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Seven Deadly Sins: Reflections on Donor Failings

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Abstract

In the face of continuing development challenges in the world's poorest countries, there have been new calls throughout the donor community to increase the volume of development aid. Equal attention is needed to reform of the aid business itself, that is, the practices and processes and procedures and politics of aid. This paper sets out the shortcomings of that business on which new research has recently shed light, but which have not been adequately or explicitly incorporated into the donor community's reform agenda. It outlines seven of the worst "sins" or failings of donors, including impatience with institution building, collusion and coordination failures, failure to evaluate the results of their support, and financing that is volatile and unpredictable. It suggests possible short-term practical fixes and notes the need ultimately for more ambitious and structural changes in the overall aid architecture.

Seven Deadly Sins: Reflections on Donor Failings

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Introduction

The donor community may look back on the 1990s as a watershed. In that decade, some developing countries took off in growth terms, apparently benefiting from and effectively exploiting the increasing integration of the global market. But others, in sub-Saharan Africa, in Latin America and in much of Central Asia, seemed stuck. Many of the countries where growth faltered had been major recipients of development assistance over several decades, and under the tutelage of the donors had implemented structural reforms and thousands of projects. In doing so, some had accumulated substantial debt to multilateral and bilateral creditors, to the point where the donors were engaged in a major effort to write down those debts. For many of the world's poorest countries, the record of development and of development assistance seemed dismal.

As a community, donors responded in the last decade with new efforts to assess their own policies and practices. The end of the Cold War made it possible to imagine ensuring that foreign aid could more directly address fundamental development problems. As a result, there have been not only new calls to increase the volume of development assistance, but new resolutions to reform the process by which assistance is designed and delivered.

In this paper I focus on the "sins" of donors as a community in the hope it will enrich the ongoing discussion of reform of what might be called the "business" of development assistance. I deal with the shortcomings of the donor countries as providers of development assistance, leaving aside in this paper their shortcomings in such other areas as trade, security, and international migration that also affect the developing countries (what the donors have come to call the need for "policy coherence.").[1] In referring to donors and the donor community I refer both to bilateral donors and the World Bank, the IMF, and other international institutions that provide credit at below-market rates to developing countries, and whose policies and practices are heavily influenced by the rich countries.

My purpose is not to condemn the donor "sins" but to put them on the table for discussion. Some "sins", such as the tying of aid to a donor's own services and goods, the suboptimal allocation of aid[2], with more to middle-income countries and to countries of geostrategic importance than a strictly development perspective would justify, and the inadequacy of the HIPC program (for heavily indebted poor countries), are already on the reform agenda of the official community and I do not discuss them here.[3] After more than a decade of declines in total foreign aid, commitments on amounts of aid have increased, both in the U.S. and in Europe, so I

[1] On these broader issues, see Birdsall and Clemens, 2003; and Center for Global Development and Foreign Policy, 2003, as well as Cline, 2004 and other materials at www.cgdev.org.
[2] Collier and Dollar, 2002, outline a model of optimal allocation of aid, given the objective of reducing poverty and the constraint of effectiveness based on local institutional and policy capacity.
[3] On the need for further deepening and extension of the Enhanced HIPC program, see Birdsall and Williamson, 2002. Even the issue of how to define and assess the "sustainability" of debt of low-income countries remains unresolved; see Cline, 2003 and IMF and IDA, 2004.

refer only briefly to the inadequate quantity of aid. Instead I concentrate on problems with the "quality" of aid, especially those on which there is illuminating new research the implications of which have not yet been adequately or explicitly incorporated into the donor community's reform agenda. The problems with aid quality matter tremendously because research indicates that they reduce considerably the effective value of the aid that is transferred, and in the most aid-dependent countries may well mean that the way the "business of aid" is conducted actually undermines those countries' long-term development prospects.

The order in which I discuss the sins is not an indication of their importance. Ideally I could suggest priorities, based on the marginal benefits in the effectiveness of aid of correcting a sin, given the marginal political or financial cost to the donors. But there is no good basis for doing that. Similarly, I do not pretend to sort out the many tradeoffs donors face in addressing these shortcomings; for example would more willingness to "exit" with big money undermine efforts to reduce impatience and aid volatility?

The sins I discuss are, in the order in which I address them:

#1. Impatience (with institution building)
#2. Pride (failure to exit)
#3. Ignorance (failure to evaluate)
#4. Sloth (pretending participation is sufficient for ownership)
#5. Envy (collusion and coordination failure)
#6. Greed (stingy and unreliable transfers)
#7. Foolishness (underfunding of regional public goods)

A brief concluding section summarizes possible "fixes" for the sins of the donors.

#1. Impatience with institution building

The purpose of development assistance is to reduce poverty by contributing to sustainable and equitable growth. The logic of assistance has rested on various changing ideas of the sources of growth.[4] For the first several postwar decades, development experts emphasized augmenting a society's physical capital or "hardware" – its dams, roads and power plants. Financing of infrastructure, following the success of the Marshall Plan in Europe, was meant to deliver quick and visible results for newly independent post-colonial governments. Then, during the 1980s, following the oil shocks and the build-up of unsustainable commercial debt by many developing countries, the focus of assistance shifted to using donor funds as a kind of benign bribery to induce governments to hew to fiscal discipline and to pursue liberal economic policies – including trade and financial market liberalization, and reduction of the role of the state through privatization and

[4] In describing the stages I have rather liberally lifted text from Birdsall and Subramanian, 2004.

deregulation. But liberalization and adjustment failed to help many countries reduce the ranks of their poor, so in the 1990s the development community gave up on the expectation that growth would automatically trickle down and turned to health, education and other investments meant to directly reduce poverty. But in Latin America and in much of Central Asia and sub-Saharan Africa, growth remained low and poverty stubbornly high, despite high rates of public investment, liberalization of policies, and increased public spending on social services.

Now development theorists are emphasizing the "software" of an economy: the institutions, customs, laws and social cohesion that help to create and sustain markets.[5] Good software can come in many forms, ranging from the European Union's independent central bank to the ingenious Chinese experiment with the village enterprise system.[6] In some societies it can take less tangible forms, such as the longstanding trust that exists between private contracting Chinese parties that fueled growth in Malaysia. In other societies, it takes the form of legally enforceable property titles and contracts and an uncorrupted court system.

Conversely, it is becoming increasingly clear that economies without the right institutions, or software, will falter. Poor supervision of banks can lead to financial crises; civil service systems without performance standards and rewards undermine public services; and abuses of property rights discourage the creation of small businesses.

So development can be thought of as a process of creating and sustaining the economic and political institutions that support equitable and sustainable growth. Development assistance is more likely to be effective in settings where there is evidence that that process has already taken hold. (I return below to the evidence that aid is most effective where "policy" is good.) That is one justification for the donor community's interest in concentrating aid ("selectivity") in countries on the basis of country performance on such indicators as "ruling justly, meeting the needs of people, and creating an investment-friendly environment for small businesses", to use language describing the criteria used for allocation of funds from the U.S.'s new aid program, the Millennium Challenge Account (MCA).[7]

But what about the great majority of developing countries, where political and economic institutions are by definition (as they are developing countries) weak, yet where the poverty and lack of opportunity of millions of people cannot easily be ignored? These include not only the recently failed states, such as Somalia, Afghanistan, Sierra Leone and Liberia, but another 50 or more states that are "weak"

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[5] A good example is Acemoglu, Johnson and Robinson, 2004. See also North, 1990.

[6] Rodrik 2003 cites other examples from China, to help explain its success outside the boundaries of conventional wisdom.

[7] In the case of the MCA, and of the U.S. special program to support countries' programs to fight AIDS, 16 and 18 low-income (using the World Bank definition) countries respectively out of a possible 80 or so have been chosen to receive resources.

(the term used in the 2004 report of the Center for Global Development) or "poorly performing" (used in work of the Development Assistance Committee of the OECD) or "under stress" (LICUS—low-income countries under stress—used in a report by the World Bank).[8] Most of these are low-income (as opposed to middle-income) countries with large proportions of poor people – not surprisingly since by definition they have not got the institutions critical to ensuring sustainable growth.

In the case of recently failed states, the donors have not generally had patience for the long-term challenge of building new institutions. The example of Haiti, where the donors (and here the U.S. is especially culpable) entered in the mid-1990s with the return of Jean-Bertrand Aristide, only to then exit within a few years, and have now re-entered, is not encouraging.[9] Nor is the current situation in Afghanistan, where donors are not now meeting their commitment of pledged assistance, or Liberia. The evidence is that external financing surges in the first year or two after resolution of a conflict, but then tails off just when it might better be absorbed as institutions begin to take hold.[10] One problem is that aid is budgeted annually in the donor countries while nation-building takes predictable and continuous support over many years. In addition, nation-building requires spending on high-risk programs such as police and security assistance the immediate benefits of which are less visible and less attractive politically than humanitarian assistance or reconstruction of infrastructure.[11]

Possibly less defensible is the limited success of donors over the last three and more decades in supporting institutional development in the many more countries now variously labeled above as weak or poorly performing. They are in what might be called the grey zone – with functioning governments but gaps in their legitimacy, their capacity, and/or their ability to maintain security which fundamentally reflect institutional weaknesses.[12] Consider how donor impatience avoids and even undermines the challenge of building institutions in these countries.

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[8] The terms are used in, respectively, Commission on Weak and Failing States, 2004; Poor Performers: Basic Approaches for Supporting Development in Difficult Partnerships, 2001; and World Bank Group Work in Low-Income Countries under Stress, 2002. The first report refers to that of a high-level commission in the U.S. sponsored by the Center for Global Development, in which failed and weak states were defined as, respectively, those states with all three or at least one of three capability gaps: a security gap (control of its own territory), a capacity gap (to deliver basic services), and a legitimacy gap (commanding general respect of its citizens). Even India and Bangladesh are included in this group, in the case of India because of internal conflict. But at least India and Bangladesh along with China are enjoying relatively high growth compared to Pakistan, much of Central Asia and many countries of Africa, and it is in the latter group that fertility remains high creating the risk of continued increases in the absolute number of the world's poor.

[9] Weinstein, 2004 argues that in some cases it may be better for the international community to hold off on intervening before countries in conflict have struggled politically toward a new internal equilibrium. Here I am discussing impatience however not with an initial intervention, where the tradeoff with saving lives may be particularly difficult, but with post-conflict development assistance.

[10] Collier and Hoeffler, 2002.

[11] Greater support for police and other forms of security assistance are included among the recommendations in the report of the Commission on Weak States and U.S. National Security, 2004. See CGD 2004.

[12] See footnote 6 above.

Impatience for "results" has led to programs and projects in which monitoring focuses on visible short-run inputs (such as purchase of goods and issuing of contracts), and sometimes intermediate outcomes (such as an increase in government spending on social programs). In the best but rare cases the emphasis is on actual results that can be attributed to new or changed inputs financed or inspired by a donor, such as a reduction in infant mortality, an increase in what students are learning in school, or a decline in the cost of transportation due to an adequately maintained road. A focus on results of this kind would require donors to sponsor much more impact evaluation, the rarity of which is another sin that I discuss below. In general, however, impatience for results leads to reluctance to invest over the long-term (and outside the confines of donor-sponsored programs and projects) in local capacity to do budgeting, personnel management, auditing, accounting, and other nuts and bolts functions – which require and reinforce institutions, but which do not yield obvious immediate results.

Impatience to disburse money and see something happen precludes attention to the fundamental institutional problems, such as political patronage influencing teacher placement in the case of education programs, or vested interests preventing banking sector or judicial sector reforms.[13] Part of the problem is that bilateral donors work from annual budgeted amounts by their legislatures, and fear that their inability to spend down authorized amounts will be judged as their own ineffectiveness or poor planning. Even the World Bank and the other multilaterals face pressures to meet annual disbursement goals. (Financial policy developed decades ago requires that borrowers pay charges on undisbursed funds—with some reason, given that the banks need to increase their liquidity and reduce earnings on their assets when disbursements are imminent. Whether "the commitment charge" creates the wrong incentive is thus an issue in itself.)

Impatience to disburse money, combined with the benefits of tying aid spending to domestic contractors, also explains the longstanding tendency of donors to prefer financing "technical assistance" in the form of their own consultants, and the related disinterest in financing long-term (more than one year) education and training of developing country students and professionals.

Persistence of Project Implementation Units (PIUs). In their impatience to implement "their" projects, donors continue to constitute special units outside of the recipient country governments, as a mechanism to bypass the bureaucratic, salary and other constraints of recipient governments. Research shows that hoped-for better (or faster) results do not outweigh salary distortions and the opportunity cost of failing to ensure that projects and programs are ultimately incorporated into the

[13] For all its value, even the recent emphasis of the World Bank and its partners on expenditure monitoring in the context of PRSP programs does not in itself go to the heart of the problem.

government's own budgeting, staffing and other institutional arrangement which provide for continuity.[14]

Impatience for policy change leads donors and official creditors to abstract from the political constraints reformers face in their own governments – sometimes undermining the efforts of reformers rather than supporting them. Willful naivete about political reality may help explain why many structural adjustment programs supported by the IMF and the World Bank, and endorsed by the larger donor community, have failed to generate growth. As Easterly (2002a) reports, many countries have had a dozen or more separate adjustment loans over less than a decade – leading to an accumulation of debts but no measurable improvement in their policies, or presumably in the institutional arrangements on which policy reform depends.[15] Indeed, adjustment loans could be said to elide completely the challenge of institution building in the weak states that are not growing, so that even where they are associated with policy improvement (for example with the improved macroeconomic environment in many low-income sub-Saharan countries), they have not been associated with sustainable growth. In the worst cases, impatience leads to waivers of conditionality altogether, also eliding the problem of institutions; the repeated waivers of conditionality regarding taxation of agricultural land (resisted fiercely by large landholders) in World Bank and IMF adjustment loans to Pakistan throughout the 1980s and 1990s are a good illustration. In Pakistan, and often in Africa and Latin America as well, misguided hope for an immediate breakthrough with a change in government, despite institutional stasis, eclipses the wisdom that experience and more explicit analysis of institutional problems should dictate.[16]

<u>Donor fixes.</u> An important lesson is that institution building has to be local, i.e. to respond creatively to local constraints and opportunities. Donors can provide financial encouragement for countries to address what Rodrik calls "first-order economic principles" or "functions" such as protection of property rights, appropriate incentives and sound money.[17] But they have generally failed when they have pushed specific institutional packages for carrying out those functions. The judicial system, the parliamentary rules, the financing of health care that work in one country may not work in another. The failures have inspired the new emphasis of donors on recipient country ownership of their own reform programs, an issue I return to below in the context of another donor sin.

On the positive side, the idea of more selective lending embodied in the MCA, and of higher amounts of lending as a function of policy and institutional capacity embodied in the Country Policy and Institutional Assessment, or CPIA, the World Bank measure used to allocate its scarce concessional resources, has an

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[14] See World Bank, 2004, pp. 205-206 for examples from Bangladesh and elsewhere and citations to relevant research.
[15] See also Chart 2A from Easterly, 2002a.
[16] For an excellent if depressing analysis of prolonged lending by the IMF, including the story in Pakistan, see IEO, 2002.
[17] See for example Rodrik, 2003 and Rodrik, 2004. See also Hausmann and Rodrik, 2002.

important benefit, independent of whether it is justified by the evidence that aid is more effective in some settings than others.[18] It creates an incentive for countries in the grey zone to climb the ladder toward first-order economic and political principles – without dictating the institutional form for doing so.[19] If fully transparent these measures can catalyze local civil society or legislative or private business pressures for the changes that would bring greater external assistance – and which may be also key to creating or strengthening critical institutions.[20]

It is revealing that the CPIA and the MCA criteria say more about the policies and practices that good institutions help sustain (e.g. sound money, freedom of the press, rule of law) than about the construction or strengthening of the relevant institutions themselves. Perhaps that reflects the inherent difficulty of measuring "institutions". That difficulty may explain why there is some inconsistency in the ranking of developing countries across different measures. For example, several countries eliminated from the MCA due to the corruption criterion or insufficiently high rankings on other criteria are in the first or second highest quintile of the CPIA measure (Bangladesh, Albania, Burkina Faso, Mauritania). And of countries ranking in the top two quintiles of the CPIA measure, Vietnam and Pakistan are in the bottom two quintiles of "legitimacy", and Senegal, Mauritania, Burkina Faso and Mali among others are in the bottom two quintiles of "capacity", using available measures (see Charts 1A-1C).[21]

Also on the positive side, donors are moving in the direction of providing large inflows of budget support (including in the form of debt relief) and sector-wide support for relatively good performers. Time will tell whether donors remain patient with the risk that countries' "performance" will not be sustained or that "results" will be limited in the short run.

But the challenge remains how to help the many developing countries with limited institutional capacity and thus limited ability to absorb large infusions of external aid – including not just the poor performers but in fact today's good performers, many of whom though willing are likely to suffer setbacks because their institutions are also fragile. Many low-income countries that have qualified for the HIPC debt relief program fall into this latter category of willing but weak, including such good performers as Ghana and Bolivia. In those countries, the use of new delivery mechanisms that are more accordion-like would make sense. These would

[18] I discuss that evidence in the section on "ignorance".
[19] Radelet, 2004 describes the MCA criteria and analyzes their implications for country eligibility.
[20] The MCA criteria are transparent though not the final country choices of the U.S. Government (see Radelet, Lucas, and Bhavnani, 2004). The CPIA is not transparent; the exact quantitative basis for countries' scores is not published, but only the quintile in which each country falls. The CPIA incorporates a partial measure of "institutions".
[21] In its report on weak states and U.S. national security, the Center for Global Development put countries into quintiles of "legitimacy" based on the Kaufman, Kraay, and Zoido-Lobaton (2002) measure of "voice and accountability", and quintiles of "capacity" based on the immunization rate. See CGD, 2004.

allow for small initial transfers but build in predictable and automatic increases tied to transparent indicators of increasing absorption capacity.[22]

But the real fix will only come when the donor community admits how fundamental the challenge is. If institution building in weak states is at the heart of development, then development assistance has to support the creation and strengthening of institutions – a long-term project that requires patience – along with a willingness to accept risk and the stomach for lack of observable short-run progress.

(A related reflection on donor impatience and the Millennium Development Goals)

On the positive side, the Millennium Development Goals allow for and invite a relatively long planning horizon. The forthcoming report of the Millennium Project is likely to put a healthy emphasis on a ten-year planning horizon, and on current investments in institutional capacity to absorb the future infusions of resources without which the goals cannot be met in the poorest countries.[23] On the negative side, countries that by historical standards are succeeding beyond measure, such as Burkina Faso, Mali and Uganda[24] (see Chart 1D) are currently characterized as "off-track" on such measures as education and infant mortality in UN reports (e.g. the Human Development Report of 2003, which uses a simple linear measure of trends), and unless they can accelerate progress even more dramatically will not meet certain of the goals by 2015. For example, Burkina Faso is "off-track" from meeting the goal of universal primary schooling by 2015. The net primary enrollment rate was just 35 percent in 2000, and by one estimate (extrapolating from historical experience of more than 100 countries which takes the form of a logistics curve; see Clemens, 2004) would reach "only" 59 percent by 2015. However, compared to the historical performance of today's rich countries, that rate of progress would be impressive. It would roughly match South Korea's progress between about 1945 and 1955,[25] but far outpace the progress of the U.S., which, starting at Burkina Faso's current enrollment rate of 42 percent, took 30 years to increase its rate to 57 percent (Chart 1E).

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[22] The current 7-year and longer projects supported by the World Bank and the regional development banks are reasonably good examples. But the pressure has generally been for them to meet disbursement schedules and disburse "on time", when patience by the banks to wait out periods of poor performance would ultimately be more effective and less wasteful. Grants to non-government groups also make sense, particularly to support the advocacy and training that might create healthy pressure on government to adhere to first principles. An example would be support for groups demanding election reform or campaigning for freedom of the press. My impression is that donors are already moving more in this direction, though the data to show that are difficult to put together.
[23] The draft synthesis report is available at http://www.unmillenniumproject.org/html/about.shtm.
[24] See Clemens, 2004, on education, and Clemens, Kenny and Moss, 2004 on education, infant mortality and other goals.
[25] Personal correspondence with Michael Clemens, and based on the assumption that the rate of increase in net enrollment in Korea (data for which are not available) tracked roughly the apparent rate of increase in gross enrollment in that decade.

Given our limited understanding of how to create and sustain the institutional setting that must complement additional donor transfers to achieve the goals in those countries, the MDGs create the risk that the donor community will succumb (even more) to the distortions that impatience creates. The MDGs should not become a lightning rod around which countries that have been unusually successful (compared to historical trends and given their income and institutional capacity) are, in 2015, characterized as "failures". Better that the MDGs become a lightning rod for ending donor impatience, so that additional donor transfers to the poorest countries can be more explicitly attuned to institution building. (As I will suggest below, that in turn implies that transfers have to be *predictable and automatic, linked only to benchmarks of progress* agreed with donors but set domestically.)

Under that arrangement, donors would have to exhibit patience when there are setbacks, and in some cases a willingness to hold back funds. That brings us to the second sin.

#2. Pride (failure to exit)

The impatience of donors is accompanied, ironically, by an inability and unwillingness to exit from programs and countries where their aid is not helping. By "exit" in this context I mean discontinuing new large grants and loans, not withdrawing from continuing engagement through dialogue, technical advice and even small transfers for training and technical assistance. (Impatience and inability to exit are not inconsistent. Impatience to spend money, even badly, is unfortunately fully consistent with an inability to stop big spending while remaining engaged.)

Pride (and bureaucratic politics, including coordination failures among donors, discussed below) have generally precluded exit as a way to minimize waste. Even the design of the Millennium Challenge Account indirectly reflects the difficulty of exit; it limits the risk of failure by restricting large transfers to recipient countries where there is minimal risk of failure. In recipient countries in the grey zone, where there is a reasonable but not high expectation of adequate performance, the donors once committed tend to let misguided optimism (and an enlightened commitment to "do something" for the reform-minded Minister of Agriculture or Health or Finance struggling in a weak or corrupt system) trump good judgment.

A telling example of the reluctance to exit is the repeated rounds of unsuccessful adjustment loans (of the IMF, the World Bank, and in most countries a regional development bank) to the 20 countries with the most adjustment loans over the 20-year period 1980-1999. Over that period, Cote d'Ivoire, Ghana and Argentina had 26-30 adjustment loans each, and Senegal, Uganda, Mexico, Morocco and Pakistan had 20-25 each.[26] (Chart 2A.) Perhaps some of those countries would have reformed even less or grown even less without the loans. But Easterly (2002a) finds no evidence of any effects of the programs these loans supported on policy change or

[26] Easterly, 2002a compiled these numbers.

on growth. The implication, as he notes, is that "new loans had to be given because earlier loans were not effective." That is also the unpleasant implication of the accumulated debt to the multilateral creditors of low-income countries which failed to grow, yet continued to receive loans in the 1990s which they were unable to service; these eventually entered the HIPC program.[27] Other evidence on failure of the creditors to exit is summarized in the 2002 report of the IMF's Independent Evaluation Office on prolonged lending. Prolonged lending is defined as lending to countries that have been under IMF arrangements for at least 7 years out of any 10. Along the same lines is evidence on repeated waivers of conditionality with cancellation and new loans with new promises reported in Bird et al. (2004) and Joyce (2005).

A donor fix. Engagement is possible without large flows of assistance. The threat of exit need not imply an unwillingness to finance small programs that focus on institutional support over the long haul and to continue engaging through external training programs and policy dialogue. Donors ought to be prepared more often to exit from support to governments that fail to meet commitments on structural reforms and on projects needed to ensure that growth is pro-poor. At the same time, withdrawal of financial support need not be seen as punishment for bad behavior, but as a reasonable decision to limit the extent to which donor aid is not generating any reasonable return. It makes sense even when governments are willing but unable to use money well, because of internal political constraints or temporarily insufficient absorptive capacity.

Work in the development assistance demands a "can-do" attitude. That leads structurally to enlightened but misguided optimism. Success is always just around the corner. A structural shift is needed: that the default position is to exit. Many more programs that involve large transfers could build in exit as the natural default, setting conditions for *continuing* support, e.g. that the recipient is meeting pre-agreed benchmarks. In some cases that might mean more emphasis on monitoring government performance in such areas as press freedom, protection of property, and micro-reforms to reduce patronage.[28] In other cases it might simply mean halting disbursements to a particular sector or project – unless and until agreed performance benchmarks are met.

#3. Ignorance (failure to evaluate)

Official and private agencies that develop and manage development assistance programs hesitate, with some justification, to advertise the limits of their craft. In the donor countries that finance assistance, suspicion that much such

[27] Birdsall, Claessens and Diwan, 2003 show that low-income countries with high indebtedness to the multilateral creditors received new loans even if they scored poorly on the IDA measure of performance.

[28] Using three to five-year contracts, exit as the default could be adopted by the Millennium Challenge Corporation in managing the MCA. Time will tell.

assistance is wasted runs high, and exposure of a program's current shortcomings could reduce its future funding.[29] Even if only a cover for lack of generosity, such suspicions are politically important. It is easier to limit than to expand foreign aid budgets, and in the interests of the latter, those who see and work with the urgent needs of people in poor countries have no obvious incentive to invest in long-term evaluation of what they do.

Moreover, rigorous evaluation of the impact of an intervention is costly. It is likely to seem a distraction for donor officials wanting to be sure programs get implemented, and add to the burdens of the limited number of experienced local staff. For many development assistance programs, there is also the attribution problem. Without baseline information and a controlled experiment, it is difficult to attribute program success or failure to the programs themselves, as opposed to the environment in which they operate and the unpredictable shocks, positive and negative, that influence their effectiveness. Those who develop and manage assistance programs are cursed with their own intimate knowledge of this particular complication, and are understandably wary of subjecting their work to the crude political criticism and limits on new resources for aid programs that transparent evaluation might trigger.[30]

That may explain why, in 50 years of postwar foreign aid, systematic evaluation of aid projects has been so rare.[31] Though the donors have financed billions of dollars worth of projects, few have had built into them the ingredients for a systematic evaluation. The exception is in the field of public health, where the tradition of epidemiological studies using controlled experiments led to such

[29] It is true that such suspicions seem less powerful in Western Europe than in the United States, Australia, and Canada. (Of 21 rich countries, the latter three rank 19th, 13th, and 10th in the size of their public foreign aid budget as a portion of their economy in 2002.) Various theories have been suggested to explain the persistent differences across donor countries in the amounts of public foreign aid. One is that where tolerance for income inequality varies across countries, and that where such inequality is higher it is associated with the view that people get what they deserve and if they are poor in faraway places perhaps that is all they deserve. The other is that the form of government in the United States, in which it is possible to have an opposition party controlling the legislative branch, is particularly unfriendly to foreign aid. See Lancaster, forthcoming. Goldstein and Moss, 2003 show that in the U.S. the most auspicious arrangement for a higher appropriation of foreign aid has been a Republican in the White House and the Republican party in control of the Senate and the House of Representatives.

[30] The official agencies do sponsor internal ex post assessment of the interventions they finance. The World Bank has, for example, its OED (Operations Evaluations Department), as do the other multilateral banks and the bilateral aid agencies. The International Monetary Fund recently established an Independent Evaluation Office (IEO), though it took over 50 years before it felt the need to do so, finally responding to the pressure of civil society groups highly critical of its adjustment loans and then its approach during the Asian financial crisis. These offices do a creditable job (the first studies of the IEO are impressive). However their studies are subject to the review and comment not only of staff in the institutions but of the countries whose programs are often the subject of the evaluations. There is a natural process of minimizing the harshness of language, the awareness of which rebounds back to those undertaking these "evaluations". More to the point, it is difficult for these internally sponsored evaluations to deal with some fundamental problems: lack of a baseline against which to judge an intervention, and of course lack of a counterfactual.

[31] As Pritchett, 2002 suggests, sometimes it seems to "pay to be ignorant."

programs as that in Matlab Thana, Bangladesh, and the evaluations of bednets to prevent malaria in Tanzania and of the onchocerciasis program in West Africa. But even these are exceptions that prove the apparent rule that it is more convenient and less risky politically to minimize serious evaluation.[32] (Other large interventions that have been systematically evaluated include the Progresa program in Mexico, and a series of federal and state job and welfare programs in the United States. These are government-sponsored evaluations of their own programs; in both settings the evaluations have helped build the argument for sustaining spending on programs for the poor.[33])

Beyond the question of project success is the question of whether in aggregate aid transfers can be associated with faster growth, more poverty reduction, or improvements in social indicators at the country-wide level. Two new lines of research suggest how important this question is. One is research on the relationship between aid and macroeconomic variables in recipient countries, particularly in those highly dependent on aid – i.e. where aid constitutes as much as 10 percent or more of GDP. Analysis suggests, for example, that aid in grant (but not loan) form is associated with lower domestic revenue mobilization; as much as 10 percent of grant inflows may be offset by revenue reductions (Gupta et al., 2004), and more in countries with weak institutions. This result raises a larger and more difficult question: Does the existence of an alternative source of revenue make it difficult for citizens, voters, Parliaments, civil society groups, to hold central governments accountable? Do aid inflows undermine local governments, by making them more dependent on transfers from the center? Does aid create some of the same problems of concentration of unchecked power that result from oil and other mineral resources?[34]

Aid also may induce Dutch disease; the evidence is weak but worrying. Aid inflows are correlated with currency appreciation, and in aid-dependent countries the tradable sector shrank dramatically between 1985 and 1999 (Bulír and Lane, 2004). This sort of evidence does not necessarily mean that aid has no overall positive impact. It does, however, mean that donors ought to pay much more attention to the composition of their transfers (ironically the trend is to increase still more the already high proportion of aid that comes in grant form, to avoid future debt build-up in aid-dependent countries), and to ensuring that the type and timing of aid do not offset its potential value because of effects on domestic resource mobilization or on the currency.

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[32] See Levine et al., 2004. This study sponsored by the Health Policy Research Network of the Center for Global Development was based on the 17 (of many more) scaled-up health interventions in the last several decades that had adequate evaluations to be judged successful.
[33] Within countries, the risks of exposure of programs that have not worked well is obviously mitigated by the immediate benefits to some groups that even an ineffective program (in cost terms) brings, and by the ability of a government to control its own exposure including by rapidly incorporating program adjustments.
[34] Birdsall and Subramanian, 2004, advocate distribution to people of oil profits, even in circumstances where much of the household income would have to be taxed, since the tax system creates the potential for taxpayers to hold government accountable.

The second line of analysis takes advantage of variation across countries and time to extract information on where and under what circumstances "aid" (defined as total inflows from all donors and creditors) has mattered for growth of GDP.[35] The best-known apparent conclusion of these studies is that aid increases growth in countries with a good policy environment (and presumably reasonably sound political and economic institutions to manage good policy), but not elsewhere. That conclusion has deeply influenced the design of the United States' new Millennium Challenge Account, and helps justify the World Bank use of measures of country policy and institutional capacity to allocate its limited soft money grant and loan resources in the IDA window across countries. It has also generated considerable rethinking by the donor community of how to operate in countries that are "poorly performing". However, in two recent papers, Easterly, Levine and Roodman (2004) and Roodman (2004) have shown that the conclusion (and conclusions of other well-known studies (e.g. Hansen and Tarp 2000) are not robust to later data now available, among other problems. Meanwhile Clemens, Radelet, and Bhavnani (2004) have more recently shown that aid transfers associated with investments likely to have immediate impact (e.g. aid for roads as opposed to aid for education and health) may well have positive effects on growth in a wide range of countries, poorly performing or not.

In short, the verdict on aggregate aid transfers is far from clear, at least as far as effects on growth are concerned. Even if individual projects financed externally are effective, is aid overall effective? If certain types of aid are good for growth (in the subsequent five years, using the Clemens et al. measure), does that imply that aid has supported the creation of sustainable and effective local institutions?

The question of whether aid meant to improve education or health or other more direct measures of well-being – has contributed in the aggregate to country-level indicators of progress in those areas – has not been addressed. The main obstacle to doing so has been that the data have not been collected and reported by the donor data group (at the Development Assistance Center of the OECD) in a way that would make it easy for independent researchers to tack this subject.[36] The documented successes of a few large-scale health programs, noted above, suggest that technology transfer, no doubt including with donor assistance, have been much more important than income gains in explaining health progress in developing countries. Evaluation of sectoral programs would probably be much less likely to embarrass the donors than the conventional studies of the effect of aid on economic growth.

It is no accident that these studies of the effects of overall aid transfers have been undertaken in the research and academic communities, after the fact. With the

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[35] Best known are Burnside and Dollar, 2000. Easterly, Levine and Roodman, 2003 provide a more general and highly critical overview.

[36] Clemens, Radelet and Bhavnani are now working on organizing available data in order to tackle this subject.

possible exception of the World Bank, which has supported its research group's work on aid effectiveness, they do not reflect any broader systematic effort in the donor community to attack the sin of near-willful ignorance. [37]

The multilateral banks do fund internal ex post assessments of the projects and programs they finance (as in the IEO and OED studies of the IMF and World Bank[38]). But they face tremendous attribution problems, and their results and implications are rarely immediately internalized in new decisions, especially if they challenge conventional wisdom or raise awkward questions regarding donors' strategies.[39] Examples include the HIPC program of debt relief, in which even the second "enhanced" funding has (predictably, given the optimism of the original projections) not been adequate to ensure debt sustainability of the recipient countries[40]; the continuing failure of the PRSP (Poverty Reduction Strategy Papers) approach to deliver donor coordination and country ownership[41]; and the structural adjustment programs of the IMF, the World Bank and other donors discussed above. For all of these, it has generally been independent studies that have created the pressure for enhancements and adjustments. It was independent criticism of the first HIPC program that impelled the changes incorporated into HIPC II, and it is independent assessments that are contributing to another round of discussion of the definition and thresholds for measuring the sustainability of low-income country debt. It is outside observers that have raised tough questions about whether HIPC financing is "additional", and about the cold logic of donors with limited funds restricting HIPC to the generally small (compared to Nigeria, Pakistan and Indonesia) IDA-only countries.[42] Killick (2004) notes that the OED's 2003 evaluation of the HIPC initiative, "does not overtly spell out the implications of its findings for the likely developmental effectiveness of the assistance in question", though "the implications are barely below the surface and are negative." He goes on to present evidence that the program has not been additional, has tended to redistribute limited aid funds toward heavily indebted countries at a cost to countries like Bangladesh where resources might be more effectively used, and has led to a concentration of government and aid resources on social spending which may be diverting attention from the structural weaknesses that are impeding growth.[43] Killick summarizes his study of HIPC and other new donor initiatives as "not well-

[37] The World Bank ought to be saluted for continuing to support this work, though researchers there have published their studies despite more than because of interest within the Bank, let alone any eagerness on the part of the Bank's shareholders, either non-borrowing donor or borrowing recipient countries.
[38] See footnote 28 above.
[39] For an example, see Birdsall, Vaishnav and Malik (in process), on the World Bank's decade of lending for poverty reduction in Pakistan.
[40] Birdsall and Williamson, 2002; Birdsall and Vaishnav 2004.
[41] OED, 2004. The OED report does not use the term "failure" but the evidence it presents can be so interpreted.
[42] For discussion and definitions see Birdsall and Williamson, 2002. For a recent conclusion that the financing is not additional, see Killick, 2004.
[43] At least Killick's work was in part supported by OED though of course he is himself an independent researcher, since in a footnote he thanks the OED for support.

based empirically. . . partly because of inadequate knowledge, but particularly because the evidence often conflicts with political preferences."

Though understandable, the lack of emphasis on good evaluation has been and continues to be immensely costly. In the absence of timely, credible, and independent evaluation, many aid dollars have been misdirected. It took more than a decade before the IMF "discovered" the repeatedly waived conditionality of its often failed adjustment programs in poor countries – and only then when the multilateral debt of the poorest countries had become so high that the IMF and World Bank were pressed into what appeared to be "defensive lending."[44] By then the question of whether conditionality was working at all in many countries had been on the table for some time; even today the IMF's own reform of its approach to conditionality in the low-income countries seems focused on the mechanics of reducing the number of conditions rather than on facing the real issue of whether and when to pursue programs in settings where governments are unlikely to implement promised reforms.[45]

A donor fix: An independent evaluation fund.[46] Evaluation is critical to effective use of hoped-for increased donor transfers to help poor countries meet the Millennium Development Goals. The critical ingredients for evaluation of development assistance are that it be *independent*, *collectively agreed* and financed by a *minimum set* of the large multilateral creditors and bilateral donors.

Independent evaluation of the effectiveness of the World Bank and other multilaterals has been called for by groups on the left, right and center, including in the last few years a commission of the Overseas Development Council, the Meltzer Commission, and a commission of the Carnegie Endowment (see Chart 3A.) Donors could finance an independent entity, which would in turn finance evaluation of selected donor-financed programs. Financing could be provided in the form of a small tax on each donor's total annual disbursements. A tax of 0.05 percent on $60 billion a year would generate $30 million for evaluation – a large amount given spending would complement not substitute for existing internal evaluation programs (the World Bank's budget for its evaluation office is about $20 million a year – see 3B).

A *collective* decision, once agreed, would help lock in donor agencies to the good behavior of more and better evaluation, perhaps partly insulating specific programs from the political pressures associated with initial negative evaluation findings, which the agencies justifiably fear. It would allow for much more rapid and less costly adjustment when findings are negative, minimizing the risk of prolonging misguided approaches, which in the end may come back anyway to harm

[44] Birdsall, Claessens and Diwan, 2004.
[45] See the IEO 2002 report on the prolonged use of IMF resources.
[46] An independent working group sponsored by the Center for Global Development is currently exploring options for increasing and strengthening evaluation of donor-financed social programs. This is this author's initial idea only.

development assistance efforts politically, and which meanwhile have high opportunity costs in foregone well-being of the poor. And the visible independence of evaluation results that are good would build the political case for increased financing.

To minimize the risk of creating another bureaucracy, an ex ante "fee" or "tax" on disbursements could be channeled to an entity which would in turn periodically commission third-party independent studies. A *minimum set of the large donors*—at least four or five would have to participate to insulate the entity from the natural pressures that funding from only one or two donors or agencies would create, and to allow for studies across countries and types of programs and donor modalities.

#4. Sloth (pretending "participation" is sufficient for "ownership")

It took too long, but experience and empirical analysis led to the recognition in the 1990s that the conditionality typically included in World Bank and IMF loans (and often implicitly or explicitly followed by other official creditors and donors) was not effective, except where it was in effect irrelevant.[47] Good policy apparently cannot be imposed or even encouraged by bribe-like transfers. Good policy, as the discussion of institutions above suggests, seems to be the outcome, at least partially, of the "software" of a society, which in turn is a function of history, geography, customs and other factors that, though malleable in the long run, are difficult to change in the short run. Apparently a country's "ownership" of a reform agenda is the key to implementation of reforms, and not the apparent enforcement of implementation through loan conditions.

But that discovery led to a new kind of simplification (in practice if not in conception), namely that "participation" of citizens through civil society groups is sufficient to secure "ownership". The misguided imposition of policy conditions morphed into the misguided imposition of "participation".

In principle the logic of widespread participation in setting a reform agenda makes sense. The theory is that reforms that are not politically feasible will not endure, even if they are implemented (itself unlikely). The expectation of economic actors that reforms will not endure in turn undermines the credibility of promised reforms and thus their potentially positive effects on investment and growth. (Encouraging participation also was seen as a healthy if modest step in building democratic institutions where they do not exist.)

But the prevailing approach to participation, as demanded by donors, has been narrow and apolitical. In practical terms it has relied mostly on engagement of civil society groups in discussions of proposed government programs (including the PRSPs). In this form it overlooks the deeper challenge of creating or strengthening

[47] For example, see Collier et al., 1997 and Gunning, 2000.

durable political mechanisms for resolving disputes and tradeoffs.[48] Members of minority groups and the truly poor are often excluded from apparently open discussions, reflecting the reality that participatory efforts alone are unlikely to alter the prevailing distribution of power and influence.[49] Democratic governments, particularly in Latin America, argue that emphasis on civil society, especially where large inflows of external funds were concerned, undermine the role of their own legislatures and of local governments in the give and take of political decision-making about economic issues.

It would be wrong to condemn the idea of greater participation in itself. But equally it would be wrong to delude oneself that participation creates or indicates political and social ownership of major reforms.

Moreover in the case of the IMF and the World Bank, the initial and principal purveyors of conditionality, ownership of country reforms at the country level is made more difficult by the lack of real ownership of the institutions' own policies and practices. Dervis (2005, forthcoming) explains the difficulty of pushing through IMF-supported reforms during Turkey's financial crisis of 2000-2001 because reforms "demanded" by the IMF were seen as representing the interests of foreign banks and businesses. The problem is obvious and analogous to that at the country level: Though developing countries "participate" in the governance of these institutions, they cannot be assumed to "own" the institutions' overall policy approach, given their limited voting shares and limited influence in choosing the leadership of these institutions. Budget decisions and decisions regarding use of net income are different in the Inter-American Development Bank, where borrowers have more votes, more influence, and more ownership.[50] (See Chart 4A.)

A donor fix. Donors could experiment with the "foundation" approach,[51] under which the donor and financier would respond to proposals from governments (and non-government groups) rather than themselves proposing and shaping programs. This passive stance assumes the proposer "owns" the program to be financed; it is one currently used by the Global Fund to Fight Aids, TB and Malaria (from which after a couple of rounds the official donors could learn something about its merits and problems) and is to be used by the U.S. Millennium Challenge Corporation (at least that is the idea.) It is probably not, however, a full solution to a complex problem.

What is more fundamental is for donors and particularly the IMF and the multilateral banks to acknowledge that the market reforms they advocate require tough political changes in countries – in many cases because they are ultimately pro-

[48] There is also the problem that women and members of minority groups are often excluded from the discussions, reflecting the reality that the prevailing form of participation is in itself not likely to alter the prevailing distribution of social influence.
[49] Christian Aid, 2002.
[50] See Birdsall, 2003.
[51] Van de Walle, 2005, recommends this approach, while recognizing its dangers and its limits (pp. 90-91).

poor. Most sensible economic and political reforms are hard to do precisely because they violate the interests of powerful groups, and have no active political constituency. Reforms that are "owned" by reform-minded ministers or have been discussed with civil society groups will not necessarily get implemented. That implies that donors need to engage, before committing resources, in assessment of the interests of politically powerful stakeholders, the record of existing governments on difficult reforms, and its vulnerability to an ouster if it takes certain steps (see Chart 4B). Promises and "participation" are not an adequate substitute for political ownership, and are no better than traditional conditionality as guarantees of change.

Ultimately developing countries are more likely to be pushed along internally in the direction of market-based reforms and complementary pro-poor policies only when their own domestic political imperatives support it (often as their democracies deepen) and when some of the global institutions in which they "participate" are also more fully "owned" by them.

#5. Envy (collusion and coordination failure)

In contrast to the early days of development assistance, when for example the U.S. was the dominant donor (the only donor in the case of the Marshall Plan), recipient countries now cope with dozens of official creditors, bilateral donors, UN and other public agencies and international NGOs. All of these in turn operate in dozens of countries (more than 100 in the case of Germany, the Netherlands, the U.S., France, Japan and the U.K. – see Chart 5A). In each country, donors also typically operate in many sectors with many projects. Managing their "own" projects increases donor visibility, and doing so in many countries maximizes donor countries' ability to leverage the diplomatic support of small countries for their (and sometimes their candidates for high posts) in the United Nations and other international settings. In 2000-2002, the United States disbursed about $100 million of aid in Tanzania, financing 50 different projects at an average of just $2 million apiece (Chart 5B). With more than 1300 projects altogether in that period, and an estimated 1000 donor meetings a year and 2400 reports to donors every quarter, Tanzania several years ago announced a four-month holiday during which it would not accept donor visits.[52]

The donors are neither competing nor collaborating. They are in effect colluding – something easy to do for suppliers in the absence of a competitive market.[53] The proliferation of colluding donors (i.e. the tendency of donors to operate in many countries and in many sectors within countries) creates what is now

[52] Birdsall and Deese, 2004 use this example to introduce an essay on the current U.S. foreign aid program, which is largely unilateral in conception and implementation.
[53] Thus Easterly, 2002b labels the system a cartel of good intentions. "Once a collusive agreement (among donors) is in place, bureaucracies will not cheat on the agreement by supplying a larger quantity of foreign aid services at a lower price." (p. 10) Collusion also allows sharing the blame of failures, which dictates minimal effort at evaluation.

called donor fragmentation, the flip-side of donor proliferation, with the measure of fragmentation rising with the number of donors and the smaller their aid shares. Donors are aware of the resulting high transactions costs recipients face (with many different missions, reporting requirements, procurement rules, etc.), and the associated managerial costs for the government (lack of focus and accountability, and competition among sector ministries for external financing independent of overall government priorities). The donor response has been to work on harmonizing procurement and reporting rules among themselves, which is certainly a step in the right direction. But the cost to recipients of donor fragmentation goes well beyond the reduction in the monetary value of donor transfers of high transactions and managerial costs. With many donors competing with each other for visibility and quick success, donors are treating the limited public sector capacity (and the limited recurrent budget) of recipient countries as a common-pool resource (Brautigam, 2000), in effect undermining that resource rather than building it up. Donor proliferation and fragmentation (like impatience) are thus bad for recipient country *institutions* in the broadest sense of the word. Knack and Rahman (2004) cite "poaching" of local qualified staff by donors as an example, and find that recipients suffering higher donor fragmentation show greater declines in a measure of bureaucratic quality over the period 1982-2001. Their finding is alarming; it suggests that not only do donors not know how to encourage building institutions in the low-income countries – they may actually have contributed to undermining those institutions.

Ideally donors would form a common pool of funds[54], and then would compete with each other to finance the "best" proposals submitted by recipient countries, regions and other entities. Contributions of donors to multilateral funds such as the World Bank are a step in that direction since they reduce fragmentation at the recipient country level. But they do not create the healthy competition among donors in "buying" good programs and projects that would really put recipients in the driver's seat. Another option would be for donors to create market competition in the provision of aid. In a recent note prepared by the private sector group in the World Bank, the authors make the point that aid agencies can finance aid without providing aid.[55] Donors could "buy aid services" in a competitive market, generating competition among service delivery organizations, including in-country civil society and for-profit groups. To the extent some donors do now buy services, their purchases tend to be tied to home contractors – even if not officially, and that contracting rarely implies less of a presence of the aid bureaucracy itself in countries. At the least, this approach is worthy of some experimentation.

Regarding contributions to multilateral programs (Chart 5C), it is notable that the US, the UK and Japan among the largest bilateral donors in absolute spending, give less as a proportion of their own total aid budgets (and are in the top half of proliferators – Chart 5A), since their ability to spread greater absolute resources

[54] Kanbur and Sandler with Morrison (1999) define and elaborate on the idea of a common pool.
[55] Harford, Hadjimichael and Klein, 2004.

across multilateral and their own bilateral programs secures them influence in both settings.

Donors are well aware of their collective sin of "envy". The OECD Development Assistance Committee is sponsoring pilot programs of donor "harmonization" in eight countries, in which many of the donors operating locally have agreed to pool their financing for general budget support or for major support to large sector programs such as education. The idea is to minimize the burden on recipient governments of multiple and different negotiations, procurement and reporting rules, and disbursement procedures. The World Bank-led program of PRSPs in the HIPC countries grew out of a worthy effort to force donor collaboration by putting recipient countries visibly at the helm in defining their own poverty reduction strategy, as the single unified basis for coordinated donor support. The PRSPs in turn have become the basis for entry of otherwise eligible countries into the HIPC program of debt relief. The HIPC initiative itself is, by accident if not be initial intention, an excellent example of donor collaboration – in which donors as a group agreed on rules for eligibility and arrangements for implementation.[56] Donors have also recently sponsored and supported such "global" programs as the Global Fund to Fight AIDS, TB and Malaria, and the Fast Track Program for basic education.

Though the spirit is right behind these various "reform" efforts, the jury is still out on whether they are working for recipients, in reducing the costs of donor fragmentation, including the poaching of qualified local staff and the insidious distraction of local officials from managing their own resources and priorities to coping with donors. (Killick (2004) suggests that budget support, sector-wide programs and debt relief may not in fact have lower transactions costs for recipients than project aid.)

A donor (partial) fix. The most practical approach in the short run would be for bilateral donors to contribute higher shares to multilateral programs. More donors could try to concentrate their resources in fewer countries (the Nordics and the UK have announced countries where they will "concentrate" resources). More difficult but more fruitful would be a collective agreement to appoint lead donors in recipient countries (perhaps for limited periods coinciding with recipient government elections), with other donors providing financing but leaving management of the dialogue, monitoring, reporting and so on to the lead donor. That would at least make the lead donor more accountable for the period covered. Even this modest step in the direction of a new aid architecture seems out of reach however.

The focus on the MDGs may have the merit of indirectly ensuring that the low-income countries have more voice in the way the donor system works. (That is

[56] Birdsall and Deese, 2004 point out that one benefit of donor collaboration on the HIPC program is that the rules and transfers are somewhat less vulnerable to changes in the political environment within individual donor countries.

the spirit of goal 8, which sets out the responsibilities of the rich countries.[57]) Donors could also make themselves accountable as a group for their commitments on coordination by giving recipient countries access to some of the commonly financed independent evaluation funds (# 3 above), for periodic assessment and public reporting of each donor's cooperative behavior in their country. Until the evaluation fund is set up, the OECD DAC could make grants to policy groups in poor countries where many donors are active for this purpose, putting a priority on providing a high-level and public forum for reporting and discussion. Just as recipient countries have their behavior (including the level of "participation" in development of their PRSPs) scrutinized and discussed in the Boards of the IMF, the World Bank, and other international organizations, so might the behavior of donors be discussed. Ultimately, however, the idea of solving the problem by greater "coordination" needs to yield to much more fundamental change. The donors as a group should commission work on how they might, in practical ways, test the waters of a common pool and of "buying" execution of programs instead of direct provision with their own bureaucracies.

#6. Greed (stingy, and worse, unreliable transfers)

It is odd to accuse donors of stinginess, since by definition they are providing resources voluntarily, and any amount might be viewed as generous. On the other hand, given the claims of "partnership" (for example in the context of the Millennium Development Goals), the donors as a group are "stingy" relative to their commitments,[58] and worse are so unreliable and unpredictable that the value of their transfers is greatly reduced.

At an average of about 0.28 percent of donor GDP, development assistance spending by the rich countries is extraordinarily low compared to internal transfers. Most of the OECD countries spend at least 20 percent of GDP on transfers for investments in education, health and other quasi-public goods meant to ensure reasonably equal opportunities for their own citizens independent of citizens' income, and for money and in-kind transfers of food, housing and other goods and services as social insurance for families and to alleviate poverty. On the one hand, it is not surprising that internal assistance budgets are much larger than external ones. On the other hand, given increasing global interdependence, the rising concern after the 9/11 attack, and the huge (one-hundred-fold) gap between average income in the richest compared to the poorest countries, a one-hundred fold difference between domestic and overseas transfers suggests a stunning failure to adjust to a changed world.

Stinginess is also apparent in the tendency for donors to portray actual transfers as higher than they are. Of an estimated $20 billion reported by bilateral

[57] Birdsall and Clemens, 2003.
[58] See Center for Global Development and Foreign Policy, 2004, for information on how 21 rich countries ranked in 2002 on the "quantity" (as well as the quality) of aid.

donors as disbursements to the low-income countries in 2002, after subtracting about $7 billion for emergency aid and technical cooperation funds (spent mostly on donor contractors), and almost $3 billion in repayments of loans and interest, only 50 percent or $10 billion actually went to the low-income countries for direct support.[59] Donors are stingy even in relation to their own publicly agreed commitments. Only Denmark, Norway, Sweden and the Netherlands have met the goal of aid as a share of GDP of 0.7 percent to which all committed at Monterrey, Mexico (confirming even earlier commitments) in 2002.[60] Other European countries, including the UK, have increased their aid budgets since Monterrey, as has the U.S., but from levels still far below the 0.7 percent promise.

From the point of view of those managing the economies of low-income countries, as problematic as low absolute amounts is that donors as a group are *unreliable*. At the country level, donor financing has been volatile, unpredictable, and in the more aid-dependent countries procyclical – declining at times when countries need the external infusion most for example because of a commodity prices shock (and increasing procyclically when a country's own tax revenues are growing.)[61]

Lack of reliability for the recipient country is the result of two factors. First, changes in the foreign aid totals of different donors and in the objectives of the donors as a group affect financing for particular countries and programs. The diversion of funds of large donors for political purposes to one or another country reduces amounts available to other countries and programs. Financing for Iraq (in the case of the U.S.) and for AIDS prevention and treatment are almost certainly reducing aggregate financing now for some countries and for other health and non-health programs. Changes in donor strategy also affect flows. Killick (2004) reports evidence that non-HIPC countries saw a reduction in their share of total donor assistance from 56 to 24 percent between 1998 and 2000, implying a virtually certain reduction in absolute flows for those countries when donors decided to provide debt relief for the most highly indebted countries. There is also evidence that the new aid initiatives of the U.S., for the MCA program and for AIDS, are associated with reductions in absolute spending on longstanding programs managed by USAID.[62]

Aside from these large shifts, at the country level, aid inflows are uncertain because of the way the aid business operates – with actual disbursements at varying levels year-to-year below commitments, and highly volatile. In the case of Malawi in the 1990s, aid inflows bounced dramatically up and down in the 1990s, between 8 and 20 percent of GDP (chart 6A). This would be the equivalent in the U.S. of quintupling the deficit in one year, and then a year later absorbing a huge recession-like effect on jobs and incomes. In many countries in Africa, aid inflows exceed 10

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[59] United Nations Millennium Project, 2004 (draft).
[60] In the 1969 Pearson report, 1 percent of GDP was agreed to as the objective. That goal was eventually dropped as unrealistic.
[61] Bulír and Hamann, 2003.
[62] Bhavnani, Birdsall and Shapiro, 2004.

percent of GDP, 50 percent of total revenues, and as much as 60 percent of total new investments.[63] In these settings, the volatility of aid is systematically greater than the volatility of tax revenues, and clearly exacerbates the problem of economic instability – ironically creating challenges for economic management in the countries least able to cope financially because they are unable to borrow internally and because their fiscal and monetary institutions are beleaguered already.

The cost of unreliability is not only in the volatility of existing flows and the effects on existing programs. The higher cost may be the complete absence of otherwise highly effective programs. An example is financing of research on vaccines against malaria and other tropical diseases. In the absence of an apparently profitable market since the victims of these diseases are mostly poor and reside in poor countries, pharmaceutical firms have no incentive to produce them. Even where pharmaceutical products exist, if they are used primarily in developing countries, they will be more expensive and less reliably available because of the absence of guaranteed donor financing for long-term purchase contracts.[64] The same is true even for large-scale investments in such traditional areas for aid as infrastructure. Referring to infrastructure and other major investments, Ashraf Ghani, Afghanistan's finance minister, wrote recently in the Financial Times: "(W)e need long-term, predictable funding that will enable us to manage our large-scale programmes over many years."[65]

The unreliability and lack of predictability of future donor flows reduces the value of current flows because responsibly managed developing countries cannot always make the highest return immediate use of external resources for new investment without assurance of continuing flows to finance the resulting recurrent costs. In many low-income countries, a decision to scale up teacher training or institute large new programs for treatment of AIDS cannot be made in the absence of predictable and reliable future donor financing of the resultant higher stream of salary and other costs over many years. Thus Uganda has been reluctant to spend a large grant from the Global Fund. Similarly the decision to build new rural roads will not be rational if the medium-term financing for maintenance, agricultural extension and other services needed to allow farmers to exploit the resulting larger market cannot be assured. The developing world is strewn with the remains of initially good investments in schools, roads, and programs the recurrent costs of which poor countries could not sustain with local funds.

<u>Donor fixes?</u> On the amount of aid, there is some hope that the Monterrey promises will yield gradual increases – though still below what a truly global system demands not only to respond to the moral and humanitarian challenge of the poor but in the enlightened interests of the rich in an increasingly interdependent system. Atkinson (2003) discusses many other ideas that have been on the table in one form or another for some years (see chart 6B). Gordon Brown, Chancellor of the

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[63] O'Connell and Soludo, 1998.
[64] Birdsall and Moss, 2004.
[65] Ashraf Ghani. 2004. "Afghans Need a More Reliable Sort of Aid." *Financial Times*, November 5.

Exchequer of the UK, has proposed creating a facility that could borrow on private markets now to ramp up available financing. A tiny tax on carbon emissions would raise billions for foreign assistance, and have the additional benefit of possibly reducing those emissions (whose effects on climate change are likely to be particularly costly in welfare terms in developing countries). Birdsall and Williamson (2002) propose sale or revaluation of IMF gold to provide insurance-like coverage to HIPC countries subject to external shocks. Soros (2002) proposes creation of new special drawing rights (SDRs) at the IMF with the resulting finances targeted to the poor countries.

Addressing the problem of unpredictable and volatile flows requires a bigger step away from business as usual. The proposal of Gordon Brown of the UK for an International Financing Facility, to borrow from private markets and fund the resulting debt using future donor allocations, is meant to double the annual amount of financing immediately. Its greater benefit may be that it creates a mechanism that could also make future flows more reliable and predictable, since donors could borrow in the near term and commit to maintain flows to particular countries or programs independent of subsequent uncertain legislative approvals.[66] Essentially the donor community needs to develop new trust or endowment-type instruments for longer-term, more "patient" and more predictable funding of development assistance. The real fix to the lack of predictability almost certainly has to come as the result of this sort of larger breakthrough in the overall aid architecture.

#7. Foolishness (underfunding of regional public goods[67])

Donors direct almost all of their resources to individual recipient countries, as opposed to regional groupings and global public goods. Financing for global public goods has grown in the last decade, primarily in response to the pressures of environmental groups in the rich countries. In the case of global public goods, rich countries have an evident self-interest, though of course much of the spending benefits developing countries as well. However, regional public goods have not yet received much attention. Of the approximately $60 billion in development aid disbursed in 2002, a rough guess would be that at most $1 to $2 billion was spent on multi-country programs and projects in the developing world, such as harmonization of stock markets in Africa, or development of a shared electricity grid in Central America, or multi-country roads and watersheds in Asia (Chart 7A.)[68] The rest was channeled through agreements with national governments of individual countries in what might be called conventional country-focused assistance. (A notable exception

[66] In late November 2004, the UK announced it will support a scheme of guaranteed purchases of malaria and AIDS vaccines. For discussion of this kind of advanced market or pull mechanism, see Global Health Policy Research Network Working Group, 2004; and Kremer and Glennerster 2004.
[67] This section is taken mostly from Birdsall, 2004, which includes sources and citations for the points made here.
[68] Some private foundations such as Gates and Rockefeller put large portions of their total grant-making into global programs which sometimes operate at the "regional" level, but even in these cases, the focus is global.

from the past is the Marshall Plan, in which the United States insisted that the Europeans work out the allocation of U.S. transfers across recipient countries before making any transfers to a single country; the U.S. "contract" was with the region of Europe.) The World Bank and the regional banks as well as the UN agencies operate mostly at the country recipient level – in the case of the banks in part because their principal instrument is the country loan.

There has been virtually no analysis of the potential returns to greater investments in regional and transnational or multi-country public and quasi-public goods. I argue elsewhere, however, that as is the case with all public goods (the benefits of which cannot be confined to those who finance them), regional public and quasi-public goods are underfunded – by countries who potentially benefit from them and by donors concerned with increasing growth and poverty reduction in those countries and their neighbors.[69] Lost opportunities for high-return investments are most obvious for sub-Saharan Africa, where the "internal" market (all of sub-Saharan Africa) is only about the size of the Belgian economy. That is sufficient to support specialization and scale investments were it fully integrated into a single market. But of course it is not. Poor roads and other infrastructure, bureaucratic delays and corruption in customs, and absence of network externalities in sea and air transport all contribute to high border costs. And the large number of countries ensures that there are many of these costly borders.

If the returns to regional investments are potentially high, why aren't those investments made? Regional investments are likely to be underfunded (compared to some unknown optimum which we do not know, given the difficulty of estimating benefits of investments in public goods in general) by developing country governments for two reasons: recipient countries' own domestic political systems will be more responsive to social demands for country-specific public goods such as universal primary education, roads and public health; and there are substantial coordination problems associated with cooperating with other governments. Donors, in turn, face two problems. To the extent donors respond to the explicit immediate interests of recipient governments, they will see a tradeoff between encouraging investment in regional public goods and institutions and recipient "ownership" – though this may just underline the risks of too narrow a concept of country "ownership". The donor focus on ownership and greater harmonization does not address the institutional problem that recipient countries face in coordinating among themselves.

Second, the funding of regional programs is complicated for donors. Some of the fault lies with developing countries who have limited political incentives to cooperate. For the multilateral banks, there is the additional problem of lack of grant funds. Loan commitments to groups of recipient countries are difficult to make since they would require a clear allocation of repayment and other legal obligations to each borrower, which is difficult to negotiate. (Thus for the banks, the country loan as an instrument has dictated the logic of organizing operational staff and budgets into

[69] Birdsall, 2004 (forthcoming).

country teams with country-based allocations for lending.) Bilateral donors have grant resources, but need a single interlocutor who can be held accountable – and their aid recipients would rather put grants they can get into their own country programs. Bilateral donors also face the risk of a "weak link" country in the chain of effectiveness. For example a major program with SADC (the Southern African Development Community) could be hurt if donors felt the need to cut off all aid to Zimbabwe.

In short, the absence of any self-interest on the part of donors (in contrast to global public goods) and the additional costs and risks (compared with country-focused assistance) mean we can be reasonably sure that regional public goods, including regional institutions, are greatly underfunded.

<u>A donor fix?</u> At the least, the donor community should put the question of regionalism on the table for discussion. As a start, the Development Assistance Committee of the OECD could establish common reporting requirements for the bilateral donors and multilateral creditors on their support for regional programs and projects. Some work would need to be done on concepts, definitions and measurement. This would establish the minimum of information needed for even cursory assessment of the relative cost-effectiveness of regional institutions and programs.

In addition, some donors could take responsibility for special emphasis on the strengthening of regional institutions; this seems particularly important for sub-Saharan Africa, where France and the UK might take a greater lead. The increasing presence of the Economic Commission for Africa and the formation of Nepad are good signs of progress with African ownership of its development challenges as a region; donors ought to be unusually receptive to these African initiatives. Multi-country physical infrastructure projects should be a priority, despite the fact they may take longer to design and organize and may not seem to have the immediate ownership or easily measurable effects in relation to the Millennium Development Goals. The incipient demand is huge, yet not reflected in the rhetoric of donors nor much considered in PRSPs, which tend to focus heavily on increased social spending. In the trade area, where so much could be done to reduce the high costs of borders, there seems little question that African policymakers would benefit from clear incentives to consolidate what are now at least a dozen trade agreements within the region, all but three of which have no more than two or three members.

Finally, the constraint that the multilateral development banks face in actively supporting regionalism needs attention. What financing they have done has had to come mostly from their highly limited grant funding or through unusual transactions using limited concessional lending resources. The donors could encourage more use of net income to finance regional initiatives, by giving the middle-income countries whose borrowing costs would be affected more influence in setting priorities for use of net income. This would make particular sense in the regional development banks. South Africa might push for such a pilot program of this type at the African

Development Bank (except that it borrows so little from the hard window that its membership does not generate net income). Bilateral donors could also develop facilities that would finance guarantees for regional groups that were borrowing from the multilateral banks or the private market, or could subsidize the borrowing costs to individual countries participating in regional borrowings.

For donors, the challenge is not actually in the details of what or how to address support for investment in regional institutions and public goods in the developing world. It is how to address their own internal dilemma of lack of incentives given the higher costs and risks of regional support – which may be undermining the overall effectiveness of development assistance in reducing poverty and encouraging development transformation of entire societies.

A Summary of Donor Fixes

#1) Impatience (with institution building). This is the most central and fundamental challenge. A first step would be for the donor community to acknowledge its overall past failure, and undertake a collective assessment of how to address that failure, in close and constant consultation with wise people from the developing countries. If it cannot be done collectively (for example at the Development Assistance Committee of the OECD), leadership will have to taken by a single large bilateral donor such as the U.S. or the UK.[70]

#2) Pride (failure to exit). New longer-term, more accordion-like instruments are needed that make exit (defined as stopping the flow of large transfers not as abandoning engagement through dialogue and advisory services) the default. Exit should be established as the norm, not as punishment or judgment, but as a natural response to signs that investments being financed will not yield adequate returns.

#3) Ignorance (failure to evaluate). A minimum number of major donors could make a collective agreement to self-finance a fully independent evaluation entity, which would in turn contract third-party evaluations of selected donor-financed projects and programs, and of donor behaviors and modalities.

#4) Sloth (pretending participation is sufficient for ownership). Donors need to end their apolitical approach to ownership, and engage instead in assessment of the interests of politically powerful stakeholders, the record of existing governments on difficult reforms, and governments' vulnerability to an ouster if it takes certain steps. This is particularly critical in the case of pro-poor reforms, since they usually undermine powerful interests and have weak domestic constitutuencies. Ultimately, it may be that only when developing country recipients have more voice (and votes) in the major institutions will they assume real "ownership" of pro-poor economic and political reforms altruistic donors wish to support.

[70] The World Bank could be asked to do technical work; much is already set out in World Bank, 2004. It is a matter of turning analysis into ideas for new instruments, procedures, and practices.

#5) Envy (collusion and coordination failures). Minor fixes could include agreement of the bilateral donor governments to increase the portion of their total assistance spending that goes to multilateral institutions and programs (and even this is not so easy to imagine happening); agreement to the concept of lead donors in highly aid-dependent countries, and the financing through DAC of grants to developing country policy groups to report on in-country performance of the individual donors. Like impatience, however, this challenge is fundamental, and may not yield to minor fixes. The major fix would be establishment of a true common pool of donor funds.

#6) Greed (inadequate and unreliable transfers). Instruments that build in less volatile and more predictable financing are needed, as well as larger aid budgets. New ideas are on the table, in part impelled by the commitments rich countries made in the context of the MDGs. But they are more visible with respect to the amount of aid than with respect to its predictability; the latter requires more radical rethinking of current instruments and practices.

#7) Foolishness (underfunding of regional public goods). Financing of regional public goods, especially in Africa, needs a champion – probably the British or the French, who would push for a revamping of the singular country focus that now prevails. Grant funds at the multilateral banks would create internal incentives for supporting regional investments; they could be supported in part by transfers of net income from the hard windows of the banks, were the middle-income countries whose borrowing costs were affected given more control over use of those "regional" resources.

Perhaps it is worth concluding with a rephrasing of some of my introductory language. My purpose has not been to condemn the donor "sins" (since in this area shame and blame are not likely to work anyway) but to put them on the table for discussion. Some "sins", such as the tying of aid to a donor's own services and goods, are already on the reform agenda of the official community and I have not discussed them here. Instead I have tried to focus on shortcomings of the "business of aid" on which new research has or could shed light, and which have not yet been adequately or explicitly incorporated into the donor community's reform agenda. These shortcomings of the business matter tremendously, especially in the context that the focus on the achieving the MDGs by 2015 has brought. That is because research shows that they reduce considerably the effective value of the aid that is transferred, and in the most aid-dependent countries may even mean that the the "business of aid" actually undermines those countries' long-term development prospects.

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Charts

Chart 1A

Countries doing poorly with respect to:

the Security Gap	the Capacity Gap	the Legitimacy Gap
Ethiopia	Bhutan	Angola
Indonesia	Mali	Pakistan
Nepal	Nigeria	Sudan
Sri Lanka	Sierra Leone	Uzbekistan
Uganda	Somalia	Vietnam

Note: The countries listed under each gap are a selection from a larger set of countries.

Source: "On the Brink. Weak States and U.S. National Security." A report of the Commission on Weak States and U.S. National Security. Sponsored by the Center for Global Development 2004.

Chart 1B

Inconsistency in country rankings:

Countries in the top two quintiles of the CPIA *and* with a Security Gap	Countries in the top two quintiles of the CPIA *and* in the bottom two quintiles of the Legitimacy Gap	Countries in the top two quintiles of the CPIA *and* in the bottom two quintiles of the Capacity Gap
Senegal	Vietnam	Bhutan
Sri Lanka	Pakistan	India
Uganda	Rwanda	Mauritania
Indonesia		Senegal
Nepal		Burkina Faso
Rwanda		Indonesia
		Mali
		Pakistan

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

Sources: International Development Association (2004); and "On the Brink. Weak States and U.S. National Security." A report of the Commission on Weak States and U.S. National Security. Sponsored by the Center for Global Development 2004.

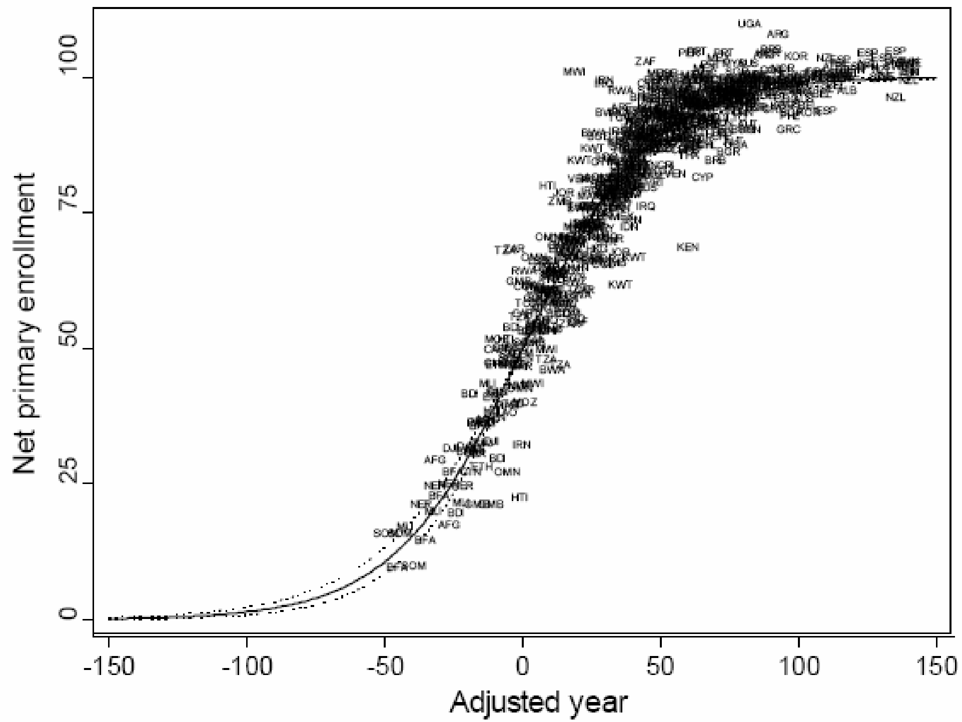
Chart 1C

Qualifying (or not) for the MCA:

Countries eliminated from the MCA by the corruption criteria	Countries eligible to apply for MCA assistance for FY2004	CPIA ranking by quintile 2002
Albania	-	2
Bangladesh	-	2
Malawi	-	3
Moldova	-	3
Mozambique	Mozambique	3
Missed MCA by one indicator (out of 16)	Countries eligible to apply for MCA assistance for FY2004	
Benin	Benin	*2*
Burkina Faso	-	2
Georgia	Georgia	4
India	-	1
Mali	Mali	2
Mauritania	-	1
Sao Tome and Principe	-	5
Togo	-	5
	Additional countries eligible to apply for MCA assistance for FY2004	
	Cape Verde	1
	Vanuatu	4

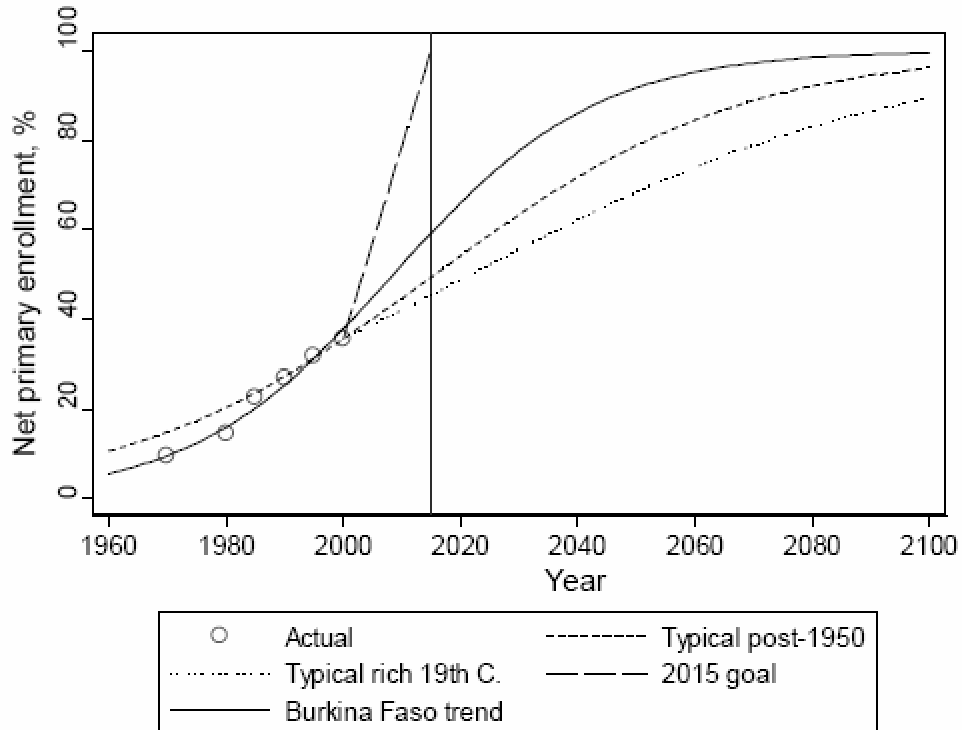
Note: The countries listed under each gap are a selection from a larger set of countries.
Sources: Radelet (2003); and International Development Association (2004).

Chart 1D
The Transition in net primary enrollment: all countries 1960-2000



Notes: “Adjusted years” are the elapsed time since 50% enrollment. Datapoints show country-years, spaced quinquennially.
Source: Clemens (2004).

Chart 1E
Burkina Faso - Unlikely to meet the school enrollment MDGs but performing strongly by historical standards



Source: Clemens, Kenny and Moss (2004).

Chart 2A

Number of adjustment loans to the 20 countries with most adjustment loans over the period 1980-1999.

14-19 loans	Niger, Zambia, Madagascar, Togo, Malawi, Mali, Mauritania, Kenya, Bolivia, Philippines, Jamaica, Bangladesh
20-25 loans	Senegal, Uganda, Mexico, Morocco, Pakistan
26-30 loans	Côte d'Ivoire, Ghana, Argentina

Notes: These are IMF and World Bank adjustment loans. The average number of adjustment loans for these countries over the period is 19 compared to the average of 7 for all developing countries. Out of these countries, only Bangladesh, Pakistan and Uganda achieved annual per capita growth rates above 2% over the period from their first adjustment loan to 1999.

Source: Easterly (2002a).

Chart 3A

Reports calling for independent evaluation:

Meltzer Commission Report (2000)

"Independent evaluations of the [World Bank's] effectiveness should be published annually." p. 90

Overseas Development Council (2000)

"The Fund's activities should also be subject to more external evaluation than presently… A tightly focused, independent, external evaluation unit should be established…" p. 18

Carnegie Endowment (2001)

"Shareholders should also create a mechanism for independent, third-party evaluation of the effectiveness of the MDB's programs…" p. iv

Sources: Meltzer (2000); ODC (2000); and CEIP and IAD (2001).

Chart 3B

Internal spending on evaluation

	Annual Spending on evaluation as a share of total administrative spending (percent)	Annual spending on evaluation (millions of US$)
The World Bank (Operations Evaluations Department)	1.29	19.8
The Inter-American Development Bank (Office of Evaluation and Oversight)	1.3	4.7

Note: These numbers represent the administrative budgets of the relevant evaluation offices. Work of other staff, in research and in operations, that could also be classified as "evaluation" is not included.
Sources: World Bank (2003) Annual Report; Inter-American Development Bank (2003) Annual Report.

Chart 4A
Who “owns” IFI policies?

	Voting Share (%)				Directors					President
	US	Other G-7	Other non-borrowers	Developing country borrowers	US	Other G-7	Other non-borrowers	Developing country borrowers	Total	
IMF	17.1	28.2	16.7	38	1	6	6	11	24	Non-borrower
WB	16.4	26.6	18.2	38.8	1	6	7	10	24	Non-borrower
IADB	30	15.7	4.3	50	1	4	0	9	14	Borrower
ASDB	13	27.4	14.6	45	1	4	1	6	12	Non-borrower
EBRD	10.1	46.5	30.2	13.2	1	6	12	4	23	Non-borrower
AFDB	6.6	21	12.4	60	1	4	1	12	18	Borrower

Source: Birdsall (2003).

Chart 4B

One options: Assess the politics and institutions of pro-poor growth

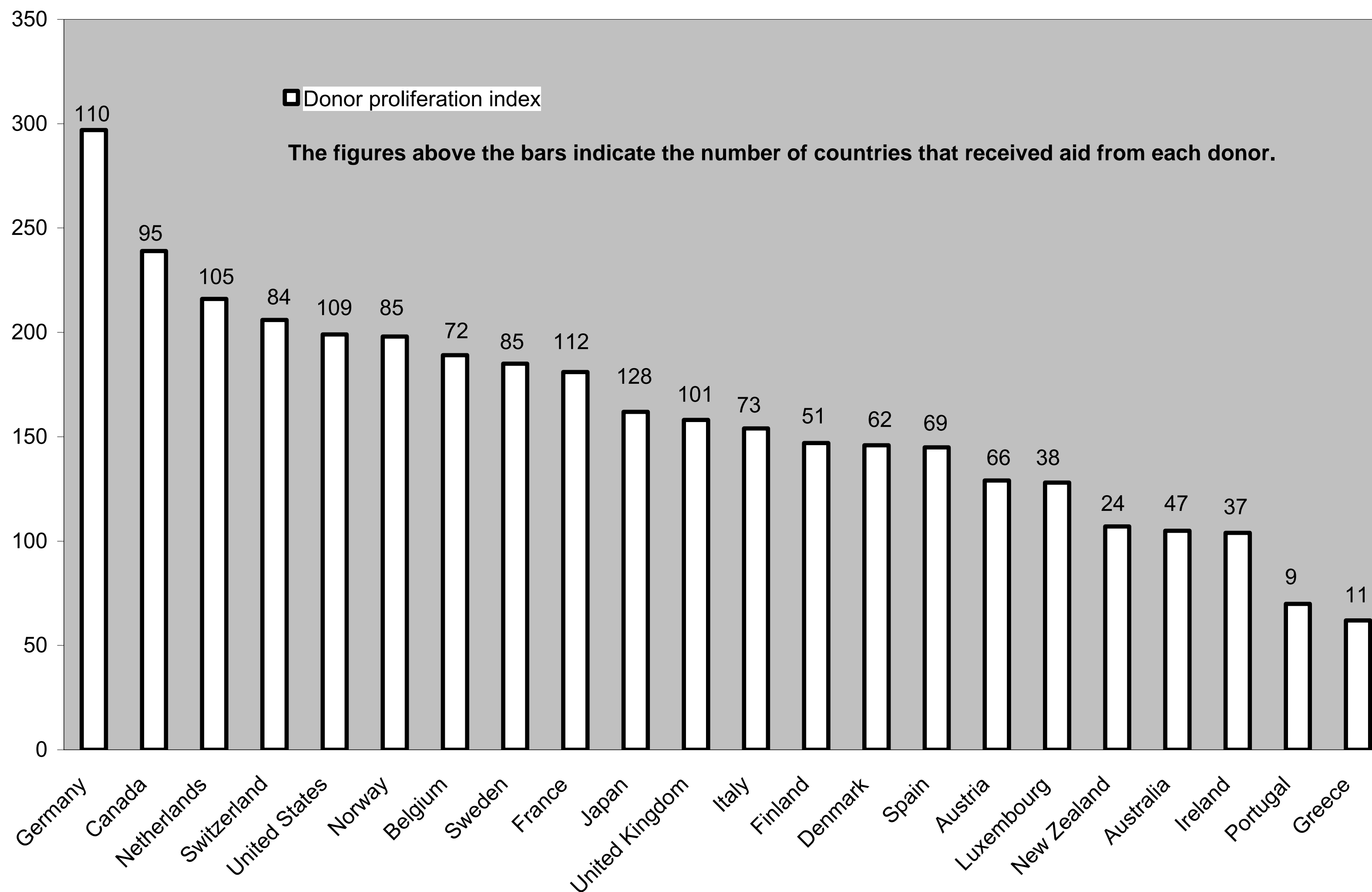
	Stakeholder Analysis	Institutional Analysis
Trend Extrapolation	Reforms under way Decision-making style Attribution of agency	Institutional mapping Veto point analysis Capacity assessment
Impact Analysis	Impact on balance of power	Impact on institutional setup

Source: IEO (2002).

Chart 5A

Index of donor proliferation, 1999-2001 average

(a higher score indicates higher donor proliferation)

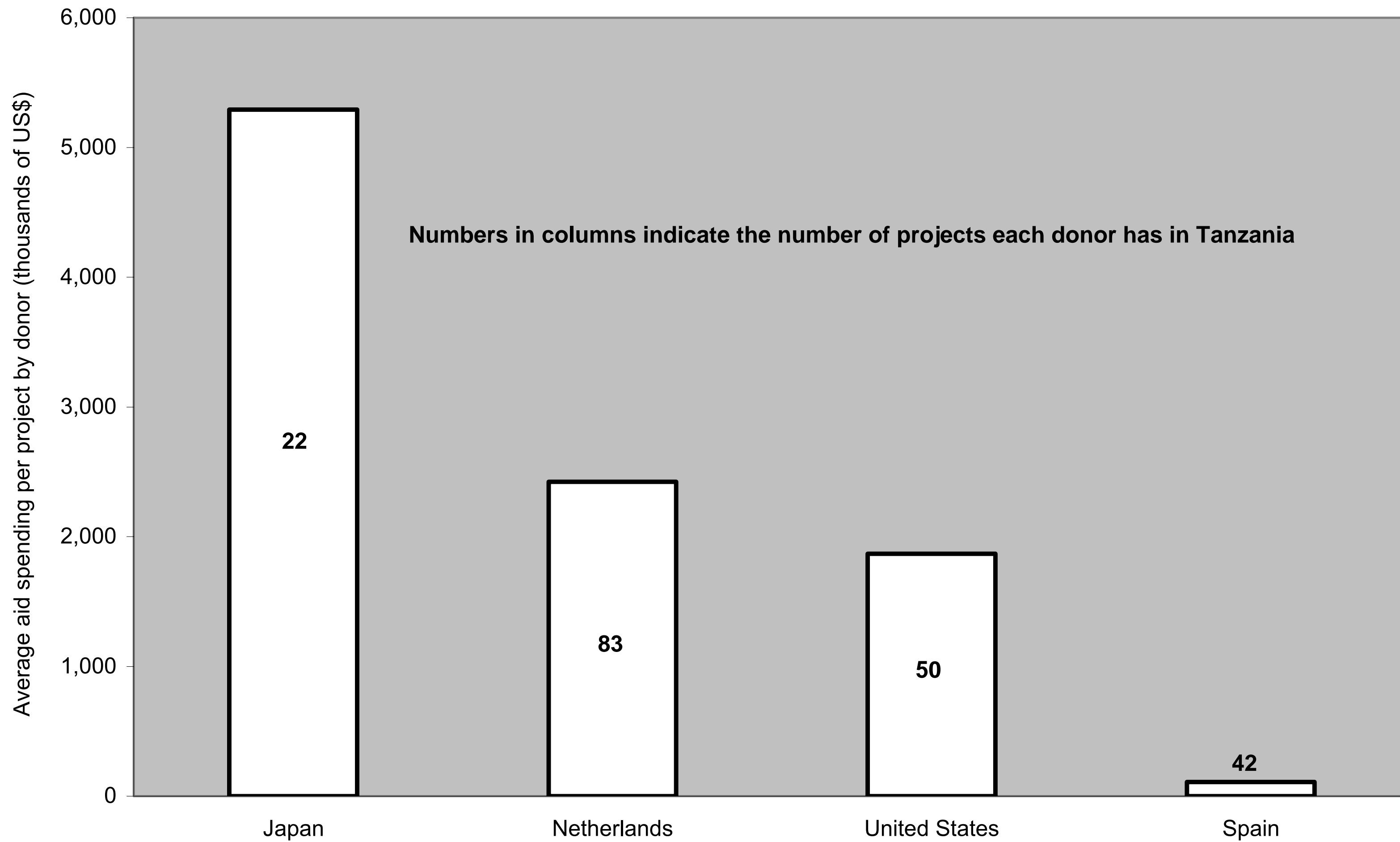


Note:

The donor proliferation index is the inverse of a Theil index, multiplied by 100 to avoid decimals. There is more donor proliferation (aid dispersion) when a donor's aid is allocated to a larger share of the total number of potential aid recipients, and when each aid recipient gets a relatively equal share of the donor's total aid.

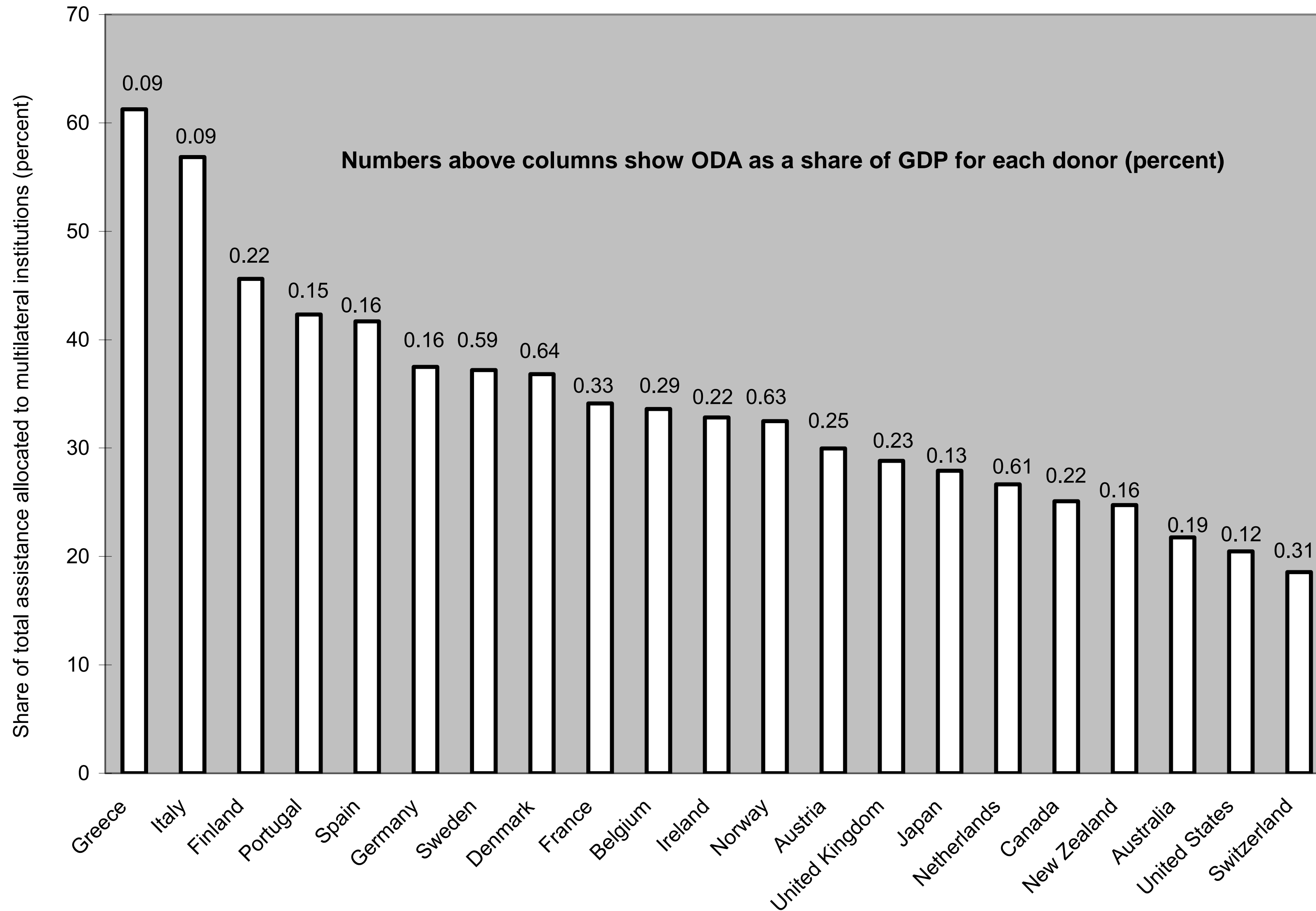
Source: Acharya, de Lima and Moore (2004) .

Chart 5B



Source: Center for Global Development and Foreign Policy (2004).

Chart 5C



Source: OECD/DAC Database (2004).

Chart 6A

Volatility of aid flows to Malawi 1992/93-1998/99 (percent of GDP)

	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	Coefficient of variation*
Total Aid	10.1	11.3	20.6	10.9	12	8.1	18.7	0.36
Program Aid	2.9	9.4	9.3	5.8	8.7	4.2	12.1	0.44
Project Aid	4.6	1.9	4.8	5.1	3.3	3.9	6.6	0.35
Food Aid	2.6	0	6.5	0	0.0.	0	0	1.92

Note: *standard deviation/mean.

Source: Bulír and Hamann (2001).

Chart 6B

New ways of financing development assistance:

- Tobin Tax (currency transactions tax)
- Global Environmental Taxes
- Global Lottery
- Creation of New Special Drawing Rights
- International Finance Facility
- Mobilize IMF gold

Sources: Atkinson (2003); and Birdsall and Williamson (2002).

Chart 7A

Donor Commitments to Regional Programs and Projects for Selected Multilateral and Bilateral Donors in 2002 (millions of US$; percent)

	Regional Public Goods Commitments by Each Donor	Regional Public Goods Commitments as Share of Total ODA Commitments by Each Donor
	2002	
	(millions of US$)	(percent)
World Bank[6]	n/a	n/a
African Development Bank	30	1.2
Inter-American Development Bank[5]	20	0.4
Asian Development Bank[4]	45	0.7
European Bank for Reconstruction and Development[7]	99	2.7
UNDP[1]	55	2.1
WHO[2]	138	7.1
United States[3]	303	2.4
United Kingdom[3]	98	2.6
Total	788	2.1

Notes:

To the extent possible, commitments shown are for programs and projects that were managed by a regional organization such as the West African Monetary Union or the Central American Development Bank, regardless of the source. Commitments are from sources where they are probably shown in nominal terms.

1. The UNDP figure is for 2001. The UNDP also granted an additional $9.5 million for inter-regional and global projects that year, and $16 million total for inter-country programs in 2000.
2. The WHO figure is for 1998-1999. The same amount was spent in 1996-1997.
3. These figures are probably inflated since they are figures for all “unspecified funds” going to a region, and are likely to include funds that in fact went to individual countries.
4. The Asian Development Bank's regional commitments reflect one project only, the Trade Finance Facilitation Program.
5. The Inter-American Development Bank also reports regional disbursements in addition to regional commitments. In 2002, regional disbursements were $67 million. In the past, IDB has also made concessional loans to the Central American Bank for Economic Integration and to other subregional development banks.
6. The annual reports of the Inter-American Development Bank (Table IV. Yearly and Cumulative Loans and Guarantees), The African Development Bank (Annex II-7 Bank Group Loan and Grant Approvals by Country), the European Bank for Reconstruction and Development (Projects signed in 2002 section), and the Asian Development Bank (Public and Private Sector Loan Approvals by Country) all include a line item showing annual commitments to regional programs and projects. The World Bank Annual Report does not seem to provide a comparable line item.
7. This is the capital of six private equity or debt funds established to invest in or lend to private firms across two or more countries; whether these funds should be counted as multi-country programs as defined in this essay, is not entirely clear.

Source: Birdsall, 2004 (forthcoming).