.gov*

Agency	Request	Appropriation	Obligation	Expenditure	Project Information	Peformance Data
U.S. Agency for International Development	X	X				
Department of State	X	X				
Department of Labor						
Department of Defense						
Department of the Treasury						
Millennium Challenge Corporation (MCC)						
Department of Agriculture						
Export-Import Bank of the U.S.						
Peace Corps						

Source: The U.S. government Web site http://foreignassistance.gov.

a coordinated interagency "Partnership for Growth" approach that fosters complementarity as well as host-country consultation to jointly tackle key economic constraints. Reforms must reach the field and make a sustainable, positive difference in developing countries. For example, though broader procurement reforms are apparently moving along in tandem with the other priorities of USAID Forward, there is still a long way to go and many thorny issues must still be resolved in efforts to streamline processes, form effective partnerships with other actors and align programs with host-country needs and priorities.

What Is Not Moving?

Although many ongoing activities within USAID represent announced modernization efforts that are advancing, other announced reforms are still ill defined or lagging. To achieve a modern architecture, for example, the president's policy directive on development stated that the administration would "establish mechanisms for ensuring coherence in U.S. development policy across the United States government." In accordance with the PPD, the National Security Staff reestablished an interagency policy committee on global development, which convenes relevant agencies to facilitate decisionmaking, set priorities and coordinate efforts. But the PPD also called for the routine formulation of a presidentially approved U.S. Global Development Strategy and the creation of a U.S. Global Development Council, comprising leading members of the philanthropic sector, private sector, academia and civil society. Both a strategy document and an advisory council are likely to be more outwardly visible than the quiet work of an interagency policy committee behind closed doors, but despite this symbolic value, they should not be for show. Each in its own way can strengthen policy coherence. Yet the administration has not released any further information on these two agenda items.

Although the lack of a full-fledged development strategy may stem from fatigue in the aftermath of the drawn-out policy and capability reviews, and though silence on creating an advisory council may be attributed to a bottleneck in the queue of reforms, advances related to conflict prevention and crisis response capabilities may be more deeply mired. The issue of how to deal with complex crises and conflicts was central to the QDDR, but its recommendations have not yet led to commensurate progress. The top-line recommendation for "a lead-agency approach between the State Department and USAID based on clear lines of authority" is based on a distinction—between political and security crises on one hand and humanitarian crises on the other—that is often blurred in reality. Progress has also been slow in implementing other key recommendations, such as reshaping the State Department's pertinent structures by creating a new undersecretariat for civilian security, democracy and human rights and by creating a new Bureau for Conflict and Stabilization Operations. Leadership announcements for these new structures have not been made, but many of the relevant implementation decisions will only be made and executed by designated leaders armed with a mandate. Also, the larger challenge of whether to use civilian or military resources to deal with conflict and instability may be moving in the opposite direction. The QDDR touted the growth of U.S. civilian leadership in dealing with front-line states, noting that "[the State Department] has assumed leadership of the Pakistan Counterinsurgency Capability Fund." However, control of the fund was transferred back to the Pentagon this year because it is politically easier to fund activities through the Defense Department.

The area of global health presents an additional concern. President Obama's stated policy is to rebuild USAID "as the U.S. government's lead development agency." USAID Forward can help with the internal strengthening of the agency, and the QDDR resolved the nebulous leadership of the president's global hunger and food security initiative, "Feed the Future," by clearly delegating control to USAID. But whereas the QDDR also explicitly concludes that USAID should lead the president's initiative on global health, it set a target date of September 2012 for this transition "if defined benchmarks are met." The QDDR's 10 benchmarks represent important goals. However, the process of measuring USAID's progress—whether against individual targets or the set of benchmarks—is ill defined and prone to subjective assessment. As a result of the fact that this politically charged decision was made to look like a technical fix, doubts remain concerning the transition to USAID leadership. Global health is a core development priority, but it is challenging for USAID to be the lead U.S. development agency when it is not clearly the lead agency for the president's global health initiative, which constitutes more than 25 percent of global assistance resources.

Finally, within the ongoing dialogue on the reform of U.S. global development policy and operations, a grand bargain between Congress and the administration is widely viewed as necessary to achieve lasting improvement. The theory is that if Congress is better informed and has greater trust in the approaches and accountability systems of the executive branch, the executive branch will be afforded the flexibility it needs to be more effective. This flexibility means far fewer legislated directives and earmarks that limit the options for development support on the ground. Members of Congress are in a position to support or thwart necessary reforms advanced by the administration. The president's policy acknowledges all this and explicitly calls for a new partnership with Congress.

Through its reforms, the Obama administration is seeking to deliver a more strategic focus, greater transparency and better accountability for results. But so far it has largely sought to do so without adequately consulting even the most sympathetic champions for development reforms on Capitol Hill. In hesitating to engage Congress, the administration may have missed important opportunities to consolidate political and financial support for key initiatives, such as food security and strengthened evaluation. Doing more to engage Congress is in the administration's interest to gain overall support for the development budget, to make progress on current reforms, and ultimately to replace the morass of outdated legislation that governs U.S. global development support.

What Is Missing?

Major structural reforms were overlooked, dismissed or intentionally left out of the administration's public agenda of changes. The organizational fragmentation of the U.S. aid and development infrastructure is a fundamental issue. More than 20 different agencies are responsible for development assistance across the U.S. government, leading to overlaps and gaps along with disunity, which weakens the development voice within foreign policy and national security decision-making.

For example, USAID may assume leadership over the Global Health Initiative in accordance with the QDDR, but the QDDR also explicitly states that the Office of the Global AIDS Coordinator at the State Department will remain separate from USAID. This office has the statutory authority and responsibility for coordinating, overseeing and managing all aspects of the President's Emergency Plan for AIDS Relief (PEPFAR), which accounts for the overwhelming majority (roughly 64 percent) of global health funding. In countries where U.S. assistance is dominated by AIDS-related programming, this organizational structure could continue to pose a challenge.

Similar challenges remain unresolved even with current reforms across the U.S. government, including the separate status of the Millennium Challenge Corporation (MCC), the Overseas Private Investment Corporation (OPIC), the U.S. Trade and Development Agency (USTDA) and others. Important elements of development assistance are also managed by the State, Treasury, Health and Human Services and Defense departments, to name a few. There are many reasons why such institutional responsibilities were established apart from the U.S. agency ostensibly responsible for international development efforts, but in the context of far-reaching reforms and a presidential directive to "elevate development as a central pillar of our national security policy, equal to diplomacy and defense," it makes sense to try to consolidate some agencies.

Beyond even the most straightforward consolidation of development agencies and activities, other structural issues remain concerning the roles of the State Department, the Defense Department and the White House as they relate to development and humanitarian assistance. The role of the Defense Department in foreign policy served as a shadow over the QDDR, which consciously tried to take on characteristics of the Quadrennial Defense Review in order to push back against expanding military missions and authorities by making the case for greater "civilian power" to advance American interests. But the balance of influence with the military must ultimately be addressed at levels higher than a capabilities review of the State Department and USAID. For example, a persistent challenge for U.S. peace-building and state-building efforts in fragile, conflict-affected regions is that of coordination across all relevant departments and agencies, including the Defense Department. This issue was largely beyond the scope of the QDDR, given that a robust White House coordination capacity, rather than a State Department or USAID capacity, is necessary for high-profile interagency efforts that heavily involve the military.

Leading Internationally

With so much impetus for change, it would be easy for U.S. development officials to get caught up in the internal reform of their own system, but this introspection is happening at a critical time globally and must progress while the U.S. also leverages opportunities to lead internationally. After an era of growing official aid budgets and proliferating development actors, significant attention is now focused on making the dysfunctional international architecture more effective in support of development and aid.

As demonstrated at previous Group of Eight and Group of Twenty meetings, as well as by increased engagement with the Organisation for Economic Co-operation and Development (OECD) and high-level strategic and economic dialogues with key partner countries, the Obama administration is interested in advancing development issues through international forums. The PPD was announced as part of the president's address at the UN 2010 Millennium Development Goals Summit. Leveraging U.S. leadership, forging a division of labor among international partners and strengthening key multilateral capabilities are important parts of this new policy.

With serious policy reviews under its belt and some encouraging reforms under way, the U.S. administration is now in a good position to push internationally for tangible steps that will increase the effectiveness of development support. The Group of Twenty (G-20) meetings, the upcoming High-Level Forum on Aid Effectiveness and the U.S. chairmanship of the 2012 G-8 all present opportunities for U.S. leadership. As world leaders seek to achieve the Millennium Development Goals but also look beyond the MDG agenda to forge a new framework for effective global development partnerships, the U.S. must play an active and central role.

Recommendations and Next Steps

Delivering on many priorities is clearly a challenge, and progress across all areas understandably cannot happen apace. The conclusions of an OECD–DAC peer review of U.S. development cooperation were just released in July, and September marks the anniversary of President Obama's announcement of a new global development policy. The administration should use these opportunities to assess the early implementation of its announced modernization efforts and to rededicate itself to fundamental reforms.

Across many aspects of USAID Forward and the reformist approaches to implementing the food security and global health initiatives, the key is to expand upon the initial implementation efforts. The work to reshape bureaucratic cultures and systems must proceed, and some more visible aspects of modernization can also be helpful while demonstrating the administration's ongoing commitment to its own game-changing policies.

With many moving pieces of a change agenda at the agency and operational level, the administration must not lose sight of its policy's bolder elements, such as the push for a coherent approach to development support across the U.S. government. Moreover, the administration must become even bolder by laying the groundwork for significant and politically tricky structural reforms. The next presidential term will bring new opportunities, and planning should begin now for bigger changes in 2013 that could further elevate effective and efficient U.S. global development efforts.

In addition to these recommendations, the administration should specifically:

- *Complete the Foreign Assistance Dashboard*. Commit to a timeline with benchmarks along the way for the inclusion of new categories of data.

- *Establish the U.S. Global Development Council*. This external advisory board should be created as soon as possible, still during 2011, so that it is fully operating well before the end of the current presidential term. (For more recommendations on the U.S. Global Development Council's creation, mission, membership and other characteristics, see Unger and Norris 2011.)

- *Lead the international charge for development effectiveness*. The U.S. must specifically seize the opportunity to engage robustly at the Busan High-Level Forum relative to its engagement at past forums on aid effectiveness. USAID Administrator Shah and other U.S. global development leaders are well positioned to come armed with credible ideas and momentum. Additionally announcing the attendance of Secretary of State Hillary Clinton could catalytically leverage her international star power to bring greater political heft and attention to the forum while demonstrating an increased importance for development issues within U.S. foreign policy. The U.S. must also continue to encourage broader development support at the G-20, which has become the more appropriate forum—relative to the G-8—in which to exert leadership on development effectiveness. As the chair of the G-8 in 2012, the U.S. must be mindful to support rather than undercut a stronger G-20 role on development issues. (For more recommendations on international leadership opportunities and responsibilities for the U.S. in relation to development effectiveness, see Kharas and Unger 2011.)

- *Further strengthen USAID's voice in and responsibility for budget decisions and formulation*. This is an important measure of the true elevation of development and USAID's leadership.

- *Explicitly build new mechanisms and capacity for routine assessments of U.S. domestic and international policies based on development impact*. U.S. military sales, agricultural subsidies, trade agreements and immigration policies, for example, may have a significant impact on development in partner countries. The PPD mildly promotes consideration of development impact, but with few details and only "through existing policy mechanisms," such as the Trade Policy Review Group. Where policy mechanisms do not exist, they should be created and aligned with a cohesive approach that determines which policies are assessed when, how and by whom.

- *Begin planning now for consolidation in 2013*. Just as the decision was made to have USAID oversee the president's food security initiative and eventually the global health initiative, the reforming lead development agency should be granted oversight of signature presidential initiatives that were established in separate institutions under the last administration—PEPFAR and the MCC. These newer programs were developed on the cutting edge of best practices in aid management and delivery. Their experiences have shaped the current reforms, and their orderly integration under one line of development authority must be done in a way that preserves and propagates their operational strengths while ensuring greater efficiency and coherence. Additional organizational integration involving independent development-oriented programs should also be considered on the basis of synergy and efficiency. OPIC, for example could continue to exist under a more unified development organization while expanding to absorb certain elements within USAID that are also focused on unlocking private capital, such as the Development Credit Authority. The financial returns generated by these investments could be reinjected into U.S. global development support. The USTDA could also be integrated in this way, as could elements of development assistance managed by the Treasury and State departments. For example, just as the QDDR calls for a review of the "best location for the political mandate" of USAID's Office of Transition Initiatives, implying that the office might best be housed within the State Department, the administration might equally review the location of the State Department's refugee assistance programs given USAID's humanitarian assistance mandate.

- *Approach Congress more strategically on development resources and reform*. Congressional buy-in will be necessary to enact agency consolidation and operational changes involving new approaches and resources. To lay the groundwork for reasonable resource decisions in the immediate future and legislative reforms in the next few years, the administration must put forward the right leaders and teams to engage Congress and build the public case. President Obama should finally nominate someone to lead USAID's Legislative Affairs Bureau. In these hard budgetary times, the administration must actively consult new and old champions from both political parties to forge strong relationships and build a shared executive–legislative vision for the U.S. approach to development while pushing reforms on the basis of efficiency and effectiveness.

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PRESERVING AMERICAN PUBLIC SUPPORT FOR FOREIGN AID

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Executive Summary

Strong signs are emerging that forces in the U.S. Congress are gearing up to make deep cuts in foreign aid spending. Although the American public is supportive of aid and was largely comfortable with the major increases in aid that have occurred during the last 10 years, it also has a number of reservations and misperceptions that create vulnerabilities to attacks on aid. This policy brief looks at the strategies that have been used to attack aid, especially in the 1990s, the last time a major attack was mounted. It then spells out a communications approach for countering these attacks, including confirming the image of the public as supporting aid, reframing the core question about giving aid, countering misperceptions, differentiating aid from other costs of America's role in the world, and addressing concerns about aid effectiveness. It notes that strategies for promoting aid that have been effective with Congress, such as emphasizing the benefits to the U.S. national interest, may be useful as secondary rationales but can backfire with the public for whom aid is primarily an altruistic endeavor.

What Is the Issue?

A central question facing the U.S. aid and development community is whether, with increasing pressures on all forms of spending in the current fiscal environment, the levels of U.S. spending on development and humanitarian aid can be sustained.

Key voices in Congress are calling for deep cuts in aid spending, and the budget recently passed in the House of Representatives calls for deep cuts in international affairs spending, which would include aid. Although the battle over such cuts has not yet been joined, it is likely that a full-throated debate over aid is in the offing.

It should be emphasized that political opposition to aid spending does not arise from the American public. As a general principle, Americans are supportive of giving foreign aid, although support has slipped in the current economic environment. For example, a 2010 poll of the Chicago Council on Global Affairs found 74 percent of respondents favoring "food and medical assistance to people in needy countries" and 62 percent favoring "aid that helps needy countries develop their economies." When Americans are asked what percentage of the federal budget should go to aid, the median response in numerous polls is 10 percent—a jaw-dropping figure relative to the reality of 1 percent.

Furthermore, the substantial increases in aid over the last decade have all occurred with no public opposition. During the George W. Bush administration, the partisan divide on aid largely disappeared and aid levels rose at a remarkable rate. Even putting aside aid to Iraq and Afghanistan, overall aid doubled. President Obama called for further major aid increases during his 2008 presidential campaign, and levels have continued to modestly trend upward since he has been in office. As long as policy leaders are acting together, the public is comfortable with substantial levels of aid spending.

At the same time, Americans do have reservations and misperceptions about various aspects of the U.S. aid program and do harbor some doubts about the logic of giving aid. Thus Americans can be responsive to certain arguments critical of aid when they are put forward in a systematic and determined fashion. Efforts to attack aid spending will likely focus on these vulnerabilities.

The effectiveness of these attacks will, to a substantial extent, be a function of how much policymakers perceive the public as responding to them. Policy discourse, especially in Congress, develops in the context of arguments made to the public. Poll results can play a significant role in this process, but narratives can emerge based purely on hunches or what the media portrays. When congressional leaders make arguments and believe they are striking a chord with the public, this is reinforcing and emboldening. When their opponents perceive this, they may be more likely to accommodate. Members of Congress only occasionally take their arguments to the larger public, but there is constant jockeying to create a sense of who would prevail if these arguments were to be taken to the public. The outcome of this interchange ultimately influences legislative behavior.

What Needs to Happen—and Why?

Given the likelihood of a real debate over future levels of aid, leaders wishing to sustain support for aid need to understand which arguments against aid resonate in the public and, more important, how to counter these effects. To this end, I first analyze the last major attack on aid, which occurred in the mid-1990s, looking at the arguments that were used against aid and reviewing polls that show how some of these arguments did effectively resonate with the public. These efforts initially succeeded in bringing about 20 percent cuts to aid spending. They are also likely to play a role in future attacks on aid. Second, I explore polling data that point to the communications strategies for countering these attacks. Some of these strategies were employed during the Bill Clinton administration and succeeded in parrying many of the attacks; by Clinton's second term, aid budgets had nearly recovered to their earlier levels. A well-crafted communications strategy could be effective in this current environment as well.

The Attack on Aid

The emerging attack on aid is likely to follow lines similar to those employed in the mid-1990s, led by then–senator Jesse Helms and others. At that time, there was only a minimal amount of polling on aid, which primarily asked about the level of aid spending. Majorities of those polled consistently favored reducing the amount of foreign aid. Interviews with members of Congress and the media during this period reveal a widespread assumption on both sides of the aisle that the public simply did not like foreign aid out of an isolationist impulse and a simple desire to spend the money at home instead.

The attack on aid drew on these assumptions and more. It consisted of four key elements: to frame the issue of aid in terms of a simple exercise of setting priorities; to draw on an underlying narrative of hegemonic overstretch; to feed misconceptions about the amount of aid; and to question the effectiveness of aid, including the charge that the majority of aid dollars ended up in the pockets of corrupt leaders.

Framing the issue in terms of *setting priorities* simply posed the question of whether it is more important to take care of people abroad or people at home. Within this framework, majorities in polls would even agree with statements that the U.S. should not give any foreign aid until certain problems, such as poverty, are first solved at home. There is a cognitively simple logic in this thinking that many poll respondents are looking for opportunities to express their support for addressing problems at home. This is likely to be especially effective in the context of the current economic downturn and the pressures to cut the U.S. budget deficit. Just as they did during the Clinton administration, critics of aid today will surely juxtapose foreign aid spending with projected spending cuts for vulnerable populations at home.

Opponents of aid would also draw on the narrative of *hegemonic overstretch*. By explicitly, or more often implicitly, citing American contributions to world order—including intervening in the world wars, the Marshall Plan, protecting the world from Communism and opening U.S. markets to foreign goods—opponents would draw on the sense that the U.S. has done more than its share and should focus on problems at home. Numerous polls show that this theme resonated with the public in the 1990s and is also likely to resonate in the current environment as Americans grow increasingly weary of the U.S. military involvement in Iraq and Afghanistan.

Closely connected to this sense of overstretch were highly *exaggerated assumptions* about how much the U.S. was doing for the world in general and specifically with regard to aid—assumptions that aid opponents fed. In some cases, this was done explicitly, such as Jesse Helms' statement that the U.S. had spent more than $2 trillion on aid. More often, it was done implicitly— for example, frequent discussions of aid and references to it as a meaningful potential source of deficit reduction contributed to the impression that the amount involved was quite large.

Polls reveal that Americans had grossly exaggerated estimations of the amount of aid actually given by the

United States. Asked to estimate what percentage of the federal budget went to aid, the median estimate was a staggering 20 percent, according to polls by the Program on Policy Attitudes (PIPA) and subsequently by the *Washington Post*, the Chicago Council on Foreign Relations and other organizations. Some have questioned whether respondents were simply conflating aid with money spent on defense in support of security commitments. However, even when subsequent PIPA polls made clear a differentiation of aid and defense, estimations were the same. It is likely that the exaggerated estimates of aid were fed by the larger narrative of overstretch, which includes defense spending. This misperception is likely. In fact, a recent PIPA poll finds that the median estimate has crept upward to 25 percent.

Yet another arrow in the quiver of attacks on aid was the charge that *aid is simply ineffective*. This was curiously potent, given that little evidence was usually offered other than the fact that there are still many poor people in the world. In one poll, the median estimate was that only 10 percent of the money spent on aid ultimately helped the people who need it. One possible explanation for this perception is the greatly exaggerated assumption about the amount of aid. If the amount of money assumed was indeed being spent, the results actually achieved would have fallen far short of reasonable expectations.

Finally, another charge, also related to aid ineffectiveness, is that most aid ends up in the pockets of corrupt autocrats with poor human rights records. Polls show that Americans do assume that this is the case. They also largely reject the idea that aid should be spent to secure strategic ends; rather, most Americans think that aid should serve altruistic purposes.

Recommendations and Next Steps

Research on public attitudes and the history of the efforts to counter the attacks on aid during the Clinton administration provide meaningful direction for possible responses to attacks on aid in the current environment. Seven recommendations for next steps can be offered.

Confirm the Image of the Public as Supporting Aid—Do Not Implicitly Confirm the Opposite

First, in looking at what not to do, it should be noted that even among aid proponents, there is a strong predilection to accept key premises underlying the attacks on aid. Paramount is an image of the U.S. public as fundamentally isolationist and lacking real concern for people abroad. This has roots in the historical memory of isolationist attitudes in the 1930s and also an elite tendency to assume that the general public lacks the intellectual and moral capabilities to grasp the global context within which foreign aid is important.

This image of the isolationist public can be confirmed in subtle ways. Proponents of foreign aid often approach the public as if it must be persuaded to support aid, to assume that moral motivations are weak and that the public can only be convinced based on effects relevant to self-interest. Research shows that people generally have a tendency to underestimate how much others are willing to act in ways that are altruistic or that address long-term concerns.

When public figures act in ways that confirm this image of the general public as isolationist and opposed to aid, this strengthens the image, gives it currency and leads policymakers and even the public to act in ways that are consistent with the image.

Proponents of aid need to confirm at every opportunity the fact that, though Americans may have reservations about some aspects of the U.S. aid program, an overwhelming majority of Americans are generous and do favor giving foreign aid. One should also recognize that when doing so, one may be fighting against some psychological headwinds blowing in the other direction.

Counter the Priority Frame with a Distributional Frame

Second, as previously discussed, framing the issues in terms of priorities leads to the logical conclusion that the U.S. should not spend any money on aid until problems at home are first solved. This framework is rather easily countered by shifting the issue to a distributional framework and by simply asking what proportion of spending should be devoted to foreign aid. Only a very small number of Americans think that nothing should be spent on aid, and given nearly any distributional framework, Americans tend to assign more to aid than is currently the case. When asked what proportion of the federal budget should go to foreign aid, the median response is invariably 10 percent. PIPA has tried numerous frameworks—how much of the money spent on alleviating poverty should focus on the poor at home and the poor abroad, or how much of the money spent on dealing with international affairs should be devoted to defense and how much to aid—and these invariably lead respondents to prescribe amounts of aid in excess of the actual amount.

A key question to ask in the current environment is how Americans will deal with aid spending given the current pressure for budget cuts. The Program for Public Consultation at the University of Maryland recently conducted a budget exercise survey that presented a representative sample of Americans with the discretionary budget divided into 31 line items and then allowed them to make changes while getting constant feedback for the effects of their choices on the deficit. Even in this context, economic aid did relatively well. For all 31 line items, the average cut was 11 percent. For all forms of economic aid combined, the average cut was 8 percent. But there was substantial variation for the four different types of aid. Humanitarian assistance was actually increased by 18 percent; global health was nicked by 2 percent; development assistance was cut by 14 percent; and the Economic Support Fund, which was described as aid to countries of strategic concern to the U.S., was cut by 23 percent. All altruistic aid programs combined were cut by 3 percent. (It should also be noted that, in dollar terms, the numbers presented were based on projections for 2015. Thus, the average actual amount budgeted, after cuts, was $37.8 billion—substantially more than current levels.)

Counter Exaggerated Assumptions

Third, in the 1990s, the Clinton administration embarked on a major public relations effort focused on countering the American public's overestimation of U.S. spending on foreign aid by emphasizing that the amount was just 1 percent of the U.S. budget. A campaign was developed called "Just 1%" to drive home the message that the amount of aid the White House was seeking was quite small. Cabinet members even wore the "Just 1%" buttons in public. In polls, only very small numbers of Americans thought that 1 percent was too much.

However, changing this perception has been quite difficult, and public perceptions of foreign aid spending have not aligned with actual funding levels. Still, when the correct information is presented, it does have some impact. Polls that first tell respondents how much of the U.S. budget is devoted to foreign aid and then ask respondents whether they want to increase or decrease the aid spending have found that substantially fewer respondents favored cuts than those who were not first given the information. In polls that first tell respondents how much of the U.S. budget is allocated to foreign aid, support for cuts invariably drops to a minority position. However, support for increases rarely becomes a majority position—many respondents simply do not believe the figures they are told.

It should be noted that because of a broad sense of being overstretched, it is generally not a good idea to frame the U.S. as underperforming in the realm of foreign aid, for example, by highlighting that the U.S. gives a relatively small percentage of its gross national income as aid relative to other developed countries. Americans often bridle at the idea that they are doing little compared with other countries.

Differentiate Foreign Aid from Other Costs of the United States' Role

Fourth, one of the reasons that people are resistant to changing their belief that the amount of aid is so high is that this is linked to a broader and deeply felt narrative: that the United States is doing more than its fair share in maintaining world order. For some decades now, Americans have felt overstretched by the United States' hegemonic role—this is an ongoing point of tension between the American public and the policy elite.

In this context, Americans are looking for opportunities to trim back commitments, especially these days with budgetary pressures. Aid is the most ready and unambiguous symbol of this sense of perceived over-commitment. And thus it is a natural target for those feelings.

However, when placed in a context with other costs related to the U.S. role, other items are cut more than foreign aid in terms of dollars and the percentage cut. In the budget exercise survey discussed above, when Americans were presented with the discretionary budget, by far the biggest cut was to defense, which was cut by $109 billion (18 percent), followed by intelligence, which was cut by $13 billion (15 percent), and the wars in Iraq and Afghanistan, which were also cut by $13 billion (23 percent). As mentioned, nonmilitary aid was cut by 8 percent, and altruistic aid was cut by just 3 percent.

Emphasize Multilateral Frameworks like the MDGs

Fifth, because Americans have a general sense that the U.S. is doing more than its share in world affairs, they are drawn to multilateral frameworks, within which countries contribute proportionally and other countries as well as the U.S. do their "fair share." This is so potent that it is one of the very few contexts within which a majority of Americans will approve of an increase in taxes to be devoted to aid.

The Millennium Development Goals appear to be such an effective framework. In a 2008 *WorldPublicOpinion.org* poll, Americans were told about the MDG of cutting hunger and severe poverty in half by 2015. They were also presented with the annual per capita increase in aid spending that would be necessary for meeting this goal (based on World Bank estimates), adjusted for national income, which was $56 a year for Americans. Asked if they would support this increase, provided that the other developed countries also did their part, 75 percent of respondents said they would.

Address Concerns about Effectiveness

Sixth, perhaps the most difficult challenge is to counter the perception that aid is ineffective. As mentioned, on average, Americans assume that due to corruption and inefficiency, only 10 percent of aid money helps those who need it. Contributing to this perception are many of the normal features of democracy. Investigative reporters highlight stories of corruption and inefficiency far more than successes. Books that offer critiques of current aid practices garner attention through sweeping indictments of the entire aid enterprise.

Proponents of aid need to more effectively seek ways to disseminate stories of success. A lingering image of aid is of the U.S. simply delivering checks to corrupt autocrats in poor countries. Stories that highlight the effective provision of services and recipients' increasing self-sufficiency can help counter this effect. Although some audiences are responsive to numerical summaries of such successes, for others it is essential to provide a poignant story of an individual whose life has changed, complete with imagery of their faces and, whenever possible, their words. Aid is a story of the heart more than the mind.

Channeling aid through nongovernmental organizations is also helpful. Aid NGOs have a positive image, and Americans have said in polls that they believe that aid effectiveness increases substantially when it is passed through NGOs.

Finally, it should always be remembered that most Americans form their assumptions about public policy matters not through direct experience but primarily by taking cues from people they trust. Should proponents of aid seek to mitigate the corrosive effect of low confidence in the effectiveness of foreign aid, they should seek to systematically mobilize trusted public figures to address this question. One approach could be to establish a high-level commission, similar to the commission established in the wake of the oil spill in the Gulf of Mexico. Such a commission would no doubt reveal certain problems, but it would also likely contain what is now a hemorrhage of confidence, which could be easily worsened by a systematic effort to undermine support for aid.

Stay Connected to Compassion toward People

And seventh, in recent years efforts to sell aid to Congress have emphasized its advancement of U.S. national interests. Aid has been depicted as a smart way of enhancing U.S. power especially by improving U.S. relations with other nation-states. Aid has also been portrayed as a means of promoting economic development, which will ultimately help the U.S. by providing markets and generating jobs. Although these arguments may well be effective in relation to members of Congress—they do see their role as serving U.S. national interests—they need to be approached carefully with the public. When presented as a secondary argument, they can be persuasive and provide an auxiliary source of support for aid.

However, if presented as a primary rationale, arguments that appeal to national interest can backfire. Aid programs that are designed to enhance U.S. strategic interests are some of the least popular. In the above-mentioned budget survey, funding for the Economic Support Fund—which was described as "economic development aid to countries of strategic concern to the U.S. such as Afghanistan, Pakistan, and Egypt"—was cut 23 percent. Military aid to countries "of strategic interest" was also cut 18 percent. However, funding for "humanitarian assistance" was *increased* 18 percent.

The whole notion of giving aid to other *nations* as opposed to needy people does not entirely square well with Americans. It elicits the unsettling feeling that we are bribing nations to be our friends. Americans also tend to assume that the benefits are likely to go to elites in these other countries, many of whom are corrupt and illegitimate, because, after all, they are the ones that have the power to further U.S. interests.

Framing aid as supporting economic growth in other countries is also by itself not entirely persuasive. Here, too, elites—in the U.S. as well as in donor countries—may be perceived as primary beneficiaries. Trickle-down effects will not be automatically assumed.

Americans can understand that promoting economic growth, rather than just trying to ameliorate the symptoms of poverty, may be a smart way to reduce poverty. In focus groups Americans love to tell the story of how teaching a man to fish is better than giving him a fish. But it is essential for this process to not become so abstract that the goal becomes the economic growth of developing nations. The foundation of American public support for aid is the compassionate concern, not for nations but for people. A communication strategy that loses this link does so at its peril.

In summary, the American public has demonstrated that it supports aid to people in developing countries in principle, and that it in practice, during the last decade, it has accommodated a doubling of aid. There are signs that some in Congress may employ arguments against aid, which could play on the doubts about aid and get some traction. However, proponents of aid should not fall prey to the belief that this reveals a fundamental opposition, leading to efforts to persuade Americans to support aid while reifying the image that they do not. For each effort to derail American support for aid, there are responses that can effectively reconnect Americans to their deeper compassion and generosity.

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