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**AID AND DEVELOPMENT: ISSUES AND REFLECTIONS**

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# Aid and Development: Issues and Reflections

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## Abstract

The paper has three main sections. The first is a review of two particular propositions which appear in Dambisa Moyo's 2009 book *Dead Aid* which were not subjected to rigorous analysis in the reviews which appeared following its publication. The finding is that neither proposition survives serious scrutiny – that aid is responsible for most of sub-Saharan Africa's economic woes and that the international bond market represents a viable alternative to foreign aid for the finance of development-oriented investment. The second questions some of the characteristics and uses of the World Bank's *Country Policy and Institutional Assessment* (CPIA), particularly focussing on the use of an essentially ordinal measure in cardinal applications. The third subjects the UK Department for International Development's *Needs-Effectiveness Index* to critical review, concluding that further consideration of its attributes is necessary.

Keywords: developing countries; development; foreign aid; sub-Saharan Africa; book review.

JEL Classification: F35; O2; O24; O55; Y3.

## 1 Introduction

This paper aims to explore three areas in the literature on aid and development. The first focuses on Dambisa Moyo's controversial book *Dead Aid* (2009), developing some criticisms which were not fully elaborated in the reviews which followed its publication. The second questions some of the implicit properties of the World Bank's CPIA (Country Policy and Institutional Assessment) which was subjected to a thoroughgoing internal review recently (World Bank, 2010). The third reflects upon the 'Needs-Effectiveness Index' (N-EI) developed by DFID for its major 2010-11 reappraisal of bilateral and multilateral ODA (Official Development Assistance) allocation (DFID, 2011a, 2011b, 2011c, 2011d).

These three areas do not fit together completely easily, with the remarks on Moyo's book belonging to a different type of discourse to the critique of the CPIA and N-EI. Within the objective of producing a paper which raises significant contemporary issues relating to aid and development, which can be circulated as a means of encouraging further discussion, no apology is offered for this perhaps dysfunctional structure. If the content of this paper is to be developed in the future into published contributions to the literature closer attention to the homogeneity of content will obviously be necessary.

## 2 Dambisa Moyo's *Dead Aid*

Soon after the publication of *Dead Aid* in 2009 a significant number of reviews appeared responding to what was obviously a controversial book. The book takes a position which

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goes far beyond questioning the justification for aid, arguing that aid has been the cause of many of sub-Saharan Africa's problems rather than providing solutions, and setting out some alternatives for the future funding of African development (Moyo, 2009: xx). The book reviews were mainly very critical of its poor evidence base (including a lack of citations) and of the many mistakes and misrepresentations (e.g. Roodman, 2009; Clemens, 2009). In the process of preparing this paper an attempt was made to locate as many reviews of Moyo's book as possible (through a Google search) and these – together with some other associated publications – are listed in a separate section of the bibliography.

In the 2011 edition of the OECD's Development Assistance Committee's *Annual Report* Jean-Michel Severino has what appears to be some complimentary comments on Moyo's book:

“The academic community, governments and public opinion have repeatedly affirmed the need to do away with the excessive weight of aid policy: conditionality oppresses, they claim, and aid flows create dependency and reinforce corruption. Dambisa Moyo, in her successful book *Dead Aid*, is eloquent on these points.” (Severino, 2011: 122)

It is not clear whether the 'success' of Moyo's book, as referred to here, is being judged simply on the number of copies sold, or whether some broader intellectual judgement is being made. It is to be hoped that the following paragraphs provide a basis for a judgement of the intellectual qualities of Moyo's book.

Because it is now over three years since Moyo's book was published some justification is needed for the production of a further review. There are perhaps three areas where further elaboration of issues arising from Moyo's arguments may be of some value. The first relates to the evidence base for Moyo's view that aid has been the cause of Africa's economic problems and that aid has been associated with economic failure and regression rather than with economic growth and success. The second is related to Moyo's view that ending aid to Africa would be associated with the unleashing of economic opportunities and economic growth. The third revolves around Moyo's assertion that funding through international bond markets would provide a viably alternative means of promoting infrastructural development. Overall, the conclusion of this exploration of Moyo's arguments is that far from being a rigorous critique of the impact of aid on African economies her book is poorly structured and unsystematic with little respect for evidence and is counter-productive in terms of its failure to draw constructive attention to legitimate concerns about key aspects of Africa's development and about the limitations of the aid industry.

## **2.1 Aid as the cause of African economic decline**

Somewhat surprisingly there are no statistical tables in *Dead Aid* despite its assertions about economic and financial performance, although some statistics are presented in the text – many without any associated citation.

One of the most serious omissions is the absence of detailed economic data and analysis supporting the proposition (included as an assertion in the book) that “in fact, across the globe the recipients of this aid are worse off; much worse off. Aid has helped make the poor poorer, and growth slower ..... Millions in Africa are poorer today because of aid; misery and poverty have not ended but have increased” (p xix). There is no real acknowledgement that economic growth (and decline) has been uneven over the last 50 to 60 years across the 49 countries which make up sub-Saharan Africa.<sup>2</sup> A major analytical criticism of Moyo's book is the tendency to blame aid for most of the negative features of African economic development – although the above quotation does say that “Aid has helped ...” which suggests that other factors might have been causally associated.

For example, the assertion that Africa has received “US\$1 trillion in development assistance” (p xix) does not have a source, the period over which this amount was disbursed is not specified, and there is no attempt to correct the statistics for the effect of inflation (i.e. no index-linking) over the years.<sup>3</sup> In this sense the figure of US\$1 trillion is symbolic rather than being factually objective. This degree of ‘symbolism’ is a characteristic of the book, which appears to have been written as a populist tract rather than as a carefully argued study of aid and development.<sup>4</sup>

Where reference is made to African economies in Moyo’s book the data is unsystematically presented, and the analysis is rudimentary. In order to gauge the manner in which African economic experience is presented in *Dead Aid*, and the extent to which it accurately characterises specific African economies, a short detour through Ghanaian and Ugandan examples follows. These two countries are particularly interesting because they have experienced significant economic decline and recovery over the last four decades, and have been major recipients of aid (and of attention from the international donor community).

Moyo tells us that: “In Africa, as oil prices rose many countries saw food prices rocket and recession take hold. In 1975 Ghana’s GDP contracted by 12 per cent, inflation rose from 3 per cent in 1970 to 30 per cent in 1975, and shot to 116 per cent in 1977” (p16). These ‘snapshot’ statistics give no inkling of the broader Ghanaian economic scenario over the 1970s and into the 1990s. This period saw GDP fall by around 20 per cent between 1974 and 1983 (largely as a result of economic mismanagement – refer to Huq, 1989) with recovery to the 1974 GDP level being achieved by 1988 followed by further growth, so that by 1992 GDP was 22 per cent higher than in 1974 (Republic of Ghana, various years). There is, equally, no reference to the fact that the Consumer Price Index stood at about 30 in 1975, at 2,367 in 1983, and at 18,630 in 1992 (using a base of 1977=100). In 1983-84 inflation was 140 per cent, while in 1984-85 it was 10 per cent, largely because food prices increased considerably in 1983-84 as a result of a drought (the de facto devaluation by a factor of 10 in April 1983 would also have caused part of this high rate of inflation), and the rains were good in 1984 so that domestic food prices declined. These inflation statistics are also sourced from the Government Statistical Service (Republic of Ghana, various years). Since 1991-92 the Institute of Statistical, Social and Economic Research in the University of Ghana has produced an extremely valuable annual “State of the Ghanaian Economy Report” (ISSER, various years). The book edited by Aryeetey, Harrigan and Nissanke (2000) contains a range of valuable chapters exploring aspects of the Ghanaian economy over the period 1970 to 1995. The African Development Bank’s “African Economic Outlook” 2012 report for Ghana shows that the average annual rate of economic growth was in excess of 5 per cent over the period 2003-10 (African Development Bank, 2012b).

In the case of Uganda the GDP fell by about 19 per cent between 1974 and 1980, recovered to the 1974 level by 1987-88, and by 1993 was about 37 per cent higher than it had been in 1974 (Republic of Uganda, various years). Between 1975 and 1976 the annual rate of inflation was about 74 per cent. Over the period 1977 to 1988 it never fell below 100 per cent per annum (peaking at 233 per cent in 1986-87), and by 1992 and 1993 it had fallen to below 10 per cent (Republic of Uganda, various years). The major factor affecting the Ugandan economy over this period was the civil unrest experienced from the early- to mid-1970s which culminated in the establishment of the National Resistance Movement government in 1986. In a recent paper produced by the Economic Policy Research Centre at Makerere University in Kampala (Sennoga and Matovu, 2010) the macroeconomic data has mainly been accessed from the World Bank’s “World Development Indicators”, a readily accessible and respected source (World Bank, 2012). Sennoga and Matovu show that from 1988 to 2007 the average rate of economic growth achieved in Uganda has been around 5 per cent per annum. This is confirmed by the African Development Bank’s “African Economic Outlook” 2012 report for Uganda (African Development Bank, 2012b). In addition to the government’s annual “Background to the Budget” (Republic of Uganda, various years)

commentary on the Ugandan economy can be found in Reinekka and Collier's edited collection of papers (2001). Other sources for economic commentary include research papers from the Bank of Uganda (2012) and publications from the Economic Policy Research Centre at Makerere University in Kampala (2012).

Table 1  
Key Aid Statistics for Ghana and Uganda

	Net ODA as % of GNI		ODA per capita (current US\$)	
	Ghana	Uganda	Ghana	Uganda
Average 1992-96	10.10	18.06	37.29	35.59
Average 1997-2001	9.93	12.28	32.47	31.89
Average 2002-06	11.79	14.63	51.65	41.14
Average 2007-10	5.52	12.05	60.82	54.09

Source: World Bank, 2012a

One of the side effects of Moyo's reluctance to present statistics about aid more systematically is that the reader is left with little notion of how significant aid is for the recipient countries, and what the effect might be if it were to be discontinued as she proposes (the alternative scenario 'without aid' would be the a 'counterfactual'). Aid would need to be analysed at both 'micro' and 'macro' levels: the 'micro' impact is concerned with the contribution of aid to individual projects and programmes, and the 'macro' impact is concerned with the impact on the economy and society as a whole.

Table 1 shows that aid (ODA – Official Development Assistance) has contributed a significant proportion of the GNI (Gross National Income) for both Ghana and Uganda over the period since 1992, contributing a higher proportion in the case of Uganda than of Ghana. The level of aid as a proportion of GNI for Ghana has fallen in recent years and it is possible that this new lower level might apply for the foreseeable future. It is also likely in the case of Ghana that part of the fluctuation in the aid/GNI ratio reflects the application of debt-forgiveness under the HPIC debt reduction scheme.<sup>5</sup> The level of ODA per capita for Ghana looks to be inconsistent with the aid/GNI data, but the data has been presented for the sake of completeness.

With aid contributing in the range of 5 to 12 per cent of Ghana's GNI, and 12 to 18 per cent of Uganda's GNI, it is unbelievable that the 'end of aid' would not have a significant negative macroeconomic impact. This means that, in the absence of alternative sources of external funding at a 'replacement' level, there would be negative balance of payments effects, and downwards pressure on national income (Moyo does not present plausible explanations for 'replacement' sources of funding – as will be argued below). Even though part of the ODA would simply represent expenditures on services provided directly by nationals and institutions of the aid donor countries (e.g. scholarships and consultancy services) there must be a strong supposition that if aid were to be phased out over five to ten years (as Moyo suggests – p76) the macro-economic impact would be quite considerable if no replacement external source of funding were to be found.

There can be little excuse for Moyo not presenting more detailed economic data – but if she had done so it would not have supported her main sweeping assertion that African economies in general have been in decline, and that the decline has been caused by aid inflows. A more selective, country-by-country, approach is needed because the circumstances of each country are so different. This view is tantamount to invoking the same criticism which was applied to the World Bank/IMF 'one size fits all' approach to the analysis of country economic problems during the period of 'structural adjustment' and the prescription of policies which often deviated little between countries (Mohan et al., 2000: xv; Killick et al., 1998).<sup>6</sup>

## 2.2 A World Without Aid

Moyo is very clear in listing factors which she considers to have been “at the core of the African revival”. Significantly she does not include aid as one of these factors. The factors which she considers as having been important are a) increased commodity prices, b) market based policies, and c) advances on the political front (p3).

On the issue of “market based policies” she asserts, for example, that “The Commission for Africa notes that Uganda’s economy grew by around 7 per cent between 1993 and 2002 when the country improved its regulatory climate. It also reduced the number of people living on less than a dollar a day from 56 per cent in 1998 to 32 per cent in 2002 after the government adopted measures to attract investors” (p101). This type of simplistic cause and effect approach, basing economic success on a single factor which has an immediate effect, obscures a far more complex reality. Taken literally Moyo’s analysis of the Ugandan economy suggests that economic growth running at 7 per cent per annum, and significant poverty reduction, can be explained by an improvement to the regulatory climate and the adoption of measures to attract external investors. However, the statistics in Table 1 show that in this period aid amounted to between 12 and 18 per cent of GDP, and at the end of the period amounted to over \$50 per head. It is hardly likely that aid at this level contributed nothing towards the degree of economic growth and poverty reduction achieved in this period.

A further complication which throws doubt on Moyo’s enthusiasm for the effects of the regulatory climate and inflows of FDI is contributed by considering the time-lags which occur between changes of this sort and any associated economic impacts. In discussing the impact of reforms to the Ghana Investment Centre in the 1990s, for example, Acheampong and Tribe suggest that the time-lag between such reforms and positive economic results may be as long as a decade (Acheampong and Tribe, 1998: pp69, 84). The logical chain between policy changes, the perceptions of investors, and the conversion of these perceptions into investment and production is quite a long one. Even if Moyo’s enthusiasm for the reform of regulations and for the adoption of measures to attract incoming investment is well-placed, there are good reasons for undertaking careful analysis before concluding that economic miracles have occurred or are in prospect.

To return to the two-country examples adopted earlier in this paper, a fair proportion of Ghana’s economic performance in recent years has been due to the rehabilitation of the gold mining industry and the expansion of gold exports. In the year 2000 gold exports accounted for 49 per cent of total Ghanaian exports, and by 2009 this had increased to 79 per cent (UNIDO, 2013). Ghana experienced considerable difficulties in sustaining export volumes and values through the 1980s, and following the introduction of the Economic Reform Programme in 1983 cocoa exports recovered significantly (due largely to price changes associated with the considerable devaluation and also to domestic marketing reforms). The cocoa industry was easier to ‘turn around’ than gold mining, and it was only after a significant delay that gold exports rose meaningfully, supplementing export revenues from cocoa and financial inflows from ODA and from balance of payments support (IMF). However, both development aid (ODA) and financial aid (IMF in particular) boosted foreign exchange inflows which supported economic and financial stabilisation and provided a basis for economic recovery (Aryeetey and Harrigan, 2000). ODA – Aid – played a significant role in Ghana’s achievement of sustained growth over the last two decades – a conclusion which Moyo would, no doubt, deny. Rather than relying on increases in commodity prices, which Moyo regards as being significant, countries such as Ghana and Uganda have sought to diversify their production and trading systems. In particular, they are now in a position to benefit considerably from the development of crude oil reserves (not mentioned by Moyo)

which are likely to reduce their dependence on ODA receipts in the medium term future (AllAfrica, 2013a; AllAfrica, 2013b).

### 2.3 Bond markets as an alternative source of funding

The second half of Moyo's book essentially sets out an alternative scenario for Africa's economic development after Aid has been phased out. Quite correctly, Moyo selects the shortcomings of economic (and social) infrastructure as a key issue (see for example Collier, 2000). She selects the raising of funds from the international bond market as the major replacement for Aid as a source of funding for infrastructure development (Chapter 6). Two significant reviews of Moyo's book ascribe the potential problems associated with raising funds for Africa from the international bond market to 'bad luck' or 'bad timing' due to the global financial and economic crisis which beset developed economies around the time of her book's publication (Clemens, 2009; Collier, 2009). However, the selection of international bond markets as a major source for the funding of African development programmes lacks credibility for several other reasons.<sup>7</sup> These 'other' reasons are not related in any way to the short- to medium-term financial and economic problems associated with the global crisis.

Moyo introduces her enthusiasm for bond markets very early in her book: "Performance across Africa's bond markets is also impressive. Local debt returned investors 15 per cent in 2006, and 18 per cent in 2007" (p4). Later, in more elaborate discussion, she explains that:

"In some cases, dedicated emerging-market fund managers (those only investing in these markets) look for net returns of at least 10 per cent per annum. By and large, thanks to their rapid growth, and the relative scarcity of investment capital, it is mainly assets in emerging markets and underdeveloped countries that can deliver these high returns. ....

For example, in 2006, emerging-market debt gave investors a return of around 12 per cent. The performance beat the 3 per cent return for US government bonds in the same year." (p80)

Moyo herself points out that the average interest rate charged for World Bank concessional aid has been about 0.75 per cent per annum (p85), about 1/13<sup>th</sup> of the equivalent cost of borrowing from the bond market by her estimation. It is not clear how many African countries would be able to sustain (or increase) recent levels of investment in economic and social infrastructure (as suggested by Moyo) if the interest rate for international borrowing were to be increased by a factor of 13.

Moyo makes it clear that lending to African countries could be good business for bond markets. However, it is equally clear that bond markets are not attractive sources of finance for African countries wishing to invest in economic infrastructure projects (road building, harbour construction and water and sanitation investment for example) or in social infrastructure projects and programmes (health and education investment) if concessional aid is still a viable alternative source of capital finance. If aid were to be discontinued, as Moyo proposes, then African countries might find that bond markets became the only possible source of funding for some major development programmes. This, of course, would be good business for the type of financial institution (Goldman Sachs) which employs Dambisa Moyo.

We also learn from Moyo that 35 African countries issued bonds in the 1990s (p87), and that "virtually all of them defaulted". She states that only two African countries are "rated" in bond markets – South Africa and Nigeria – although it is possible that a few other sub-Saharan African countries might be able to consider bond markets as a potential source for some funds. Information about credit ratings is easily found on the world-wide web and Table 2 presents ratings for sub-Saharan African countries by Standard and Poor's (S&P) accessed from Wikipedia in January 2013 (double-checking information gathered in November 2012). According to this source fourteen sub-Saharan African countries had been assigned an S&P

credit rating in 2011-12, of which twelve were at the “junk bond” level. The only two countries given an “investment grade” were Botswana and South Africa. Twenty-three sub-Saharan African countries had not been given a credit rating by any of the four rating agencies (Fitch, Moody’s, S&P, and Dagong) for this time period.

Table 2  
Standard and Poor’s credit rating for sub-Saharan African countries - 2013

Country	Rating	Outlook	Date
Angola	BB-	Stable	20-2-2012
Benin	B	Stable	20-2-2012
Botswana	A-	Stable	20-2-2012
Burkina Faso	B	Stable	20-2-2012
Cameroon	B	Stable	20-2-2012
Gabon	BB-	Stable	20-2-2012
Kenya	B+	Stable	29-11-2011
Mozambique	B+	Stable	29-11-2011
Nigeria	BB-	Stable	29-11-2011
Rwanda	B	Stable	29-9-2012
Senegal	B+	Negative	29-11-2011
South Africa	BBB	Stable	29-11-2011
Uganda	B+	Stable	29-11-2011
Zambia	B+	Stable	29-11-2011

Source: Wikipedia – [http://en.wikipedia.org/wiki/List\\_of\\_countries\\_by\\_credit\\_rating](http://en.wikipedia.org/wiki/List_of_countries_by_credit_rating) accessed 30th January 2013.

Note: The source table states that “For S&P, a bond is considered investment grade if its credit rating is BBB- or higher. Bonds rated BB+ and below are considered to be speculative grade, sometimes referred to as ‘junk’ bonds.” The highest bond rating is AAA, so that BBB is the highest rating within the B group. UN member states in sub-Saharan Africa which had not been assigned a credit rating by any of the four rating agencies reviewed by the Wikipedia source were: Burundi, Central African Republic, Chad, Congo, Democratic Republic of Congo, Cote d’Ivoire, Djibouti, Equatorial Guinea, Eritrea, Gambia, Guinea, Guinea-Bissau, Liberia, Malawi, Mali, Niger, Sierra Leone, Somalia, South Sudan, Swaziland, Tanzania, Togo, Zimbabwe.

On the basis of this information it is impossible to avoid the conclusion that international bond markets do not represent a realistic alternative source for the capital financing of infrastructure development programmes for most sub-Saharan African countries. Moyo’s proposal that bonds are an alternative source of funding for development projects and programmes is therefore not at all convincing, and this element of her argument in the book is perhaps even less convincing than her assertion that aid has been the cause of most economic problems experienced by African countries. It is also difficult to give credit to the associated recommendations given by Niall Ferguson in his Foreword to Moyo’s book (pp ix-xii).

There is one further dimension of the relationship between aid, international bond markets and the financing of development programmes which deserves attention. In Chapter 4 of her book Moyo sets out arguments which allocate a considerable amount of the blame for the perpetuation of corruption in African countries to ODA systems. A quotation will illustrate her arguments: “With aid’s help, corruption fosters corruption, nations quickly descend into a vicious cycle of aid. Foreign aid props up corrupt governments – providing them with freely usable cash.” (p49). Essentially Moyo appears to argue that the phasing out of foreign aid, and its replacement with funding from international bond markets, will cut off a major source of life blood for corruption thus stifling it at source and contributing to its control. However, in reality it is not aid *per se* which is the life blood for corruption, but rather it is accessible funds which fuel the type of corruption which she refers to. Funds flowing into African countries



from the international bond market would simply represent another form of accessible funds, and there is no reason to expect that these funds would not attract the attention of corrupt members of African society in exactly the same way that they are attracted by aid. This is a further example of the poor logic exhibited in this most disappointing and frustrating book.

### 3 The World Bank's CPIA – Country Policy and Institutional Assessment

The publication of Burnside and Dollar's article (2000) analysing the connection between the economic performance of aid and the quality of the policy environment in recipient countries heightened interest in both this relationship and in the conceptualisation and measurement of the policy environment. The initial source for this measurement has been the World Bank's "Country Policy and Institutional Assessment" – the CPIA – which now has 16 elements (World Bank, 2011; 2013). The CPIA dates back to the 1970s as a tool for the allocation of aid by the World Bank and its soft-loan associate the International Development Association (IDA). A comprehensive critique of the CPIA is contained within a report produced by Alexander (2010) as well as in an earlier web-based document (Alexander, 2004), and the World Bank's own Independent Evaluation Group (IEG) published a major review of the CPIA in 2010 (World Bank, 2010).

Criticism of the CPIA falls into three distinct categories: one relating to the association between several of the elements of the CPIA and the Washington Consensus (WC),<sup>8</sup> a second focussing on omissions from the range of variables included in the CPIA, and the third relating to technical aspects of the CPIA indices. The broadest criticism is perhaps most clearly articulated by Van Waeyenberge (2006 and 2009) and is focussed on the close relationship between the implicit conceptualisation of the policy environment as being almost co-terminous with the liberalisation principles of the WC. In criticism related to 'liberalisation' care has to be taken to distinguish between i) the essential need to allow market, decision-making, and implementation structures to maintain significant 'flexibility'<sup>9</sup> in a changing and developing world, and ii) the ideological overtones relating – for example – to espousal of privatisation programmes and of a 'jaundiced' view of the public sector.

The World Bank IEG study (2010) maintains a largely instrumental approach, and focuses on technicalities throughout most of its 135 pages. However, it is perhaps surprising that this evaluation study has not received more attention in the literature since it has some quite radical elements, particularly in its contention that the CPIA should give more attention to issues of equity (pp18-20):

"The recommendation is to replace the criterion on *equity in resource use* with a criterion on *equity and equality of opportunity for other socio-economic groups*. Alternatively, there can be a reformulation of the criterion on *equity of resource use* by, among other things, incorporating an assessment of other socioeconomic groups."

The discussion of 'equality' and of the 'equity issue' in the evaluation study is much informed by a specially commissioned paper by Julia Cagé (2009) which takes a standpoint consistent with recent remarks by Christine Lagarde, the Managing Director of the IMF, as reported in *The Guardian* newspaper:

"Lagarde warned of the risks of climate change and of backsliding on necessary reforms of the financial sector, and admitted that policymakers – including the IMF – had underestimated the costs of inequality. Unless action was taken to combat global warming, the next generation would be 'roasted, toasted, fried and grilled'. 'I believe that the economics profession and the policy community have downplayed inequality for too long,' Lagarde said. 'Now all of us have a better understanding that a more equal distribution of income allows for more economic stability, more sustained economic growth, and healthier societies with stronger bonds of cohesion and trust'." (The Guardian, 2013)

In the Executive Summary, Management Response and Chairman's Summary sections at the beginning of the IEG evaluation report this equality/equity issue is given little or no attention, perhaps indicating an attempt at that stage to downplay the significance of the issue.

Elsewhere a brief reference to some of the methodological limitations of the CPIA has been made:

“There are several methodological problems with this CPIA measure. The respective significance of each of the individual sixteen criteria and four clusters (i.e. the relative weights adopted) are open to question. The people responsible for making the assessments within any particular country need to maintain consistency between criteria and between years. Comparisons between countries are only possible if it is possible to be confident that the assessment criteria have been implemented uniformly. Also, it is clear that the ranking within each criterion is based on ordinal principles while adding together the scores for each criterion and dividing by the number of criteria uses cardinal mathematical principles – a mixing of ordinal and cardinal principles which is questionable.” (Tribe, Nixon and Sumner, 2010: 196)

At the time when the extract which is reproduced above was drafted the 2010 IEG evaluation report was not available. Some of the detailed, and painstaking, work undertaken by the IEG makes it much clearer how the CPIA scores are determined, and also explains very clearly the measures taken to check and double-check the values arrived at by country-based professional staff. A 23-page questionnaire (IEG, 2010: 67-89) is the starting point for the generation of the CPIA scores. After the initial set of draft scores have been produced they are subjected to a 'benchmarking' comparison with a selection of other countries: “The Bank's six regions, the networks, and the central departments are all involved in the selection of a representative sample of countries that cover all the regions and include IBRD- and IDA-eligible borrowers.” (IEG, 2010: 8). This systematic approach deals as effectively as possible with the problem of attempting to ensure comparability of the CPIA measures between countries and over time.

There remain two other limitations identified in the quotation from Tribe, Nixon and Sumner: the issues of weighting and of cardinal/ordinal numbers. The relative weights given to the 16 individual elements (described as 'criteria' by the World Bank) of the CPIA, and to the 4 clusters, are given a considerable amount of attention in the IEG evaluation report (the 16 elements are reproduced in Figure 1 below). The 'weights' issue is also highlighted in Alexander's critical review of the CPIA (Alexander, 2010). The IDA Country Performance Rating (based on the same elements/criteria as the World Bank's CPIA) adopts an 8 per cent weight for each of the first three clusters (Economic Management, Structural Policies and Policies for Social Inclusion/Equity), a 68 per cent weight for the fourth cluster (Public Sector Management and Institutions) and an 8 per cent weight for portfolio performance, while the CPIA itself allocates each of the cluster an equal weight (IEG, 2010: Foreword by Vinod Thomas, World Bank Director-General, Evaluation – p xi). Over the years the weighting system adopted by the CPIA has changed several times, as is outlined in the evaluation study's chapter reviewing the development of the system. Considerable attention was given in the evaluation to the weights and to the criteria used for determining them. Evidence which is to be found in most of the chapters in the evaluation and which are supportive of the current system include the findings that a) there is a very close correlation between the indices for individual countries for the different clusters (so that different weights would not affect the overall index), and b) there is a close correlation between the CPIA, CPR and other indices which have been developed as a measure of 'governance' (IEG, 2010: passim). For the second of these findings the 'Worldwide Governance Indicators' project at the World Bank can be regarded as a major source of information (Kaufmann et al. 2010). It should be noted that the weighting system includes individual weights for each of the 16 elements/criteria which make up the CPIA, and a weighting system for the questions

which make up the component parts of each element/criteria and which are contained within the questionnaire referred to earlier.

Figure 1 – The 16 Elements and 4 Clusters of the CPIA

<p><b>A. Economic Management</b></p> <ol style="list-style-type: none"><li>1. Monetary and Exchange Rate Policies</li><li>2. Fiscal Policy</li><li>3. Debt Policy and Management</li></ol> <p><b>B. Structural Policies</b></p> <ol style="list-style-type: none"><li>4. Trade</li><li>5. Financial Sector</li><li>6. Business Regulatory Environment</li></ol> <p><b>C. Policies for Social Inclusion/Equity</b></p> <ol style="list-style-type: none"><li>7. Gender Equality</li><li>8. Equity of Public Resource Use</li><li>9. Building Human Resources</li><li>10. Social Protection and Labor</li><li>11. Policies and Institutions for Environmental Sustainability</li></ol> <p><b>D. Public Sector Management and Institutions</b></p> <ol style="list-style-type: none"><li>12. Property Rights and Rule-based Governance</li><li>13. Quality of Budgetary and Financial Management</li><li>14. Efficiency of Revenue Mobilization</li><li>15. Quality of Public Administration</li><li>16. Transparency, Accountability, and Corruption in the Public Sector</li></ol>
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Source: World Bank, 2013a.

Given the structure of weights used within the CPIA/CPR system, and the degree of confidence which can be attributed to the individual element/criteria values, it is perhaps surprising that the fourth group (relating to centrally important 'governance' criteria) has been given significantly more weight than the first three groups (indeed, it has been given about 8 times the weight of each of the first three groups in the IDA CPR formulation). Elements (or criteria) for which it is inherently difficult to assign a numerical value should surely be given relatively less weight within such governance indicators.

This argument leads on to the final point within this discussion of the CPIA/CPR system. It will be recalled that each of the elements/criteria is assigned a score in the range 1 to 6. This score is generated by a process which has a considerable degree of cross-checking and verification. However, the individual scores for each element/criterion are essentially non-comparable between themselves because each must logically be generated on an ordinal basis rather than on a cardinal basis. This means that while each of the values for the elements/criteria have a degree of integrity within themselves it is not strictly acceptable to undertake any mathematical manipulation such as adding together the scores for different elements, weighting them, multiplying or dividing the results to achieve average scores and other derived indicators. The problem with the type of exercise undertaken with the CPIA and CPR, as with most other qualitative indicators, is that once a set of numbers have been generated there is a tendency a) to forget the essential non-numerical nature of the indicator (e.g. its ordinal rather than cardinal nature) and b) to want to use the numbers in more sophisticated quantitative exercises than their nature can really justify. A general, and very

pertinent, *caveat* on the use and abuse of governance indicators is provided by Arndt and Oman of the OECD's Development Centre in both a background information sheet (Arndt and Oman, 2007) and in a more elaborate exposition in the associated book (Arndt and Oman, 2006).

The CPIA/CPR system has added a degree of rigour to consideration of the 'policy environment' or of 'governance' which would not exist in its absence. The reticence of the World Bank in releasing details of the system over a long period of years, remarked upon in the IEG Evaluation published in 2010, is some evidence of the reasonable caution with which many professionals handle these indicators. This caution must, to a considerable extent, account for the suggestion in the IEG Evaluation Report that rather than publish an overall CPIA score across all 16 elements/criteria (and all 4 groups) the 'merging' of scores for the individual elements/criteria should be restricted to generating group values, and not be extended further to the overall CPIA/CPR values.

#### **4 DFID's Needs-Effectiveness Index**

The 2011 review of its aid allocation, and of its aid allocation system, by DFID included a welcome increased degree of transparency for the processes involved and for the associated policy outcomes. There was a laudable attempt to avoid obfuscation of aid allocations and of the criteria adopted in arriving at these allocations (DFID, 2011a, 2011b, 2011c and 2011d). Central to the systematic approach to the narrowing and focussing of aid allocations was the use of a 'Needs-Effectiveness Index' (N-EI) to identify, on a quantitative basis, the prioritisation of countries for the receipt of UK Aid. The DFID's review of both bilateral and multilateral aid in 2010-11 was a major exercise involving many complex issues, but this discussion will focus only on the N-EI, which was employed in both reviews, although the main explanation of the methodology involved is included in the multilateral review (DFID, 2011c).

The N-EI comprises two elements: "need" is based on the number of people living under \$2 a day, the country's score on the UN's Human Development Index, and a measure of the country's fragility. The effectiveness part of the index is based on the World Bank's Country Policy and Institutional Assessment (CPIA)." (DFID, 2011b: 7).

The first part of the first element – the number of people living under the \$2 a day poverty line in a country – is clearly intended to accommodate the issue of 'poverty' within the definition of 'need'. The \$2 a day measure is the less stringent of those used internationally to identify the extent of absolute poverty, the \$1.25 a day being the poverty line below which more severe, or 'chronic', poverty is deemed to exist (UNDP, 2013: 161; World Bank, 2013b: 79-80, 375). The use of the poverty line to determine the extent of absolute poverty can allow for the relative impact of inequality between countries when the number of people below the poverty line is expressed as a proportion of the total population. However, when the proportionate measure is not used, as is the case with the N-EI, comparisons between countries with significantly different population sizes are more difficult.

The second part of the first element – each country's Human Development Index (HDI) score minus 1 – is intended to indicate where a country lies within the international measurement of 'development', the 'minus 1' factor meaning that the higher the score the lower the 'level of development' (the reverse of the HDI itself). The HDI is now a well-established measure of the standard of living (three dimensional, including life expectancy at birth, years of schooling and per capita income (UNDP, 2010: 216)). Although the HDI gives a considered measure of the average standard of living of a country it does not reflect the extent of inequality – in other words the average measure obscures differences within each country. The poverty line approach, and particularly the proportion of a country's population below the poverty line, makes some allowance for distributional and inequality issues.

The third part of the 'need' element of the N-EI is the measure of a country's fragility, and it is to this that this section of the paper will devote most attention. The 'effectiveness' element of the N-EI is provided by the CPIA, which has been discussed in the previous section of the paper.

The remainder of this section will focus on two particular issues. First the way in which 'poverty' has been included in the N-EI, and second the way in which country fragility has been dealt with.

The N-EI is explained in the 2011 DFID *Bilateral Aid Review* (DFID, 2011b: 21; DFID, 2011c: 132) as follows:

"To obtain each country's "need-effectiveness" score, the two elements of the index are combined as follows:

$$\text{HDI} * \text{CIFP-FFS} * \text{Population living under } \$2 \text{ a day}^{0.2} * \text{CPIA}$$

The main driver of the model is HDI and population under \$2 a day followed by CPIA. Population under \$2 a day has an exponent of 0.2, this ensures that population does not dominate the entire model and lead to extreme solutions, where highly populous countries such as India and China get very high scores, irrespective of their scores on the other components."

The component representing the phenomenon of 'poverty' within the N-EI is explained in a little more detail in the multilateral aid review:

"If we leave the exponent on population under \$2 a day unchanged, its impact on the model is five times as large as the nearest component (which is HDI). In the current model, HDI and population under \$2 a day have the largest impact followed by CPIA and finally fragility. It is worth noting that even after making this adjustment many populous MICs with large numbers of poor still fall under the 1<sup>st</sup> quartile of "needy" countries." (DFID, 2011c: 132 fn18)

Those responsible for creating the N-EI were clearly mindful of the possibility of populous states generating too high a prominence in the results if the component including population below \$2 per day was included without any modification. However, the critical issue associated with 'need' is not the size of country populations as such (as might be deduced from the wording in the quotations explaining the application of the exponent factor of 0.2) but is rather that of 'poverty'. The reason for the inclusion of the 'population under \$2 a day' element in the N-EI is not to highlight countries with large populations, but rather to highlight countries with significant poverty. The use of an exponent which significantly downgrades the representation of poverty in the N-EI is counter-intuitive given that the objective is to represent 'need'.<sup>10</sup>

An alternative composition of the N-EI might have used the proportion of each country's population 'under \$2 a day', in which case an exponent would not have been needed in order to reduce the impact of more populous countries. However, if this course had been followed it would have created a different problem in that the proportional measure would have emphasised countries with smaller populations (and smaller numbers of people under \$2 a day) relative to more populous countries with the same proportion of their population under \$2 a day. This is the problem addressed by Sumner and Kanbur, and by Sumner, in their recent seminal papers relating to "poor countries or poor people" (Kanbur and Sumner, 2012; Sumner, 2012) and it is also one of the main reasons why a more detailed description of the rationale for the characteristics of the N-EI than that given in the DFID's aid review documents was really necessary.

An associated issue, parallel to that outlined above, is that of why an exponent of 0.2 was selected for the 'population under \$2 a day' element of the N-EI. The exponent could have been 0.1, 0.3, 0.4 or any other number reducing the impact of the extent of poverty (i.e. the number of poor people) in the more populous countries. No form of sensitivity analysis is offered explaining the extent to which an alternative formulation of the N-EI would have affected the results. However, we are told that with the exponent of 0.2 the poverty element has an "impact on the model [which] is five times as large as the nearest component (which is HDI)" (DFID, 2011c: 132 fn18), but this does not address the issues of why an exponent of 0.2 was selected and why an exponent was used at all in order to reduce the impact of poverty in more populous countries on the results for the N-EI. A further issue, which is not explored in this paper, is why the '\$2 per day' poverty line was selected rather than the \$1.25 per day poverty line – the latter relating to what can be characterised as 'chronic poverty'.

The fragility index (the third part of the 'need' element of the N-EI) is discussed in a little more detail in the 2011 DFID *Multilateral Aid Review* (DFID, 2011c: 130-139). Here we learn that the fragility index "is constructed from the Country Indicators for Foreign Policy – Failed and Fragile States indicator (CIFP-FFS)". (DFID, 2011c: 131). This index

"comes from Carleton University and includes authority, legitimacy, capacity, governance, economics, security and crime, human development, demography, environment and gender. Human development, economics and demography have been excluded to avoid double-counting with the HDI. The index takes the following form: index score =  $(x - x_{lower}) / (x_{upper} - x_{lower})$ .  $x_{upper}$  and  $x_{lower}$  were set above and below the maximum and minimum values in the series. The upper and lower bounds used in the index are 7 and 2." (DFID, 2011c: fn11 p131)

There is very little further elaboration of the source for the fragility index, or discussion of its construction and limitations. This is very surprising given the well-established nature of the other elements of the N-EI.

The reader of the 2011 DFID Aid Reviews is therefore left to their own resources in searching for the Carleton University source for the CIFP-FFS indicator, and for the literature surrounding the incorporation of the element of 'fragility' in the analysis of country characteristics. A determined literature search reveals that the DFID had clearly been considering the implications for aid allocation and management of country fragility for some time. For example, McGillivray's significant paper (2006) was originally prepared for a 2005 meeting sponsored by DFID on this particular issue, and it is again surprising that the 2011 Aid Reviews do not acknowledge this earlier work.

In 2012, after the DFID aid reviews had been completed, Carment and Samy (2012) published a report outlining the Carleton University "Failed and Fragile States Project". The work of the project can easily be found on the internet (Country Indicators for Foreign Policy, 2013). The methodology used in constructing the Failed and Fragile States (FFS) index is set out very clearly on the Carleton University website, with a list of recent documentation which has been produced – mostly downloadable. Given the fact that there has been relatively little attention to this source in the recent literature on aid analysis – and on aid allocation – by economists it is perhaps reasonable to have expected that the DFID Aid Reviews would have been more forthcoming about i) the source for the FFS, ii) the details of the modifications which were made to the Carleton University FFS – and their implications – in adopting it for the N-EI, and iii) with the methodology used in constructing the FFS. The bilateral and multilateral reviews of ODA allocation undertaken by DFID and published in 2011 came to radical conclusions with very significant implications for aid policy, and with greater transparency than has been apparent previously, making it difficult to understand why the research community does not appear to have subjected the methods and conclusions relating to the reviews to greater scrutiny.

There is, however, a wider literature covering the fragility issues on which the FFS is focussed. The most widely familiar documentation, which has been current for a significant period, is related to the LICUS (Low Income Countries Under Stress) group. The World Bank has a section of its website devoted to the issues surrounding the LICUS group of countries (World Bank, 2013c). The World Bank's *World Development Report 2011* focussed on Conflict, Security and Development (World Bank, 2011) and the process of preparing these annual reports is such that early drafts of the report and background papers would have been available at the time when the DFID aid reviews were being undertaken. A Google search for "DFID Fragile States" reveals a rich range of literature sources. In 2006 the Overseas Development Institute published a major study on the relationship between aid donors and fragile states at the request of JICA (Japan International Cooperation Agency) which would, of course, be relevant to the decision of DFID to incorporate the FFS index in their N-EI (Cammack et al., 2006).

Perhaps the most important review of recent work on the concept and measurement of state fragility is the joint report published by the German Development Institute and the UNDP (Mata and Ziaja, 2009). This report summarises a range of contributions to the 'fragile states' issue, including that of Carleton University, and acknowledges contributions from the UK Department for International Development. The World Bank's Independent Evaluation Group has itself produced a major study, entitled *Engaging with Fragile States*, which reviews the Bank's LICUS programme referred to above (World Bank, 2006). An interesting background document on fragile states is available from the Madrid-based *Fundación para las Relaciones Internacionales y el Diálogo Exterior* (Publicaciones FRIDE, 2007) which, although not easily tracked down, provides a succinct description of several of the key topics relating to this issue.

There is also a literature on broader international development security issues, which is related to 'fragile states' but casts the analytical net more widely. The international alliance of Catholic development agencies, the CIDSE – based in Brussels, published a 'reflection paper' on *Security and Development* (CIDSE, 2006) dealing with broader security issues in the context of state fragility. The Bonn International Centre for Conversion publishes an annual report relating to international security which relates directly to fragile states concerns (BICC, 2012). The PRS Group produces an *International Country Risk Guide Annual* (PRS Group, 2013a) and an *International Political Risk Guide Annual* (PRS Group, 2013b) which provide detailed information on a country-by-country basis. A widely-cited book relating to global threats is *Beyond Terror: The Truth About the Real Threats to Our World* by Abbott, Rogers and Sloboda (2007). Finally, the *African Development Report* for 2008-9 was entitled 'Conflict Resolution, Peace and Reconstruction in Africa' reviewing the sources, range, implications and resolution of conflict for a continent which has suffered considerably in this respect in recent decades (African Development Bank, 2009).

The fact that the DFID reviews did not set out, or refer to, the wider literature and the implications associated with the fragile states issue is a major limitation of the exercise since there is no opportunity for the reader of these aid reviews to gain any insight into the thinking behind the particular index adopted for 'fragile states'. Equally, the detailed characteristics of the Failed and Fragile States index are not revealed, severely limiting the degree of transparency associated with this part of the aid review.

## **5 Concluding Remarks**

This paper has focussed on three issues, of which the first relating to Dambisa Moyo's book *Dead Aid* is in the nature of a book review, while the second and third relating to the construction of the World Bank's Country Performance and Institutional Assessment (CPIA) and the DFID's Needs-Effectiveness Index (N-EI) are relatively technical in nature.

Moyo's book is found to have considerably more limitations than were suggested in the reviews published shortly after its publication and which are surveyed in this paper. In particular, the poor evidence base, the reliance on assertion rather than on analysis, and the scarcely credible suggestion that sub-Saharan African countries replace funding of investment with aid through resort to the international bond market are highlighted.

The World Bank's CPIA has existed in one form or another for a considerable number of years, and has been used as a basis for the allocation of aid funding. In recent years, as its structure has become more transparent, it has been used as a measure of 'governance' in the context of economic analysis based on aid recipients' 'policy environment'. The discussion in this paper focuses on the inherent problems of comparability of CPIA scores between countries and over time, on the fragile nature of the weighting systems adopted for the calculation of the index from its (currently) 16 component variables, and on the significant criticism of its lack of focus on inequality and equity which is made in the World Bank's Independent Evaluation Groups recent study but which was not included in the action points arising from the evaluation. There is a surprising lack of detailed academic and independent research studies on the CPIA, which is evident from the literature review undertaken in preparing this section of the paper.

DFID's N-EI was introduced as a lynchpin of the major review of its bilateral and multilateral aid undertaken in the period 2010-11. Its main use was in establishing a new set of aid allocation priorities between developing countries, and the publication of the reviews in 2011 represents a welcome degree of transparency in the aid allocation process. This paper raises questions about the precise nature of the properties of the 'need' element of the N-EI, suggesting that more careful consideration could have led to a different composition of the index, incorporating poverty more effectively. The 'effectiveness' element of the N-EI adopted the World Bank's CPIA, together with all of the associated advantages and disadvantages which are highlighted in the review in the second section of this paper.

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### Footnotes

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<sup>2</sup> Although Wikipedia is not an acceptable academic source – not being peer-reviewed systematically – it is a useful and reliable source of basic information. At [http://en.wikipedia.org/wiki/Sub-Saharan\\_Africa](http://en.wikipedia.org/wiki/Sub-Saharan_Africa) (accessed 1st December 2012) a list of 49 sub-Saharan African countries is given.

<sup>3</sup> The referencing system in Moyo's book is somewhat better than it might appear at first sight. There are virtually no citations in the text, but there are footnotes (chapter by chapter) at the end of the book which do not have detailed citations, but which do have some basic information. The bibliography at the end of the book is quite extensive (including some articles from respected academic journals), without being comprehensive, and gives detailed bibliographic information.

<sup>4</sup> When first searching for a copy of *Dead Aid* university library catalogues were used without success – indicative perhaps of a lack of interest in the book within the academic community. My personal copy was purchased at a bookshop on a mainline railway station.

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<sup>5</sup> The HPIC debt reduction scheme counted as ‘aid’ for both donors and recipients and more detail about it can be found on the IMF website (<http://www.imf.org/external/np/exr/facts/hipc.htm>) and on the World Bank website (<http://go.worldbank.org/85B908KVE0>).

<sup>6</sup> An interesting overview of aid to Africa is contained within the 2011 Annual Report of the OECD DAC (Kaberuka, 2011).

<sup>7</sup> There is a significant difference between, on the one hand, individual sub-Saharan African countries attempting to raise funds on the international bond market and, on the other hand, developed market economies (as ‘donors’) raising funds on international bond markets and on-lending (or dispensing grants) to developing countries (as ‘recipients’). The latter ‘model’ would involve developed market economies using their credit-worthiness as a basis for raising capital finance for the funding of sub-Saharan African development programmes. While this model may make sense as a means of using bond markets for funding of African development programmes it is not a model which is invoked in Moyo’s book. A particular innovative funding approach involving a creative ‘financial instruments’ model is GAVI’s *International Finance Facility for Immunisation* (GAVI, 2013), but – again – this is not related to Moyo’s espousal of bond market funding.

<sup>8</sup> The Washington Consensus was particularly associated with ‘Structural Adjustment Programmes’ and ‘Economic Reform’ programmes sponsored by the World Bank in the 1980s and 1990s, and was most clearly articulated and discussed by Williamson (2004), by Rodrik and Rodriguez (2001) and by Rodrik (2006).

<sup>9</sup> The issue of economic flexibility in the context of developing countries is explored in great detail in the collection of papers edited by Killick (1995).

<sup>10</sup> It is, of course, highly relevant for global poverty reduction if countries with large populations have a significant proportion of their population experiencing poverty.