

## **Comments on the Commitment to Development Index (CDI) produced by the Center for Global Development.**

Let me start with very general comments. A discussion on the CDI could take many directions: from the thematic choices made for its composition to the choice of weights and indicators, to the relevance of quantification to address development related concerns and of a composite index in general and to the underlying vision of development that it underlies. My own stance on composite indices in general is that they are unlikely to properly “measure” and summarize what we would like to observe, and given the complexity of “development”, this applies in my view to the CDI as well. I rather value quantitative indices for their role in promoting constructive debate. The politics of ranking, plus the limitations of the index itself, provoke critiques, raise awareness and provide powerful incentives for such debate, and a lot can be learnt in the process, possibly leading to policy reform. In short, measurement should be understood as an instrument for debate rather than as a claim to accurate representation. However, the two are connected, because for the instrument to be credible, continuous efforts at better accuracy must be convincing, and the index itself needs to evolve over time to respond to the ongoing debates. This is the spirit in which the following critiques are formulated: not as a negation of the role of the CDI, but on the contrary as part-and-parcel of an exercise that will never reach an ultimate outcome (proper measurement of contributions to development) but that sustains increasing awareness about, and understanding of, a crucial dimension of developed countries’ role in the global economy. A CDI without critiques would therefore be much less powerful.

I will try to address some of the questions asked in the CGD April memo<sup>1</sup>, which sets the terms of reference for the academic review of the CDI. But I will start with a few background remarks are useful before getting to a more specific discussion on components, sub-components and indicators. I will then suggest working toward the inclusion of two additional dimensions, namely macroeconomic stability and development research. A final concluding section summarizes the recommendations.

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<sup>1</sup> “Which developed country policies matter most to development”, CGD, April 2018 – hereafter called “CGD April memo”.

## 1. General comments on the CDI

My general comments are organized under three headings: relevance, data and time horizon.

### 1.1. Relevance of the CDI

The relevance of the CDI could be questioned along three dimensions: on what it tries to measure (contribution to development), on its basically North-South philosophy, and on its underlying vision.

#### 1.1.1. Contribution to development

The aim of the CDI is to “measure policies that matter most for development” and to be “widely recognized as the most reliable guide to a country’s policy contribution to development” (CGD April memo). This should logically be based on an operational definition of “development”, which - to my knowledge - is not addressed in the existing CDI documents.

It is now well accepted that “development” is a multidimensional concept, and progress along some dimensions may involve negative externalities on others. For example, growth can (and does, albeit not always) create inequalities, or pollution. Protecting the forest cover may penalize agricultural production. Trade is crucial for growth and promotes specialization that may slow down diversification and increase dependency and vulnerability, etc. There are thus trade-offs that make any judgment – however well informed by scientific evidence - about whether a given policy eventually promotes “development” open to discussion. In addition to cross-sector externalities, there is also the usual dilemma between the Benthamian and Rawlsian approaches to social justice, namely consideration of the average performance of a society as opposed to focus on the poorest segments of the population – or more broadly on the distribution of welfare. Measurement is not neutral.

The CDI recognizes this multidimensional approach, but the quantitative choices it makes *de facto* establish a sort of rigid, deterministic (at least positivist) structure. This is problematic because the interactions within and between the various dimensions are not fixed (they notably depend on context and on the reactions of various actors<sup>2</sup>) and some may counteract others. This may be a difference between the CDI and other synthetic indices in that it assembles indicators that are relevant to the issue at hand but that are not necessarily mutually consistent. This is, in my view, less the case for the Doing Business exercise, or for the Human Development Index, for example. To put it differently, the goal expressed in the CGD April memo that indicators should “reflect clear impact of high-income countries actions on developing countries” and that “the direction of the correlation is clear” looks unattainable unless one specifies on what evolution of developing countries exactly this clear impact is or should be determined (such as poverty reduction, economic growth, “sound” policies, institution building, etc.).

One partial way out of this difficulty, without redefining the purpose of the index, is to look more closely at what might be meant by “development”. My suggestion is not to shortcut decades of theoretical and

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<sup>2</sup> For example, trade protection in some markets may finally (at least theoretically) lead foreign companies willing to compete to react by achieving faster productivity gains, or foreign aid, depending on how it is administered, may distort markets or weaken local governance, etc.

empirical contributions and reach an ultimate, unified and quantifiable definition that will always remain elusive; but it is to recognize that there cannot be such a synthetic – yet meaningful - definition of development, and that qualifies any attempt to measure the “contribution to development”. Since development is “movingly multipronged”, it would be preferable to look more closely at a few specific, fundamental recognized dimensions. A possibility, for example, would be to distinguish the three dimensions involved in “sustainable development”, reformulated as: economic growth, human development, environmental protection. This would only partially address the uncertainties and inconsistencies. The advantage would be that this approach does not assume a fixed, pre-determined way in which these dimensions interact and combine. One could, for example, have three different sub-indices, one for each of these dimensions, built from the current indicators (and possibly new ones) and different sets of weights. And a donor “doing well” on two indices, for example, might have found better ways than others to identify and push positive synergies between two of these dimensions, while another one doing well on only one dimension might be nonetheless criticized for ignoring that there cannot be development without progress on other dimensions as well.

Alternatively, the CDI could still aim to give an overall synthetic vision. In that case, it might be explained better as a contribution to what has emerged through experience and literature as good practices favoring development (see discussion below, section 1.1.3). Still, given the complexity of effects and impacts along the various indicators included in each component and sub-component, I believe it would be advisable to substantially reduce the number of indicators.

A final comment on “development” is that the perspective adopted in the CDI is much inspired by the developed countries’ vision of development and what it entails. It would be appropriate to try to bring in more of a developing country perspective, which might for example be organized through a survey of how various actors in each of these countries perceive the role of various donors...

### *1.1.2. North-South or global holistic approach?*

Like many worthwhile innovations, the CDI is a child of its time. Created in 2003, it contributed to advance developed countries’ accountability against their development assistance objectives as well as their commitment to advance the Millennium Development Goals adopted by the United Nations in 2000, which heralded a new area of development awareness and assistance after a decade of development “fatigue” in the 1990s. The basic underlying assumption was that of a responsibility of developed countries (“donors”) to advance development in the South. The CDI has been a systematic data assembly exercise to monitor how that responsibility was carried out.

In 2018, global politics is much different. Beyond the worrying decline of the support to multilateralism in several major countries, the new global agenda was shaped by the Sustainable Development Goals (SDGs), which are more “global” than “North-South”. Moreover, the challenges of poverty reduction now extend to countries in the North as well as in the South and need to be faced by countries at all income levels. And, within the “South”, the differences in economic and social performances over the last decades are so huge that considering all these countries together makes less and less sense. Rich and poor countries alike are confronted by rising inequalities within them, while – on average – global inequality has been on a slightly declining trend. The CDG April Memo recognizes (p.4) the relevance of a “holistic world view” but argues that “wealthy and powerful economies matter a lot to international development and deserve an in-depth scrutiny of their actions and their contribution to international development.”

This calls for deeper discussion. There are political economy as well as economic arguments to claim that contributions to development are not a zero-sum game, i.e. that what is good for developing countries is good for developed countries as well and vice-versa. This is certainly true of trade, migrations, environment (though, in these cases, political economy pressures may go against economic reasoning), security, finance. It may be more debatable for technology, though globalization makes it more difficult to confine the benefits of technological advances, once they are shared with some, to a given community: beyond patent and other forms of protection, technological progress is a global public good. Even development assistance serves the perceived interests of both donors and recipients (and is, to my mind a bit naïvely, criticized for that). But if this is the case, the best contributions to international development a country might make is by focusing on its own sustainable development performance.

This argument is compounded by the fact that it will be hard, in our democracies, to maintain support for any contribution to international development unless the domestic performance appears satisfactory. Yet another argument might be that since the assessment of the contribution to international development is based on the same principles as those which guide domestic policies, it will lose credibility unless the latter as seen to work for domestic objectives – and that perception has been crucially missing over the recent decades.

In this environment, it might be worth to explicitly extend it the CDI into to a “CSDI”, i.e. a “commitment to sustainable development index”, that would add to the current CDI, on almost each component (except the aid one), indicators also referring to domestic achievements (they are already there for many components, actually). This would still “measure” the countries’ contribution to international development, since, as argued above, their own fate is in fact indissociably linked to that contribution. It would also then be worth extending the coverage of the CDI to the big emerging countries – basically the BRICS, in view both of their demographic size and their increasing role in global affairs.

To conclude this section, I would like to comment more specifically on climate change. While the reduction in emissions of greenhouse gases (GHG) is also a positive sum game, I believe the CDI should be more stringent in its assessment of the responsibility of developed countries there. The latter does not only consist of saving on emissions, but also involves making room for higher emissions from developing countries. I find it hard from any social justice perspective to argue that an acceptable emission standard, over time, should not be expressed in terms of GHG per capita...

### *1.1.3. Underlying conceptual vision*

The previous suggestion also addresses a further critique of the CDI: it assumes that sound scientific policy research provides enough guidance on the actual effects of rich countries’ policies on developing countries’ situations so that a consensus can emerge about how they should behave. This is a vision of a normative role of social science that is problematic, from both an epistemological and a historical perspective. It leads to a prescriptive approach that is not validated by historical experience. The capacity of social scientists (including economists) to formulate relevant and effective policy prescriptions has been over-rated. Science plays a positive (as distinct from normative) role of analyzing and explaining facts and evolutions and building evidence. A clear distinction should be made between that role and that of recommending or taking decisions (hopefully) based on that knowledge and evidence. Prescriptions and recommendations require judgment and mostly (at least in social sciences) belong to advocates rather than scientists (and the latter can decide to become advocates, but it is another role altogether), and

decisions belong to decision-makers and will always have to be based not only on sound science, but also other factors that affect the feasibility of taking these decisions and then implementing them (leadership being a crucial consideration). Science is there to inform the risks that characterize any decision. This limitation of the role of scientific knowledge echoes the 2006 Paris Declaration on Aid Effectiveness, which insists, among other principles, on “ownership”. It also conforms to the analysis of knowledge for development proposed by Stiglitz (2000) and the review of development ideas and practices in the light of experience proposed by Currie-Alder et al. (2014).<sup>3</sup> It also finds support in the conclusions of the Spence Commission on Growth and Development (2008).

The CDI is in fact understandably inspired by the collective, normative ideas and standards that have emerged and evolved over time in the global development community. Scientific advances and years of experience with development assistance, together with evolving conventional wisdom about the international economy, have led to principles and good practices for developed countries to abide by. These standards may represent a form of consensus at a given point in time, and they may be supported by a body of sound academic literature. But even when this is the case, they reflect a collective judgment and an interpretation of scientific insights, and not a direct translation of scientific “certainties”. We do know much more than we did years ago but given the complexities of development and the interaction with individual and collective behaviors, knowledge is bound to remain incomplete. As such, the CDI might rather be interpreted as a “CRIDS indicator” (for “commitment to respect (currently accepted) international development standards”). This is also useful: at each point in time, measuring the degree of collective behavior by countries on a given set of issues (i.e. development) and the respect of countries’ commitments to abide by recognized good practices gives interesting insights. However, this approach reflects consensus of what the objective is thought to imply rather than actual contribution to advancing the objective. It is dependent on current beliefs. A downside is that it may prevent new, innovative approaches towards the objective (here, development) that would depart from the current set of ideas and standards of behaviors.

## 1.2. Data

This critique is related to the previous one, to the extent that existing efforts to develop databases and indicators is correlated to the needs created by these evolving ideas and standards, which in turn impact on the choice of priorities. One of the limitations of the CDI exercise is that it uses existing data sets – as opposed to involving efforts to create new ones. This is understandable for cost and feasibility reasons. But it means that insights and measurement efforts are bound – and therefore biased - by existing data. However, it is likely that to document “responsible behavior” under many of the chosen dimensions, more facts and data would be needed. For example, I believe that building developing country ownership should be rated as the most important potential contribution of donors. Yet, it is hardly captured by the existing ODA indicators. It does not mean that the rest is irrelevant, but it suggests two things: first, doing well on the other indicators does not tell us much about responsible donor behavior; and second, a country faring

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<sup>3</sup> Amartya Sen notably writes in his foreword for this book: “it is greatly to the credit of the editors that they have not tried to arrive at anything like a “consensus” on what needs to be done for development”.

poorly on existing indicators may still do a much better job on contributing to developing country ownership (this is admittedly theoretical, no practical example is given).

This is perfectly understandable. However, the normative nature of CDI somehow conflicts with its incompleteness. By extolling good practices as measured by the existing indicators, the CDI may lead to the neglect of other approaches that might be more valid. Moreover, the CDI teams have over time made a very comprehensive job of identifying databases that can be used. This has two implications: first, there are in my view too many indicators, some possibly contradicting each other, and some being potentially weakened by too many of others; and, second, any new suggestion (except may be on a new macroeconomic component or sub-component) would be unlikely to correspond to an existing database of the corresponding indicators and would be conditional on raising new data.

My suggestion is therefore to combine the CDI with a research-based, data collection initiative to identify and address some of the gaps and questions. This of course requires time and financial resources.

### **1.3. Time horizon**

Another comment on the current CDI is that it does not distinguish between short-term and long-term actions and impacts. There are two dimensions here:

- It may be that a donor country effort fails generating the necessary domestic consensus, so that “doing well” according to the CDI one given year may not be sustainable over time. Yet, a responsible international behavior, for any given country, needs to be based on sustainable domestic support (as discussed above).
- There are short-and-long-term tradeoffs: some positive short-term development impacts may be detrimental over the long term and securing long-term benefits (for example climate mitigation) may entail short-term costs.
  - o This can typically happen for economic growth (short term – and long term – impact) and environmental degradation (longer term impact)
  - o This might be the case for migration, through the potential loss of human capital
  - o It may be the case for trade, if it supports a specialization that proves unsustainable over time, generates Dutch disease, increases vulnerability or prevents diversification.
  - o It may also be the case for security (see the discussion below).

## ***2. Components, sub-components and indicators***

### **2.1. Comments on current components and indicators**

While I realize this is not a paper on aid, my main comment is on the aid component, on which I have some practical experience. I also have some reservations on the security component, but they are more philosophical in nature and probably difficult to consider.

### 2.1.1. *The aid component*

The overall idea, here, is – rightly – to consider both aid quantity and aid quality, and they are weighted equally (50%), which looks reasonable. However, the definitions given of both “quantity” and “quality” should be revisited.

As for quantity, the most obvious indicator should indeed be the OECD ODA as a share of GNI. But the way in which this indicator is built is not convincing. It adds grants and loans (net of reimbursements on past loans) and retains only those loans which have at least a 25% grant element. A better indicator of the donor effort should be the actual taxpayer contribution to aid. Ideally, this should come from public budget documents, but going from these documents to an actual grant component of ODA is not easy, given the number of budget lines under which a development contribution can be claimed. Alternatively, one might consider the sum of grants plus an evaluation of the grant elements of loans. The latter depends on the difference between market rates for similar maturities (and accessible to developing countries) and the ODA loan rates and is not computable when countries do not have access to financial markets. An overall average estimate might be the best that one might hope for. Given these difficulties, the usual indicator that is used is net ODA, which does not accurately represent the budget effort consented by donor governments. An interesting approach would be to document the following question: for one dollar of budgetary spending by the donor, what is the volume of funding made available to developing countries? This would open the door to using donor resources as catalysts within several other financial instruments. This is increasingly discussed (under the theme of “financial innovation for development”), but not easily documented by precise data at this stage.

An additional remark on quantity is the fact that only loans with a 25% grant element count as ODA. This is arbitrary. One should even argue that a loan made at the riskless market rate (i.e. sharing the AAA rating of a donor with a developing country, for example), and used to finance a profitable investment, is a significant concession that could and should count as ODA! At the very least, all loans with a grant element less than 25% and contributing to recognized development expenditures should be counted as part of the development effort made by donor countries. This remark leads to an additional, minor comment: in the current version of the CDI, the investment sub-component within the finance component includes the OECD DAC statistics on “other official flows”. If the latter are not primarily aimed at development, they should simply not be there. If they are and do not qualify as ODA because the grant element is less than 25%, they should be counted as part of the quantity figure retained in the Aid component.

However, the composition of ODA (between grants and loans) also matters. For a similar total, I would consider a higher proportion of loans as a sign of higher aid quality. The basic insights are that loans need to be repaid and build capacity, while grants may sustain excessive dependency and lack of sustainability of impacts. Lerrick and Meltzer (2002) argue that ODA should be made only of grants, because they consider that markets are better placed to analyze risks and make loans: recent history does not support their claim, and a counterargument is also that development institutions invest more in acquiring information on developing countries and have accordingly superior information about the risks. Cohen, Jacquet and Reisen (2007) argue that loans are in general superior to grants, if there is a follow-up technology to automatically transform a loan into a grant in case of (objective) problems. The bottom line, though, is that aid should not be equated with charity and to grants – effectiveness and quality matter. To sum up, there are two dimensions about the aid volume, however measured: one is its size, to measure

the “effort” made by donor countries, and the other one is the delivery mechanism, which can explicitly feature as part of quality.

Turning to quality, and beside the point made above, I have the following comments (which may result from incomplete knowledge of QuODA):

- Counting the share of allocation to well-governed countries does not convince me. The purpose of “aid” should precisely be to help countries where financial resources are generally poorly used, and it is a donor responsibility to find ways to do so. I’m afraid the notion of “aid effectiveness” has been overly interpreted from a *donor perspective* (showing the taxpayers that funds are well used) rather than a recipient one (receiving financial resources and support to use them better). By essence, aid (and development) should be about taking well considered risks. Beyond ideological positions, I’ve not seen any convincing argument that aid *cannot* result in better governance. The current view about aid allocation also runs against history (see, for example, North, Wallis and Weingast, 2009): the progress in governance is what characterizes development, and not a pre-condition of it. Poor governance is not a pathology of underdeveloped countries, it is a characteristic of their level of development.
- I also have reservations about the “low unit administrative costs”. It is almost contradictory to the notion of quality. To ensure that aid is more effective (under current definitions of effectiveness), more donor resources are needed. Even when making grants, a proper risk analysis should be made. Support to countries are needed, etc. (and of course the way this support is delivered does matter). There is a dream, here, of promoting “more for less”, but somehow, promoting only the “less” side does not explain how the “more” will come out. And what matters would be a reduction in the “unit cost” of aid not per unit of ODA but per...unit of effectiveness.
- As a citizen, I like the “support of select global public goods facilities” indicator, but I would consider it more as part of the environment component. The reason is that it is part of aid effectiveness only if it is part of the recipient countries’ priorities. There is also a short-term/long-term dilemma, as briefly discussed above.
- I would also like to comment on donor coordination. The thesis that fragmentation and lack of coordination impose a burden on recipients should be qualified for four reasons. First, managing public investment and public projects in any country requires facing many intermediaries. Whether these are donors or other kind of intermediaries does not make much difference and dealing with donors might also build administrative and managerial capacity. Second, coordination in the field takes a lot of time, and since each donor understandably follows their own (and their country’s) interests, this is not likely to change easily. So, coordination is also a source of costs, and they are not taken in consideration. And third, development still is a much unknown dynamic. The problem with coordination is that it may stifle innovation. A similar point applies to the coordination of analytical work: if it is pure technical analysis, there are indeed advantages. But if this is coordinating judgment on a country’s situation, then it may be counterproductive (and self-fulfilling); and, fourth, some competition among donors provides some guarantee that they will have to convince recipients and that they might better follow the recipients’ priorities – though this argument may apply more in countries with some sense of their priorities, which is not the case everywhere (and that suggests that coordination may have a high value in poorly governed countries).



- Finally, the CPA (country programmable aid) does appear in the indicators of efficiency used in QuODA, but as one among many. I would make it more central, on the basis that this is an indicator of the importance given by donors to the “ownership” principle of aid effectiveness. A radical approach might even be to replace the overall ODA figure by the CPA as the indicator for quantity. This would be going too far, to the extent that the poorest countries, given governance problems, are not in a good position to program their aid without specific support. But I would suggest raising the importance given to the CPA.

These comments do not easily translate into operational suggestions. I think there are too many indicators under each component, which several that I don’t find mutually consistent, and with the risk that having too many indicators weakens the explanatory power of each and potentially underrates the role of the most important. The overall picture is too conventional, reflecting the current fashionable views about aid effectiveness, and I find them highly contestable. If I had to think about indicators about the aid component, I would not insist as much on the burden on recipients (if they are duly put in charge, or if they take charge, they will manage that – clearly the experience in Vietnam, for example), and I would suggest dropping that sub-component. I would keep the quantity component, which I would like to focus more on the donor country effort, though we can settle on ODA as a share of GNI; (2) Aid allocation, keeping the focus on the poor countries, not to well-governed ones; (3) Quality, for which I would recommend a much streamlined list of indicators, and I would suggest adding a quality perception survey run in the recipient countries; and (4) transparency.

### *2.1.2. Security component*

Of course, peace and security are important for development. However, the reverse may be as true, and much of that interaction takes place during the development process itself. Peace and security depend on the social order, in the sense developed by North, Wallis and Weingast, 2009. This is not the place to elaborate on the authors’ thesis. They define development as the transition from a closed access social order (where the rent has been captured, through violence, by an elite which redistributes it to friendly groups) to an open access social order, where rents change hands through the democratic process and market competition. The fact that the rent allocation remains contestable makes it acceptable. Development thus appears as a transition process that may, or may not, involve violence to displace existing power bases. Whether external actors should intervene, and how, is a difficult question, and it cannot be reduced to the preservation of “peace”, because the latter must come from an indigenous social transformation. Peace and security depend on an historically evolving agreement in which various stakeholders agree on a given distribution of existing rents. This cannot (or should not) be imposed from the outside. This means that “peace keeping” may have the perverse effect of hiding the fact that this process has not matured yet, and therefore postpone conflicts, or taking sides (favoring the power structure that exists at the time), which may not be helpful nor historically legitimate. How foreigners can help constructively is to be discussed, and this means that the “quality” of the peacekeeping contribution should also be assessed. Or, if feasible, one should retain only the humanitarian component at this stage. This is a further example of the short-term/long-term dilemma alluded to above: in the long term, development requires indigenous social and political transformation and maturation, and foreigners can influence and help it, but should be careful not to prevent that transformation from taking place. How to quantify this is difficult and does not seem properly addressed by the current indicators.

### 2.1.3. *Other comments on indicators*

This section provides an unorganized list of comments on various indicators, without organizing them conceptually, in addition to the comments provided above.

On the tax incentives dimension of the Government support sub-component within the technology component, it is specified that the indicator (business R&D as a share of GDP multiplied by the average level of tax subsidies) is discounted 25% “on the premise that all private R&D is assumed to be commercially-related” (CGD, 2017, p. 28). This is questionable: does this discount means that a commercially-related venture is going against development? That what is called “development” in developing countries should be non-commercially based? That the private sector is not a full contributor to development? Of course, there are social, and non-market dimensions of development that will not be provided through private investment, but I would assume that all private investment, commercial activities are contribution to “development”. They are counted as GDP. One might decide to qualify the quality of the various contributions to GDP, but this is not the focus of the CDI, and it would require a precise definition of what development is about. The legitimate concern that the profitability (and commercial) motive might penalize the transmission of technology and knowledge is in principle taken care of by the Intellectual property rights sub-component.

I am also surprised that Government support accounts for two-thirds of the weight in the technology component, which implies that the IPR sub-component accounts for one third only. What is the basis for this weighting assumption? I would have intuitively assigned reversed weights, one-third and two-thirds respectively.

## 3. *Suggested additional dimensions*

The CDI already covers many policy dimensions that matter for development. Two may be missing and might be added either as full components or, preferably, as sub-components of existing components.

### 3.1.1. *Macroeconomic stability*

Developing countries are vulnerable to global macroeconomic and financial shocks. It would thus be relevant to take this in consideration in the CDI. There are two major ways in which macroeconomic policies conducted in the largest donor countries matters and create risks for developing countries:

#### a) *Procyclical policies*

Downturns in large countries are a negative demand shock for developing countries, whose effects may go well beyond the economic cycle. Conversely, economic booms can be misunderstood as a permanent rise in potential output and lead to inappropriate choices. For these reasons, one might want to consider an indicator of countercyclical policies. There is no consensus on the role of cyclical policies, and the suggestion here is not to recommend any such policy, but rather to measure the extent to which policy-making is counter-cyclical (i.e. dampening demand fluctuations) or pro-cyclical (i.e. accentuating demand fluctuations), and to give positive value to counter-cyclical results.

One way to do it is to compare the fiscal stance, as measured by the *change* in the primary structural fiscal balance (which the OECD calls the underlying primary balance) as a percent of GDP, with the output gap (i.e. the difference between actual and potential output (or more precisely between the demand-determined and the supply-determined outputs), in percent of potential output). A simple product between the two may prove a useful indicator: if it is positive, policy is counter-cyclical; if it is negative, policy is procyclical<sup>4</sup>. And the degree of pro-cyclicality, or counter-cyclicality can be measured by the absolute value of that product.

A serious caveat, however, is the unreliability of output gap measures – though such caveat applies to many indicators. The output gap is conceptually simple, but hard to measure in practice. Measures available from the IMF, the OECD, and the EU tend to differ significantly, and they are frequently revised.

#### b) Financial risk

Past crises, most recently in various countries of the Euro Area, but also the long real overvaluation of the US dollar from the 1980s on, have shown how unsustainable macroeconomic policies in developed countries can also generate financial (and exchange rate) risk given the volatility of short-term capital movements which are prompt to react to any news about policy change or any change in perceptions and expectations.

This could be a subdimension of finance: this would be notably justified because the finance component right now ignores short-term capital flows, and their volatility is related to expectations and imbalances related to macroeconomic policies.

The problem with picking-up relevant indicators is that there is no systematic relation between any macroeconomic indicator and a reaction from financial markets. We are mainly talking about the risk of instability as opposed to actual instability, and risk does matter. The indicators that matter are fiscal balances and their evolutions, the level of public debt, the current-account balance and its evolution, the volume and nature of short-term capital inflows, the net external asset position and its evolution, etc. It would make no sense to include these in the CDI analysis, as they need to be interpreted in relation to (actual and perceived) sustainability. However, if this dimension is considered relevant, I would suggest using indicators of (domestic and external) debt sustainability, that could for example be derived from the IMF (2013) debt sustainability analysis framework for advanced and emerging countries.

### 3.1.2. *Development research*

Through trade, flows of goods and services are taken into consideration in the CDI framework. Through the finance component, financial flows are also, at least partly, considered. Through migrations, flows of people are included. However, knowledge flows are only marginally addressed (in the technology component), even though “knowledge” has long been recognized as an engine of development<sup>5</sup>.

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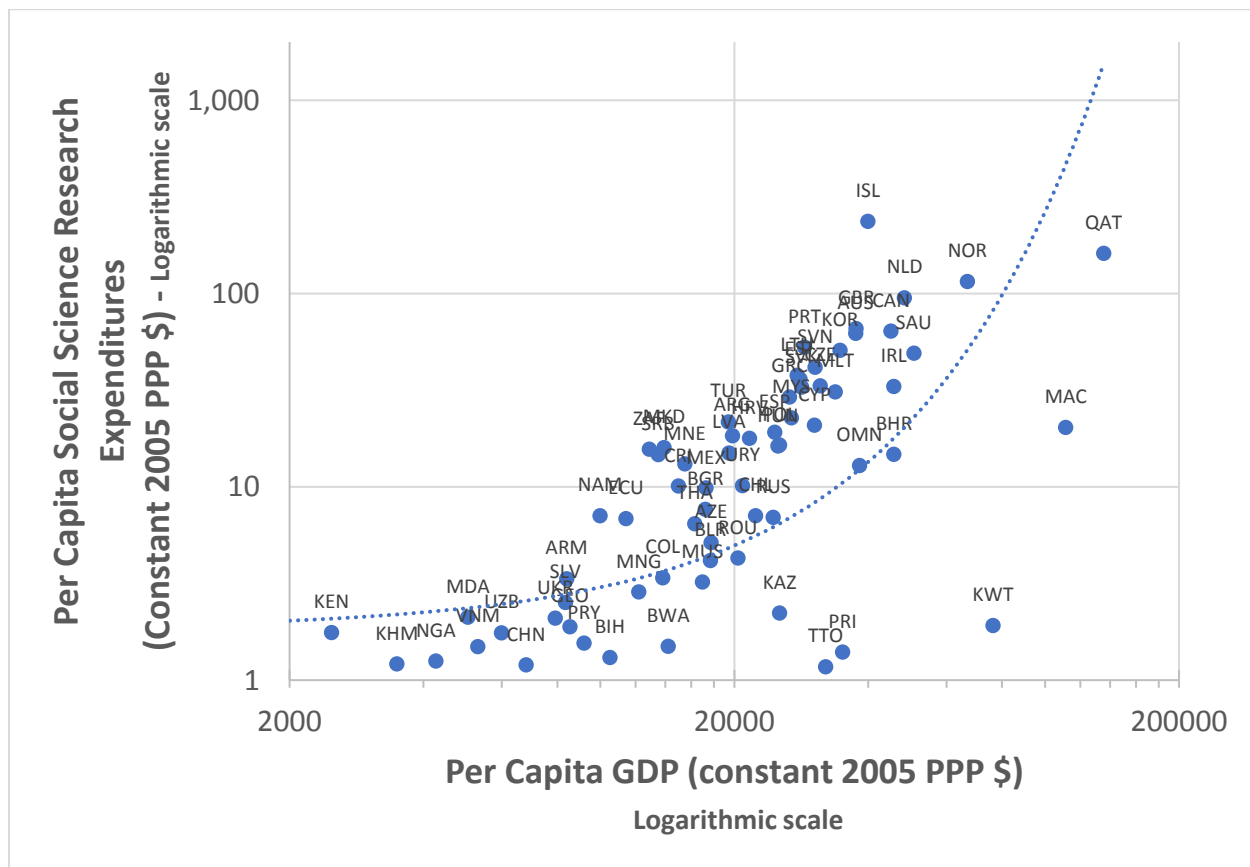
<sup>4</sup> Suppose for example the economy is running below potential (negative output gap). A pro-active fiscal expansion (deterioration of the primary structural balance) is countercyclical.

<sup>5</sup> One could argue that development knowledge is also indirectly present in the CDI through the donors’ contributions to multilateral institutions such as the World Bank, which have invested significantly in development knowledge.

The extent to which developed countries facilitate access to knowledge is of course a crucial dimension. Part of it is covered under the technology component, but another aspect deals with “policy knowledge” as it relates to the understanding of development challenges and the analysis of various policy options to deal with them. One indicator could thus be the volume of funding from developed countries that goes to development research. This is presumably available from OECD-DAC statistics.

However, this is only part of the story, and to my mind not the most important one. It mainly covers the part of “policy knowledge” that is a global public good that can be produced anywhere and usefully disseminated across the world. But the interpretation and use of development knowledge for development purposes is not a disembodied process that can be imported from donors through the wisest of funding-directed advice. It needs to be contextualized and is a local political and social process (see for example Stiglitz, 2000). It is not enough that sound policy knowledge is produced, it needs to be reinvented locally. The local production, within developing countries, of social sciences research on development challenges and policies is therefore a crucial dimension of development. The previous measure therefore needs to be qualified by the attention given by developed countries to the local production of research, to the domestic and international barriers to such production (for example, a definition of research quality that excludes many developing country researchers), and to research capacity building in developing countries. This also directly resonates with the Paris Declaration (2005) “ownership” principle of aid effectiveness.

**Figure 1: Per Capita Social Science Research Expenditures and Income per Head**



Source: UNESCO Science and Innovation Database (accessed 04/05/2018)

The rationale for including this dimension is compounded by the current situation of development research. Its production is overly concentrated in developed countries. It is normal, to the extent that scientific research can be considered as a luxury good, with research spending an increasing function of income (figure 1). And it is also, at least partly, a global public good, with economies of scale that justify its concentration in places in which it is already very effective and successful.

But this ignores the “downstream” part of the knowledge value chain, namely interpreting, contextualizing and using research. It is intriguing that most research on development in developing countries is conducted outside these countries. At least two problems arise as a result. First, development challenges are basically, at least implicitly, interpreted as pathologies for which the cure, provided by foreign experts, is expected to be administered by local policy-makers, and this is how, I believe wrongly, the problem of connecting research with policy is usually framed. This is compounded by the pressure put by research funders on researchers to do policy work leading to recommendations and “evidence-based solutions” to challenges. Second, research themes (and methods) are basically driven by global research interests and may be disconnected from country priorities. In addition, there is a constant temptation to define these priorities without consulting the country actors and stakeholders. All this clearly runs against the “ownership” principle. Yet another effect of this concentration of research production outside developing countries is that it cannot incorporate implicit knowledge: a role of domestic research is also to transform implicit knowledge into elements of transmissible knowledge that can be shared and used, an important contribution to the effectiveness of decision making and policy implementation.

I therefore suggest that this might be an interesting and novel dimension to add. If not a specific component, it might be added as a sub-component within aid (or even as a category within an existing sub-component, such as aid quality. What should be measured is how developed countries contribute to getting relevant evidence considered and discussed within developing countries so that policies inspired by such evidence emerge with significant ownership through domestic debate and deliberation rather than only foreign advice: in a nutshell, how developed countries contribute to mainstreaming research-based insights and evidence into the local political debate. A report of the US-based National Research Council (2012) thus argued that one should move from an objective of “evidence-based policies” (which mis-represents actual policy-making by ignoring the politics of it) to one of “evidence-influenced politics”. Training and empowering social science researchers within developing countries is arguably a powerful way to contribute to that objective and to strengthen local democracies by introducing evidence and research-based analyses into domestic deliberations.

However, proper indicators may not be readily available, and this might be a further reason to undertake additional research and data collection. Ideally, one would like to know the part of development research funding that is spent within developing countries and builds research capacity and supports researchers living there (or, conversely, the part of declared ODA that finances donor’s researchers and research centers, directly or indirectly), and to measure how much local researchers influence and own the choice of themes. Of interest would also be the extent to which donors use local research capacity to conduct project and analytical work and evaluations, instead of using foreign experts and consultants. This is presumably not reported systematically. The CDI might help putting in place a systematic framework to assess the reality of the donors’ commitment to developing country ownership, a goal often reaffirmed but ending up in lip service rather than actual implementation.

## **4. Conclusions**

To sum up, I come up with five recommendations summarized here for further clarity and debate.

### **4.1. CDI Pitch and Outcome**

I have argued that the way the CDI is currently presented gives too much credence to the idea that we know what policies are good for development and that some of these policies may have a diverse impact on various dimensions of development that may not be in synergy. I have suggested that the CDI might be rather presented as measuring how developed countries meet their commitments and fulfill their duties – as interpreted from any global consensus currently in vogue. I have also argued that, with such perspective, it would make sense to widen the CDI from its current North-South thread to a more holistic, “global public goods” focus, which would partly address, and to widen the geographical coverage to include at least the BRICS countries.

I have also suggested that instead of a single, synthetic index, it might be more convincing and relevant to build a small number of different indices, tailored to more specific dimensions of development such as growth, human welfare and environment (but other typologies could be considered). This could be done without altering the structure of the CDI exercise, by applying weight derived from an analysis of the impacts on these specific dimensions.

### **4.2. Adding a Data research and generation effort in the CDI**

I have argued that the dynamics supporting the CDI might be used to promote the generation of new data directly linked to the connections between developed countries’ policies and “development” addressed by the CDI. This would make a valuable contribution beyond the making of the index and strengthen its power and relevance.

### **4.3. Adjusting and streamlining the current list of indicators**

I have suggested a few adjustments in the list of indicators, mainly in the aid section, where the “quality” component seems too detailed and debatable and where some indicators seem to not be mutually consistent.

### **4.4. Adding a macro component**

This review also echoes a comment made in the CGD April memo and agrees that macroeconomic policies in developed countries should also be considered along two dimensions: macroeconomic stability (the ability to run effective countercyclical policies) and macroeconomic risk due to unsustainable policies that can evolve into financial instability. This is an area in which indicators exist or can be easily construed from existing data.

#### 4.5. Adding a development research component

Finally, I have argued that considering development research should be added as a component (or sub-component) as a crucial engine of “ownership”, development, and democracy in developing countries. However, indicators do not seem to be readily available to measure what would be relevant to address this issue, and this might be a good example of the role that the CDI exercise might take in promoting the collection and generation of missing relevant data (4.2 above).

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