

What's next in international development?



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'If the development agenda broadens, are aid agencies best equipped to lead? If not, how is policy managed across ministries of aid, trade, defence, foreign affairs, and others?'

The question 'what's next?' has two answers — one expected, the other less so. The first is prominent in a set of aid-dependent countries that was the focus of much attention in 2005. Call these the '20% club', in which aid accounts for around 20% of GDP. The other answer is relevant to those countries, but stands out more clearly in the '0.2% club', in which aid amounts to only a small share of GDP. The club designations are indicative. However, 20% is the average aid/GNP figure for sub-Saharan Africa and 0.2% is the ratio for India.

Development outcomes in 2005

The development 'project' in 2005 delivered substantial benefits to the 20% club, notably new initiatives on debt relief and a commitment to double aid by 2010. This was not all that was hoped for. In particular, the MDG Summit made less progress on UN reform than had been hoped. The WTO meeting in December was a disappointment.

It also goes without saying that pledges of future aid come without guarantees. Though the story of 2005 can be read in an optimistic light, this was also the year that began with the tsunami and saw hunger in Niger, continued crisis in Darfur, the earthquake in Pakistan and increases in the numbers affected by HIV/AIDS.

Nevertheless, that there would be gains in 2005 was not a foregone conclusion. It took a combination of three things to make change happen: an intellectual framework provided by the work of the UN Millennium Project and the Africa Commission, among others; a public campaign, led in the UK by Make Poverty History and internationally by the Millennium Campaign and the Global Call to Action Against Poverty; and the impetus provided by political leaders around the world.

Challenges in the 20% club...

The provision of additional aid will be associated with implementation problems that

effectively define the agenda for donors and their partners in the 20% club:

1. **Absorptive capacity** is a concern, because of the limited supply of skilled managers and workers in most poor countries, but also because of the potential macroeconomic impact of additional aid, on the exchange rate especially. ODI research shows that many countries have been unable to spend foreign exchange windfalls successfully.
2. The main focus since the mid-1990s has been on the human development content of the international development targets, later the Millennium Development Goals, particularly primary health and education. In 2005, driven in part by concern about growth in Africa falling well below the target of 7% p.a., the pendulum began to swing back to earlier concerns with **infrastructure, science and technology, higher education and the needs of the productive sectors**.
3. **Political questions** have become more prominent, driven partly by the obvious incapacity of fragile states, but also by more deep-seated concerns about the impact of aid funding on political accountability in poor countries characterised by patronage politics.
4. Donors have begun to realise that the **proliferation of aid agencies** and new, vertical funds make the Paris agenda of harmonisation among donors and alignment to country priorities hard to achieve. With 75% of aid still being provided through bilateral channels rather than multilateral, the slogan 'don't just harmonise, multilateralise' has growing resonance. There have been interesting innovations on the humanitarian side, with a Good Humanitarian Donorship Initiative and new multilateral financing arrangements.

5. **Mutual accountability** has come to the fore, as developing countries ask how reliable the pledges made by rich countries to increased aid, debt relief and trade access are.

The way these issues are decided will shape aid agencies in the future. They will need to develop new competencies or rediscover old ones, for example in infrastructure or political analysis. More radically, if a shift takes place to multilateral agencies, as it should, the bilaterals will need fewer specialists in delivering aid and more in managing relationships with the World Bank, the UN or the EU.

...and in the 0.2% club

Though these post-2005 issues are challenging, there is more. For the 0.2% club, they are germane but not dominant.

Their agenda derives from the rapid changes in their economies, and from their growing weight in the world. These are countries that are growing fast and reducing poverty accordingly: in Asia, the number of people living below US\$ 1 per day fell by 300 million between 1990 and 2003.

There are structural changes, too: for example, 70% of East Asia's growth originates in cities. China's manufacturing power is reshaping the world economy: the world capital-labour ratio has nearly halved because of incorporation of a new labour force in the global economy.

The resulting development challenge has familiar elements. For example, can Asia sustain high rates of growth that are environmentally sustainable, while simultaneously managing political liberalisation and avoiding a sharp increase in levels of inequality?

There are also new elements:

1. Growth on the scale currently observed stretches **the analytics of globalisation** and creates new geopolitical and development relationships. There is a now familiar debate about the sourcing of natural resources and the impact of new market entrants like China on markets, but also on political relationships, especially in Africa. In particular, a concern for energy security is driving foreign policy around the world. There is also a more subtle debate about development models: with the prices of natural resources rising and those of manufactures falling, some have questioned whether industrialisation remains a viable strategy for the poorest countries.
2. Though aid is by definition relatively less important in the 0.2% club than in the 20% club, **financing needs** are large. East Asia alone needs

investment in infrastructure of US\$200 billion a year. New financing instruments will be required, and agencies are more likely to find themselves taking equity stakes rather than simply providing loan finance to governments.

3. **Regional and inter-regional issues** become more prominent, as countries trade more with each other and also attempt to tackle cross-boundary problems like water or environmental pollution. In Africa, it has been interesting to see the Organisation of African Unity evolving into the African Union. Will the same happen in Asia?

4. The **range of topics** in the development field changes, as trade, security, and the global commons rise up the agenda. Many current issues fall under this head, such as global warming or the management of financial imbalances.

5. Developing countries in the 0.2% club will be looking for **a new and more equal relationship** with developed countries — whether expressed in bilateral relations, through inter-regional dialogue or in multilateral organisations. It is worth noting that many countries in the 0.2% club are themselves becoming aid donors.

Here again, there are implications for development agencies. If the development agenda broadens, are aid agencies best equipped to lead? If not, how should policy be managed across ministries of aid, trade, defence, foreign affairs, and others?

It would be a mistake to think that the challenges thrown up by the 0.2% club do not apply elsewhere. Security, trade, the role of the private sector, and the management of the global commons are universal topics. But they become more visible when the landscape is unclouded by aid relationships.

What researchers and policy-makers should do next

Finally, all this has implications for researchers and policy-makers, who need to think globally, monitor structural change and engage with new institutional formations. Urbanisation needs higher priority. Ditto the private sector. Ditto migration. Ditto regional and global governance.

At the same time, new theory and new skills will be needed. More on institutions? More geography? More law? More international relations? In general, the new agenda points to a growing role for genuinely multi-disciplinary development studies.

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