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.

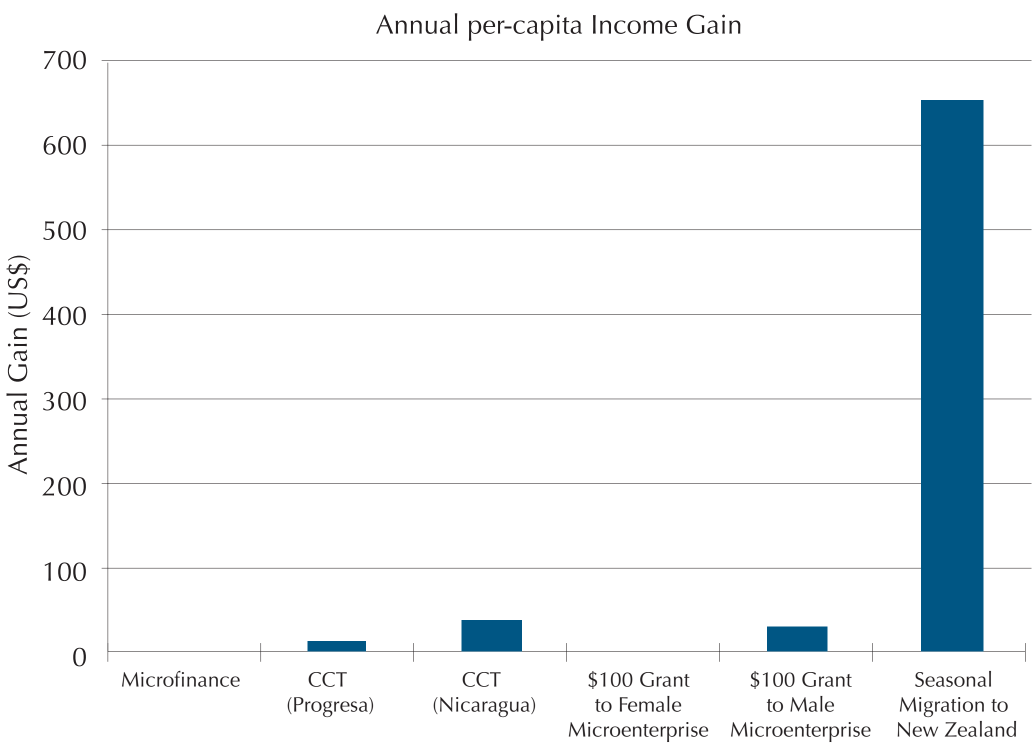
Why the focus on aid? Part of the explanation is an exaggerated sense of what aid can hope to achieve, supported by an antediluvian theory of development, which implies that aid can be a panacea for poor countries stuck in a pattern of low growth and low savings. According to this theory, aid offsets 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).

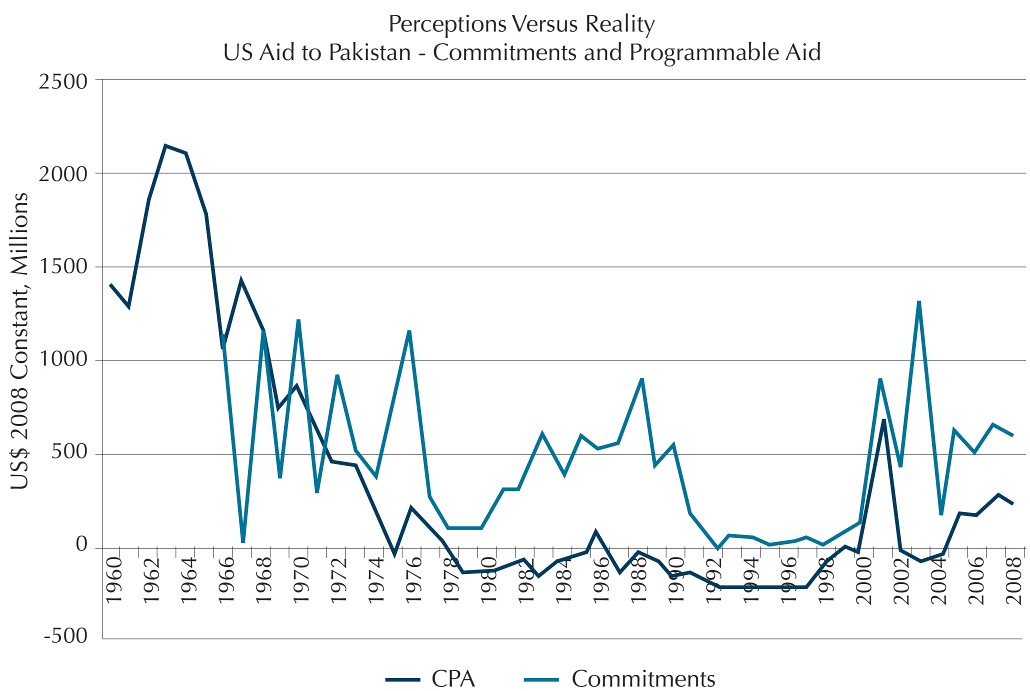
While CPA measures emphasize that some types of aid appear on the cost side of the aid ledger but do not translate into the resources side, there are other types of aid for which the opposite is true. A number of new aid instruments, such as advance market commitments and guarantees, draw resources toward 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



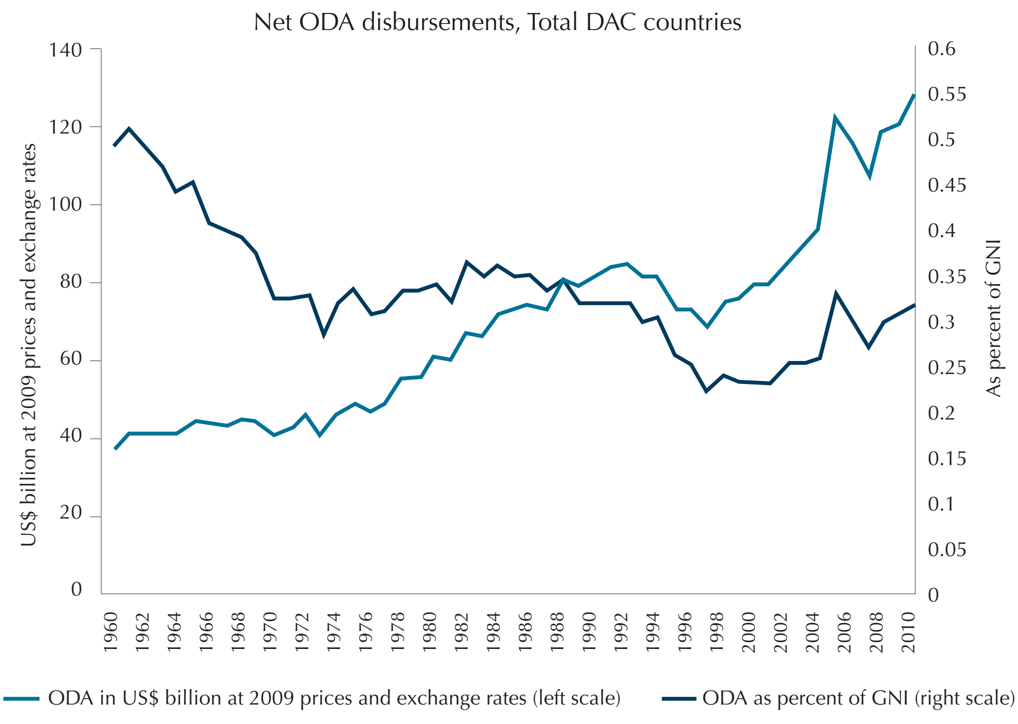
Source: Organisation for Economic Co-operation and Development, Development Assistance Committee Online Aid Database, tables 2a and 3a, given by H. Kharas, "U.S. Aid to Pakistan: Time for a New Approach," blog post, August 25, 2010, http://www.brookings.edu/opinions/2010/0825_pakistan_aid_kharas.aspx.

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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