Center for Global Development

CGD Brief

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The 2005 Commitment to Development Index: Components and Results

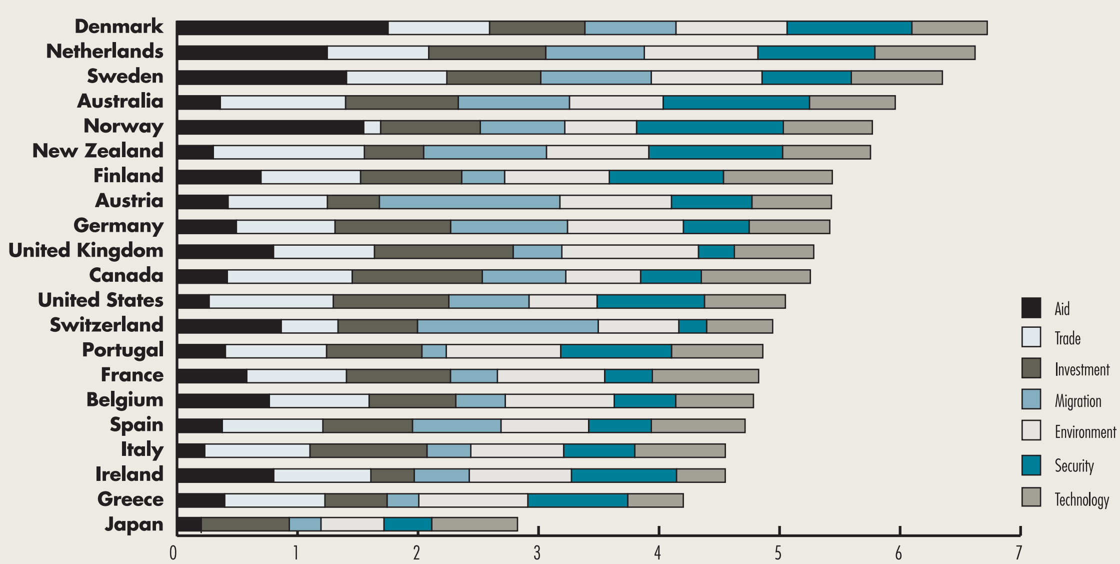
By David Roodman *

The Commitment to Development Index ranks 21 of the world's richest countries on their dedication to policies that benefit the 5 billion people living in poorer nations. Moving beyond standard comparisons of foreign aid volumes, the CDI rates countries on:

- Quantity and quality of foreign aid
- Openness to developing-country exports
- Policies that influence investment
- Migration policies
- Environmental policies
- Security policies
- Support for creation and dissemination of new technologies

Scores on each component are scaled so that an average score in the CDI's first year, 2003, is equal to 5.0. A country's final score is the average of those for each component.

Commitment to Development Index 2005



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Throughout, the CDI adjusts for size to allow fair comparisons. For example, the U.S. gives much more foreign aid than Denmark, but far less for the size of its economy, so Denmark scores higher on this measure. Similarly, U.S. tariffs on clothing and crops from developing countries do much more harm than Denmark's because of the sheer size of the U.S. market. But since U.S. tax rates on imports are actually lower, the U.S. scores higher on trade.

The CDI, conceived in partnership with Foreign Policy magazine, quantifies the full range of rich country policies that have an impact on poor people in developing countries. The Index builds on contributions from scholars at the Center for Global Development, the Brookings Institution, Georgetown University, the Migration Policy Institute, the World Resources Institute, and the University of Colorado. For more information about the CDI, go to www.cgdev.org.

Why does the CDI matter? In an increasingly integrated world, rich countries cannot insulate themselves from global poverty and insecurity. Poverty and weak institutions can breed global public health crises, security threats, and economic instability that can destabilize an entire region or even the world. Another reason is fairness. Current trade policy, for example, places disproportionate burdens on poor countries. Finally, the index looks at whether countries are consistent in their values. No human being should be denied the chance to live free of poverty and oppression and to enjoy a basic standard of education and health. The CDI countries, all democracies, preach concern for human life and dignity within their own borders, and the index measures whether their policies promote these same concerns in the rest of the world.

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Aid

Foreign aid is the first policy that comes to mind when people in rich countries think of helping poorer countries. Aid donors give grants, loans, food, and advice to poor countries to support everything from road building to immunization programs in tiny villages.

Most comparisons between donors are based on how much aid each gives, either in absolute terms or as a percentage of GDP. For the CDI, quantity is merely a starting point in a review that also assesses aid *quality*. The index penalizes "tied" aid, which recipients are required to spend on products from the donor nation; this prevents them from shopping around and raises project costs by 15–30%. The index also subtracts debt payments the rich countries receive from developing countries on aid loans. And it looks at where aid goes, favoring poor, uncorrupt nations. Aid to Israel, for example, is counted at 13¢ on the dollar, since Israel is hardly poor. Aid to Mozambique, on the other hand, with its combination of high poverty and relatively good governance, is counted at 80¢ on the dollar. Finally, donors are penalized for overloading recipient governments with too many small aid projects. When projects are many and recipient officials few, the obligation to host visits from donor officials and file quarterly reports becomes a serious burden.

The index rewards governments for letting taxpayers write off charitable contributions, since some of those contributions go to Oxfam, CARE, and other nonprofits working in developing countries. All CDI countries except Austria, Finland, and Sweden offer such incentives. Since the index is about government policy, it counts only private giving that is attributed to tax incentives. Private giving to developing countries is higher in the U.S. than in most countries, at 10¢ per person per day. But even adding that to the 15¢ a day in government aid leaves the U.S. well short of donors such as Sweden and Denmark, which give 72 and 99¢ a day in government aid alone.

The differences between countries in raw aid quantity are dramatic, and as a result they heavily influence the overall aid scores. The Netherlands and the Scandinavian countries take the top four slots on aid, while Japan and the U.S. end up near the bottom. But quality matters too. Denmark earns its big lead on aid by eschewing small projects. And the U.S. would score higher if it did not tie 70% of its aid and gave less to autocrats in Russia, Jordan, Pakistan, and other countries.

Trade

The system of rules that governs world trade has developed since World War II through a series of major international negotiating "rounds." Because rich countries have been able to call the shots, their barriers to some of the goods poor countries are best at producing—including crops—

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Rank	Country	Aid	Trade	Investment	Migration	Environment	Security	Technology	Average
1	Denmark	12.3	5.9	5.5	5.3	6.5	7.2	4.4	6.7
2	Netherlands	8.7	5.9	6.8	5.7	6.6	6.8	5.8	6.6
3	Sweden	9.8	5.8	5.5	6.4	6.4	5.2	5.3	6.4
4	Australia	2.5	7.3	6.5	6.5	5.4	8.5	5.0	6.0
5	Norway	10.8	1.0	5.8	4.9	4.2	8.5	5.2	5.8
5	New Zealand	2.1	8.8	3.4	7.1	5.9	7.8	5.1	5.8
7	Finland	4.9	5.8	5.9	2.5	6.1	6.6	6.3	5.4
7	Austria	3.0	5.8	3.0	10.5	6.5	4.7	4.6	5.4
7	Germany	3.4	5.7	6.7	6.8	6.7	3.8	4.7	5.4
10	United Kingdom	5.6	5.9	8.1	2.8	7.9	2.1	4.6	5.3
10	Canada	2.9	7.3	7.6	4.9	4.3	3.5	6.3	5.3
12	United States	1.9	7.2	6.7	4.7	4.0	6.2	4.7	5.0
13	Switzerland	6.0	3.3	4.6	10.5	4.7	1.6	3.8	4.9
13	Portugal	2.8	5.9	5.5	1.4	6.7	6.4	5.3	4.9
15	France	4.1	5.8	6.0	2.7	6.2	2.8	6.2	4.8
15	Belgium	5.4	5.8	5.0	2.9	6.3	3.6	4.5	4.8
17	Spain	2.6	5.8	5.2	5.1	5.1	3.6	5.4	4.7
18	Italy	1.6	6.1	6.8	2.5	5.4	4.1	5.3	4.5
18	Ireland	5.6	5.6	2.5	3.2	5.9	6.1	2.8	4.5
20	Greece	2.8	5.8	3.6	1.8	6.3	5.8	3.2	4.2
21	Japan	1.4	−0.2	5.1	1.8	3.7	2.8	5.0	2.8

High scores   Low scores

have largely stayed in place. Yet when rich countries tax food imports and subsidize their own farmers' production, they cause overproduction and dumping on world markets, which lowers prices and hurts poor-country farmers. Industrial tariffs also tend to be anti-poor, with low rates for raw commodities and high rates for labor-intensive, processed goods. U.S. tariffs on imports from India, Indonesia, Sri Lanka, and Thailand brought in $1.87 billion in 2004—twice the amount the U.S. committed to these countries for tsunami relief. CGD Senior Fellow William Cline calculates that if rich countries dropped all remaining trade barriers, it would lift 200 million people out of poverty.

For the index's trade component, each country's complex collection of tariffs and subsidies is converted into a flat, across-the-board tariff representing its total effect on developing countries. New Zealand does best on trade in the 2005 index, with Australia, Canada, and the U.S. not far behind. The latter two, along with European Union nations, gained points in 2005 for keeping a commitment negotiated in 1994 to abolish quotas on textile and apparel imports. In general, EU nations share common trade and agriculture policies, so they score essentially the same on trade. Two European nations outside the EU, Norway and Switzerland, score worse. In last place is Japan, whose tariffs on rice average 900%.

Investment

Foreign investment can be a significant driver of development in poor countries. Many of East Asia's fastest-growing countries—South Korea, Malaysia, Singapore, and Thailand—benefited from investment from abroad. However, foreign investment can also breed instability (witness the 1997 Asian financial crisis) as well as corruption and exploitation. Angola's government, which reaps massive oil revenues from foreign firms, reportedly "lost" or misspent $4.5 billion in five years, equivalent to nearly a tenth of its GDP.

The index looks at what rich countries are doing to promote investment that is actually good for development. It looks at two kinds of capital flows: 1) foreign direct investment, which occurs when a company from one country buys a stake in an existing company or builds a factory in another country; and 2) portfolio investment, which occurs when foreigners buy securities that are traded on open exchanges. The component is built on a checklist of policies that matter. Do the governments offer political risk insurance, encouraging companies to invest in poor countries whose political climate would otherwise be deemed too insecure? If so, do they filter out projects likely to do egregious environmental harm or exploit workers? Do they have tax provisions or treaties to prevent overseas investors from being taxed both at home and in the investment country?

The lowest scorers are Austria, which severely restricts pension fund investments in developing countries, and Ireland and New Zealand, which do not provide political risk insurance and do little to prevent double taxation. Top-ranked Britain does better on all these counts and has participated aggressively in international arrangements to control corruption, such as the Kimberley Process to track and eliminate trade in "blood diamonds" used to finance warlords in countries such as Angola and Sierra Leone.

Migration

Some 175 million people today—one in 40—do not live in the country where they were born. That number should grow as aging rich societies run short of workers, which should be a boon for development. Workers who have migrated from poor to rich countries already send billions of dollars back to their families each year. Latin America received $32 billion in remittances in 2003, six times what it received in foreign aid. Some immigrants from developing countries, especially students, pick up skills and bring them home—engineers and physicians as well as entrepreneurs who, for example, start computer businesses. But emigration to rich countries has its costs, especially when poor countries lose skilled workers: it has been blamed for emptying Ghanaian clinics of nurses, who can earn far more in London hospitals.

About 175 million people today—one in 40—live in a country different than the one where they were born.

The CDI rewards immigration of unskilled people more than skilled. One indicator used in the index is the gross inflow of migrants from developing countries in a recent year, including unskilled and skilled immigrants but leaving out illegals. Another is the net increase in the number of unskilled immigrant residents from developing countries during the 1990s. The index also uses indicators of openness to students from poor countries and aid for refugees and asylum seekers.

Austria and Switzerland tie for first in "importing" the most labor for their size, especially unskilled labor. At the bottom is Japan, whose population of unskilled workers from developing countries actually shrank during the 1990s. The U.S., the great nation of immigrants, scores a surprisingly mediocre 4.7. Why? Its inflow of *legal* immigrants is small for its size and in fact dropped by a third in 2003 as a result of tighter policies since the September 11, 2001, attacks.

Environment

A healthy environment is sometimes dismissed as a luxury for the rich. But people cannot live without a well-functioning environment. And poor nations have weaker infrastructures and fewer social services than rich countries, making the results of climate change—like floods, droughts, and the spread of infectious diseases—all the more damaging.

Climate change would be more damaging to poor nations than richer ones because poor nations have weaker infrastructure and fewer social services.

The environment component looks at what rich countries are doing to reduce their disproportionate exploitation of the global commons. Are they reining in greenhouse gas

CDI Performance over time, using 2005 methodology

Rank by improvement	Country	2003	2004	2005	Change, 2003–05
1	Spain	4.0	4.4	4.7	+0.7
1	Sweden	5.7	6.2	6.4	+0.7
1	United Kingdom	4.6	4.7	5.3	+0.7
4	Italy	4.0	4.2	4.5	+0.6
5	Portugal	4.4	4.8	4.9	+0.4
5	United States	4.6	4.9	5.0	+0.4
5	Greece	3.8	4.0	4.2	+0.4
5	Canada	4.9	5.1	5.3	+0.4
9	Finland	5.1	5.3	5.4	+0.3
10	France	4.6	4.6	4.8	+0.2
10	Ireland	4.4	4.5	4.5	+0.2
12	Austria	5.3	5.3	5.4	+0.1
12	Norway	5.6	5.7	5.8	+0.1
12	Belgium	4.7	4.5	4.8	+0.1
12	Germany	5.4	5.3	5.4	+0.1
16	Netherlands	6.6	6.7	6.6	+0.0
16	Japan	2.8	2.8	2.8	+0.0
18	Denmark	6.8	6.8	6.7	−0.1
19	Australia	6.2	6.0	6.0	−0.2
19	Switzerland	5.2	4.9	4.9	−0.2
21	New Zealand	6.0	5.7	5.8	−0.3

The data and formulas in the CDI have steadily improved since the first edition in 2003. To judge fairly which countries have improved most since 2003, this table applies the 2005 CDI formulas to past years. The average CDI score has climbed a tenth of a point a year since 2003. Several pieces of good news are behind the rise. Greece, Norway, Switzerland, the United Kingdom, and the United States gave more aid. Canada, the European Union, and the United States ended quotas on imports of textiles and clothing. Belgium, Denmark, Spain, and Sweden curtailed prohibitions against pension funds investing in developing countries.

emissions? How complicit are they in environmental destruction in developing countries, for example by importing commodities such as tropical timber? Do they subsidize fishing fleets that deplete fisheries off the coasts of such countries as Senegal and India?

Britain and Germany top the environment standings, in no small part because they cut their greenhouse gas emissions by 10% during 1993–2003, the last ten years for which data are available, thanks to steady increases in gasoline taxes and strong support for wind and other renewable energy sources. Most rich countries' emissions rose. Japan finishes last as a heavy subsidizer of its fishing industry and a big importer of tropical timber. It is also the only holdout among CDI countries, aside from landlocked Switzerland, against the U.N. Fisheries Agreement, which is meant to limit overfishing in international waters. The U.S. ratified that agreement but not the Kyoto Protocol, the most serious international effort yet to deal with climate change. That gap, along with high greenhouse gas emissions and low gas taxes, left the U.S. ahead of only Japan.

Security

Rich nations engage daily in activities that enhance or degrade the security of developing countries. They make or keep the peace in countries recently riven by conflict, and they occasionally make war. Their navies keep open sea lanes vital to international trade. But rich countries also supply developing-country armed forces with tanks and jets.

The 2005 CDI looks at three aspects of the security-development nexus. It tallies the financial and personnel contributions to peacekeeping operations and forcible humanitarian interventions, although it counts only operations approved by an international body such as the U.N. Security Council or NATO (thus the invasion of Iraq does not count). It also rewards countries that base naval fleets where they can secure sea lanes vital to international trade. Only four countries get points for that: France, the Netherlands, the U.K., and the U.S.

Finally, the index penalizes some arms exports to undemocratic nations that spend heavily on weapons. Putting weapons in the hands of despots can increase repression at home and the temptation to launch military adventures abroad. When weapons are sold instead of being given to developing nations, this diverts money that might be better spent on teachers or transit systems. Still, because countries need guns as well as butter—arming a police force can strengthen the rule of law—the index penalizes exports to some countries but not all.

Australia and Norway share the top spot on security—Australia for its U.N.-approved action in 1999 to stop Indonesian oppression of East Timor, and Norway for steady contributions to peacekeeping operations in the former Yugoslavia and the Middle East. The U.S. scores above average overall, earning points for flexing its military muscle near sea lanes but making only average contributions to approved international interventions and losing points for its record as a leading arms merchant to Middle Eastern dictatorships such as Saudi Arabia. Japan earns a perfect score on arms exports to developing countries (it has none) but lags otherwise because of its peace constitution and minimal international military profile.

Technology

One important way that rich countries affect poorer ones over the long run is through technology transfer. For example, with medical technology from the rich countries, human health and survival in Latin America and East Asia made gains over four decades during the 20th century that took Europe almost 150 years. Today, the Internet is facilitating distance learning, democracy movements, and new opportunities to participate in the global economy. Of course, some new technologies do as much harm as good, creating huge new challenges for the developing world: consider the motor vehicle, which symbolizes gridlock and pollution at least as much as it does freedom and affluence in dense and growing cities such as Bangkok.

With rich country technology, Latin America and East Asia have made the same gains in human health in 40 years that took Europe 150 years.

The index rewards polices that support the creation and dissemination of innovations of value to developing countries. It rewards government subsidies for research and development, whether delivered through spending or tax breaks. Spending on military R&D is discounted by half. On the one hand, much military R&D does more to improve the destructive capacity of rich countries than the productive capacity of poor ones. On the other, military security is important for development, and military R&D can have civilian spin-offs. Consider that the Pentagon partly funded the early development of the Internet.

Also factored in are policies on intellectual property rights (IPRs) that can inhibit the international flow of innovations. These take the form of patent laws that arguably go too far in advancing the interests of those who produce innovations at the expense of those who use them. Some countries, for example, allow patenting of plant and animal varieties. In such countries, a company could develop a crop variety, say, that thrives in poor tropical soils, patent it, and then opt not to sell it because the poor who could use it have inadequate buying power. Other countries use their leverage to negotiate trade agreements with individual developing countries that extend certain IPRs beyond international norms in the General Agreement on Tariffs and Trade. U.S. negotiators, for example, have pushed for developing countries to agree never to force the immediate licensing of a patent even when it would serve a compelling public interest, as a HIV/AIDS drug might if produced by low-cost local manufacturers.

No country does spectacularly better than its peers on technology. The U.S. loses points for pushing for compulsory licensing bans, and the Europeans are penalized for allowing the copyrighting of databases containing data assembled with public funds. Greece and Ireland lag considerably behind overall because of low government R&D subsidies. First place is shared by Finland, which spends a substantial 1% of GDP on government R&D, and Canada, whose policies on IPRs are the least restrictive of the group.

The Bottom Line

Denmark comes in first on the 2005 CDI, thanks largely to an ample and high-quality foreign aid program, steady contributions to U.N. and NATO peacekeeping, avoidance of the international arms trade, and falling greenhouse gas emissions. Close behind are two more big aid donors, the Netherlands and Sweden. Australia takes fourth with a very different profile: low on aid but strong on trade, investment, migration, and security. Among the G–7—the countries that matter most for developing countries by dint of their economic power—Germany comes in first, followed closely by the U.K. and the U.S. Japan comes in last on the index. Like the U.S., its aid program is small for the size of its economy, and its impact all the smaller when the $4.6 billion that developing countries pay it in debt service is taken into account. Japan also tends to engage less with the developing world in ways measured by the index, with tight borders to the entry of goods and people from poorer countries and limited involvement in peacekeeping abroad. Still, even number-one Denmark scores only about average (near 5.0) in four of seven policy areas. All countries could do much more to spread global prosperity.

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For More Information

For the details of the 2005 CGD/FP Commitment to Development Index, see "The Commitment to Development Index: 2005 Edition," by David Roodman, available at **www.cgdev.org**. The CGD Website contains reports on each of the index's 21 countries, as well as background papers organized by policy area: Roodman on foreign aid, William R. Cline on trade, Theodore H. Moran on investment, Elizabeth Grieco and Kimberly A. Hamilton on migration, Amy Cassara and Daniel Prager on environment, Michael E. O'Hanlon and Adriana Lins de Albuquerque on security, and Keith Maskus on technology. On the relationship between foreign direct investment and developing country growth, read Theodore H. Moran, Edward M. Graham, and Magnus Blomstrom, eds., *Does Foreign Direct Investment Promote Development?* (CGD and Institute for International Economics, 2005). O'Hanlon's *Expanding Global Military Capacity for Humanitarian Assistance* (Brookings, 2003) examines the challenges to governments preparing to intervene in some ways rewarded by the CDI.

In *Trade Policy and Global Poverty* (CGD, 2004), Cline puts current international trade negotiations in perspective with his estimate that complete trade liberalization by rich and poor countries would lift 500 million people out of poverty. For background on July's G–8 debt deal, see Nancy Birdsall and John Williamson, *Delivering on Debt Relief: From IMF Gold to a New Aid Architecture* (IIE, 2002), Roodman, *Still Waiting for the Jubilee: Pragmatic Solutions for Third World Debt* (Worldwatch Institute, 2001), and Todd Moss, Birdsall, and Scott Standley, *Double-Standards, Debt Treatment, and World Bank Country Classification: The case of Nigeria* (CGD, 2004).

The Migration Policy Institution and the World Resources Institute, two organizations that significantly contribute to the Index, are excellent sources of additional information. The World Bank's new annual, *Global Monitoring Report*, is the institution's first look at what rich countries can do to support development. In *Trade Policy and Global Poverty* (Washington: IIE and CGD, 2004), Cline puts current international trade negotiations in perspective. Materials referenced here are available online at **http://www.cgdev.org**.

The Center for Global Development is an independent, non-partisan, non-profit think tank dedicated to reducing global poverty and inequality through policy oriented research and active engagement on development issues with the policy community and the public. A principal focus of the Center's work is the policies of the United States and other industrialized countries that affect development prospects in poor countries. The Center's research assesses the impact on poor people of globalization and of the policies of governments and multilateral institutions. In collaboration with civil society groups, the Center seeks to identify policy alternatives that will promote equitable growth and participatory development in low-income and transitional economies. The Center works with other institutions to improve public understanding in industrialized countries of the economic, political, and strategic benefits of promoting improved living standards and governance in developing countries.

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