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What's Next in International Development?
Perspectives from the 20% Club and the 0.2% Club

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Summary

The ‘20% Club’ and the ‘0.2% Club’ offer different perspectives on the development agenda, with different though overlapping priorities. The ‘20% Club’ consists of countries which derive around 20% of GDP from aid. These countries will be major beneficiaries of the commitment in 2005 to double aid. Their agenda will cover such topics as absorptive capacity, political development and the use of aid to achieve both growth and human development. They will want to hold donors to account for delivery against commitments and will have a strong interest in streamlining the aid architecture. The ‘0.2% Club’ consists of countries in which aid plays a much smaller role. Here, the issues are more to do with managing the changing challenges of globalization, with regional and inter-regional collaboration, and with linkages to non-aid development issues like security and the management of the global commons. Countries in this Club are becoming aid donors themselves, and are looking for new kinds of partnership with developed countries. These different agendas are closely related, of course. In both areas, they challenge aid agencies to rethink their roles and their competencies. They also challenge development researchers to work on new issues and in new ways.

1 The 20% Club and the 0.2% Club

The question 'what's next?' has two answers – one expected, the other less. The first answer is prominent in a set of aid-dependent countries which were the focus of much attention in 2005. Call these the '20% club', in which aid accounts for around 20% of GDP. The other is relevant to those countries also, but stands out more clearly in the '0.2% club', those countries in which aid amounts to only a small share of GDP.

The club designations are indicative rather than statistically precise (Table 1). However, 20% is the average aid/GNP figure for sub-Saharan Africa and 0.2% is the aid/GNP ratio for India (UNDP 2005). Note, then, that this is not necessarily a classification which solely distinguishes low and middle income countries: India, of course, remains a low income country, despite current economic success, with 350 million people living below $US 1 per day, still more than in the whole of SSA (UNDP 2005). In fact, though there are some 0.2% club members in SSA and some 20% club members in Asia, Africa/Asia works better than low/middle as a geographical guide to club membership.

Table 1: The 20% Club and the 0.2% Club

The 20% Club and the 0.2% Club			
The 20% Club		The 0.2% Club	
Country	Aid as % of GDP (2003)	Country	Aid as % of GDP (2003)
Rwanda	20	Brazil	0.1
Tanzania	27	China	0.1
Mali	20	South Africa	0.4
Mauritania	23	India	0.2
Nicaragua	20	Botswana	0.4

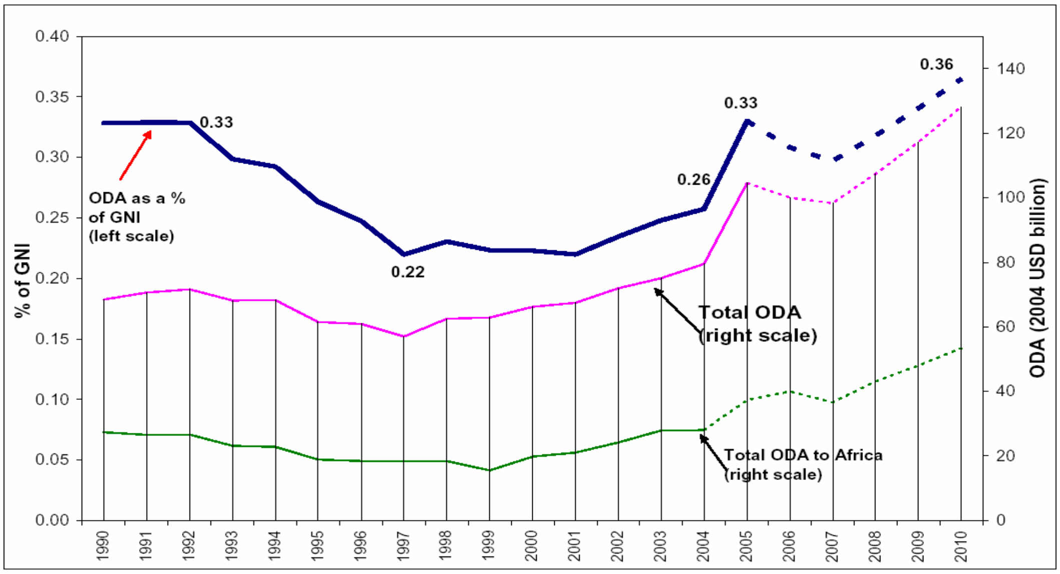
Source: UNDP 2005

2 The achievements of 2005

The development 'project' in 2005 delivered substantial benefits to the 20% club, notably new initiatives on debt relief and a commitment to double aid by 2010 (Graph 1). Key moments in the year included the EU commitment in May to reach 0.56% of GNP by 2010, the pledges by the G8 at Gleneagles in July, the UN MDG Summit in September, and the debt decisions taken at the annual meetings of the World Bank and the IMF, also in September. Also important from an aid perspective was the Paris Declaration on Aid Effectiveness, signed in Paris by 60 odd donors and about 60 recipient countries (OECD 2005).

This was not all that was hoped for during the year. In particular, the MDG Summit made less progress on UN reform than had been hoped (though momentum has picked up in 2006, with the establishment of the High Level Panel on System-Wide Coherence). The WTO meeting in December was also a disappointment.

Graph 1: DAC Members' net ODA 1990 - 2004 and DAC Secretariat simulations of net ODA to 2006 and 2010



Source: http://www.oecd.org/dataoecd/34/25/36418614.pdf

It also goes without saying that pledges of future aid come without guarantees and without benefit for the world's poorest people until they are actually delivered. Though the story of 2005 can be read in an optimistic light, this was also the year which began with the tsunami, and also brought hunger in Niger, the continued crisis in Darfur, the earthquake in Pakistan and increases in the numbers affected by HIV/AIDS.

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

3 The Development Agenda in the 20% Club

The provision of additional aid will be associated with implementation problems which effectively define the development agenda for donors and their partners in the 20% club. The development discourse is still shaped by what I have described as the 'meta-narrative', an evolution of the post-Washington Consensus (Maxwell 2005c) – but there have been important shifts of emphasis.

First, absorptive capacity is a concern, because of the limited supply of skilled managers and workers in most poor countries, but also because of the potential macro-economic impact of additional aid, on the exchange rate especially: so-called Dutch Disease (de Renzio 2005). ODI research shows that many countries in the past have been unable to spend foreign exchange windfalls successfully (Foster and Killick 2006).

Second, the main focus since the mid-1990s has been on the human development content of the international development targets, later the Millennium Development Goals, particularly primary health and education (Maxwell 2003). In 2005, driven in part by concern about growth in Africa falling well below the target of 7% p.a., the pendulum began to shift back to earlier concerns with infrastructure, science and technology, higher education and the needs of the productive sectors (Maxwell 2005b). The Africa Commission was instrumental here (Africa Commission 2005).

Third, political questions have become more prominent, driven partly by the obvious incapacity of fragile states,[1] but also by more deep-seated concerns about the impact of aid funding on political accountability in poor countries characterised by patronage politics.[2] Developing countries are being asked to think about 'Getting to Denmark',[3] or at least about building 'developmental states' (Fukuyama 2004).

Fourth, donors have begun to realise that the aid architecture is under stress, with the proliferation of aid agencies and new, vertical funds making the Paris agenda of harmonisation among donors and alignment to country priorities hard to achieve (Rogerson 2005, Rocha Menocal 2006). With 75% of aid still being provided through bilateral channels rather than multilateral, the slogan 'don't just harmonise, multilateralise' has growing resonance. However, what are the incentives facing donors, and do they have the will to tackle high transaction costs? [4] There have been interesting innovations on the humanitarian side, with a Good Humanitarian Donorship Initiative and new multilateral financing arrangements.[5]

Fifth, the question of mutual accountability has come to the fore, as developing countries ask how reliable are the pledges made by rich countries to increased aid, debt relief and trade access (de Renzio and Mulley 2006). Developing countries are routinely expected to be accountable to donors for good governance. Reverse accountability of donors to recipients is stirring, through fora like the African Partnership Forum.

The way these issues are decided will shape aid agencies in the future. They will need to develop new competences or rediscover old ones, for example in infrastructure or political analysis. More radically, if a shift takes place to multilateral agencies, as it should, the bilaterals will need fewer specialists in delivering aid and more in managing relationships with the World Bank, the UN or the EU. This is the 'spyglass' model of an aid agency.[6]

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[1] Ghani et al 2005 and Ghani and Lockhart 2006
[2] Booth et al 2006 and Court 2006
[3] The phrase is Woolcock and Pritchett's, cited in Fukuyama 2004
[4] See de Renzio et al 2004, Gibson et al 2006
[5] Harmer, Cottrell and Stoddard 2004
[6] Competing models are the spyglass, the spigot, the spoon and the spanner (Maxwell 2005a)

4 The Development Agenda in the 0.2% Club

Though the post-2005 agenda is challenging, there is more. This is because it refers mainly to the countries in the 20% club, not those in the 0.2% club. For the latter, these issues are germane but not, on the whole, dominant.

Instead, countries in the 0.2% club are more concerned with an agenda which derives from the rapid changes taking place in their economies, and from their growing weight in the world. These are countries which are growing fast (by 8% a year in China over two decades) and reducing poverty accordingly: in Asia, the number of people living below $US 1 per day fell by 300 million between 1990 and 2003.[7]

There are structural changes, too: for example, 70% of East Asia's growth originates in cities. China's manufacturing power is reshaping the world economy: China already produces between 30% and 50% of the world's PCs, DVD players, cameras and TV sets, 83% of its tractors, and accounts for 40% of global cement production. The world capital-labour ratio has nearly halved because of incorporation of a new labour force in the global economy. And, according to the Asian Development Bank, there will be 245 million new entrants to the labour force by 2015.

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

There are also new elements.

First, growth on the scale currently observed stretches the analytics of globalisation and creates new geopolitical and new development relationships. There is a now familiar debate about the sourcing of natural resources and the impact of new market entrants like China on markets, but also on political relationships, especially in Africa. In particular, a concern for energy security is driving foreign policy around the world – for example, the proposed gas pipeline between Iran and India, through Pakistan, challenges historical enmities.

There is also a more subtle debate about development models: with the prices of natural resources rising and those of manufactures falling, some have questioned whether industrialisation remains a viable strategy for the poorest countries (Kaplinksy 2005). Do current developments stand the Prebisch-Singer thesis about price relativities on its head?

Second, though aid is by definition relatively less important in the 0.2% club than in the 20% club, financing needs are large. East Asia alone needs investment in infrastructure of $200 bn a year.[8] Aid can play a part, but will need to find new partnerships with both the private sector and with financial markets. New financing instruments will be required, and agencies are more likely to find themselves taking equity stakes in business partnerships rather than simply providing loan finance to governments.[9] Does this suggest that the future of aid in the 0.2% club will look more like the IFC than IDA, more like the Commonwealth Development Corporation than DFID? And will new procedures be required, which reduce the burden of compliance with social and environmental standards and lead to greater convergence between public and private, subsidised and market, financial instruments? In this connection, the Equator Principles offer a way forward (Warner 2006).

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[7] For a review of these and subsequent data see papers submitted to the Asia 2015 Conference (www.asia2015.conference.org) and Farrington and Robinson (forthcoming)
[8] ADB et al 2005
[9] World Economic Forum 2006

Third, regional and inter-regional issues become more prominent, as countries trade more with each other and also attempt to tackle cross-boundary problems like water or environmental pollution. As an example, trade is expanding in Asia three times as fast as other parts of the world. While exports to the rest of the world were a primary driver of past growth trends, expanded intra-Asian trade has the potential to play this role in the future (Roland-Holst et al 2005). Modelling predicts that ASEAN has most to gain from regional integration through growing trade links between India and China (ibid). There are also issues about the multi-purpose role of regional institutions, like APEC or SAARC, or new institutions, like the proposed Asia regional IMF. In Africa, it has been interesting to see the Organisation of African Unity evolving into the African Union. Will the same happen in Asia?

Fourth, the range of topics on the development agenda changes, as trade, security issues and management of the global commons rise up the agenda. Many current issues fall under this head, like global warming or the management of global financial imbalances. The scope can be illustrated by considering the Joint Statements issued at the end of the recent China-EU and India-EU Summits in September 2005 [10]. The China-EU summit listed areas of agreement and disagreement in 23 areas, ranging from world peace and action on climate change to technology transfer and cultural exchange. Each of these areas can be scored for development content: 90% score medium or high. Almost none are directly related to aid. The India-EU Summit covered a similarly broad area, building on a Strategic Partnership agreed in 2004. It covered political dialogue and cooperation, economic dialogue and cooperation (including trade and investment), and 'bringing together people and cultures'.

Fifth, developing countries in the 0.2% club will be looking for a new and more equal relationship with developed countries – whether expressed in bilateral relations, through inter-regional dialogue or in multilateral organisations (Humphrey and Messner 2006). The ASEM process in which the EU engages with Asia is one example. APEC may be another. Perhaps there needs to be an Asian Partnership Forum, comparable to the African counterpart? It is also worth noting that many countries in the 0.2% Club are themselves becoming aid donors.

Here again, there are implications for development agencies. If the development agenda broadens, are aid agencies best equipped to lead? If not, how is policy managed across ministries of aid, trade, defence, foreign affairs, and others with interests in developing countries, like agriculture, environment or health?

It would be a mistake to think that the challenges thrown up by the 0.2% club do not apply elsewhere. Security, trade, the role of the private sector, and the management of the global commons are universal topics. It is more that they become more visible when the landscape is unclouded by the predominance of aid relationships. They also become harder to manage for the poorest countries, who find themselves having to react to economic and institutional changes over which they have little control.

[10] See http://europa.eu.int/comm/external_relations/china/summit_0905/index.htm and http://europa.eu.int/comm/external_relations/india/sum09_05/

5 Implications for Policy Makers and Researchers

Finally, all this has implications for researchers and policy-makers. It is helpful to start with current development thinking, as summarized in the 'meta-narrative' referred to above (Maxwell 2005c). In particular, that work leads to: a focus on social exclusion rather than narrowly-defined poverty reduction; a new recognition of the role of the state; and a commitment to collective action and to multilateral approaches. I have described these ideas as a distinctively European contribution (ibid).

On the other hand, researchers and policy-makers also need to progress: thinking globally, monitoring structural change and engaging with new institutional formations. The impact of globalization on productive sectors and on poverty may need to be addressed in a new way. Urbanisation needs higher priority. Ditto the private sector. Ditto migration. Ditto regional and global governance.

At the same time, new theory and new skills will also be needed. More on institutions? More geography? More law? More international relations? In general, cross-cutting problems call for cross-cutting research, and this points to a growing role for genuinely multi-disciplinary development studies.[11]

[11] Sumner and Tribe 2004

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