

# **COMMITMENT TO DEVELOPMENT INDEX**

## **EXAMINING THE EFFICIENCY**

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### **COMMITMENT TO DEVELOPMENT INDEX: EXAMINING THE EFFICIENCY**

The Commitment to Development Index (CDI) is a global survey of the 21 richest countries in the world. The index, which was created by the Center for Global Development (CGD) and *Foreign Policy* (FP) magazine, takes the global contributions of these 21 countries and attempts to quantify and rank them on a yearly basis.

Throughout this paper, the efficiency of the CDI to accurately break down the impact of a country on global development to numerical indicators will be questioned. The room for changes to help facilitate improvement will be discussed, which will be done mainly by looking at the limitations of it.

First, the paper will look at these limitations based on the processes and methodologies chosen by the CGD and FP. These thought patterns and processes are important because much of the strategy involved with computing the seven main categories hinges on them. In the end, the seven categories that index the overall score of a country are actually part of the problem. Within global development, the two default attributes of a poor country to focus on are poverty and education (human capital).

Second, this analysis will argue that poverty and education, two very important attributes of a country, are actually the most pivotal for developmental success. Consequently, the third part of this paper will be examining all seven categories by their efficiency of addressing and attacking these two.

No one is questioning the contributions developed countries make to help reduce poverty. Their help in many ways has increased the growth rate of the poorest communities out there. But the fact that the CDI attempts to quantify those impacts as numerical averages raises eyebrows of its legitimacy.

The composite scores of countries are held up to the eighth goal of the United Nations' Millennium Development Goals (MDGs), as a standard. The goal, titled "Strengthening the United Nations," states: "[...] the United Nations [will pursue] all of these priorities: the fight for development for all the peoples of the world, the fight against poverty, ignorance, and disease [...]" (UN 2003). The ninth point stated within the goal shows that the UN is striving "to ensure greater policy coherence and better cooperation between the United nations, its agencies, the Bretton Woods Institutions and the World Trade Organization, as well as other multilateral bodies" with the hope of curbing poverty and hastening development (UN 2003).

In an article by the CGD titled "What the CDI Means," six points are listed as insight to the purpose and methodologies of the CDI. Point four states: "Coherence matters." Apparently, the Index penalizes countries that "give with one hand" via aid, investment, etc., and "take away with the other" through trade barriers, pollution, and several other counter-productive habits, which will be touched on in greater length later in the paper.

So, as the CGD agrees, the key phrase of the UN's MDGs is "policy coherence." That is something not so easily quantifiable. How can an equation truly dictate how well a country complied with UN policies? Similarly, a country's actions can only be ruled as compliance or violating. How can a measurement with no gray area be an appropriate

tool for something so complex as foreign policy, economics, and culture? This is the CDI's biggest fault. Expressing a country's score as a quantitative measure is extremely hard to do when you are ranking a qualitative indicator.

Of the seven categories used (which are aid, trade, investment, migration, environment, security, and technology, respectively), all are considered equal in regards to policy coherence (Ikegami, et al 2004). Configuring the unit of each index parameter to be the same is again another failure at quantifying several very complex and different effects of development. The Human Development Index, which is a comparative index of the quality of life for countries worldwide, suffers from the same problem. As for the seven categories, there is much discrepancy as to why those – and only those – were chosen. The justification in the write up by *Foreign Policy* (FP Sept/Oct 2006) and the Center for Global Development (CGD “What the CDI Means”) does not make it clear why other possible categories are left out. The second point of the “What the CDI Means?” article declares: “Development is about more than aid.” This is true, and it's satisfying knowing the CGD understands and acknowledges this, but development is so complex it has to do with more than just those seven.

As this paper will point out later, even though the CGD places a lot of emphasis on other elements outside of aid, the aid category still accounts for the majority of donations. The aid system is very corrupt and bloated as well due mostly to the

Hopefully in the future more categories will be added. It was pleasing to see environment and migration were recently added to the list, especially since a developing country's environment is vital to its reduction of poverty (Timmer 1994). One could assume that exclusion of categories like peacekeeping operations is due to a lack of

computable data. This can explain an absence, but doesn't warrant the validity and accuracy of the Index.

Points one and five in the "What the CDI Means" articles relate to policy actions. The first one says, "Rich-country policies matter" and goes on to explain it is really the richer countries in the world and the policies they make that influence developing nations – sometimes even more than the developing nations' own policies. Point five then says, "Partnerships are powerful." From here we can learn that the Index "rewards countries that deliver aid through multilateral arrangements, sign global environmental agreements, and participate in internationally sanctioned security operations."

A very exciting stipulation, but most foreign policy decisions by developed nations are done on various domestic agendas and international negotiations. The CDI has little-to-no influence, which just means that a higher rank in the Index is rewarding a country for domestic policies that happen to benefit another nation, as compared to the altruistic purpose of the index as a whole.

The most important problem with the CDI from a numbers perspective is that it measures on inputs of policies and not the outputs. This opens up a multitude of issues. First, if the Index is ranked on the raw data of what is given, and not necessarily what is done with what's given, how can one country really be doing a "better job" at assisting stability and development? As an example, say the United States is high in the investment category. According to the input methodology, it's because of the amount of private and public money going into foreign businesses. But what if the investment was in chemical companies creating DDT (a pesticide) for farmers, which destroys a community's water supply? Or what about into steel mines and manufacturing companies that go towards the

creation of weapons? Or oil mines whose product helps facilitate an exponentially growing global addiction to gasoline-power equipment, which contributes to the sudden increase in global warming?

The United States is highly ranked in both investment and trade in the 2006 Index. It has dismal scores in the environment and security categories. This can easily lead to strong assumptions that the inputs the United States is giving aren't as much of an impact, whether positively or negatively, as the outcomes.

Since the inception of the Index in 2003, a classic example of number padding by countries via inputs instead of outcomes is debt relief. Tardiness is rewarded with this animal. Counted in the aid category, rich countries have been giving massive amounts of debt relief. Unfortunately, the majority of it is from very old debt that was not planned on being collected anyways (Roodman 2006). In his white paper titled "An Index of Donor Performance," David Roodman gave an American example: The Carter Administration gave a streamlined credit to Zaire. The credit became worthless in the 80s due to Zaire's numerous civil wars, increasing inflation, and absence of jobs. The US has wanted nothing to do with them since. But in 2003, the debt was finally forgiven. The weird thing was the Bush Administration had no plans to reclaim the debt anyways. Rather, it was a tool used to bolster the US's foreign aid numbers.

Advanced countries relieving debt isn't a bad thing. It's just that their scores in the CDI reflect them as high givers of aid. The shining examples are the old European colonial powers. The Netherlands, Belgium, Great Britain, France, and Portugal all had fairly high aid counts (*FP* Sept/Oct 2006). Denmark even had a perfect score at ten-out-of-ten. The majority of recent aid, according to Roodman, has come from the debt

alleviation they've granted to African nations. The ironic thing is the amount of chaos and instability the colonials cause Africa over the past couple centuries leads one to believe the European empires are really indebted to Africa.

The inputs model failure is exemplified even more when we examine the commitment versus disbursement arguments. Currently, the CDI uses commitments by developed nations to compute the individual category scores. This is an ill-advised process compared to the disbursement method Roodman argues. Noticeable holes between a country's commitment to development and actual disbursements reflect "a tendency of certain donors to promise more than they can realistically deliver, or a failure to learn from history that certain recipients cannot absorb aid as fast as donors hope" (Roodman 2006). Overall it's best to use the disbursement model to negate the chances of rewarding the advanced nations for either over-promising aid or underestimating the developing country's ability to absorb it.

Aid tying is a large problem and another example of why outcomes should trump inputs. Roodman defined aid tying as: "Most bilateral donors tie some sort of their aid to recipients to requirements to spend it on goods and services from donor's home country." The United States Agency for International Development, which is the US government organization responsible for non-military foreign aid, is a great example because it is under the direction of the US Secretary of State, which can lead to imbalances. Through his research he found that aid tying reduces the *value* of aid by 13 to 21 percent. This hasn't been properly or completely reflected in the CDI as for the 2006 unfortunately.

## POVERTY

If we all agree that successful development is a complex project to measure, and concur that more factors than the seven categories chosen go into growth, then what can the Index use that's feasible data- and resource-wise? The CDI can start by taking the disbursement method of measurement and focus on the outcomes of the donations. Still though, does that mean it needs to measure the outcomes in seven types of categories, or more, or less?

No. I believe that the poverty rates and education levels (or human capital) are the best indicators of progress within a country.

Many agree, including Martin Ravallion who wrote an article titled "Issues in Measuring and Modeling Poverty." He said many types of aid are created and used to help create a makeshift economy. The purpose is to establish capitalistic industries that create employment. Most of the time these industries end up benefiting the developed countries as well. It's all an elaborate endowment system.

India is a prime example of success with this type of aid. Large amounts of aid and investment poured into the country in the 1990s to fund software, pharmaceutical, and customer service businesses. According to the *2005 World In Figures* publication by *The Economist*, India was the sixth largest recipient of donor aid. It gave foreign businesses new outsourcing opportunities, and Indian students new jobs to earn cash from, helping spur the economy and development within the country.

Even India, however, has done an unacceptable job of helping the very poor. The growing economy has been resoundingly only in cities, which is only benefiting the urban, young adults that already have an education. The extremely poor rural areas of

India have not seen the prosperity of the new industries. Through a process called “residential differentiation” (Ravallion 1996), poor people tend to congregate together. They create their own communities. When policies, industries, and opportunities don’t reach out to them, there is no growth and progress. And with the current measurement methods, how can the CDI be sure aid is reaching those that need it most?

President Kennedy gave the metaphor that the economy is like a tide – if it’s rising, it lifts all the boats in the water. This could lead us to think that India is a perfect example of how pumped up aid and investment is the one key to success, right? Well, in an article by Sheldon Danzinger and Peter Gottschalk, there is evidence to prove otherwise. They first go into an elaboration of inequality in poor states. This inequality sets a standard for working household heads. Their research showed only about one-third of poor households have heads that are expected to work due to various elements like the availability of jobs, but primarily cultural circumstances. Secondly, this inequality grew significantly in the 70s and 80s, and it was a major contributor to increased poverty (Danzinger & Gottschalk 1986). Consequently, most poor households will in fact not benefit from an increased labor market.

In the past, economic growth has been a source of poverty reduction. However, unless the poverty-stricken have the ability to become more educated or there is a decline in inequality (which is a cultural war at this point), Danzinger and Gottschalk claim “it seems unlikely that growth will substantially reduce poverty in the near future.” So, in effect, a rising tide in India will not lift all boats because there are several harbors. At least not immediately – the long-term outcome (or overall “sea level”) is still up for debate.

If endowment-style aid isn't very efficient, then what is? Now, poverty reduction is the way to economic growth. We know that about one-sixth of the world's population lives in poverty (Burnell & Randall 2006), but Asia is quickly changing that. In a 1996 *Economic Journal* entry entitled "Poverty Alleviation," Pranab Bardhan illuminates that East and Southeast Asia have seen fast economic growth rates, which have been sharply associated with reduction in mass poverty.

He later goes on to point out that it was the eventual efficiency of the countries that enhanced the equity of the region, not the other way around. We see cases all the time of African countries being dependent on the scarce natural resources they have to boost their economy. The "Asian Tigers," as they are sometimes fondly referred to, decided to increase the intelligence levels of their leaders and boost the human capital of their people. This way, as the population became better educated, they began to live healthier lives, maintain a stable government, and build physical capital. Eventually, the human capital levels became much sought after prizes from the Western global conglomerates.

Bardhan even provided evidence that better education and health care for the poor actually had important positive impacts on the rich, which in turn allow for more aid to be kicked back to the budding region. His final conclusions were that better education for all women and better health, education, and nutrition opportunities for all children were the key catalysts to spur development and growth. Progress needs to start at the grass roots and foundation levels of a country, which is essentially all about efficiency and not equity.

Two other nations would like to agree. Thousands of miles apart and boasting two different types of culture, Ireland and Costa Rica are modern success stories. And they both have the same story to tell: Give your population an education.

In 1996 Ireland passed the Education Act, which gave autonomy to universities, but focused on intense funding from the public sector (*The Economist*, 16 Oct 2004). This in effect gave all peoples in Ireland – whether 18 or 78 – a chance at a free or almost-free secondary education. Free education was already in effect from laws passed in the 1960s, but this helped build upon and modernize it (Friedman 2006). And since the universities were independent, there was competition. Everyone won, but especially Ireland who became the second richest country in the European Union behind Luxembourg (Friedman 2006). The country went from a mockery state to a state that has a higher per capita GDP than Germany, France, and Great Britain.

Ireland especially came out the victor because its population became very educated and efficient. Consequently, foreign investment poured into Dublin in record quantities. Dell Computer, Microsoft, Hewlet-Packard, and Apple all have their European bases located in Dublin (*The Economist* Oct 16, 2004). Nine out of the biggest ten pharmaceutical companies have operations in Ireland. That is a better number than India (Friedman 2006). A famous modern political quote is “As long as there are cranes, there is progress” (Friedman 2006). In Ireland’s case, the cranes are so populous it’s essentially an industrial forest. And it can almost exclusively be attributed to a nation-wide effort to get smarter.

Costa Rica has trodden a similar path. Upset with its current situation, the country slowed its funding of military expenditures and put that money into education. Since the

1970s, the country has invested 28 percent of its annual budget into public education. Now the country boasts a 96 percent literacy rate, which is the highest in Central America. Only 45 to 60 percent of adults in El Salvador, Guatemala, Honduras, and Nicaragua can read and write (Ivie 2004).

Both countries have experienced hyper growth. They are quickly leaving the developing stage of their history and becoming players on the world economic stage. Not that places like Africa are not players, but Costa Rica and Ireland are not being taken for granted or advantage of with international politics anymore.

## CONCLUSIONS

Giving suggestions for improvement to the CDI is not as easy as it seems. There are many arithmetic equations that can be tuned up, but that is beyond the scope of this paper. Rather, this paper will make suggestions involving the methodologies and processes of the Index as a whole.

The philosophy of the Index is what is flawed. It is hard to blame the Center for Global Development and *Foreign Policy* because of its newness. The budding CDI is well intended and does give some well-informed insight. But the system of the Index is just that: new and with several kinks.

The recommendations to follow will appear in relevance, the most important being last. The first suggestion is to decrease the weight put on the sheer amount of “official” aid by donors. As discussed earlier, debt relief and misrepresented numbers help inflate scores. Including private giving in this category is of no relevance because its not a very large chunk – yet. Keeping an open mind for future tweaking is a good idea

because of the strikes being made by venture philanthropists like Bill Gates, Bill Clinton, and Google Inc. Being aware of the variety of aid types coming from the private sectors will help balance the aid category.

The second suggestion is to measure all seven categories by disbursements and outcomes, not by commitments and inputs. Roodman explained this best. Commitments are sometimes not followed up with, and many countries can not absorb the inputs of most aid, investment, etc.

The Index recognizing the scope of recipients and the different challenges they provide can help fix that. It needs to factor quality of recipient governments and how poor the developing nation is, penalize tying of aid (or giving aid only if it used with X, Y, and Z kickbacks), reward those who handle debt relief responsively, and penalize project proliferation (or overloading developing governments with many small, inefficient aid projects).

A good model to work from is the Development Assistance Committee's (DAC) evaluation of Official Development Aid (ODA). The DAC excludes ODA from its most recent 2006 figures because they feel a lot of aid is going towards "Part II" countries in the former Soviet Union regions as well as other richer non-DAC members like Israel and Singapore (Roodman 2006). The donation of aid like this obviously distorts actual aid numbers towards those that need it most. The DAC has figured out a way to factor in those prerequisites, so the ability for the CDI to do the same is not too far off.

The third suggestion is to monitor the performance of donations in direct correlation to the advancement of the recipients' education system. There is a lot of evidence out there to prove the impact education has on poverty rates, and in turn

development, including several examples in the later half of this paper. If the CDI can take measurement that accurately portrays an accelerated performance in this area, the legitimacy of the Index will be greatly improved.

Speaking on a global level, the Commitment to Development Index has done a great job of breaking down the performance of those nations that can give help to those who need it most. It is a good indicator, and the countries that score high should be proud while the countries that do not should examine their foreign policy. The accuracy of the system is not quite there yet, however, and with some simple tweaks to the methodologies it uses, its influence will grow.

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