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The Big Push: does aid solve development problems?

Interdisciplinary Course 'Perspectives on Development and Cultures'

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Outline

1. The return of the 'Big Push Theory'
2. Mind the trap
3. Is poverty or governance the real issue
4. Still pushing after all these years

1. The return of the 'Big Push' ?

- Rosenstein-Rodan (1943)
- Rostow (1960)
- Sachs (2005)

- "2005: the year of the Big Push" (Easterly)

Big Push is definitely in favour with donors

- The Millennium Development Goals (MDGs)
- Monterrey 2002 pledging conference
- DFID International Finance Facility 2003
- G-8 Gleneagles 2005

- OECD/DAC press releases on aid

- Yet experts are deeply divided

Two views

- Aid bureaucrats and politicians like the 'Big Push Theory'
 - because they genuinely believe it will work
 - cynics: because it allows them to ask for extra money
- Academics are more wary of the 'Big Push Theory'
 - because they do not see the empirical or theoretical evidence
 - cynics: because it makes them look more important

In some countries, donors are pushing hard

Volume ranking	2004 ODA/GNI
Tanzania	14%
Ethiopia	17%
Mozambique	24%
Malawi	23%
Rwanda	21%
Sierra Leone	25%

And aid modalities are shifting

Table 1. ODA for Sector Programs, General Budget Support and Debt Relief
(Commitments, US\$ million at 2004 prices, 2001-2004)

Type	US\$ amounts (2004 prices)				% of total commitments			
	2001	2002	2003	2004	2001	2002	2003	2004
Sector Programs ⁽¹⁾	641	1,984	5,404	14,666	1%	2%	6%	15%
Low Income	199	774	1,591	7,854	0%	1%	2%	8%
Middle Income	441	1,105	3,645	6,011	1%	1%	4%	6%
Unallocated	0	105	168	800	0%	0%	0%	1%
General Budget Support	4,847	5,850	6,395	5,249	7%	7%	7%	5%
Low Income	3,919	4,853	3,635	4,631	5%	6%	4%	5%
Middle Income	913	990	2,745	608	1%	1%	3%	1%
Unallocated	14	8	16	11	0%	0%	0%	0%
Total General and Sector Support	5,488	7,834	11,799	19,915	8%	10%	12%	20%
Debt relief	5,582	8,504	17,778	8,570	8%	10%	18%	9%
Low Income	2,962	5,263	14,771	7,578	4%	6%	15%	8%
Middle Income	2,601	3,102	3,003	899	4%	4%	3%	1%
Unallocated	19	139	4	93	0%	0%	0%	0%

(1) Excluding debt relief and general budget support to avoid double counting. Only commitments with no investment or TC components.

Source: CRS Online (Table 1)

Is this a Big Push in the making?

- Big Push is about the size of the aid effort, but also, crucially, about a significant concentration of the effort
- 2010 ODA targets look like a Big Push
 - \$130 billion against \$104 billion in 2006
 - substantial growth per year needed to get there

Look again at the same countries

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Look again at the same countries

Volume ranking	2004 ODA/GNI	2010 ODA/GNI target
Tanzania	14%	27 %
Ethiopia	17%	33%
Mozambique	24%	47%
Malawi	23%	44%
Rwanda	21%	42%
Sierra Leone	25%	48%

Promises ... promises ?

- The increase in aid is unlikely to be forthcoming
- Even so, aid volumes stand at unprecedented levels
- A comment on Europe
 - EU (15): 57% of all 2006 ODA
 - Country targets for 2010
 - EC: \$10.2 billion, and up
 - increased budget support
 - improved disbursement capacity

2. Mind the Trap

- The Big Push needs a Trap
- In development thinking, there are 'Traps' galore
- We think they can be reduced to two
 - Poverty Traps: blame the circumstances
 - Governance Traps: blame greedy politicians

Poverty Traps

- The Savings Trap
 - poor people are too poor to save
 - hence no capital accumulation (physical and human)
 - application: Nutrition and Disease Trap
- The Rate of Return to Capital Trap
 - return to capital is very low when capital stock is low
 - application: Infrastructure Trap
- The Demography Trap
 - large families are the social security of the poor
 - but slow down demographic transition
 - and thus keep countries trapped in poverty

Poverty Traps (continued)

- The Small and Landlocked Country Trap
 - such countries face huge transport costs
 - and have small local markets
- The Infant Industry Trap
 - latecomers in international trade cannot compete with other (especially Asian) low-income countries
- The more Traps a country faces, the more likely it will remain poor

Governance Trap

- Bad governments do not provide the public goods that are crucial for development
- Instead they use their position to extract economic rents (neo-patrimonialism)
- They need those rents to stay in power
- Individual politicians, however brave and morally upright, cannot change a deeply engrained system of bad governance
- Application: Conflict Trap

Resource Trap

- Caused by important non-fiscal public revenue
 - natural resource extraction
 - generous aid
- Economic dimension
 - ‘Dutch Disease’
 - need not be a major stumbling block
- Political dimension
 - easy non-accountable income stimulates corruption
 - in contrast, taxation stimulates accountability
 - taxation also stimulates the search for a ‘social contract’
- The Resource Trap as an application of the Governance Trap

Big Push needs Traps

- The Big Push Theory is closely related to the existence of Poverty Traps
 - the Poverty Traps presented above are real enough
 - yet not all experts who talk about Poverty Traps believe in Big Push
- Indeed the existence of Poverty Traps does not mean that you need an external Big Push to get out of them
- In case of a Governance Trap, a Big Push could even be part of the problem rather than the solution

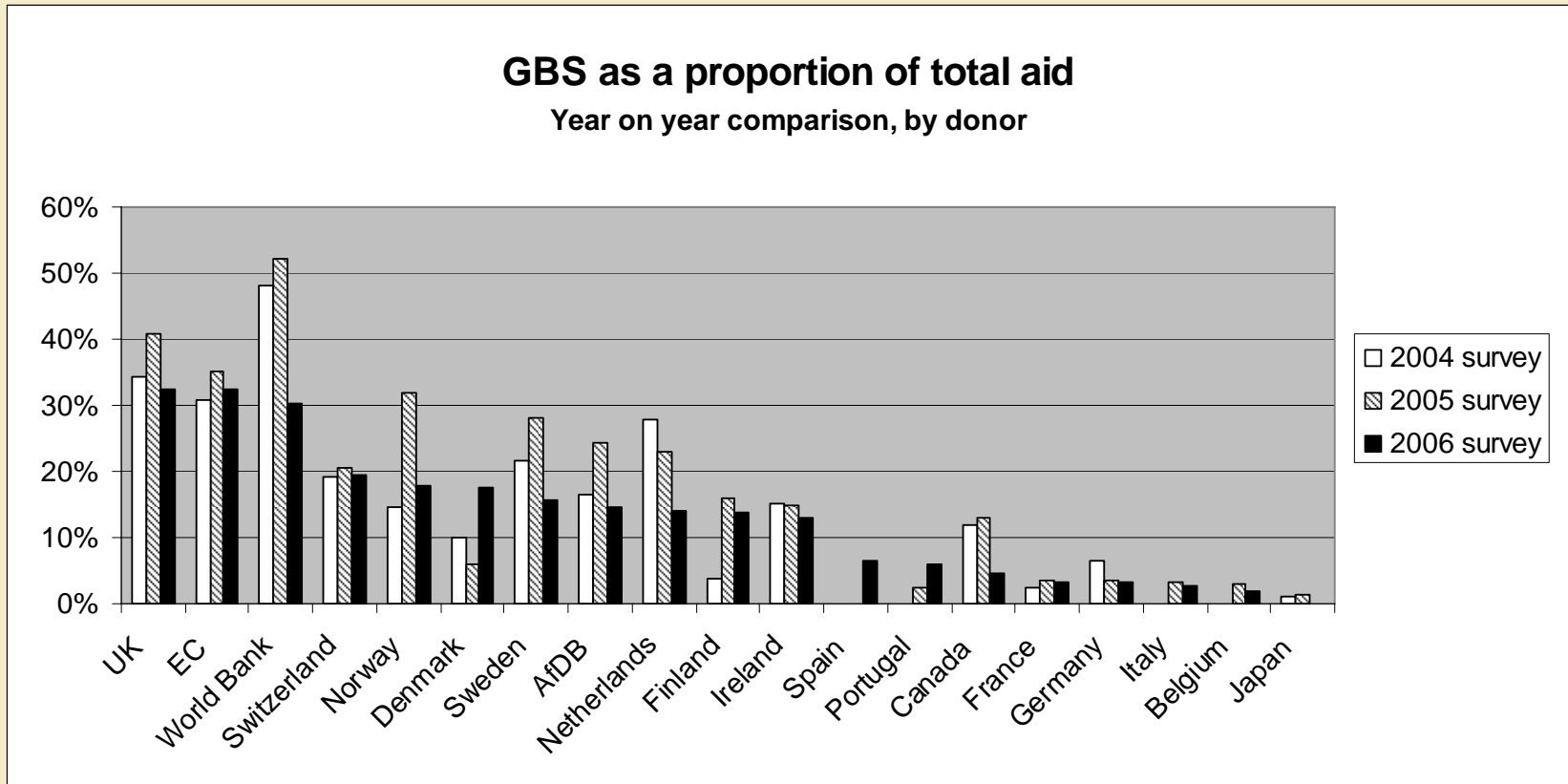
3. Is poverty or governance the real issue?

- Or: are 'Poverty Traps' or 'Governance Traps' the more constraining
- The answer matters a lot for selecting donor strategies
- This constitutes a major split in the present debate on aid effectiveness

The split in the debate on aid effectiveness

The Poverty Trap narrative	The Governance Trap narrative
countries lack capacity	countries lack willingness
limited country selectivity	country selectivity is key
equal partnership	principal-agent relationship
national ownership	donor supervision
policy dialogue	conditionality
civil society as an ally to government	civil society as as watchdog of government

The split is also visible in donor strategies

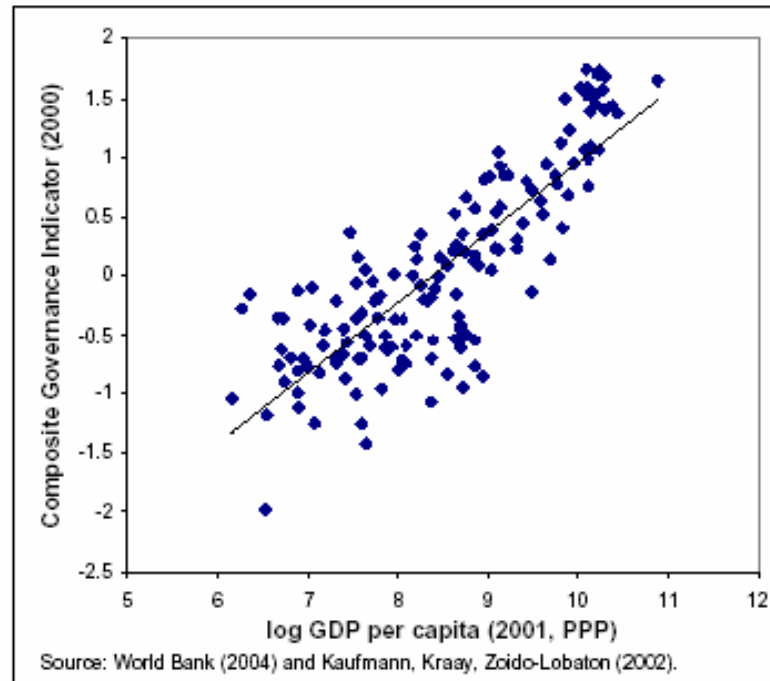


Downplaying governance

- *"As countries get richer, their governance tends to improve systematically, with the rise in income typically leading, rather than lagging, the big improvements in governance"*
(Preliminary version of a 2005 J.Sachs Report on the MDGs)
- *"The claim that Africa's corruption is the basic source of the problem does not withstand practical experience or serious scrutiny"* (Sachs 2005: 191)
- If this is correct, 'Poverty Traps' are more important than 'Governance Traps'

Poverty and governance are well correlated

Figure 6.1: Scatter plot of GDP per capita versus governance indicators



But correlation is not causality

- The correlation is not so outspoken if you look at poor aid-dependent countries
- Causality runs both ways, and probably more from institutional quality towards development than the other way around
- This suggests that aid be used to induce improvements in institutions and in governance

A teaser for the debate

- An expenditure tracking survey in Chad concluded that less than 1% of the money released by the Ministry of Finance for rural health clinics actually reached the clinics
- *"In 2005 the European Commission gave 20 million euros to the government of Chad in budget support. How much do you imagine was well spent?"* Collier (2007:102-103)

4. Still pushing after all these years

- If not the a “big” push, still a serious push
- And why not, if aid works
- Yet if governance is so important, then aid should
 - not make the situation worse (errors of commission)
 - and where possible make it better (errors of omission)
- This is where aid does not score so well, even if since 2000 donors are more aware of this issue

What donors can do

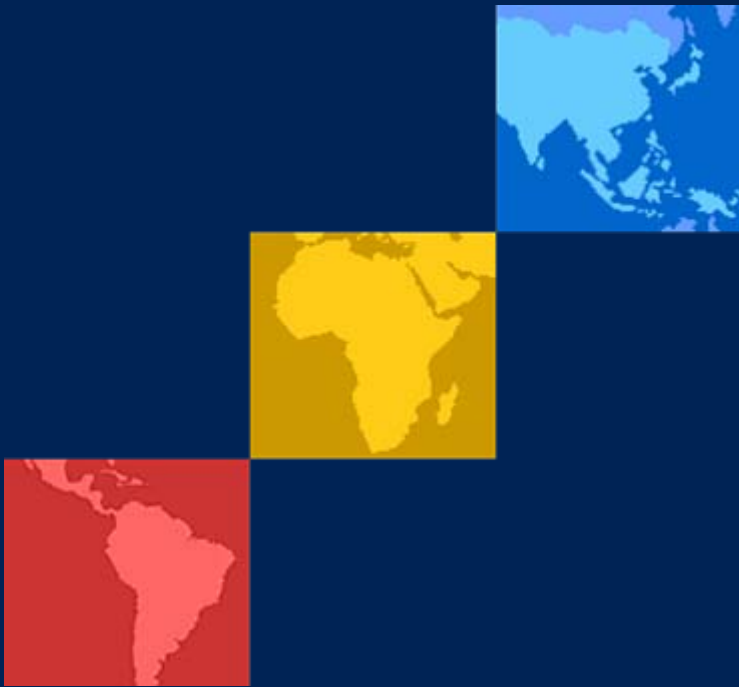
- Vary aid volumes and modalities in function of the willingness and capability of governments
- Use flexible aid, capacity building, combined with consensual conditionalities and policy dialogue to willing governments
- Sometimes, a big push may be exactly what is required, but so much aid money may also do more harm than good

What donors can do

- Accept that there is no quick fix to governance issues
- Accept the limitations of what aid money can 'buy' in this respect
- Provide realistic and transparent long-term incentives for governance
- Harmonise governance incentives across donors

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