

Meeting with representatives of International Organizations

UNDP Brussels, November 12th, 2009

After an introduction by **Nicola Harrington**, Deputy Director for Policy and Communications of UNDP Brussels, **Francisco Rodríguez** gave a 30 minute overview of the 2010 report's outline, centering on the new conceptual overview, proposed alternative changes in measurement and empirical analysis of trends. The meeting was attended by representatives of UNEP, Human Rights Organization, the ILO, the World Bank and IOM.

Some of the key points raised in the comments from participants were the following:

- Desirability of linking our efforts with the debate on the measurement of GDP and particularly suggestions for including measures of natural resource depletion in GDP.
- HRO is working on indicators of political rights and has made some progress. FR replied that we would invite them to our consultation and would communicate to get the data from them.
- ILO pointed to relevance of inequality and in particular to evidence of the increase in inequality during the last 25 years; vulnerability in living conditions is also very important. They were concerned not to have seen issues of job protection addressed in our draft.
- Issues of empowerment are vital – should deal not only with political rights, but also with socio-economic rights. ILO is working on a complete list of decent work indicators, but governments and employers are very reluctant to be involved in measurement of these issues. They suggested we look at the report *Growing inequalities in a world of financial globalization*, recently published by ILO, which finds evidence of growing inequality. It is very important to consider the work of the regional and national HDRs in reflecting inequalities between countries. The national HDRs and regional reports often have a different approach and get at different, more policy-specific issues. FR replied that this work is continuously being surveyed and that will feed into the report.
- The report should look at cases where the development that occurs is solely sustained by foreign aid and could not survive in its absence. FR replied that the report would devote significant attention to sustainability and poverty traps.
- Suggestion that we look at recent work presented in a UNDP-organized conference on inequalities in the OECD and Latin America, which found that inequality in both regions was similar pre-redistribution, but significantly different after redistribution. Addressing inequality requires redistribution and social policies, as well as own resources. Also suggested that we look at work done by the UNDP Bratislava center on social inclusion policies in the region.

- Question as to whether we will see a discussion of green jobs and green wages in the report. FR replied that there may be follow up reports concentrating on particular dimensions like environmental sustainability, which could address these issues.
- There were questions about the extent to which we would directly address issues of participation. FR replied that we would definitely do so – in fact the focus on inequality was one way of emphasizing these issues.

NOTES FROM THE JOINT UNDP/HDRO –EUROPEAN COMMISSION CONSULTATION ON HUMAN DEVELOPMENT AND DEVELOPMENT COOPERATION

November 13, 2009

The consultation was structured in two parts. The morning session covered the relationship between aid and human development, while the afternoon session covered issue of measurement and country experiences. Participants came from academia and Brussels-based international organizations. Several presentations anchored the discussions: a presentation of the concept note and measurement approaches made by Francisco Rodríguez, two dealing with different aspects of aid and HD made respectively by George Mavrotas (Chief Economist of the GDN) and Arjan de Haan (Professor of the Institute of Social Studies), and a discussion of the Ghanaian experience by Nii Moi Thomposon, an expert on Local Economic Development. Broad ranging introductory remarks were also given in the morning by S. Manservisi, Director-General of the Division on Development and Relations with the ACP States of the European Union, and Antonio Vigilante, Director of UN/UNDP Brussels.

The morning discussion devoted a significant amount of time to discussing the evidence on the effectiveness of aid. This was partly spurred by my initial presentation, which raised the question of what were the effects of aid on human development and how the answer to that question changed when we spoke about human development – as opposed, say, to economic development. A somewhat standard line taken by many participants (perhaps showing that they came from international organizations involved in granting assistance) was that aid was effective, but that we needed to understand more about the mechanisms through which it operated and how to design it so as to be more effective. A somewhat more nuanced line was taken by George Mavrotas, who highlighted the need to think about aid effectiveness in the context of aid heterogeneity – understanding that not all aid is the same, and that there are good reasons not to expect some types of aid (e.g., that which is granted primarily for geopolitical reasons) to have an effect on human development. However, despite the fact that most of the participants seemed to believe that at least some type of aid was good and desirable, a lot of the discussion revolved around recent literature that is highly critical of aid, in particular Dambisa Moyo's 2009 *Dead Aid: Why Aid Is Not Working and How There Is a Better Way for Africa*, which appears to have caused significant impact.

Another relevant point was the need to go beyond the discussion of aid to a broader discussion of sources of financing for development. Aid is only one of the ways in which resources can be mobilized and some countries may be able to tap into other resources (domestic financing, international loans, higher taxation), and it is necessary to put discussions

about aid in this context, which would also help link it to the broader discussions about whether a country's particular economic and development strategy made sense.

One suggestion that garnered a lot of support was that the HDR could help showcase a number of positive examples of aid, to show how aid, at least if it was done well, could work. It was generally felt that one of the biggest problems facing the aid community was the low levels of public support and high political resistance to giving aid to developing countries, and that it was necessary to have some clear examples that showed why aid made sense.

The afternoon session centered on the changes that we are considering implementing to the HDI and our general measurement framework. The presentation on the Ghanaian experience – focusing on efforts to stimulate development from the bottom up through assistance to local and informal business associations – gave an interesting local angle that highlighted the need and relevance of efforts to understand the specificities of development relevant to different countries and societies. In general, participants really liked our emphasis on inequality, sustainability and vulnerability dimensions. On political freedoms and empowerment, most participants agreed that it made sense to include it, but cautioned that measurement could be very difficult, and that you wanted to get at some more nuanced issues like accountability that went beyond formal political institutions – some democratically elected governments, for example, may not be very accountable to their citizens.

A very important discussion that arose in the afternoon session has to do with whether the report as currently framed was ambitious enough and would be path-breaking enough so that people would remember it for the next twenty years. Some participants thought that the current working title, *Rethinking human development*, was too academic and thus would not get too many people excited. One interesting suggestion was to link the title with the basic concept of HD again, for example with a title like *A better life*. Putting aside the question of titles, however, the idea of whether we will be able to capture the imagination of our readers is an important one – we will be measured against a very high standard, which is the 1990 HDR, and should try to live up to it.

Detailed summary of discussion

Introductory Remarks

Stefano Manservigi emphasizes that we live in a time of crisis, with the effect of climate change (for which poorest countries have no responsibility) and the food and financial crises being to set back development goals like the MDGs. A new debate on the MDGs and the post-2015 experience is emerging – asking the question of whether the MDGs are too socially and not sufficiently economically focused? This is a bit of a false dichotomy. Respecting our commitments on aid, development aid should become a form of leveraging other sources of financing. We need to put in place a system to measure the effects of our aid initiatives – ODA is important but not sufficient. Promoting ODA is not the same thing as defending ODA – it should not be defended automatically. We also need to be better equipped in terms of measurement of poverty, inequality and social inclusion.

Antonio Vigilante discussed the key issue that he thought should be tackled by the 2010 HDR. 20 years after the initial contribution it is time to validate and revise the concept and its measurement. Five points: (i) It is a very powerful and comprehensive concept – larger than its measure. How do we make the measurement of human development more comprehensive and reflective of the concept? We need to revise the relationship with the concept of human security. There is still an ambiguity in the relationship between the two concepts. There is a simple yet powerful definition of HD as enlarging people's choices. Are we talking about all choices? Choices related to capabilities? Do we have to make sure that these choices reflect people's aspirations? Are these aspirations reflective of culture or are they universal? There are dimensions of the choices that people have which are not fully considered in the HD paradigm and much less in the index. For example, the aspiration for an improved environment cannot be built into a measure of capabilities. The element of freedom and participation is essentially connected – these are elements of the paradigm which are related to the increase in capabilities of states and communities – it has to be matched by a collective statement of HD – should not just be individual. (ii) The environment is now fundamentally different than in 1990. At that moment we had the illusion that if countries adopted good policies and governance they would automatically increase human development. This illusion is now dashed – we know that even if countries do everything right, there is no guarantee that it will increase HD because of the relevance of global public goods (e.g., climate, financial stability). Choices today are much more global. (iii) Climate, demography, culture – they all matter. You can't just ignore the environment in which a country operates – it doesn't just depend on policies. The HD approach has had a tendency to underestimate these effects in its approach (iv) Development cooperation –we have to rethink it. The distinction of resources that go to global public goods from those going to development is extremely relevant. These definitions guide a political

decision of allocation of aid. There is a huge problem of coordination – different donor agencies negotiating individually with countries, with multiple country programming exercises – it ends up being quite absurd. The effort has to be more coordinated and integrated. (v) The link between public goods and development has to be incorporated in thinking about development cooperation. This also needs to be transparently explained to public opinion, otherwise won't get support for it. Need to dramatically shift public perception on aid.

Morning presentations

Francisco Rodríguez discussed the outline of the 2010 Human Development Report, emphasizing our goals of producing an innovative report on the 20th Anniversary that took into account the very serious questions raised by the current economic crisis. A summary of the conceptual restatement that is being considered as well as the preliminary evidence on trends, was presented. A number of questions on aid were presented: how do the debates on aid effectiveness look when they are considered through the human development lens? Will aid serve as an impulse to get countries out of poverty traps, or will it need to be maintained as permanent assistance? How do these issues fit into broader discussions of fiscal space for social policies?

George Mavrotas discussed ongoing debates on aid, with particular focus on aid effectiveness and heterogeneity. Some of the key issues raised in these debates will continue to capture attention for years to come. A series of very important and influential books and publications have come out in recent years. They show that partly aid has become less political, but not totally so. Aid to fragile states has received much more attention recently. As stated in the 2005 HDR, the aim of aid should be human development. Although aid to health sector has increased, no consensus exists as to whether aid helps human development. Gornane et al argue that aid improves human welfare, Williamson 2008 says that it is ineffective. Aid for different objectives has different effects; some is more effective than others (health, education, water, etc.). Another issue has to do with the macroeconomic implications of the big push approach and whether these large increases of aid could be absorbed. Message emanating from recent work is that it is not sufficient to scale up aid efforts by transferring more money. A big push approach has to be accompanied by a reform on the system for delivering that money. The aid effectiveness literature fails to recognize that aid is given primarily to governments. This motivates the fiscal response literature on endogenous government reactions. Different types of aid are likely to have different effects, but the empirical literature has until recently ignored this heterogeneity. Donors pursue different objectives – so you have to look at the composition. Aid volatility is also crucial – aid is quite unpredictable. Aid flows are more volatile than domestic fiscal revenues. Volatility depends both on the characteristics of donors and recipients. Growing complexity of the development finance system also affects

the effectiveness of aid. In 2007, 49 countries received 14 thousand donor missions – runs counter to the needs of developing countries by multiplying transactions costs. Global economic crisis means that progress towards the MDGs may be reversed. Aid budgets face significant problems. Aid fell in 06 and 07. Debt relief has dominated (but maybe it shouldn't count). Aid is likely to become concentrated on middle income countries that are seen as more dangerous to world financial stability, to the detriment of the poorest.

Arjan De Haan's presentation focused on discussing different global views of development. There are two broad views – aid has done a lot of good, vs the aid skeptics. There is also a debate on the role of the international community (Collier vs. Easterly), now shaped by new actors and new challenges. Do we need a new development deal? MDG trajectories show clear gaps. Focus on a true capability approach is welcome, but this does not always mean that social spending should be prioritized. Policy needs to be cross-sectoral: roads can be a more HD oriented policy than clinics – it is a debate about instruments. Results based management is on top of the agenda. But there are limits to what we can measure. HD is different from HDI and MDGs. In the end, policies matter for determining the effectiveness of aid. There are two types of challenges: one is the debate on aid – do we help or hurt the public debate? Challenge on the instrumentalization of aid. New Dutch Disease – new isolationism and retying of aid. Donors remain accountable to taxpayers. How accountable are states to their citizens? Accountability will not be established without taxation. Main question is how a reshaping of the policy agenda will create policy space to follow alternative routes for HD.

Discussion

Murshed Mansoob - Very easy to forget what aid is for. Donors' motivation can either be altruistic or it could be strategic. We also have to think who is the recipient. Aid can retard human development if it encourages dependence and thus retards human development as the enlargement of people's choices. Collier and colleagues argue for very lengthy involvement. Easterly position – development is home grown

Sajal Lahiri – We are discussing financing of HD – Foreign aid should not be replacing domestic efforts, and sometimes it does. Are we understating the role of economic growth? We need to endogenize the composition of aid in order to understand its effects.

Francesca Mosca – 2010 report comes out at a crucial moment – we are going to review where we are in the MDGs, and in a moment in which the economy is reeling from the financial crisis. Aid in this moment is not very popular. This report has to make the case for aid and show what it has brought about. It is only a small part of the influx of money going to LDCs so it is not the element that will determine development. HD has missing dimensions which are more related to quality – say educational quality. Another important dimension that is missing

is social protection – at the heart of our policies. Incapacity of donors to produce an inventory of successful cases.

Antonio Vigilante – Need to showcase success stories to highlight role of aid. E.g. AIDS in Zambia. Single country with highest progress in HD is the UAE – this tells us there is something wrong with the indicators. In the west we have to face the question of whether growth is necessary or not – but in developing countries without growth there are no resources.

Peter Craig McQuade – Concept of HD is quite political – includes concepts of freedoms. How are we going to handle it in an institution like the UN? Academics have to explain what aid works. Debate on the North and South is discouraging – need a forum to bring them together.

Arjan de Haan – Important to list some success stories, including things that have worked in the emerging economies. China is very keen to contribute to that debate and show what it has made – in some cases aid has been effective.

George Mavrotas - We need to consider the entire package of development financing – domestic resource mobilization, financial deepening, etc, as well as new sources of development finance – reconsider SDRs to make them more developmental.

Francoise Moreau - On the concept of HD, relevance of resilience vs. fragility. Conclusion – need to pay more attention in development policies and cooperation to the resilience of states and the resilience of societies – capacity of a society to react to shocks, be they internal or external. Also, on aid, development cooperation policies are more than aid. Should we try to measure or assess the potential impact of aid on policies? Taxation, expenditure – needs more investment. Increasingly, it is recognized that aid is provided for our own legitimate reasons (climate, stability), not just humanitarian reasons.

Nii Moi Thompon – If we look at aid as one of several factors that determine development outcome we would not be as critical. If you look at aid within a North-North context, has there been the same negative relationship between aid and development outcomes? Ireland received significant amounts of aid. Need for a broader debate – see example of brain drain losses from Africa.

Arjan de Haan – Aid given to dictators is not the same thing – need to measure it.

Antonio Vigilante – Need to have another set of accounts that takes into account offsetting factors that go against aid, such as the effects of trade barriers on developing countries' agricultural exports..

Afternoon Presentations

Francisco Rodríguez outlined the key changes in measurement that were being contemplated in the HDI, emphasizing the attempts to build new (and separate) indicators of inequality, sustainability and vulnerability of HD, as well as changes in the measurement of certain variables in the existing three dimensions and the possibility of incorporating/measuring a new dimension of empowerment/political freedoms.

Nii Moi Thompson discussed recent experiences using foreign aid to spur Local Economic Development (LED) in Ghana. Policy statements about the need for foreign aid go back to Harry Truman. Different views today are exemplified by Easterly, Burnside and Dollar, and Moyo. ILO came up with a decent work agenda more than 10 years ago – employment, labor standards, social dialogue and social protection.

In Ghana, the ILO used the local public-private partnership in 2003 as a joint initiative with government, social partners and governments. Its focus is on the informal economy – which is the heart of the Ghanaian economy, it includes 80-90 percent of the labour force, but only 40 percent of national income, spectrum from survivalist to entrepreneurial activities, characterized by decent work deficits and insecurity). The strategy acted at both the national and district level. Why is this relevant to today's debate? The 2010 HDR concept note states that it seeks to put people at the center of the creation of knowledge about development, so it is important to learn from these experiences. The ILO LED project involved small business associations and enterprises – teaching them how to apply to loans and how to target markets. Extensive dialogue and awareness creation, new legal framework, active involvement in small business associations were carried out. Outcomes – product quality improvement, creation of local credit unions, cooperation and training. Trust, recognition of local actors, capacity building and decentralization are key for LED initiatives. Structure of spending is very centralized and resources that should be going to local communities are being spent in the capital – this is very problematic and exacerbates migration towards the urban centers. LED offers important micro-insights for achieving MDGs. Ghana gives a good example of why it is misleading to use per capita income.

Eugene Owusu commented on the previous presentations. Even if traditional aid was working well, given the problems and realities of today's world, we need to take another look because the challenges are new. One important factor is the change in assertiveness of recipient governments. There is also stronger demand for domestic accountability on use of aid resources. Despite the skeptics, the moral argument for aid has been won – under certain conditions, aid does work. These conditions are good political and economic governance, and under these conditions aid is conducive to HD. Some of the dimensions of aid delivery and management need more work. First is the direction of accountability at the expense of

domestic accountability. The whole notion of aid effectiveness and the debate on it is important and desirable, but the pendulum has to shift towards a debate on development resources and development effectiveness – aid is only part of the process. Need to address causes instead of consequences – need to target resources at addressing fundamental problems that cause underdevelopment. For example, if the problem is good leadership resources cannot be targeted independently of the quality of the leadership. The nature of partnerships is vital – the practice is that of an unequal partnership which has to be rebalanced – recipient governments have to have sufficient space. Aid is also politically influence, and aid has to take the entire political context into account. Aid must be used to catalyze and facilitate a human development contract within the country.

Discussion

Francesca Mosca – How should the HDI be used? What should go into it? What is the relationship with the MDGs? Decentralization and accountability are also relevant dimensions that merit inclusion. Must ask how we are using the HDI? We run a risk of losing its simplicity?

Andrew Sheriff - Will it capture the imagination enough in the way in which the 1990 report did? *Rethinking human development* is not a good title – it emphasizes the role of experts and academics. Are we looking at a new HD? Not convinced that political rights is the way to bring in that political dimension. Doing so would certainly add a dimension and make it something new. The aid industry has developed a lot of tools to carry out political analysis in developing countries. These tools should be turned on the West – the dispersion of aid efforts reflects political economy questions within the developed world.

Arjan de Haan– Good to include inequality (see book by Wilkinson on the effect of inequality). On political freedoms it is very important to have a discussion on that. Objective indicators of politics (e.g., journalists killed) are very different from the direct experience of well-being that people have. Are there indicators that say anything about the accountability of rulers?

Nii Moi Thompson – there is a lot more potential to the HDI. We are caught up in the national dimensions. At the local level it can be straightforward to measure indicators such as local service delivery.

Antonio Vigilante – One possibility for title: *A better life*. Recommendation - keep the HDI as is but replace the income component with the household expenditures adjusted by distribution. Many attempts to integrate environment and freedom (including index of the Arab HDR). Preference for a family of indicators with an inequality adjusted HDI, one for freedom rule of law, one of gender, security and sustainability. Report should not avoid the discussions of the responsibility to protect by the international community.

Jacques Charmes – Title “Time to Close the Gaps” is ambitious, but very good. 1995 HDR was very powerful – “if not engendered, development is in danger.” Informal employment and decent work should be discussed - the underemployment of human capital is very important.