Development Effectiveness Report 2003

Partnerships for Results

United Nations Development Programme
Evaluation Office

The views expressed in this Report are those of the authors and do not necessarily represent those of the United Nations or the United Nations Development Programme.

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Foreword

The question of how best to enhance the impact of development assistance has become more pressing than ever. With even conservative estimates suggesting that at least $50 billion a year in additional aid will be needed to complement the domestic reforms and revenue being raised by developing countries to meet the Millennium Development Goals, donors and programme countries alike are, rightly, demanding greater scrutiny of how effectively resources are being deployed. This Development Effectiveness Report, the third put out by UNDP, again seeks to help answer that question with reference to UNDP's own work, but this year the Report also looks at some key issues confronting development assistance generally.

With regard to our own activities the report analyses more than 1,000 UNDP projects and programmes. Encouragingly, the main conclusion is that both the efficiency and effectiveness of our work in the field is continuing the upward trend noted over the past two years, although more needs to be done. To help drive continued improvement, the Report draws on additional thematic, strategic and country evaluations in making concrete proposals on both the management of individual projects and cross-cutting issues such as UN interagency coordination and micro-macro linkages.

More broadly, the report also touches on some of the wider measures needed to improve development effectiveness generally. On the programme country side these include such steps as enhancing country capacity, promoting national ownership and building sound policy environments For donors, key challenges include more strategic use of aid clearly aligned with country needs and priorities, complemented by, for example, development friendly trade and debt policies.

In analyzing these sometimes contentious issues and offering suggestions on the way forward, the report does not provide all the answers. But it does clearly highlight some of the difficult questions to which all of us who work in development are going to have to find solutions in the years to come if the Millennium Development Goals, and their overarching aim of halving extreme poverty by 2015, are to become a reality.

Mark Malloch Brown
Administrator, UNDP

Preface

In the end development is about results, especially results that favour the poor. This focus on development effectiveness, on the factors and conditions that produce sustainable results, is an attempt to dig deeper into what works and what does not, based on empirical evidence.

This Report advances the proposition that an analysis limited to UNDP's own development performance, however useful as an organisational tool, is at best insufficient. Statements such as "more than 80 percent of agency-supported programmes are successful" imply that UNDP is doing well. Yet, in the broader sweep of things this does not mean that "development" is necessarily doing well at the country, the sector or community level. Overall development progress needs to be tracked, and UNDP's contribution to that progress has to be assessed and understood.

In tackling these issues, this Report examines the connection between two sets of issues: the link between organizational performance and development progress, and between micro (project) success and broader macro advances.

The Report also raises other issues. In the past the tendency has been to fit development to aid practices, and not the other way around. By shifting emphasis away from an exclusive focus on organizational concerns towards a broader analysis that examines first the end results of the development process and then the contribution of partners, this Report highlights the need for donor policies and practices to consider more closely how to sustain development.

Promising steps have been taken, and landmark agreements have recently been reached, such as those at Monterrey and Johannesburg. Yet, more, and better, aid is still needed. With aid levels well beneath set targets, the "right" aid allocation mechanisms can play a significant role in advancing the prospects of countries committed to improving governance and delivering on the Millennium Development Goals.

And this is only part of the answer. Donor policies and practices in other areas have dramatic effects on the prospects for achieving the Millennium Development Goals in developing countries. These policies and practices need to be made more conducive to development while recognizing that the primary responsibility for development remains with the developing countries themselves. Donor commitment to development and donor policies and practices are a critical part of the development effectiveness equation.

By focusing attention on the roles of donors and partner countries as well as UNDP, this Report situates an empirical assessment of UNDP performance within the context of the key drivers of development—ownership, capacity and policy environments—and the results achieved on the ground. Macro progress as recorded in global or country indices has to be realized in material improvements in the lives of people.

The Report raises challenging questions for countries and aid agencies. It examines UNDP performance in the context of overall development progress. These questions should help produce responses that can further enhance the performance of UNDP and its partners.

ACKNOWLEDGEMENTS

This Report could not have been prepared without the numerous contributions of the Core Team that undertook the methodologically complex and challenging task of producing this year's Development Effectiveness Report. The independent Advisory Board provided invaluable advice, inputs and overall guidance. Helpful suggestions and comments were also provided by the Readers Group, which comprised Sakiko Fukuda-Parr, Selim Jahan, Bruce Jenks, Thierry Lemaresquier, Kamal Malhotra, Saraswathi Menon, John Ohiorhenuan, Robert Picciotto, Ravi Rajan, David Roodman, Turhan Saleh and Mark Suzman. The feedback and constructive comments from the Evaluation Office colleagues were useful in helping to shape and improve the Report. Finally, I would also like to thank the Government of Denmark for its generous resource support that made this report possible.

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Abbreviations

AIDS	Acquired immune deficiency syndrome
CCA	Common Country Assessment
CIS	Commonwealth of Independent States
CPIA	Country Policy and Institutional Assessment (World Bank)
DAC	Development Assistance Committee
DEX	Direct Execution
DPT	Diphtheria, pertussis and tetanus
EC	European Community
FDI	Foreign direct investment
GATT	General Agreement on Tariffs and Trade
GDP	Gross domestic product
GEF	Global Environment Facility
GNI	Gross national income
HIPC	Heavily Indebted Poor Countries
HIV	Human immunodeficiency virus
IMF	International Monetary Fund
MDGs	Millennium Development Goals
MYFF	Multi-Year Funding Framework
NEX	National Execution
NGO	Nongovernmental organization
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
PPP	Purchasing power parity
PRSPs	Poverty Reduction Strategy Papers
ROAR	Results-Oriented Annual Reports
SAPAP	South Asia Poverty Alleviation Programme
SDR	Special Drawing Rights
TRIPS	Trade-Related Aspects of Intellectual Property Rights
UNCTAD	United Nations Conference on Trade and Development
UNDAF	United Nations Development Assistance Framework
UNDG	United Nations Development Group
UNDP	United Nations Development Programme
WTO	World Trade Organization

Chapter 1

Raising the Bar

THIS REPORT IS ABOUT RESULTS AND CONDITIONS REQUIRED TO MAKE DEVELOPMENT SUSTAINABLE AND BENEFIT THE POOR

In September 2000 at the United Nations the world's leaders reached a historic agreement on the Millennium Declaration, giving voice to shared values with a commitment to halve global poverty by 2015. Later consultations led to agreement on 8 Millennium Development Goals, 18 targets and 48 indicators to track progress. The Millennium Development Goals (box 1.1) emphasize shared accountability and reciprocal obligations among developed and developing countries for key development outcomes that can be verified and tracked.

The Millennium Development Goals and their associated targets represent a common framework for designing development strategies and monitoring economic and social progress. They bring into sharp relief the importance of partnerships. They recognize that the task of development is large and complex—no single agency or development actor alone can realize the desired development outcomes. Shared responsibility and accountability are essential. Addressing these challenges requires tying organizational performance to development results.

The 2003 Development Effectiveness Report produced by the UNDP Evaluation Office, the third so far, addresses the links between organizational change and development results. Previous Reports focused more on internal measures of organizational effectiveness, looking at the efficiency, relevance and effectiveness of individual projects. While these measures are useful, the challenges of the Millennium Development Goals require a broader analytical canvas—and a range of performance measures that bring out UNDP's contribution to overall development and the Millennium Development Goals.

Reciprocal obligations progressed further at the UN Conference on Financing for

Box 1.1 The Millennium Development Goals

At the United Nations Millennium Summit in 2000, 189 Member States adopted the Millennium Declaration and pledged to reach the eight Millennium Development Goals by 2015:

1. Eradicate extreme poverty and hunger.
2. Achieve universal primary education.
3. Promote gender equality and empower women.
4. Reduce child mortality.
5. Improve maternal health.
6. Combat HIV/AIDS, malaria, and other diseases.
7. Ensure environmental sustainability.
8. Develop a global partnership for development.

The Millennium Development Goals identify—and quantify—specific gains that can be made to reduce poverty by half while improving health, education and the environment. These goals focus the efforts of the world community on achieving significant, measurable improvements in people's lives.

Source: United Nations, 2000, UN Millennium Development Goals [www.un.org/millenniumgoals/].

Development, in Monterrey, Mexico, in March 2002. It led to a landmark acknowledgement by developed countries that they need to provide more aid, debt reduction and market access in pursuit of the Millennium Development Goals. The Conference also stated the imperative of focusing on results, supporting the notion of allocating aid in line with the efforts by the developing countries towards better governance and pro-poor policies.

ORGANIZATIONAL PERFORMANCE HAS LITTLE VALUE IF IT DOES NOT CONTRIBUTE TO DEVELOPMENT RESULTS

Monterrey put results and effectiveness at the heart of the development dialogue between donors and partner countries. The Conference identified:

- Good policy environments and the need for better measurement criteria to track and assess development performance.
- Capacity-deficit and low income countries that may have difficulty meeting the results criteria.
- Shared accountability between donors and partner countries in meeting the Millennium Development Goals.

This new partnership brings into sharp relief the reality that organizational performance has little value if it does not contribute to development results and more generally to the Millennium Development Goals. The debate is how different development partners, including aid agencies, influence development effectiveness, which is ultimately about how to make a difference in the lives of the poor.

EMPHASIS ON DEVELOPMENT EFFECTIVENESS

To take adequate account of the Millennium Development Goals, this year's Report broadens the notion of performance by emphasizing multidimensional objectives in a country context. All too often, project success has not translated into sustainable development results, countrywide or regionwide. The Report also recognizes the shared responsibility of all development partners in achieving these goals. In so doing, it shifts the focus from individual agency effectiveness to the contribution of agencies and countries to overall national development results. Concentrating only on UNDP's performance—while useful as an organizational tool—is insufficient, even carrying the possibility of distorting organizational priorities. It is hoped that this year's broader focus will better situate, and thus help improve, UNDP's work.

Assessing the key drivers of development—such as ownership, capacities and policy environments—can help explain why some countries do better than others and how some countries sustain development progress. It is already clear that many developing countries, based on current trends, are unlikely to achieve the Millennium Development Goals by 2015. But faster progress is possible, even over fairly short periods, with the right policies, commitments and institutions.

A comprehensive picture of development effectiveness is especially critical in examining how individual agencies perform, how aid flows and related efforts reinforce and strengthen development and under what conditions. This implies that the Millennium Development Goals and issues of development effectiveness should influence strategic frameworks and organizational strategies. This concern mirrors the issues raised in the introduction of results-based management in UNDP since 1999, which shifted focus towards outcomes and partnerships in contrast to an inward-oriented look at UNDP's own performance.

EMERGING CHALLENGES AND OPPORTUNITIES

Just as conceptual clarifications are needed on the notion of development effectiveness, there are large methodological and data challenges in measuring and tracking it. But as the Report tries to show, a discussion of development effectiveness has considerable value in raising questions and laying a considered basis for changes in how the development community does business.

The Report reinforces a shift from the traditional interest in aid effectiveness[1]—looking at situations that maximize the value of aid—to a perspective that puts development first, examining what works and what does not and assessing whether aid flows and other global arrangements are helpful. Even when resource allocations and political systems are similar, human development outcomes may be very different in different countries. What works in one country may not easily work in other countries.[2] But by arguing against a one-size-fits-all approach, there is a case for different, more challenging, more flexible organizational strategies than those previously pursued.

The Report advances the idea that development effectiveness is (or should be) about the factors and conditions that help produce sustainable development results—to make a sustained difference in the lives of people. For instance, introducing clean water to communities can make a material, observable difference, and the improvements in health conditions and outcomes can be documented. But the improvements also require validation by the community. Perhaps user charges have gone up, complicating the assessment of who benefits and by how much. And perhaps cost recovery and maintenance threaten the sustainability of benefits. At the country level national statistics may show improvements that have no meaning for individuals or communities. Often, the poor and the powerless do not benefit from development, fully or equitably.

The Report brings out the fuller implications of multidimensional development performance assessments and agency contributions. The Millennium Declaration and the Millennium Development Goals reflect the values and approach championed by UNDP's *Human Development Reports,* which have helped clarify what the goals of development ought to be—a significant contribution. Subsequent work, particularly for the national Human Development Reports, has gone a step further. In addition to clarifying that people matter, it provides a better understanding of what is needed to deliver on what people really want.

The pool of development assistance has been steadily shrinking over the past few decades, with a recent uptick. Delivering on the Millennium Development Goals calls for doubling aid to $100 billion.[3] And trade and other global policies have to become more development friendly so that better policies and stronger commitment to development have some chance of success in meeting the Millennium Development Goals.[4]

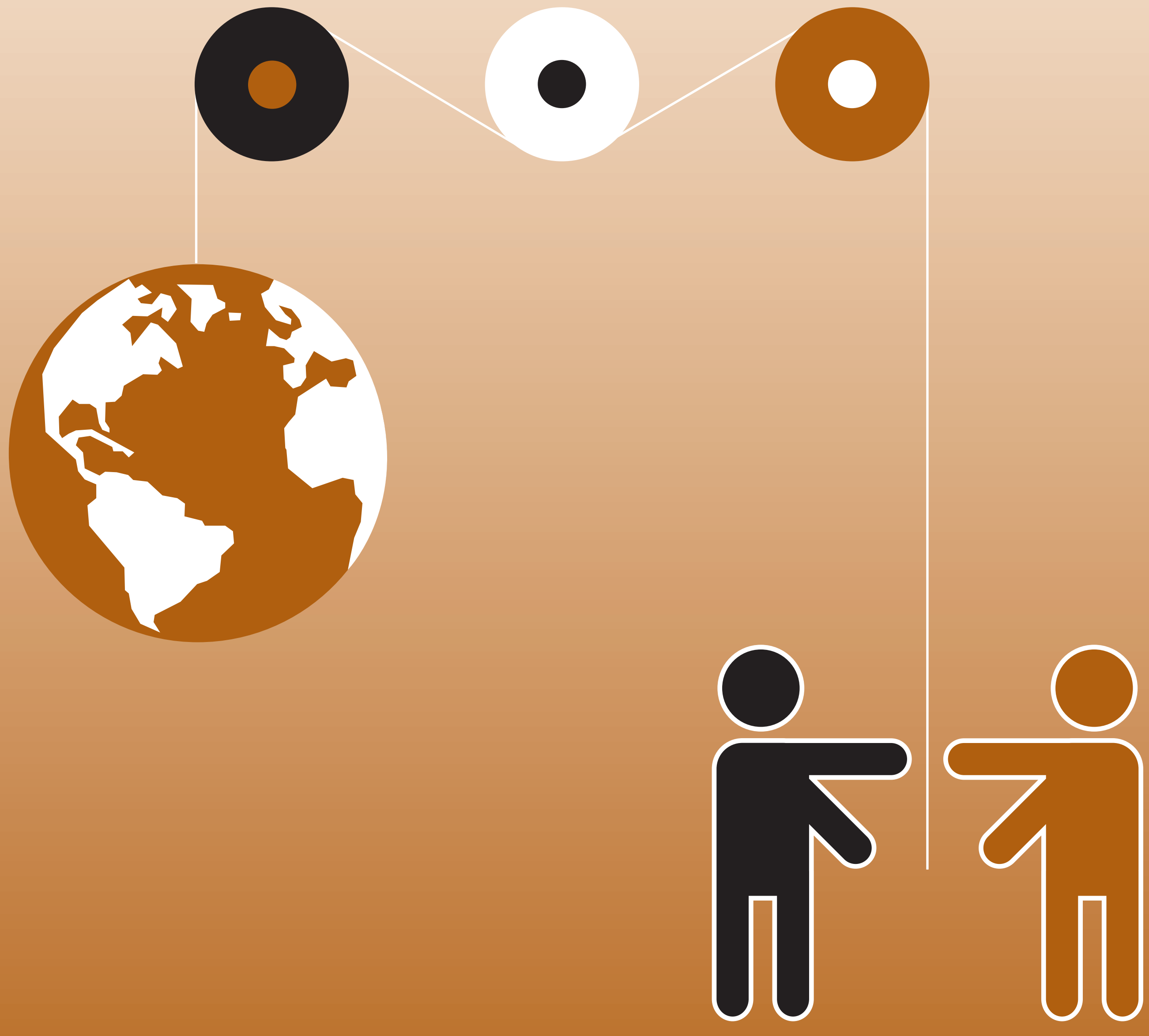
By digging deeper into what works and why, this Report hopes to contribute to better understanding the value of aid and the criteria for its effective use. There is a widespread perception in donor countries that aid is not effectively addressing social and economic needs. And there is near consensus that the aid conditions of the 1980s and early 1990s often did not lead to successful development. Indeed, in some poor countries the situation worsened under structural adjustment and stabilization policies.[5]

The Report gauges UNDP's performance and delves into the roles it is called on to assume as part of its development mandate—and into the tasks assigned to the UNDP Administrator, as chair of the UN Development Group, to coordinate the UN System's work on the Millennium Development Goals. The Report identifies some opportunities for UNDP and the UN System for helping countries, both developed and developing, to meet the challenges of the Millennium Declaration.

THIS REPORT REINFORCES A SHIFT FROM AID EFFECTIVENESS—LOOKING AT SITUATIONS THAT MAXIMIZE THE VALUE OF AID—TO A PERSPECTIVE THAT PUTS DEVELOPMENT FIRST

Part 1

Understanding Development Effectiveness



Chapter 2

Development Effectiveness and Organizational Performance

ASSESSMENTS OF DEVELOPMENT EFFECTIVENESS NEED TO FOCUS ON DEVELOPMENT OUTCOMES AND GO BEYOND HOW EFFICIENTLY MONEY IS SPENT

The Millennium Development Goals are critical ends that every nation must attain in order to guarantee its citizens a life of security and dignity. In this context, the idea of development effectiveness assumes substantial significance.

Development effectiveness refers to a fundamental question about *how* to reach the Goals. It is about the factors and conditions that help improve people's lives. It is about processes that produce results, especially results that are pro-poor and promote equity. As a measure of development, it can contribute to the shaping of policies and programmes. It complements the analysis based on national statistics, which for some goals (poverty, education, health) tend not to vary much year to year. It explicitly recognizes that what matters is the reality for the individuals and communities. And it advances the proposition that development is effective only when it improves people's lives.

This chapter takes on the task of contributing to the understanding of development effectiveness, its conceptual underpinnings and its main determinants. This chapter also examines some conceptual issues involved when assessments are made of the contribution of agencies like UNDP to development effectiveness.

CONCEPTS RELATED TO DEVELOPMENT EFFECTIVENESS

Development effectiveness is closely linked to the concept of *human development,* articulated over the years by UNDP's *Human Development Reports.* The practice of human development and the pursuit of development effectiveness share a common motivation—enhancing people's capabilities, enlarging choices, expanding freedoms and promoting human rights for all citizens. To these ends, ensuring an equitable expansion of opportunities and improving the well-being of the poorest and the most disadvantaged in society become critical considerations for judging development effectiveness.

Most (or all) development strategies will change people's lives one way or another, so development partners need to identify the strategies that bring about positive and sustainable changes in people's lives. Development effectiveness is about the "how" of development, the factors and conditions that need to be considered to get to the Millennium Development Goals. Country circumstances vary, and policies and institutions may or may not be adequate. Yet even when resource allocations and political systems are similar, human development outcomes may well be very different in different countries. As many have pointed out, policies and development strategies are often country specific.[1] What works in one country may not easily work in other countries. Arguing against a "one size fits all" approach makes a case for more varied, more challenging, more flexible organizational strategies than those pursued in the past.

Clearly, then, assessing development effectiveness needs to go beyond how efficiently money is spent, to the development outcomes realized. A different set of questions becomes relevant. Have policies expanded people's capabilities—to lead a healthy and creative life, to be well nourished, to be secure, to be well informed and educated? Have development programmes improved the freedoms that people enjoy?

Have policy and programme interventions reduced the many inequalities?

With this broader perspective, assessing development effectiveness requires a dual focus—on generating growth and on meeting human development goals. It calls for closer attention to managing the structure and quality of growth—and to building in considerations of equity, participation and sustainability.

Understanding development effectiveness has been refined by the articulation of poverty as a denial of human rights (box 2.1). In the rights framework there are stakeholders in development. Each citizen is a duty-bearer with a set of responsibilities. Establishing accountability therefore has to become a central consideration for ensuring development effectiveness. It is not enough to find fault or pass the buck when some policy or programme fails. It is critical to understand why the intervention failed, who is responsible and what actions need to be taken collectively to meet the commitments. Only by identifying and establishing accountability for failures (or development ineffectiveness) can meaningful solutions be found. And a rights-based approach to development effectiveness brings out the importance not just of outcomes but also of the processes bringing these outcomes about. This calls for a close examination of ownership, participation and fair representation.

Development effectiveness is thus concerned with results—with ensuring that policies are pro-poor, gender sensitive and sustainable. The concern is with reaching excluded groups, with improving the design and implementation of development programmes, with both *means* and *ends*—with both the process and the results of development.

WHAT DETERMINES DEVELOPMENT EFFECTIVENESS: CAPACITY, OWNERSHIP, POLICIES

In most countries, it is common to find "successful" projects. But they do not always make a substantial difference for national development outcomes. Why? Because of the difficulty of scaling up success—a key concern of development effectiveness. There is much discussion of the importance of macro and micro linkages. Sound macroeconomic policies do contribute to economic stability and even growth, but by themselves do not guarantee that development interventions will be more efficient or sustainable.

One way of assessing development effectiveness is by understanding key factors that influence favourable changes. How individual development partners promote these changes becomes a measure of their contribution to development effectiveness.

DEVELOPMENT EFFECTIVENESS IS ABOUT THE "HOW" OF DEVELOPMENT

Box 2.1 Poverty and human rights

> *Everyone has the right to a standard of living adequate for the health and well being of himself and of his family, including food, clothing, housing, and medical care and necessary social services....*
>
> —*Universal Declaration of Human Rights*

Human poverty is a violation of human rights and a denial of basic entitlements—to education, health, nutrition and other constituents of decent living. Poverty reflects a systematic denial of many freedoms as well as the opportunity to participate in decision-making in political and social arenas. Rights-based approaches to development have thus steadily gained ground. The 2000 *Human Development Report* looked at how human rights approaches to development bring accountability and social justice to development. Several UN agencies, notably UNICEF, are pursuing rights-based approaches to development planning. The UN is preparing a human rights training for UN Country Teams linked to the Common Country Assessment/United Nations Development Assistance Framework. And the Netherlands, Norway and the United Kingdom have explicitly recognized the value of rights-based approaches in development programming.

Source: UNDP, 2003, "Poverty Reduction and Human Right: A Practice Note," June, New York.

There are at least three determinants fundamental to ensuring development effectiveness: capacity, ownership and policy environment

Drawing on the evaluation literature, development experience and the operational policies of UNDP, it is possible to identify at least three determinants fundamental to ensuring development effectiveness: capacity, ownership and policy environment.[2] These three may not be the only determinants that matter for development effectiveness. But for policymakers and development practitioners these three make up a critical set (figure 2.1).

Capacity

"Successful development ...must come from within the country itself, and to accomplish this, it must have institutions and leadership to catalyse, absorb, and manage the process of change, and the changed society."

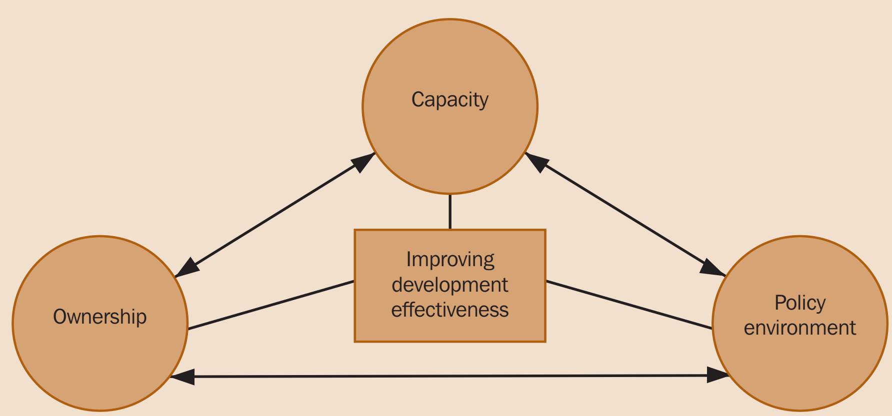
—Joseph E. Stiglitz (1998c)

The Development Effectiveness Report defines capacity as the ability of individuals, institutions and societies to identify their development needs, set objectives and solve problems to achieve their goals in a sustainable manner. This broad view of capacity differs from some of the narrower perceptions that have dominated evaluation. It goes beyond the quantity and quality of human resources available within a country, beyond the administrative, statistical and evaluation capacity, beyond the capacity for policy analysis or fund raising.

The distinguishing feature of this Report's definition of capacity is to link it to useful *ends:* to problem-solving and development outcomes. To understand development effectiveness, then, it is important to focus on both the *acquisition* of capacities and on their effective *application* to advance human development. Capacity development is one of the core aims of UNDP, and issues of national capacity need to be addressed at the levels of individuals, institutions and societies.[3]

Individual capacities. Having individuals contribute to policy formulation and programme implementation calls for more effective ways of enhancing the capabilities of all citizens, particularly the neglected and disadvantaged groups in society. Important in this is the effectiveness of the state's provision of a range of public goods and services. Many commentators have pointed to the early emphasis of the East Asian states on universal education.[4] Cross-country analysis suggests that low investment in female education has been a barrier to growth in South Asia, Sub-Saharan Africa, and the Arab States, but not in East Asia, where the gender gap was closed more quickly.[5] Better schools, easily accessible health services, nutritious food, clean drinking water, decent shelter and other basic social services all contribute directly to enhancing people's capabilities. Beyond physical provisioning, it is important to focus on the quality, reach and access of services in society.

Figure 2.1 Three determinants of development effectiveness



Source: UNDP Evaluation Office.

Capacity development also requires individuals to continually explore new ways of tapping the human potential. Only then can capable individuals realize their full potential and contribute meaningfully to human development.

Institutional capacities. Development effectiveness has much to do with the organizational and managerial capacities of various institutions—agencies of the state, enterprises in the private sector, nongovernmental and civil society organizations, media, academia and other social and political bodies—to address development concerns. Their quality is not just about appropriate capacities—it is about accountable capacities. There has been a greater development of equity markets in Poland than in the Czech Republic, thanks to stronger regulations in Poland reducing fraud and protecting the rights of minority shareholders.[6]

Administrative, judicial and other capacities have to be strengthened to plan, design and implement policies and programmes. The state has to sustain efficient markets, prevent (or redress) market failures, avoid (or compensate for) negative externalities and make the most of public goods, national and global.

Well-functioning markets require an elaborate institutional scaffolding. That includes legal, regulatory and political institutions that safeguard property rights and enforce contracts, ensure competition, stabilize macroeconomic fundamentals, provide social insurance (through safety nets) and ensure stable financial systems. For instance, hasty privatization in Russia, without institutional mechanisms to foster and sustain competitive markets, was a contributing factor in the prolonged downturn of the country's economy.[7]

The quality and strength of public institutions is critical to long-term development.[8] Indeed, some have argued that institutional quality and governance drive all other growth-enhancing factors.[9] Efficient, accountable and transparent public institutions need to coexist with effective institutions in the private sector and judiciary. As many have pointed out, the lack of transparency in financial institutions contributed to the vulnerability of the financial system in East Asia and its downturn in the late 1990s.[10]

But legal, political and regulatory institutions do more than regulate the functioning of economic markets. They also include rules, procedures and mechanisms of the state to serve other ends of social and political life. A well-organized public sector is vital to the delivery of basic services such as health, education and employment safeguards that are important determinants of individual capabilities and social capital.

CAPACITY CAN ALSO BE SEEN AS AN END IN ITSELF—NOT JUST AS AN INSTRUMENT FOR ACHIEVING DEVELOPMENT RESULTS

Societal capacities. In many ways development is a transformation of society that calls for major changes in mindsets.[11] While individual and institutional capacities are important, tapping these capacities has much to do with the social and cultural arrangements that dominate thinking in society. For instance, ensuring that all children, particularly all girls, go to school requires not just school buildings, teachers, teaching materials and financial support. What is also essential is a change in mindsets for society to recognize and respect the right of every child, boy and girl alike, to go to school. Only when society accepts such a practice as an indisputable right and a social norm can primary education genuinely become universal.

Societal capacity also refers to the ability of groups to engage in collective action to secure important goals, including development goals (box 2.2). Social networks improve the quality of life by generating vital information flows, engendering a sense of trust and strengthening norms of reciprocity between—and sometimes beyond—their constituents. Examples of such networks include trade unions bargaining over wages and benefits, farmers' movements seeking remunerative prices for agricultural outputs, women's organizations fighting for gender parity in the public sector, and neighborhood associations campaigning to improve security.

Societal capacities are not merely the summation of individual and institutional capacities. They go beyond the technical aspects of capacity and point to dimensions of social and cultural relations among members of society that promote—or hinder—human development. Conditioned by cultural practices and deep-rooted beliefs, these relationships reflect the collective mindsets and expectations of individuals. In many instances, the detrimental consequences of these practices are not even noticed by society. This is true of the discrimination against women and girls that often goes unrecognized—and even begins to appear legitimate.

Ignoring the nurturing of societal capacities in development can have profound consequences, particularly in crisis and post-conflict countries.[12] Preventing or overcoming conflict requires a clear understanding of its causes and the design of policies and programmes to strengthen societal capacities. Repairing institutions alone, without concomitantly developing societal capacities, is unlikely to be lasting. "Good" policies become insufficient if the government is not broadly based and constituent groups do not feel appropriately represented.

An obvious arena for the state to step in is in instances of discriminatory and exclusionary practices linked to race, gender and religion. Mindsets and trust, though seemingly vague and nebulous, can have a decisive impact on development prospects. Social mindsets are transformed through strong evidence-based public advocacy and sustained campaigning with the support of opinion makers in society.

Ownership

Why is progress in human development slow and uneven, even in countries with adequate capacities? Much of the explanation has to do with the second determinant of development effectiveness: ownership. Development policies and interventions promoting human development must be nationally owned. Ownership has to do with the degree of people's involvement in the policy formulation and implementation process. Only if people view a policy as their own will they act to ensure that it is implemented well.

Research and evaluation findings confirm that initiatives that have commanded a sense of ownership by beneficiaries and stakeholders have clearly performed better than those that did not.[13] Policy practices of UNDP recognize this need for domestic ownership through the National Execution of the administration of its projects and programmes.[14]

Achieving the Millennium Development Goals and accelerating human development are impossible without the active participation and engagement of the state and civil society. The state is primarily responsible for delivering on many of the goods and services needed to eliminate poverty. Government commitment is critical for promoting "national ownership". But *government ownership* by itself is insufficient. *National ownership* requires broad-based engagement and participation of civil society. In promoting such ownership, many considerations become significant for ensuring development effectiveness.

Strengthening stakeholder commitment. A strong sense of involvement and participation by stakeholders is fundamental to promoting

Achieving the Millennium Development Goals is impossible without the initiative and active participation of both the state and civil society

Box 2.2 Societal capacity in Bangladesh

Bangladesh's economic indicators are cause for concern and frustration. Poverty persists. But the country has achieved some impressive gains in social indicators, such as declining population growth and rising female literacy rates.

Why? In part because Bangladesh has one of the largest concentrations of nongovernmental organizations in South Asia. Its strong societal capacities go some way towards filling the void left by the state's inability to address the needs of the poor and marginal. Grassroots initiatives have created strong social networks, probably one of the reasons for the most *spatially-even* distributions of GDP in South Asia. Several microfinance initiatives targeting poor women have gone beyond "micro" in the number of beneficiaries covered. A notable example is the Grameen Bank, now the largest microcredit bank in the world.

The informal networks among poor women engender better information on public health and maternal and child health, leading to a higher quality of life despite low income.

Source: UNDP, 2003, *Bangladesh Country Case Study*, Evaluation Office, New York.

effective national ownership (box 2.3). In most cases, pro-poor policies are framed by the rich and well-to-do or by the politically more powerful groups in society. Will they have an interest in actively ensuring and promoting the success of pro-poor policies? The failure of many top-down interventions by state bureaucracies or funding agencies is unfortunately all too common.

Participatory development increases the possibility that projects and programmes will be relevant to their targeted recipients and sensitive to the context in which they are implemented. It generates consensus on the goals and strategies of human development, enables disadvantaged groups to monitor interventions and gives key stakeholders an incentive to contribute to the success and sustainability of initiatives. Participation, if properly managed, enables people typically treated as "objects" of development to become "agents" of development.

Of course, an extremely participatory process can produce few or no results. Nurturing the "process" should not become an end in itself. Tradeoffs and compromises in consensus building can dilute the effectiveness of the intervention.

Governments are under increasing pressure to include nongovernmental organizations (NGOs) in policy formulation. But a key challenge in promoting civil society engagement is to determine *who* can represent civil society interests and how to reach them. Many sensitive and hard issues of political economy come into play. It is common for the poorest and the marginalized groups to get left out of critical fora of public discussion.

Promoting meaningful decentralization. Decentralization can enhance participation by moving the centres of decision-making closer to stakeholders. Meaningful decentralization empowers people and communities. Defective decentralization could lead to a further strengthening of the local elite—dislodging, in the process, efforts to expand opportunities for the poor (box 2.4).

Devolution implies the transfer of authority and resources to lower levels of territorial units within the formal political structure. Deconcentration or administrative decentralization implies the relocation of duties of public officials—which remain accountable to the center—to lower territorial

ONLY IF PEOPLE VIEW A POLICY AS THEIR OWN WILL THEY ACT TO ENSURE THAT IT IS IMPLEMENTED WELL

Box 2.3 National ownership and the PRSP process

Broad-based participation facilitates transforming government ownership to national ownership. It involves participation by civil society in formulating development initiatives so that the views of the marginalized reach the decision-makers.

There is no general formula for determining whether a process is participatory. It depends on the history and circumstances of each country. For evaluative purposes, it is necessary to identify progress, not just the form or extent of participation at a moment in time.

According to the UNDP evaluation of the PRSP process, each country had a different starting point in the PRSP process. As a result, what constitutes genuine progress in one country might appear to be quite limited progress in another.

In Azerbaijan there was less participation than in countries with a tradition of formal democratic institutions, but it was a considerable advance over the previous situation. Participation was limited in the Interim PRSP, but it broadened substantially for the full PRSP process. Civil society groups enjoyed unprecedented involvement, though the nascent private sector's role was slight.

In Vietnam the initial process of consultation with stakeholders gradually led to further participation. In the absence of nongovernmental organizations and in view of the elaborate political structure that characterizes the system in Vietnam, the consultation process directly reached the rural communities, including the poor, and this was the country's first significant independent consultation process. It thus represented substantial progress.

Source: UNDP, 2003, *Evaluation of UNDP's Role in the PRSP Process*, Evaluation Office, New York.

levels within public administrative structures without a concomitant transfer of authority or resources. Fiscal decentralization involves the decision of the center to cede influence and command over financial decisions and resources to lower territorial levels.

For the most part, effective decentralization calls for genuine political devolution combined with fiscal decentralization. As the joint UNDP–Government of Germany evaluation on decentralization points out, effective decentralization also requires the absence of serious social fragmentation, the presence of coherent political authority, adequate financial resources and the requisite administrative capacity to implement.[15]

Ensuring accountability. Fundamental to promoting national ownership is accountability based on a common understanding of shared responsibilities. The involvement of many stakeholders brings with it the inherent danger of diluting responsibilities and accountabilities. There have also been several instances where decentralization has meant the virtual abdication of responsibilities by the federal or central government. This imposes severe burdens on local governments and communities, with adverse consequences. Effective participation thus requires carefully articulating a well-defined role for each stakeholder and putting in place a system of monitoring and evaluation.

Traditionally, proponents of accountability have championed horizontal lines of accountability, with the separation of formal powers of the state and checks and balances between them, and vertical lines of accountability, with the sanction of the ballot, for instance. But all formal accountability mechanisms must ensure continual vigilance about two forms of failure: capture (when public office is used for private gain or undue influence) and bias (when institutions either lack will or suffer from built-in mechanisms that prejudice outcomes).

POLICY ENVIRONMENTS CAN CREATE THE INCENTIVES NEEDED TO DRIVE DEVELOPMENT

Policy environment

Strong capacity and a high sense of ownership still may not yield results. The third crucial

Box 2.4 Decentralization in Mali and Uganda

Decentralization can enhance stakeholder ownership. Transferring authority and responsibility to lower territorial or functional units generally enables decision-makers to overcome the physical distance and social gap between overcentralized states and marginalized and disadvantaged groups. But without the necessary capacity at all levels and without the political will, decentralization may achieve less than it set out to, as the joint UNDP and Government of Germany evaluative study of decentralization and local government observed.

Decentralization has been not very successful in Mali. The process there has been more akin to deconcentration than decentralization—there was relocation of public officials and duties to lower territorial levels without a concomitant transfer of authority or resources. The administrative capacity at the local level is not sufficiently developed to cope with the requirements of decentralization. Recruiting secretaries-general for the communes, for example, is proving to be a bottleneck. Low levels of training and limited social cohesion of new municipalities have resulted in weak local development plans and weak implementation of decentralized state services. There have also been problems resulting from resistance by certain ministries and other state structures in ceding power, and there has been limited integration of civil society into the process.

A legitimacy crisis in the mid-1980s in Uganda created a divide between the government and the population at large, preventing effective administration of development initiatives. Decentralization policies were seen as a means to address the problem and move part of the decision-making and administering away from the center. UNDP assisted with implementing decentralization by partnering not only with the states but also with civil society and the private sector. The level of institutional capacity was enhanced to allow decentralization to translate to broader ownership of development initiatives.

Source: UNDP and Germany Federal Ministry for Economic Cooperation and Development, 2000, *The UNDP Role in* determinant needed to make it all happen is a conducive policy environment and what might be perceived as "good" policies.

A favourable policy environment is critical for promoting development effectiveness. More than anything, such a policy environment provides the context for capacity and ownership to interact to yield results. Indeed, the role of policies in influencing developing countries to absorb "new ideas, norms and techniques" is well documented.[16] Policy environments create much needed incentive systems and provide frameworks for development that can facilitate economic production and distribution, improve access to markets and resources and enhance people's capabilities. As China and Vietnam show, a policy environment encouraging well-designed reforms that suit the country development context can lead to significant strides in the fight against poverty.[17]

It is increasingly difficult to sustain the view that a single path to development exists for every country. Debates in certain policy arenas persist about the roles of trade integration, foreign direct investment and privatization. Discovering the right set of policies is context-specific, influenced by history, geography and culture, among other things (box 2.5). There is no one-size-fits-all *policy set.*

Economic decisions on whether to invest, for instance, are influenced as much by the efficacy of the legal system, the stability of social and cultural environments and the quality of the political environment in a country as by macroeconomic conditions. Also affecting development effectiveness in any country is the external environment (chapter 5).

With growing international integration many countries find that their development path and fortunes are closely tied to what happens in other countries. For a small country like the Maldives, reliant on tourism and fish exports, economic prosperity depends heavily on the smooth flow of international trade and foreign tourists. War and terrorism in any part of the world affect the economic fortunes of other countries. External events are difficult to control, and their impact is difficult to avoid.

At a broad conceptual level a good policy set is one that capitalizes on the synergies among policy interventions in different sectors. The education and health sectors are a good case in point. For instance, providing primary education to girls leads to substantial reduction in infant mortality, as seen from the experience of Japan in the early 20th century. And investments in primary education reduce family size, enhancing the nutritional status of mothers and children.[18]

IT IS INCREASINGLY DIFFICULT TO SUSTAIN THE VIEW THAT A SINGLE PATH TO DEVELOPMENT EXISTS FOR EVERY COUNTRY— THERE IS NO ONE-SIZE-FITS-ALL POLICY SET

Box 2.5 "Good" policies: Context matters

Vietnam is a low-income country with a GDP per capita of $1,998 (in purchasing power parity terms) in 2000. Nearly a third of its 78 million inhabitants live in poverty. Over the last decade poverty was halved and literacy rates were increased from 80% to 90%. Growth averaged 7.6% a year over the last decade.

A contributing factor to these achievements was that Vietnam introduced context-specific policies that recognized the needs of the country at a particular time.

A key to the significant poverty reduction during the past decade was the government's policy focus on agriculture. For instance, the Doi Moi reform introduced in the mid-1980s gave farmers the freedom to cultivate the crops of their choice and to set up nonfarm enterprises. This reform undid the prior restrictions on land use rights and led to substantial increases in agricultural outputs and faster growth in industries associated with agriculture, reducing poverty at a rapid pace.

The current Social Economic Development Strategy II (covering 2001–10) recognizes new priorities and the country's need to diversify the economy and enhance exports. Its primary focus is fostering manufacturing in small and medium-size enterprises. The Enterprise Law of 1999 removed restrictions on securing licenses for small and medium-size enterprises, paving the way for 60,000 new businesses to register, with total investment of more than $5.3 billion.

Source: UNDP, 2003, *Assessment of Development Results: Nigeria 2003*, Evaluation Office, New York.

These determinants of development effectiveness could be tracked with a set of indicators. A comprehensive set of indicators of development effectiveness is beyond the scope of this Report, but annex 4 presents a selected set.

ALIGNING A COUNTRY'S CAPACITY, OWNERSHIP AND POLICY ENVIRONMENT HOLDS THE KEY TO SUSTAINABLE DEVELOPMENT

PROMOTING SYNERGIES

In understanding development effectiveness, it is important to focus on the synergies among capacity, ownership and the policy environment, which typically explain degrees of development effectiveness.

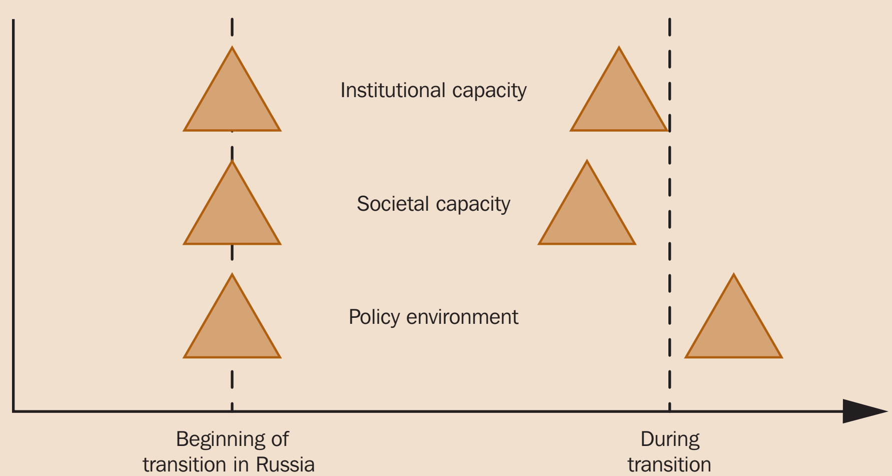
Capacities at all three levels—individual, institutional and societal—are closely interdependent, each shaping the others as much as others influence it. Only when all three are pursued in concert can the outcomes of development interventions be most effective. For example, a strong state can easily subvert the growth of NGOs and violate human rights. There are several instances of communities being forcibly evicted to execute a government project without fair compensation or even proper notification. The project may have been "successfully" implemented from a narrow perspective of inputs and deadlines, but the outcomes certainly are not satisfactory. Government capacity may well require civil society capacity. Indeed, enhancing all three capacities is a way of strengthening the role and contribution of each of them in attaining the Millennium Development Goals.

Development agencies can have surprisingly large influence, positive or otherwise, on development outcomes. Consider Russia and its well-known collapse of income, huge rise in inequality and shortened life spans. Dramatic new policies were introduced (with support from the international community) without sufficiently thinking through the implications for the new institutional capacities needed—and even more fundamentally, without understanding the implications of the new social norms and networks needed to make the policies work. In short, changes in policy environment were not followed by changes in the institutional or societal capacity necessary for successful implementation of the policies (figure 2.2). Experts and agencies charged with assisting in the transition saw a conventional problem of weak markets and democratic institutions requiring standard solutions in the form of more financial and human resources—that is, more loans and technical cooperation.[19]

DEVELOPMENT EFFECTIVENESS AND AGENCY PERFORMANCE

At the institutional level Results-Based Management in many aid agencies reflects a growing concern with seeing visible improvements, especially in the lives of people. Though very much still a work in progress, its influence in UNDP has been significant. It has focused attention on results and on partnerships. It has

Figure 2.2 Alignment of factors and conditions for development effectiveness



Source: UNDP Evaluation Office.

underscored the notion that "good" projects do not necessarily approximate good development. (Chapters 4 and 5 examine these issues in more detail.)

Two different but connected sets of questions can be asked to assess the performance of agencies:

- Are they doing things right?
- Are they doing the right things?

The first question addresses organizational effectiveness, which typically relates to what has worked and why regarding an agency's ability to attain its immediate objectives. Rating systems try to rank the performance of overall projects and programmes and assess whether different organizational units are doing better than others and why (annex 1).

All well and useful, but a problem arises when it is accepted that agencies on their own cannot "produce" development. In addition, as mentioned earlier, successes at the programme level may not translate into development results. This calls for a search for different strategies to "influence" development, which is fundamentally the purview of national leaders, institutions and policies.

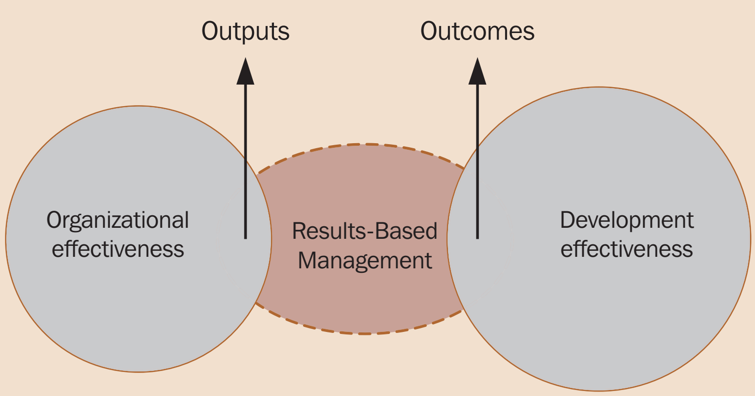
The second question addresses how and what should be done to make the interventions count. To identify whether a development agency is doing the right things, its interventions need to be assessed at a broader level—on the basis of its contribution to a country's overall development results. So, a different type of information is sought. For instance, is UNDP choosing its interventions strategically and utilizing its comparative advantages to the fullest to contribute to these development results? A difficult question, and it could be argued that there are strong methodological constraints in responding to it. But such questions are necessary, especially with the growing focus on results.

The answers to both these questions together provide the information necessary for assessing the overall performance of agencies. Both outputs and outcomes are prominently reflected in the results-based management system, relevant in the context of the consensus and growing commitment to achieve countrywide development goals, such as the Millennium Development Goals. Agencies are interested in linking their interventions to countrywide development results (figure 2.3).

In many situations, it may be necessary to consider development results at subnational levels, where establishing credible connections between agency interventions and outcomes is more feasible. Unlike project outputs, which are largely self-contained and involve a relatively limited and identifiable range of actors, country outcomes involve a wide network of actors and cause and effect relationships that are difficult to observe and validate. Thus for many development organizations whose interventions are relatively small in relation to the country's development outlay, it is difficult to

TO ASSESS THE PERFORMANCE OF AGENCIES TWO CRITICAL QUESTIONS NEED TO BE ASKED: ARE THEY DOING THINGS RIGHT? ARE THEY DOING THE RIGHT THINGS?

Figure 2.3 Results-Based Management and organizational and development effectiveness



Source: UNDP Evaluation Office.

determine a specific agency's effect on national development results (box 2.6).

Country performance has traditionally been evaluated in terms of the effectiveness of aid in bringing about development outcomes, particularly growth.[20] Many attempts have been made to link the potential effectiveness of aid to specified countrywide development conditions. For example, the World Bank's Country Policy and Institutional Assessment looks at an inclusive policy set as well as at a country's institutions. Current research has focused on the need to incorporate other factors, such as trade shocks and conflict. But as discussed in detail in chapter 5, a few problems with these approaches persist, both conceptual and empirical. Many of these analyses look at performance as a single development outcome—most often, growth—ignoring the multidimensional nature of development. This tendency now needs to be overcome, given the emphasis on the Millennium Development Goals.[21] This is a significant analytical and methodological challenge for all development agencies.

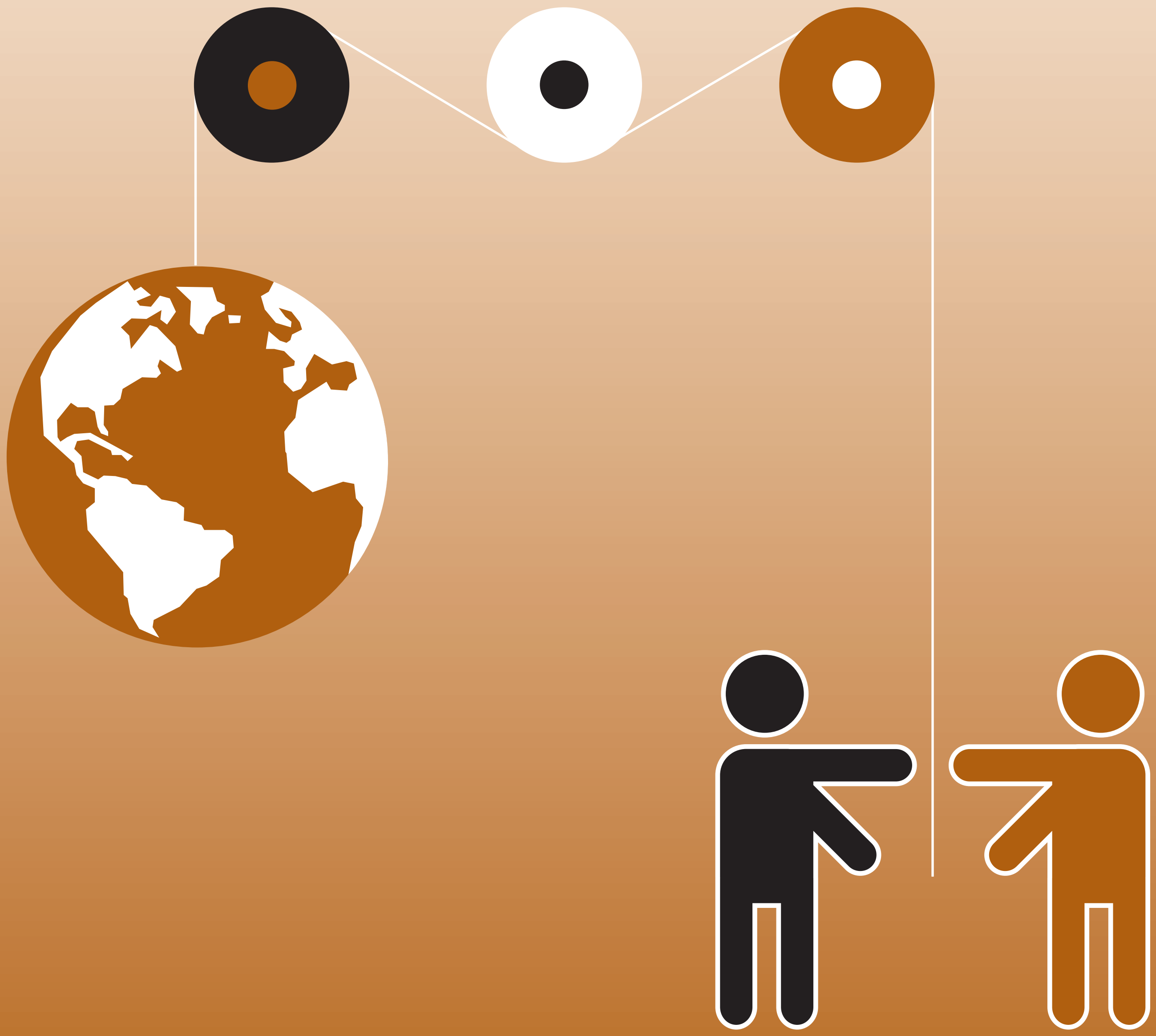
Box 2.6 Attribution and contribution

When assessing performance based on outcomes, there is a tendency to focus on the attribution of results to an organization rather than on the organization's contribution to those results. Attribution is the extent to which a result is caused by an intervention and attempts to provide a measurable link between an outcome and related interventions of agencies. Organizational contribution to outcomes is about judging the credibility of linkages between interventions and results. But attempting to attribute outcomes to specific interventions is a misplaced priority since what ultimately matters is what an individual agency is contributing and how its support is being organized in collaboration with other partners. The better defined the results, the better monitored the progress and the better designed the UNDP interventions, the clearer this linkage will be.

Source: Based on John Mayne, 1999, "Addressing Attribution through Contribution Analysis: Using Performance Measures Sensibly," Canada, Office of the Auditor General, Ottawa.

Part 2

UNDP and Development Effectiveness



Chapter 3

An Overview of UNDP Performance

UNDP HAS SEEN A CONSISTENT IMPROVEMENT IN DELIVERING GOOD PROJECT RESULTS

UNDP has seen a consistent improvement in organizational performance in delivering good projects when performance is assessed in relation to their efficacy, relevance and sustainability. These results provide valuable lessons for good practices and encourage organizational accountability. Such analysis allows UNDP to *do things right* and to strengthen operational accountability. Probably more relevant is to see whether UNDP is also *doing the right things* in line with its comparative strengths as the UN's premier development agency, and the influence it can exercise in contributing to the development progress of its partner countries. To assess corporate performance and reach a reliable judgement about the relevance of UNDP activities on a higher plane, strategic evaluations need to be performed.

Development is fundamentally about partnerships. UNDP's move to results-based management in 1998 brought this out clearly. Emphasis on results, and specifically on outcomes, has reinforced the importance of partnerships and the value of "softer" dimensions of assistance, such as coordination, policy dialogue and advocacy. Achieving the Millennium Development Goals most of all requires active coalitions of donors and stakeholders in partner countries.

Without detracting from the importance of individual agency accountability and contribution—a concern that rightly preoccupies taxpayers and their representatives—this emphasis on outcomes and broader development change raises notions of shared accountability and investing in partnerships. Indeed, this is very much the rationale underlying the Millennium Development Goals. In looking at UNDP performance, it is therefore necessary to assess both how well UNDP projects and programmes are doing on their own and to take on a broader perspective to evaluate UNDP's performance in helping countries achieve better development outcomes and the Millennium Development Goals.

This chapter draws on evidence from 1,016 programme and project evaluations, UNDP Essentials,[1] the Results-Oriented Annual Reports, the Report on the Multi-Year Funding Framework, country case studies prepared by the Evaluation Office and thematic, strategic and country evaluations.[2]

IS UNDP DOING BETTER?

To evaluate trends in UNDP organizational performance, this Development Effectiveness Report compares the results from the 622 projects evaluated in 1992–98 with the 394 evaluated in 1999–2002.[3] The sample of evaluated interventions is sufficiently large in relation to the total number of UNDP initiatives to minimize selection bias. The source of quantitative data on project and programme relevance, performance and intermediate level outcomes is the Project Evaluation Information Sheet, a standard attachment to all project and programme evaluations.[4]

By looking at the achievement of projects and programmes in terms of such measures as their design, efficiency and attainment of objectives, these evaluations help assess whether UNDP is *doing things right.* In addition, performance measures addressing the sustainability of projects and programmes as well as the impact of given projects on target groups provide useful approximations of outcomes.[5] The Monitoring and Evaluation framework, introduced in 2001/02, should provide more relevant information on outcomes and UNDP's contribution to them (box 3.1). Subsequent Development Effectiveness Reports should be able to analyze UNDP's influence on outcomes, more fully, thereby providing independent verification of the conclusions in the Results-Oriented Annual Reports and the recent Report on the Multi-Year Funding Framework.[6]

EFFECTIVENESS

The project effectiveness measure, a key feature of accountability, typically evaluates the extent to which projects or programmes have met their goals. Of the evaluations received in 1999–2002, 84% report "effective" and "partially effective" results, up from 56% in 1992–98 (figure 3.1). Inferences on trend improvement should be made with caution because results were not reported in 35% of the evaluations submitted in 1992–98. (A detailed analysis of the relevance and performance of UNDP projects is presented in annex 1, which also examines UNDP project and programme performance by practice areas and regions.)

SUSTAINABILITY

Sustainability is the ability of domestic actors to continue with a project's operations well after UNDP funding ends. It implies local learning, capacity development and domestic ownership. A critical ingredient in ensuring that UNDP's projects and programmes produce changes that are developmentally effective, sustainability has improved on all fronts. The proportion of sustainable or partially sustainable projects rose from 74% in 1992–98 to 87% in 1999–2002, while the proportion of projects that are not sustainable fell from 22% in 1992–98 to 11% in 1999–2002 (figure 3.2).

Yet there are lingering concerns. Of the project evaluations submitted in 2003, 11% of the projects were not sustainable and an additional 26% were partially sustainable. Many of the factors affecting project sustainability may be beyond the control or influence of the organization—such as changes in the political climate, changes in country priorities

Box 3.1 Results-Based Management and UNDP's evaluation system

The rationale for UNDP's focus on results lies not just in the mechanics of producing good "deliverables" but also in ensuring that these catalyze higher level, sustainable changes in development conditions.

To support the strategic shift towards results—and to tell whether, how and why the organization is getting there—UNDP has overhauled its monitoring and evaluation framework, setting up a three-tiered accountability and learning system: at the programme level, outcome evaluations; at the country level, a select number of country evaluations or Assessments of Development Results; and at the global level, the Development Effectiveness Report.

Outcome evaluations typically look at whether change has occurred in the outcome indicators, what factors impede or facilitate that change and what UNDP's contribution, in partnership with others, has been to these changes in outcomes. They emphasize real-time information and knowledge. Assessments of Development Results, designed to provide both quality assurance and organizational learning, look at UNDP's value added, relevance, strategic positioning and overall impact at the country level. The Development Effectiveness Report, introduced three years ago, tries to situate UNDP's performance in the context of overall development progress. Drawing from available evaluative evidence, it tries to frame the key debates and challenges of development effectiveness and organizational change.

The system includes an evaluation plan and tracking system, which monitors when evaluations are carried out and what country offices and programme units do with evaluation findings and recommendations. It provides a platform for the organization to learn from the other units conducting similar evaluations.

Source: UNDP, 2002, *Handbook on Monitoring and Evaluating for Results*, Evaluation Office, New York; UNDP, 2003, "Annual Report of the Administrator on Evaluation," Presented to the Executive Board of UNDP and the United Nations Population Fund Second Regular Session, New York, September 8–12.

and external shocks. But sustainability is also linked to UNDP's organizational practices—such as greater selectivity to reflect domestic priorities to enhance national ownership.

Impact

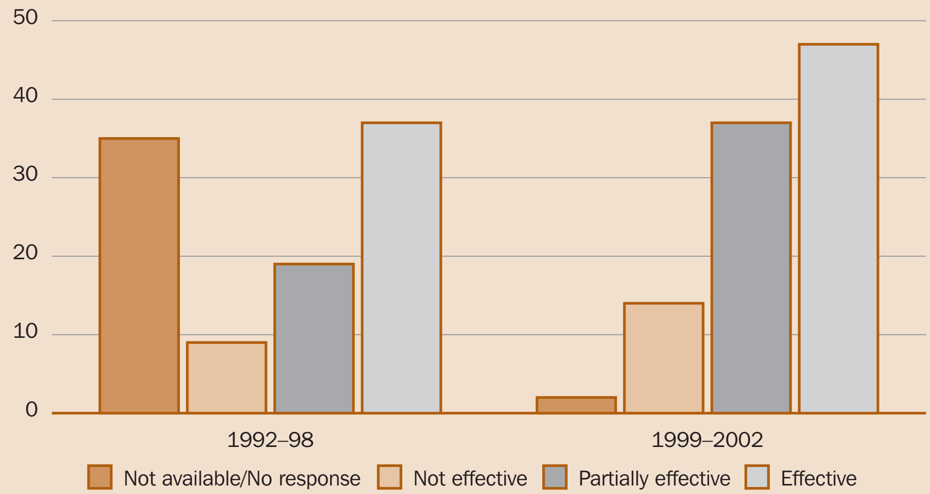
The impact criterion examines whether target groups benefited from project outputs, whether the project improved the status of women and gender relations and whether it had a positive effect on the natural environment, fitting the aims of sustainable development. Overall, more projects in 1998–2002 show a positive impact on target groups, gender and the environment.

For instance, there has been a striking rise in the proportion of projects that have a positive impact on target groups—from 70% in 1992–98 to 93% in 1999–2002 (figure 3.3). The positive trend signaled by this 23-percentage point improvement is a robust finding, even considering that 19% of the answers in the evaluation for 1992–98 were "not available/no response."

THERE HAS BEEN A STRIKING RISE IN THE PROPORTION OF PROJECTS THAT HAVE A POSITIVE IMPACT ON TARGET GROUPS

Figure 3.1 Project effectiveness

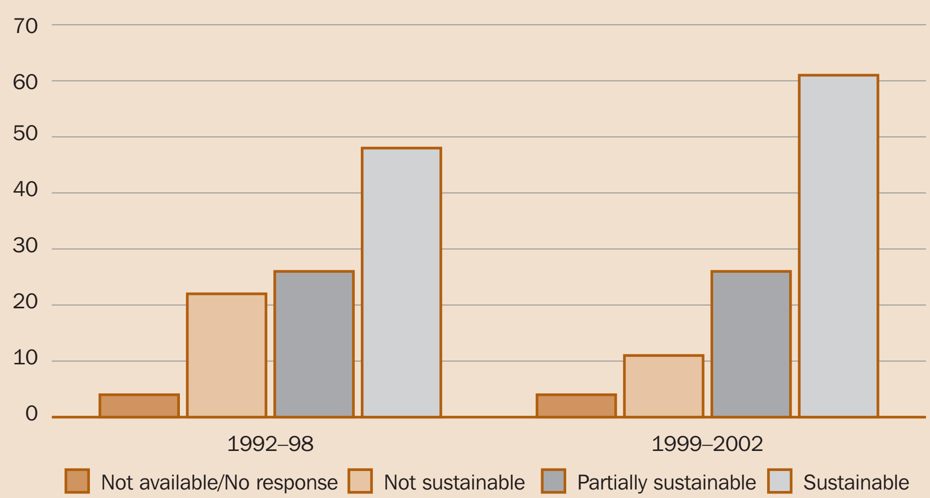
Share of projects, by evaluation year (%)



Source: UNDP Evaluation Office.

Figure 3.2 Project sustainability

Share of projects, by evaluation year (%)



Source: UNDP Evaluation Office.

What do these results mean?

As good as UNDP's performance has been over the past years, improvements in performance have been observed in other aid organizations as well. Consider the performance based on the sustainability measure: 87% of UNDP projects evaluated between 1999 and 2003 were partially or fully sustainable, compared with 74% of projects evaluated between 1992 and 1998. Though the methods are not entirely comparable, the World Bank projects that rated sustainability as likely or better rose from around 45% in 1990 to 82% in 2001.[7] And 85% of the U.K. Department for International Development's, projects received a positive sustainability rating for 1994–99.[8]

These results, though important, are at best partial measures in assessing organizational performance. Success at the project or downstream level may not always translate into sustainable development at the country or sector level. Specific conditions, such as supportive policy frameworks, may be required to ensure the success of specific interventions. So there is a need to identify challenges associated with "scaling up". Micro-level interventions may be community projects, advocacy efforts or pilot exercises. A key challenge for an aid agency is to link them to intended macro-level changes (at the sector, province or country level), and to know what other factors and partnerships are required to make them happen.

Focus on outcomes

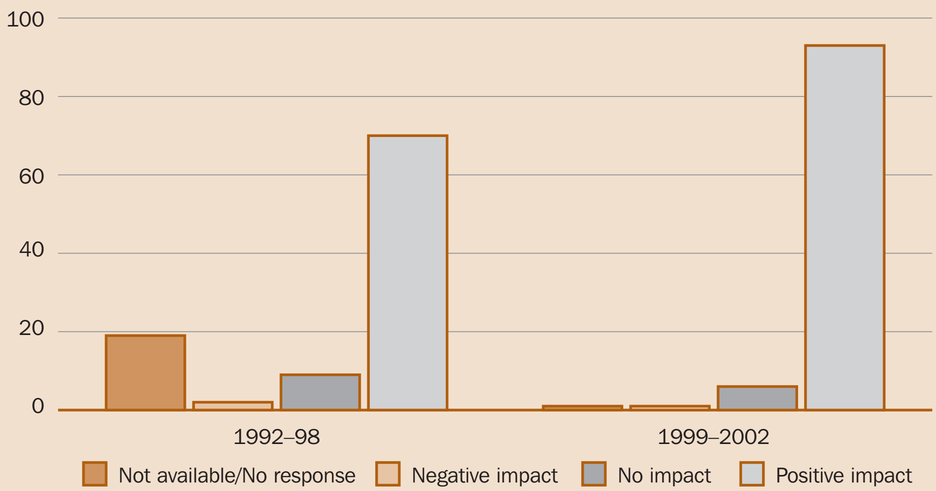
The emphasis on Results-Based Management and the reforms outlined in the Administrator's Business Plans have reinforced UNDP's focus on results. In some ways the emphasis on outcomes has been a decisive shift, with profound implications for the way UNDP does business. Annual reports such as the Results-Oriented Annual Reports, and the Report on the Multi-Year Funding Framework now allow for comprehensive analysis of what works and why, laying the basis for UNDP to make course corrections and change organizational strategies to improve its effectiveness.

Internal studies indicate that these reforms have led UNDP to take a more strategic approach to partnerships, formed around specific outcomes and the need for better country performance.[9] The approach reinforces the value of soft interventions, such as advocacy and coordination, now seen as essential to ensuring development effectiveness. It has led to a rethinking of what projects represent, since what matters is not the number of school buildings put up but the number of children who have access to quality education. This focus on results has encouraged debates on alternative

Success at the project level may not always translate into sustained development at the country level

Figure 3.3 Project impact on target groups

Share of projects, by evaluation year (%)



Source: UNDP Evaluation Office.

strategies and methods, highlighting the need for UNDP to be present at both the policy and downstream implementation levels.

This focus on results by UNDP and others in the aid community should lead to calls for flexible aid approaches, such as providing budget support, harmonizing aid methods, and financing recurrent costs, in order to deliver results. This Development Effectiveness Report is about the search for results and the conditions required to make development effective and sustainable. At this stage there are no independent studies assessing the impact on UNDP of reforms like Results-Based Management. But there have been reviews by the OECD–DAC and others of Results-Based Management experiences of selected bilateral and multilateral agencies. A 2003 Department for International Development study, while cautioning that Results-Based Management remains a work in progress in UNDP and other agencies, noted "thinking about development in terms of outcomes and impacts, rather than inputs, activities and outputs, is a powerful idea that has major implications for how multilateral development institutions operate".

Although a focus on results is important for ensuring that the organization does things right, it is also essential that UNDP is strategically positioned—to do the right things by focusing on the critical challenges of the day (box 3.2).

Maximizing impact—the micro-macro dilemma

At the organizational level UNDP appears to have been making progress in linking the micro to the macro. Although no independent evaluative evidence is available, the Results-Oriented Annual Reports go some

Box 3.2 Identifying challenges and interventions

An estimated 42 million people are living with HIV/AIDS, and a further 25 million have already died from the disease. HIV/AIDS is the leading cause of death in Sub-Saharan Africa, accounting for a quarter of all deaths. The number of infected people is predicted to double in the next decade.

Attaining the Millennium Development Goals is contingent on an appropriate response to the HIV/AIDS epidemic. For instance, UNDP estimates that in Burkina Faso, Rwanda and Uganda, the proportion of people living in absolute poverty, far from being cut in half as called for by the Millennium Development Goals, will increase from 45% today to 51% in 2015 as a result of HIV/AIDS.

Recently, recognizing the many different impacts of the disease on people's lives, UNDP has also developed a complex and multifaceted response that offers various types of services to developing countries. However, despite the devastating impact of the disease and the intricate connection of the disease to poverty and the other Millennium Development Goals, UNDP's appropriate response has been very late in coming. It was only in 2000 that UNDP made HIV/AIDS one of its top organizational priorities. As recently as 1999 only 32 countries were receiving UNDP support to tackle the epidemic, despite the universality of the disease.

Identifying the appropriate challenges and "doing the right things" are especially important for HIV/AIDS, given the devastating impact that the disease is also expected to have in Asia and the Commonwealth of Independent States over the next 20 years. It is estimated that by 2025 113 million people in India will be infected with HIV, losing 13 years in life expectancy; about 70 million will be infected in China, losing 8 years in life expectancy; and about 13 million people will be infected in Russia, losing 16 years in life expectancy. This all points to an urgent need for the UNDP to increase its advocacy for placing HIV/AIDS at the centre of the international development agenda and to ready itself to confront a problem of increasing intensity.

Source: UNDP, 2002, "HIV/AIDS and Poverty Reduction Strategies," August Policy Note, New York; UNDP, 2003, *Human Development Report 2003: Millennium Development Goals: A Compact Among Nations to End Human Poverty,* New York: Oxford University Press, table 2.4.

way towards substantiating this claim. The 1999 Results-Oriented Annual Report noted that most of UNDP's support for poverty reduction was focused downstream, not combined with upstream changes at the policymaking level. By 2001 this picture was much improved. Almost half the results on poverty monitoring were linked to efforts promoting policy change or informing policy formulation (up from a quarter in 1999). Similarly, the Report on the Multi-Year Funding Framework concludes that UNDP support to poverty reduction shows a decline in scattered local antipoverty projects.[10]

Yet the limits are evident. Scaling up may not be "scale-neutral". The nature of the problem, when considered at a larger scale, may change, presenting new and different challenges.

Consider community mobilization programmes, such as the South Asia Poverty Alleviation Programme. Among other things, it encourages direct stakeholder participation to strengthen local ownership and capacity to enable self-sustaining local development. These community-level programmes have attracted national attention in Nepal. But direct participatory mechanisms critical for the success of programmes in a community cannot easily be scaled up to the macro level of a large country—for obvious logistical reasons. The scaling up could well shift the mode of popular involvement from direct participation to representation—and that requires a different institutional capacity. In large countries such as India or Pakistan the wide sociopolitical divergences between states and provinces are crucial obstacles to scaling up. For instance, the political economy of Andhra Pradesh is not comparable to that in Bihar any more than the dynamics of Sind province can be compared with the Northern Areas of Pakistan.[11]

The same is true in microfinance, an area where aid agencies have invested substantially over the years. There are few examples of micro successes that have been scaled up effectively to improve access to credit for large numbers of the poor. The successes of the Bangladesh Rural Advancement Committee and Grameen Bank (in Bangladesh) notwithstanding, it could be argued that different instruments and mechanisms may well be needed to make this happen, such as restructuring capital markets to make lending to the poor attractive. Similarly, in Nepal the accumulation of savings could be scaled up to some extent. But productive investment opportunities could not be scaled up because they were constrained by geography (mountainous regions) and limits on the availability of infrastructure and resources.[12]

PRO-POOR DEVELOPMENT AND EQUITY

An important filter to be applied in judging the overall performance of UNDP is assessing its contribution to poverty reduction and equity. Poverty reduction, with 26% of programme expenditures, is the second largest focus area of UNDP activities. All countries where UNDP operates are working towards poverty reduction, but only 48 support pro-poor policy reform as a primary focus.[13] UNDP supports 43 of the 76 countries involved in PRSPs. But not all PRSPs supported by the UNDP have clear links between growth strategies and poverty reduction, according to the UNDP evaluation.[14]

As chapter 2 outlines, human development combines two dimensions. One refers to the *direct enhancement* of human capabilities, such as a long and healthy life, being knowledgeable and having a decent standard of living. The other refers to the *contextual dimensions,* such as social and political participation and human security. This makes it necessary to look at the achievement of outcomes not only in increased incomes but also in improved equity, for the poor and in gender relations.

In this context it makes sense to assess the level and manner of UNDP influence on pro-poor development. This influence cannot be reduced to counting the number of poor people directly affected by UNDP operations. After all, a poverty headcount is an output measure that cannot capture the changes in development outcomes. Instead, the relevant questions are whether pro-poor dimensions are being encouraged

JUDGING THE OVERALL PERFORMANCE OF UNDP REQUIRES ASSESSING ITS CONTRIBUTION TO PRO-POOR DEVELOPMENT

by the organization and in what ways human development-friendly policies and approaches are taking hold in partner countries.

More complete analysis and understanding of UNDP's value as an aid agency thus requires a broader canvas that measures not only the areas it is involved in and why—but also the strategies it employs (and their success) in influencing change in partner countries. This is taken up in the next chapter.

Chapter 4
Towards a Broader Perspective

Aggregate data on the trends in UNDP project and programme performance provide an overall frame of reference. Assessing development influence and equity—who benefits and how from UNDP operations—requires a mix of evaluation strategies. A first approach is to look at the UNDP project and programme portfolio using quantitative data (building on OECD–DAC criteria) and related evaluations, specifically in terms of the three drivers outlined in chapter 2—capacity, ownership and policy environment. This provides deeper insights into how UNDP has contributed to development effectiveness. A second, complementary approach is to see whether micro projects are linked to broader policy matters and to assess how well the organization addresses pro-poor development and equity.

Assessing an agency with such a broad mandate is a challenge. To make this task doable, a more selective approach—looking at key aspects of UNDP's performance—is adopted in this Development Effectiveness Report. Four key elements are highlighted this year:

- Deepening national ownership.
- Creating and reinforcing strong institutions.
- Promoting pro-poor policy frameworks.
- Leveraging partnerships.

Given the importance of the Millennium Development Goals (MDGs), this chapter also looks at UNDP's role—and the challenges as UNDP and other agencies scale up efforts to help partner countries deliver on the goals, with particular reference to the MDG national reports.

Deepening national ownership

The importance of ownership is borne out by evaluation evidence. A closer look at the 220 project and programme evaluations submitted to the UNDP during 2001–02 indicates that government *ownership*[1] is necessary for the success of development initiatives. Of the projects that reported "very good" (government) ownership, 96% were sustainable or partially sustainable and none was unsustainable (figure 4.1). In contrast, none of the projects that had "poor" ownership was sustainable.

Government ownership may be critical for the success of development initiatives, but as chapter 2 points out, *government ownership* must be distinguished from *national ownership*. Government ownership does not require that civil society be consulted. Yet, the interests of the weak and marginal are not always represented in the councils of government. *National ownership*, by contrast, gives all stakeholders the opportunity to shape their lives and development choices. Accordingly, under national ownership both the government and other stakeholders, such as nongovernmental organizations (NGOs) and the private sector, collectively own the development processes. For instance, in the context of formulating development policies, as the PRSP evaluation notes, national ownership of the policy results when a consensus or agreement has been reached between the government and civil society.[2]

UNDP is committed to enhancing national ownership in two main ways. First, on the design and implementation side, 95% of UNDP projects are implemented

Evaluations confirm that (government) ownership is essential to the success of development initiatives

In supporting the PRSPs, UNDP could do more in fostering national debates over pro-poor development strategies and the causes of poverty

through National Execution.[3] Directed mainly towards strengthening government ownership, this approach also incorporates NGOs and other stakeholders. But as noted in the evaluation of National Execution projects, this is not always the case (box 4.1). Second, there is broader support on national ownership through UNDP's governance activities, which represented about 42% of total expenditures in 2002.[4] Relevant governance areas include decentralization of local governance, parliamentary development, broader access to justice, e-governance and multistakeholder dialogues.

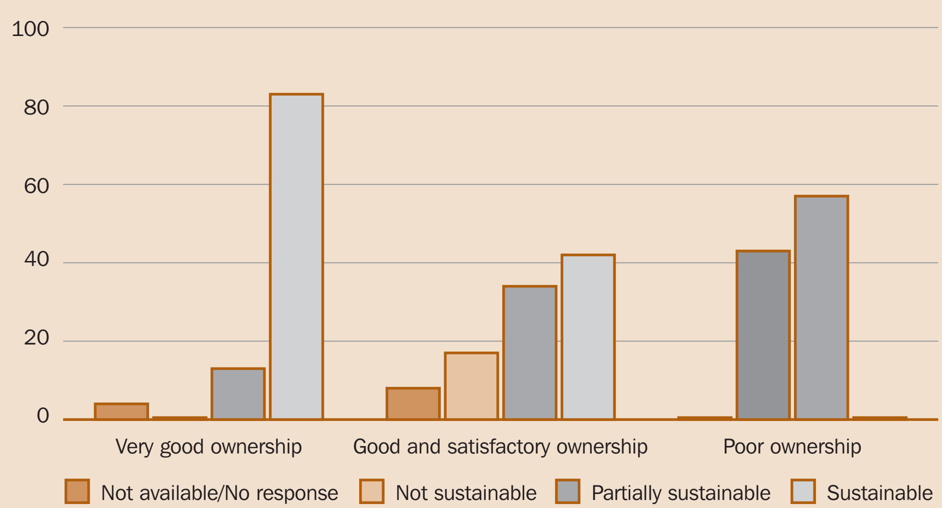
UNDP, by virtue of its mandate, can approach the process of fostering ownership less institutionally constrained than many of its development partners. Its position of neutrality and impartiality gives the UNDP unique credibility, allowing it to play a facilitating role between donors and lenders and government and civil society. This allows UNDP to help countries broaden ownership. Yet, there is a lack of organizational policy on how to do this. As the PRSP evaluation notes, "there appears to be no institutional policy either at the Head Quarters or the Country Offices on what national ownership means in practice".[5]

Consider UNDP's support for PRSPs. In 2002, 43 UNDP country offices reported on their support and involvement in preparing and implementing PRSPs and Interim PRSPs, which are expected to be nationally owned and country driven. The PRSP evaluation observed that while progress has been made on government ownership, national ownership is lacking. Where UNDP was active, it contributed to broadening ownership of the PRSPs. For instance, in Ethiopia and Vietnam it provided pro-poor policy advice and supported capacity development in relevant areas. The evaluation makes the point that UNDP could do more in fostering national debates over pro-poor development strategies and the causes of poverty. UNDP is seen as uniquely qualified in helping to ensure that PRSPs are nationally owned—a key reason for the evaluation's recommendation that UNDP be fully engaged in the PRSP process.

Broad-based participation transforms government ownership into national ownership. UNDP's support to broad-based participation is assessed by scrutinizing the evaluations submitted in 2001–02. At least 91 of these evaluated projects (40%) had goals to promote broad-based participation in development activities—from more inclusive participation to ensuring accountability and supporting decentralization measures (box 4.2). Of these initiatives 88% were deemed satisfactorily or significantly effective, and 84% sustainable or partially sustainable.

Figure 4.1 Government ownership and project sustainability

Share of projects (%)



Source: UNDP Evaluation Office.

It is important to distinguish between two aspects of broad-based participation: the *process* itself and its *outcomes*. The PRSP evaluation notes that participation was exemplary in Bolivia. The legislature passed a law mandating regular consultation processes. The National Dialogue was built up from community meetings to the regional level and finally to the centre. The dialogue included indigenous groups historically excluded from the political process and assumed a dynamic of its own. UNDP provided strong support to those participating in the National Dialogue—to allow municipalities and NGOs to prepare their representatives for an effective role. But these participatory processes did not translate into policy outcomes. In fact, according to the PRSP evaluation, the PRSP process may have had less impact on the policy outcomes in Bolivia than in countries where participation was narrower and shallower.

Participatory processes on their own do not guarantee outcomes. Indeed, they may be symbolic substitutes for actual reforms. Without a results orientation, participation involves transaction costs with limited benefits. As discussed in chapter 2, there is difficulty in deciding which civil society organizations to engage with, and there is a danger that some groups, particularly the poorest and the marginal, may be deliberately excluded. In Bolivia deep social divisions and the lack of public trust in government make results especially hard to achieve.

In the PRSP process in Mali representatives of the poor were not included. Making participation as broad-based as possible requires institutionalizing dialogue with civil society groups, including the poor, so that their views can affect development initiatives and policies. There is no general formula for achieving this, and participatory mechanisms will be country-specific. Even so, the idea remains that broadening participation will make development initiatives better and more relevant.

Even when participatory processes are inclusive, local conditions may create obstacles for some groups to participate, as the Northern Areas Development Programme in Pakistan shows. UNDP initiated a community-based poverty alleviation programme in this remote area, mobilizing community credit and training the community in agriculture-related activities. According to a recent UNDP evaluation, due to cultural and social pressure and elite clan attitudes, local women were not allowed to interact with women from the outside. To

PARTICIPATION OF THE DISADVANTAGED IS LIKELY TO BE CONSTRAINED BY LOCAL HIERARCHIES OF POWER

Box 4.1 National Execution and national ownership

National Execution (NEX) is the main mode of partnership between UNDP and the national entities for the implementation of UNDP-assisted programmes. National Execution goes beyond improving government ownership of the programme to incorporate relevant NGOs and other stakeholders. The number and value of National Execution projects, 50% of the Initial Programme Funding in 1992, may soon approach nearly 100% in most countries.

National Execution appears to be fostering greater government ownership in most cases. In Malawi authorities see the benefits of ownership as the responsibility to make projects succeed and the freedom to learn. A UNDP evaluation of National Execution also found that governments often express greater interest in a project in which they have greater involvement.

In promoting self-reliance National Execution also contributes to capacity development, especially to the development of human resources—and in some environments to organizational capacity development. An important aspect of this is that nationals are participating in programmes in larger numbers and in more important roles than before.

But the greater ownership is often found to be a burden by governments, particularly the arduous administrative tasks associated with project execution. In many countries, governments are not willing, or are unable, to pay all the administrative costs. In addition, National Execution has not been able to address directly the overall problem of weak public sector institutions.

Source: UNDP, 1995, *National Execution: Promises and Challenges,* Evaluation Office, New York.

tackle this, UNDP introduced a Women's Development Group represented through a Mehrum (male counterpart), eventually resulting in the acceptance of women's programmes and the formation of 250 community organizations and 250 Women's Development Groups.[6]

Participatory processes, while inclusive, may still restrict participation. One instance of this, mentioned in chapter 2, is the distinction between consultation and participation. Consultation involves having governments (or external agencies with government approval) present policies to civil society and seek reactions to them. The reactions then, to varying degree, fine-tune the predetermined policy framework. Participation, by contrast, means that the civil society groups are active in both the selection and the design of policies. The PRSP process in Ethiopia, though seen as a step forward in including civil society organizations, also raised concerns about the strong oversight of the government in the dialogue process.

The quality and extent of participation of the disadvantaged and marginalized are likely to be influenced by local hierarchies of power. Achieving a level playing field takes more than community-based development activities. It calls for state-sponsored asset redistribution at the local level—for instance, land reforms with land titles issued primarily to specific groups, such as women, to achieve a change in social capital and mindsets. As observed in another UNDP evaluation, none of the communities showed signs of a realignment of social authority enabling the poor to challenge the authority of their local elites.[7] But this may well be decisive for ensuring development effectiveness.

Creating and sustaining strong institutions

UNDP's thinking on capacity enhancement has evolved considerably over the past decade. Initially, UNDP adopted an instrumentalist view of capacity development—as short-term high profile projects through which knowledge and skills are transferred to host countries. UNDP now recognizes that capacity development is also an end in itself and aims to expand human capabilities through the acquisition of knowledge and skills.[8] Capacity enhancement could well begin with institution building and human resource development, but it also goes beyond these activities.

UNDP is committed to helping programme countries develop their institutions (box 4.3), and its contribution to building and strengthening domestic institutions has

Box 4.2 Decentralization and ownership: The Eastern Cape of South Africa

In many instances, macro policymakers fail to address the needs of all stakeholders at the micro level. Decentralized political and administrative systems, in the presence of committed local leadership, could remedy this. For example, the South African government has pursued an export-oriented growth policy and sought to create an economic environment attractive to direct foreign investment and improve the culture of saving in the country. But this policy failed to address the needs of the Eastern Cape Province—South Africa's second largest, and poorest, province. The provincial unemployment rate is estimated at 44%, compared with an estimated national rate of 36.5%. At least one child under the age of 7 suffers from hunger in 16.2% of households (8.8% nationally).

This gap was identified in early 2002, and the provincial Executive Council resolved to formulate a Provincial Growth and Development Plan that addressed the development concerns of all stakeholders in the province and to secure rapid improvement in the quality of life of the poorest, most oppressed and disadvantaged people in the province.

With UNDP as the facilitator the provincial council launched a provincewide consultative process that produced a comprehensive poverty reduction strategy appropriate for the provincial context, recognizing the capacity constraints and the priorities of the communities in that province.

Source: UNDP, 2003, *South Africa Country Case Study,* Evaluation Office, New York.

improved in recent years. Of project evaluations received in 1999–2002, 81% indicated a "satisfactory" rating or better for their contribution to building local institutions, up from the 73% for evaluations received in 1992–98 (figure 4.2). And the proportion of projects making a "poor" contribution to institution building dropped from 23% in 1992–98 to 13% in 1999–2002.

This positive trend is encouraging. Many development thinkers have long pointed to the need for an institutional scaffolding to enhance development effectiveness.[9] A burning question for decision-makers is no longer "Do institutions matter?" It is, "Which institutions matter and how to acquire them?"[10] As a result, institution building is not just about the existence of institutions—it is also about their quality and relevance in light of changing circumstances. Support to institutions requires adaptation to local contexts and commitment over a sufficiently long period.

INSTITUTIONAL SUPPORT MUST RECOGNIZE LOCAL CONDITIONS

The evaluation of the Danish Trust Fund on Capacity Development[11] examined experience in five countries (Kyrgyzstan, Malawi, Nicaragua, Vietnam and Zimbabwe). It underscored the need to fully understand local conditions for sustainable interventions. Vietnam is a good example. In the mid-1990s the Vietnamese government focused on institutional reforms. The Danish Trust Fund, administered by UNDP, supported strengthening the capacity of the provincial people's councils to represent the people. Formulating the initiative to support these representative institutions took a long time and involved promoting consensus among national actors. In particular, the initiative had to address Vietnamese authorities' concerns with growing inequalities in a traditionally egalitarian society. Overall, efforts helped ensure national ownership. The reports, documents and ideas generated by the project were used in 2001 by the National Assembly's Committees in amending the constitution to sharply enhance the fiscal functions of the councils.

Institutional gaps at the meso level could leave downstream interventions unable to influence macro policy. In Sri Lanka partial devolution of power to the provinces resulted in malfunctioning administrative units at the district level.[12] This blocked the flow of information and resources between the macro and micro level, so much that UNDP could not even reclaim the seed capital invested there.

In supporting institutions it is important to avoid building conflicting parallel structures. UNDP's intervention in Sri Lanka ended up creating structures parallel to the

SUPPORT TO INSTITUTIONS REQUIRES ADAPTATION TO LOCAL CONTEXTS AND COMMITMENT OVER A SUFFICIENTLY LONG PERIOD

Box 4.3 UNDP institution building in challenging environments

Even in countries in special circumstances in which "national authorities lack the capacity to carry out the project", UNDP has engaged to build institutions. Under conditions of conflict, widespread corruption or other special circumstances UNDP enters into a Direct Execution (DEX) management arrangement, assuming responsibility for the management of the project or programme, accountable for performance and the production of results. (Under National Execution, another of UNDP's execution modes, overall management is assumed by national government authorities for UNDP-funded development projects and programmes.) Although Direct Execution has been a subject of debate within the UNDP, it constitutes a very small portion of UNDP business, about 219 projects or 5% of total UNDP project value between 1995 and 2000.

Despite the difficulty of operating in such challenging environments, the Direct Execution evaluation observes that the majority of the Direct Execution projects and programmes contributed to national ownership. For the Village Employment and Environment Programme in Bosnia and Herzegovina, the execution was partnered with subnational levels of government and civil and private sectors of society. But sustainability for the most part was found to be limited under Direct Execution, owing to the short-term, crisis nature of country programmes de-linked from longer term development strategy.

Source: UNDP, 2001, *Evaluation of Direct Execution,* Evaluation Office, New York.

SCALING UP PROJECTS IS THE REAL CHALLENGE: MICRO PROJECTS MUST HAVE MACRO IMPACT

existing antipoverty initiatives of the state. The ensuing conflict undermined the chances of success of the UNDP programme. The same South Asia Poverty Alleviation Programme in Nepal, in contrast, used existing state institutions of delivery, such as village development councils, providing a platform for closer interaction between the state and the programme.[13]

ISSUES AND CHALLENGES OF INSTITUTION BUILDING

Building effective and sustainable institutions is a long-term process. It requires both national governments and such development partners as UNDP to remain adequately engaged with sufficient resources over a long time. For example, the evaluation of a Danish Trust Fund project aimed at strengthening local governance in the Kyrgyz Republic found that the donor community tended to underestimate the time needed to alter attitudes and perspectives in societies transitioning from the former Soviet model.

Effective institution building, especially in policy advocacy, depends on the timing of the intervention. Election cycles, political transitions and macroeconomic cycles tend to define or limit the opportunities for successful interventions. For instance, a deteriorating macroeconomic and debt situation in Nicaragua overshadowed UNDP interventions to make the management of public resources more transparent.

The Danish Trust Fund evaluation observed the pressing need for staff excellence and continuity in UNDP country offices. In almost all country offices visited for this evaluation, there were serious deficits in institutional memory, a result of high staff turnover. Because quick fixes or off-the-shelf project ideas from other countries rarely work, high calibre leadership is needed to nurture government ownership and work on a sustained basis with key partners.

PROMOTING PRO-POOR POLICY FRAMEWORKS

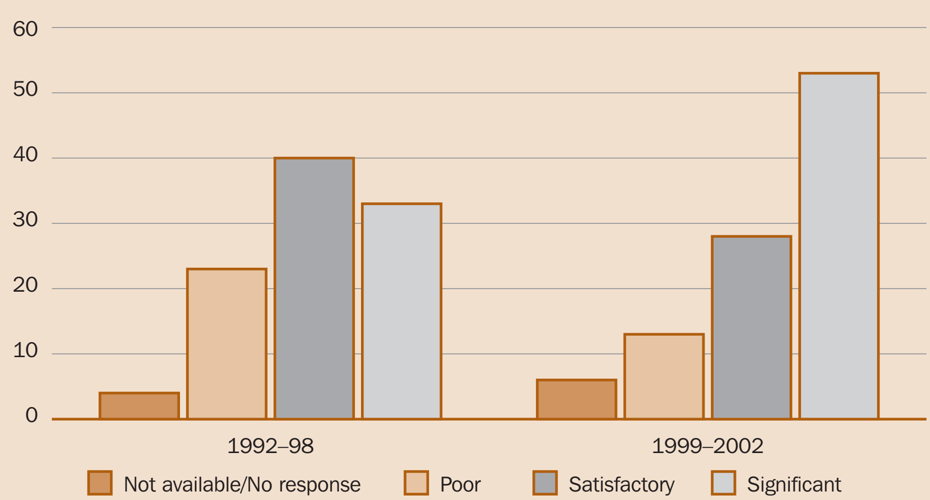
According to UNDP, growth is pro-poor when the poor benefit not only in absolute terms, but also relative to the nonpoor.[14] Pro-poor policy environments actively seek secure employment for all, with adequate real wages. In addition, they emphasize social and political space for poor people to participate directly or be well represented in decision-making that affects their lives.

UNDP has poverty alleviation activities as its second largest focus area, with all country offices working towards this goal. UNDP is active in advocacy through its national Human Development Reports, its support to national poverty strategies (including PRSPs) and its direct interventions.

While there are many success stories at the project level, there are also larger concerns about whether UNDP is doing enough

Figure 4.2 Institution building

Share of projects, by evaluation year (%)



Source: UNDP Evaluation Office.

in this key area. The Report on the Multi-Year Funding Framework points out that UNDP has not moved sufficiently upstream on employment issues, despite the vital link between poverty reduction and employment. Country offices continue to support a multitude of small-scale interventions for employment generation. As Bulgaria and India country evaluations highlight, pilot programmes need to be scaled up and aligned with the country's policy priorities—and these links need to be established from the very early stages of the programme.[15]

The PRSP evaluation confirms the need to do more. It accepts that most PRSPs are a necessary step forward from previous national growth strategies. But the study also finds that the poverty reduction strategies of the PRSPs are not necessarily pro-poor. In many instances, there was coherent growth strategy, but it was not integrated with poverty reduction. Indeed, poverty reduction policies appeared as an add-on to a general growth strategy. The main conclusion of the evaluation is that UNDP needs to play a much larger role, drawing on the strengths of the UN system, especially at the country level, to bring out the pro-poor dimensions fully.

Advocacy and policy dialogues are undertaken through different instruments. Advocacy activities have been undertaken as an explicit objective of particular projects (such as preparing national Human Development Reports), as a component of projects or through ad hoc networking activities of Resident Representatives/Resident Coordinators and staff.

According to the Report on the Multi-Year Funding Framework, more than 450 national and regional Human Development Reports inform government-donor dialogues, serving as important tools for civil society, academia and the media.[16] They also contribute to policy formulation and serve as fundamental references by bringing the lessons from piloting and demonstration activities to the national (or state) debate.

In India the impact of State Human Development Reports has differed depending on the commitment of political leadership and the report preparation process. According to the country evaluation, the influence of State Human Development Reports has been most visible in Madhya Pradesh, which used the State Human Development Report as an advocacy tool to justify an increase in social sector allocations from 19% in the state's 8th plan (1992–97) to 42% in its 9th plan (1997–2002).[17]

A general comment on gender issues. In many instances disaggregated data show that women are at considerable disadvantage. The failure to recognize this reality runs the risk that development will leave behind nearly half the poor. For example, many development thinkers have pointed out that increased household income may well be channeled mostly to male members of the family, leaving female members not much better off.[18]

GENDER CONCERNS NEED TO BE MAINSTREAMED ACROSS THE MILLENNIUM DEVELOPMENT GOALS

Improving the status of women is woven into UNDP priorities. For instance, in UNDP practice areas gender is treated as a cross-cutting issue for all six priorities. Gender was among the goals of the Strategic Results Framework, and according to the 2003 Report on the Multi-Year Funding Framework, 90 Country Offices reported results on the gender goal, a 20% increase from 2000.[19] Results reported in the 2001 Results-Oriented Annual Report for the gender goal point to an achievement rate of 64–82% at the output level, with the lower end of the range related to violence against women. At the outcome level the range is 76–89%, with the better numbers suggesting that strong partnerships enhanced UNDP's progress towards outcomes.

But some caveats are necessary. While the performance of UNDP projects in relation to "impact on target groups" was an impressive 93%, only 64% of the evaluations submitted in 2001–02 reported positive impact on the status of women (a lower number than the corresponding results in the 2001 Results-Oriented Annual Report). Equally disturbing is the fact that nearly 40% of the evaluations submitted during this period did not assess the impact of projects on gender issues. As the recent UNDP evaluation of country MDG Reports suggest, gender concerns and perspectives are not always being adequately mainstreamed across Millennium Development Goals in all country reports (box 4.4).[20]

Finally, the resources allocated by UNDP to gender-related activities during 2000–02 constitute a mere 1.3% of expenditures.[21]

UN RESIDENT COORDINATORS ARE IN A UNIQUE POSITION TO LEVERAGE PARTNERSHIPS FOR THE MILLENNIUM DEVELOPMENT GOALS BUT ARE UNDERFUNDED AND SHORT-STAFFED

LEVERAGING PARTNERSHIPS

To understand UNDP's role in enhancing development effectiveness, it is essential to assess UNDP's contribution to leveraging partnerships. UNDP is involved in various types of partnerships, but this section examines only the partnerships within the UN system. Chapter 5 examines in depth the partnerships between donors and programme countries that are vital for delivering on the Millennium Development Goals.

The Resident Coordinator System promotes interagency coordination, developing and enhancing the synergies among development partners. The system also assists with advocacy for resource mobilization and for such goals as the Millennium Development Goals.

The 2001 Joint Nordic Assessment of the Common Country Assessment/United Nations Development Assistance Framework (CCA/UNDAF) noted that collaboration among agencies was improving and that the CCA/UNDAF has had a favourable effect on the division of labor among UN agencies and in identifying gaps and overlaps. For instance, in Malawi the gaps in nutritional data became clearer during the CCA work; collaboration also identified duplicative efforts in "life skills training".[22]

The Resident Coordinator, in most cases the UNDP Resident Representative, is responsible for leadership of the CCA and UNDAF, seeking the participation of all UN agencies in the system. This role is pivotal in fostering a more cohesive and coherent approach in a country. But many factors limit the effectiveness of the Resident Coordinator System. Transaction costs tend to be high, with the process often cumbersome and slow—partly a consequence of the cost involved in securing everyone's participation. In many cases the system lacks the capacity to function effectively. And some of the UN specialized agencies see participation in the CCA/UNDAF process as undertaking "UNDP" work.

The Resident Coordinator System is underfunded and short-staffed, especially in smaller countries. In addition, according to the Nordic report, it lacks adequate support from headquarters. For instance, some agencies' headquarters did not appear to support or value the time spent on the UNDAF. Given that the Resident Coordinator System relies on the cooperation of the agency heads, this lack of support poses significant problems. Indeed, the Resident Coordinator System also depends heavily on the goodwill of the Country Team members.

These familiar and long-standing constraints need to be addressed now (and rapidly) if the UN system is to play an essential role in helping countries meet the Millennium Development Goals.

Box 4.4 The Millennium Development Goals: Gender equality and women's empowerment

Gender equality concerns are central to the Millennium Development Goals (MDGs) and are to be mainstreamed across the six UNDP practice areas. Yet, a recent UNDP study on country MDG Reports points out that gender concerns and perspectives are not adequately integrated across Millennium Development Goals in all these reports. Most reports cast women as mothers and victims rather than as agents of development.

Disaggregated data are seldom provided, except for Goals 2 and 3, for which they are a specific requirement. References to women and gender continue to be "ghettoised" under Goal 3 to promote gender equality and empower women and Goal 5 to improve maternal health. Attempts to place the discussion of issues such as poverty and HIV/AIDS in the larger context of gender equality and women's rights and freedoms are infrequent exceptions.

In addition, national capacity is often lacking for gender-based analysis, and there has been limited involvement of gender experts and gender equality advocates in report preparation.

Source: UNDP, 2003, *Millennium Development Goals Reports: An Assessment,* Evaluation Office, New York.

The Resident Coordinators are in a unique position to secure additional resources for programme countries and to act as custodians for meeting Goal 8. To do so, however, this system needs to be strengthened with institutional support from the UN System.

Delivering on the Millennium Development Goals challenge: The role and value of Country Reports

The Millennium Development Goals lie at the core of UNDP's mission. The UN Secretary General assigned the UNDP Administrator as chair of the UN Development Group to coordinate the UN System's work on the Millennium Development Goals—promoting awareness and initiating action around these goals globally, in countries and in the UN System. Performing these roles depends on the robustness and credibility of the MDG Country Reports. UNDP considers the MDG process as a unique opportunity to mobilize civil society and align national programmes and actions to achieve the MDG targets.

In this context, the MDG Reports become the centrepiece for tracking and monitoring the Millennium Development Goals at the national level and for providing key inputs into the campaign. Yet as the assessment of the MDG Reports note, despite considerable enthusiasm for the Millennium Development Goals and the preparation of the reports, there is lack of clarity on their real value added.[23] Producing them is becoming an end in itself. And a preoccupation with technocratic discussions on the length, content and format of the reports is detracting from clear thinking on the strategic results these reports are expected to generate and on the role the UN and UNDP can play. In some ways, what should differentiate these reports from others is the followup action they generate.

The MDG Reports are especially important in the light of evidence that most developing countries will not be able to meet the Millennium Development Goals without additional resources and related policy actions by development partners (outlined in some detail in chapter 5). It is estimated that additional resources of $50 billion a year are required to meet the Millennium Development Goals.[24] Particularly striking is the extremely limited country capacity to address three of them:

- Goal 5—improve maternal (and reproductive) health.
- Goal 6—combat HIV/AIDS.
- Goal 7—ensure environmental sustainability.

The assessment of the MDG Reports observed that most developing countries see progress on Goal 8 as the biggest challenge.

National ownership is fundamental to reaching the Millennium Development Goals. Part of ensuring the success of the MDG Reports rests on their being nationally owned, but there are wide variations in authorship and ownership. In some countries UN Country Teams have engaged the government in the preparatory process. But more strategic thinking is needed on what forms of reporting will generate maximum public support and action around the Millennium Development Goals. Based on the evidence so far, the MDG Reports have some way to go before they become widely used public affairs documents. Nothing short of strong public advocacy is likely to ensure a genuine sense of national ownership.

The ownership of the MDG Reports is connected to the ownership of the Millennium Development Goals. Many countries are "localizing" these goals by adapting them to their specific contexts. A more open and transparent process of negotiation and public discussion is needed to arrive at a well-thought out set of country-specific goals, targets and indicators that can be nationally monitored.

Effective participation in the MDG Report process is often constrained by capacity in the country. Statistical capacity often varies in a country from one Millennium Development Goal to another. Regular data are not presented on many of the suggested targets and indicators. Particularly glaring are the gaps in disaggregated data on most indicators. It is vital to track how the poorest and most disadvantaged people in society are faring. But data on gender differences—and on the quality of life of minority ethnic

Particularly striking is the extremely limited country capacity to address the Millennium Development Goals on maternal health, HIV/AIDS and the environment

and racial groups, of the disabled and of the poorest quintile of the population—are seldom available. Also limited is the capacity to incorporate the statistical analysis into policy formulation.

As the assessment underscores, these are areas where the UN System can take some leadership. The UN can promote global initiatives on statistics so that international and national statistical organizations can engage in a comprehensive assessment of the data needed for effective monitoring of the Millennium Development Goals. The UN and its global partners must consider global surveys on the Millennium Development Goals to compare performance across countries and regions—and to track and systematically report on global progress.

The evaluation identifies other key capacity constraints related to government and civil society. Some countries have few NGOs, and many NGOs lack the capacity to engage in policy dialogues. In other countries governments see NGOs as adversarial and do not encourage their inputs.

Another capacity constraint is that of the UN and UNDP to ensure effective reporting on the Millennium Development Goals. With few exceptions UNDP's inhouse capacities for policy advice, monitoring, reporting, advocacy, communication and coordination are limited. And most UN Agency Heads point out that they are short-staffed. As a result, most UN Agency members on the MDG Report preparation team do not seem to find the time to engage more fully and comprehensively.

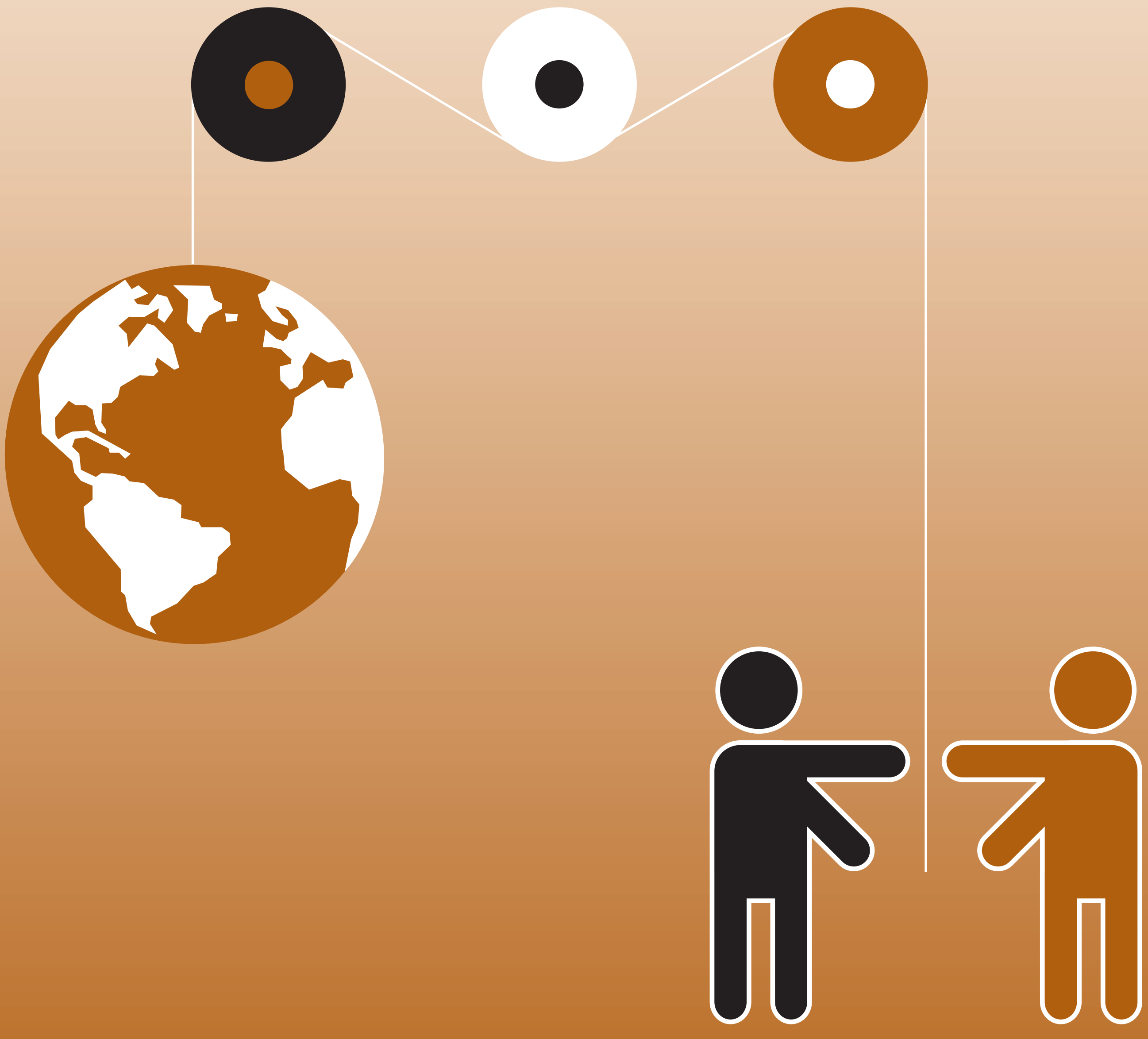
There has been some progress. The first set of country MDG Reports has helped set the benchmarks, in some ways a straightforward exercise. As most countries begin to think about the next round of reports, they will be faced with questions:

- Are they on track to reach the Millennium Development Goals?
- Do national averages reflect what is happening to human poverty—and more important to the lives of the poorest and disadvantaged people?
- Is attaining the Millennium Development Goals going to be feasible?

In the PRSP countries closer ties between government, international financial institutions and the UN system will help strengthen the monitoring of performance on the Millennium Development Goals. As with the PRSP evaluation, the assessment of the MDG Reports highlights the need for greater clarity and convergence between the MDG Reports and the PRSPs. Indeed, the PRSP evaluation recommends that PRSPs become the action plan for attaining the Millennium Development Goals in a country. This will require strong, strategic partnerships among the key partners in this exercise.

Part 3

Partnerships for Results



Chapter 5

Developed Countries: Policies and Practices for Development Effectiveness

GLOBAL PARTNERSHIPS ARE CRITICAL FOR DEVELOPMENT EFFECTIVENESS: DONOR POLICIES AND PRACTICES MUST BECOME MORE DEVELOPMENT FRIENDLY

To make it easier to achieve the desired development goals, different actors need to work together—the government, civil society, private sector, aid agencies and developed countries. This chapter argues that there is a pressing need for more direct support of efforts by developing countries to enhance their capacities, ownership and policies. It is equally important for developed countries to create an enabling global environment for developing countries to enhance their development effectiveness.

The commitments of developed countries in the Millennium Declaration are reflected in the eighth Millennium Development Goal, calling for a "Global Partnership for Development". These commitments have since been reaffirmed on at least three occasions: at the Doha Ministerial Conference, in the Monterrey Consensus,[1] and at the World Summit on Sustainable Development in Johannesburg.

The primary responsibility for achieving the first seven Millennium Development Goals lies with the developing countries, but external assistance is crucial for development. Indeed, developing country efforts to ensure that capacity, ownership and a good policy environment are in place can take a country only so far. Development partnerships at the global and country levels can enhance these three dimensions and increase their synergies. And developed country support can provide much-needed resources, not only in the form of aid but in other donor policy and practice areas (box 5.1). In this vein, the *Human Development Report 2003* on the Millennium Development Goals devotes a chapter to the eighth goal on creating a global partnership for development.[2] It looks at what the developed countries can do to reach the Millennium Development Goals, highlighting the need for more aid, debt relief, market access and technology transfers from these countries.

Building on this work by the *Human Development Report* and others, this chapter addresses the distinct responsibilities of developed countries. It examines the policies and practices that affect the levels and the impact of official development assistance (ODA). Clearly, more and better ODA is needed to meet the Millennium Development Goals. Action is also needed to reverse the worsening terms of trade, higher debt burdens, spread of HIV/AIDS, and other impediments to development. Various donor policies and practices, some of them highlighted in the Millennium Development Goals, have to become more development friendly, especially those for environment, trade, financial stability, and debt relief.

GETTING DEVELOPMENT ASSISTANCE RIGHT FOR DEVELOPMENT EFFECTIVENESS

Aid works. It worked in Europe with the Marshall Plan and in countries as diverse as the Republic of Korea and Botswana, with GDP per capita growth of 5–6% a year between 1975 and 2000. Aid is valued not just for the funds disbursed, but also for the additional benefits to the receiving country, such as new ideas, knowledge and expertise. In other words, the real value of aid cannot be seen by looking only at the levels of ODA.

Yet when aid is not well managed, when a conflict emerges, or when aid benefits mostly the elite, its impact has been marginal at best. The growing global challenges and the debt, disease and poverty burdens of many developing countries make getting ODA right ever more critical for effective development. More and better ODA is an essential element in development partnerships to promote human development and achieve the Millennium Development Goals.

Trends and levels in official development assistance

From relatively modest levels in late 1960s, net ODA grew almost fivefold in nominal terms (almost doubling in real terms) to peak in the early 1990s at more than $60 billion a year. Since the end of the Cold War, however, aid levels have stagnated—even declining in real terms (figure 5.1).

Commitments to reverse the declining trend. The good news is that the parties to the Monterrey Consensus committed to reversing the trends in declining ODA. For example, before the conference the European Union had already agreed to increase its ODA to an average of 0.39% of gross national income (GNI) by 2006 (from 0.33%). And the OECD–DAC members had increased their ODA to developing countries by 4.8% in real terms from 2001 to 2002, to $57 billion, equal to 0.23% of their combined GNI. It is hoped that this marks the beginning of a recovery from the all-time lows of 0.22% of GNI in each of the preceding three years.

Yet, according to OECD estimates, fulfilling the promises of Monterrey would raise ODA in real terms by 31% (about $16 billion) and bring the ODA-to-GNI ratio to 0.26% by 2006, still well below the 0.33% consistently achieved until 1992. And the commitment at Monterrey to attain the long-standing target of 0.7% of GNI is still a long way from being fulfilled.

Estimates of the additional funding to reach the Millennium Development Goals range from $40 billion to $100 billion a year.[3] For example, the 2001 report of the United Nations High-Level Panel on Financing for Development estimated that an extra $50 billion in development aid per year would be required to reach the Millennium Development Goals, an additional

Most developing countries will not be able to meet the Millennium Development Goals without additional resources and related policy actions by development partners

Box 5.1 Assessing donor contributions to development effectiveness: A multidimensional approach

When trying to determine the proper role for donor countries in enhancing development effectiveness, it is critical to consider a wide array of donor policies and practices. Disbursements of official development assistance (ODA) are very important instruments. Trade, environment, investment and debt relief policies and practices are additional ways for donor countries to influence development effectiveness in poor countries. Evaluations of the development friendliness of donor policies and practices that explicitly take these additional variables into account will therefore paint a very different picture from evaluations that merely consider amounts of aid disbursed.

Promoting this need for a more comprehensive appraisal of donor policies and practices, the Center for Global Development, a Washington, D.C.-based think tank, analysed the practices and policies of 21 donor countries in official development assistance, trade, the environment, investment, migration and peacekeeping to promote development. Underlying the findings (criticized because of the weighting system used for constructing the index) has been the belief that taking these additional variables into account provides a different picture of which donors are most committed to development.

For example, the two countries providing the highest absolute amount of foreign aid to the developing world are the United States and Japan. By this criterion alone these two countries could be said to be doing the most to promote development (though both look less generous when ODA is viewed as a percentage of their gross national income). But when the additional policy variables are included in the analysis, the ranking of countries changed considerably; the Netherlands, Denmark and Portugal were regarded as the top three countries committed to development.

Source: Center for Global Development, 2003, "Ranking the Rich," *Foreign Policy* May/June.

ALLOCATION OF RESOURCES TO UN AGENCIES HAS STAGNATED OR DECLINED

$8–9 billion for basic humanitarian assistance and a further $20 billion to address global public goods issues (such as the environment) more satisfactorily.[4] Meeting the 0.7% of GNI target for ODA levels would provide more than enough funding to meet this estimate for reaching the Millennium Development Goals.

As it stands today, though, ODA levels are insufficient, and the gap between the progress and the Monterrey commitment to help meet the Millennium Development Goals is large. The United States was the largest donor in 2002, with net disbursements of $12.9 billion (in 2002 dollars), an increase of 11.6% in real terms over 2001. Japan was the second largest donor, with net disbursements of $9.2 billion. Germany ($5.4 billion), France ($5.2 billion) and the United Kingdom ($4.7 billion) rounded out the top five. A different picture of donor generosity emerges when viewing ODA as a percentage of donor's income (figure 5.2).

It is critical that ODA reporting be transparent—so that what developed countries say they are delivering is actually the case. Failure to report ODA figures accurately severely impedes the ability to hold developed countries accountable in partnerships for development effectiveness (box 5.2).

The case of shrinking UN funds. In 1970 UN development agencies accounted for more multilateral ODA than any other channel. By 1977/78, however, they had been overtaken by the World Bank Group, while the regional development banks had almost doubled their share of multilateral ODA.[5] Since then the European Community has had its proportion grow, from 18% in the early 1980s to around 40% by the late 1990s.

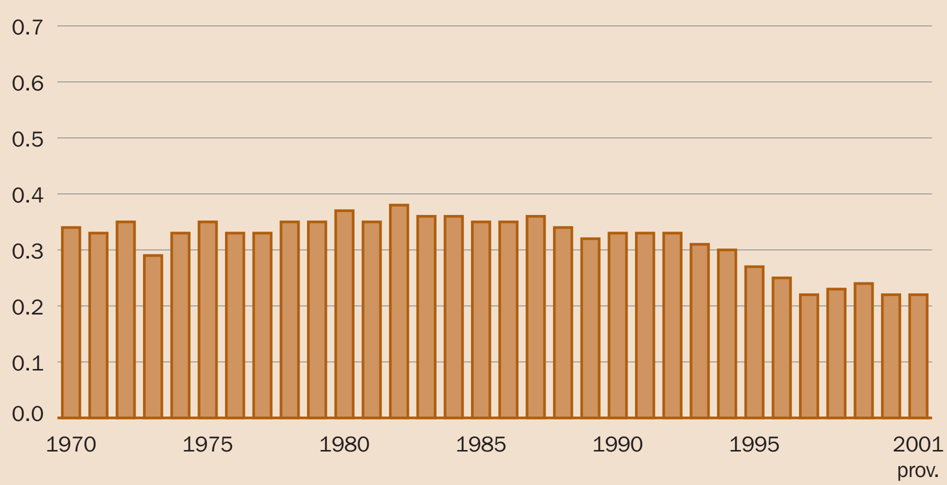
In theory, multilateral aid should be less directly connected with the economic or political agendas of the donors. But the allocation of ODA to organizations under the responsibility of the UN General Assembly has stagnated or declined, while resources to agencies such as the Bretton Woods Institutions have increased. For instance, the new commitments for the International Development Association increased by nearly 20% from SDR5.3 billion (special drawing rights) in FY01 to SDR6.4 billion in FY02.[6] Moreover, there has also been a tendency for ODA allocated through UN agencies to be earmarked for specific purposes, limiting the objectives for which it can be used by the United Nations. For example, some funding deployed through the UN Office of the High Commissioner for Refugees was to be spent *only* on displaced populations in particular countries.

AN EMERGING AGENDA FOR REFORM OF OFFICIAL DEVELOPMENT ASSISTANCE

Prospects for attaining the Millennium Development Goals depend not just on more aid,

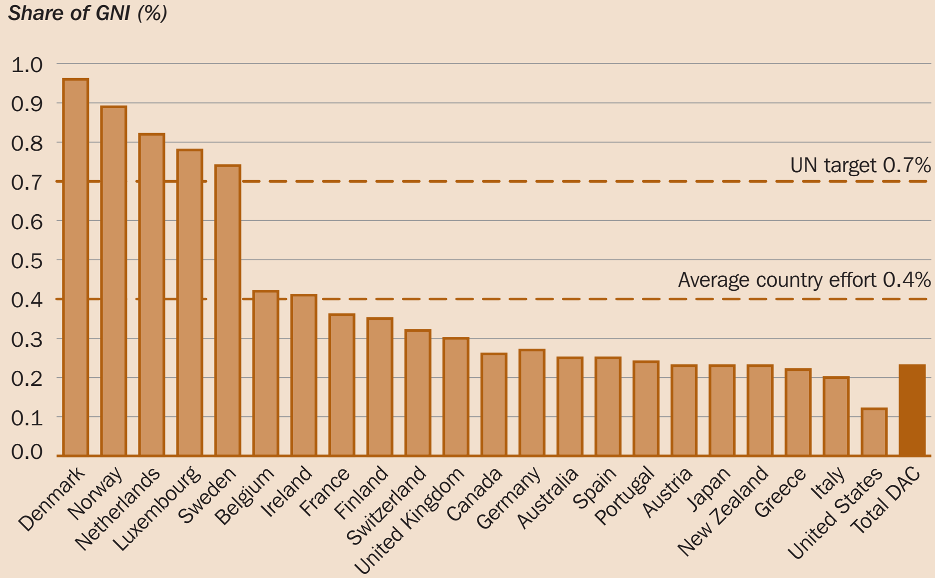
Figure 5.1 Official development assistance as a share of GNI

(%)



Source: OECD–DAC 2003a.

Figure 5.2 Net official development assistance in 2002



Source: OECD–DAC 2003a.

Box 5.2 Improving reporting on official development assistance

Official data on development assistance is not all that it seems to be, and the decline noted in the 1990s was much steeper than OECD tables suggest. This is because official development assistance (ODA) has been reported in different ways and because time-series data have not been corrected by the OECD. The OECD itself acknowledges that, although its definition of ODA has not changed since 1972, some changes in interpretation have tended to broaden the scope of the concept.

This "broadening" of ODA has occurred in a variety of ways:

- Administrative costs have been included since 1979. They were $1.3 billion in 2001.
- Imputed costs of students from developing countries have been included since 1984. They are currently estimated at about 1% of ODA.
- Assistance provided to refugees from recipient countries during the first year after arrival in the developed country have long been eligible as ODA, but have been much more widely reported as ODA since 1991 and currently account for about 3%.
- Emergency relief and debt cancellation are also reported as ODA, although technically they are supposed to be recorded separately, and they have taken up a growing proportion since the early 1990s. Officially, emergency assistance has been around 10% since the end of the 1990s, while debt cancellation accounts for about 9%.
- In addition there have been changes in capital subscriptions such that donors report on a deposit base, irrespective of whether notes are ever cashed.

The OECD–DAC admits that the amounts affected by these changes can be substantial and provides two telling examples in its latest report. Reporting by Canada in 1993 included for the first time a figure for in-Canada refugee support. The amount represented almost 8% of total Canadian ODA. If the aid flows reported by Australia in the late 1980s had been calculated according to the rules and procedures applying 15 years earlier, it is estimated that they would have been some 12% lower.

In short, there is an urgent need for developed countries to follow correct, transparent and consistent reporting procedures for ODA. This is an issue that the OECD–DAC must take up and pursue with donors. Misreporting ODA disbursements will not enhance development effectiveness.

Source: OECD–DAC, 2003, *Development Cooperation Report 2002,* Paris; OECD–DAC, 2003, *International Development Statistics, Creditor Reporting Service Tables,* Paris.

but on more effective aid as well. ODA works towards enhancing development effectiveness only when it recognizes the obstacles to development—only when it is better targeted and used to address the gaps in a country's capacity, ownership and policy environment.

More ODA goes to policy and administrative management than to education, health, population, and water and sanitation combined

Better targeting of aid. It is essential that ODA be spent appropriately and better targeted towards sectors most in need of aid. Disaggregating what ODA is actually used for is quite revealing.[7] In 2000 and 2001 only 7.5% of ODA was allocated to health—and only 1.3% to child mortality programmes (Goal 4). Maternal health (Goal 5) received only 1.1% of all ODA during those two years. It is also striking that more ODA was allocated to "business services" ($1.1 billion) in 2001 than to "sexually transmitted disease control including HIV/AIDS" ($0.9 billion). Supporting "policy and administrative management" (remuneration of experts, administrative overhead and seminars) in various sectors accounted for 16% of ODA in 2001. While there is certainly a need for many of these activities, it is disturbing that 30% more spending went to them than to all education, health, population, and water and sanitation activities combined.

Developed countries can make ODA work better by ensuring that developing countries exert ownership over it. Indeed, the effectiveness of a development activity is more likely to be enhanced by national ownership, because there will be better understanding of the concerns and ideas of a broad array of stakeholders. In addition, when there is a high level of capacity, ODA recipients will be more able to envision and implement the development initiative (box 5.3).

Improving ownership of aid. National ownership of ODA can be enhanced by allowing developing countries to identify resource gaps, decide on priorities and choose where donors could intervene to help them meet their development objectives.

One way for developed countries to improve developing country ownership of ODA is to reduce the amount of aid that is tied, since recipients will then have more leeway in deciding how to spend the money.[8]

Box 5.3 China: Owning official development assistance

Since the end of its isolation in 1978 China has received billions of dollars in foreign capital, contributing to thousands of aid projects. While foreign aid continues to flow, the past decade has seen a greater sense of ownership by China, affecting how it seeks, allocates and evaluates foreign development assistance.

The greater sense of government ownership is a product of a development policy framework gradually established in China. This framework identifies key infrastructure and other development projects and mandates their regulation. Foreign development assistance then goes toward the identified programmes, helping to ensure that national development priorities are met. The Chinese framework guarantees that projects are recipient-driven rather than donor-driven—and maneuvres scarce development funds to alleviate development bottlenecks. For example, to achieve maximum relevance and gains from limited inputs, UNDP's interventions have been associated with China's five-year economic and social development plans. This has also helped foster government support and commitment to UNDP's work.

But Chinese ownership is not concerned solely with ensuring that aid is consistent with national development priorities. Ownership is a more assertive and self-determining concept. This translates into a more discriminating and selective approach to donors. For example, project managers not only seek low-cost providers, but also strive to maximize technology and capacity transfers to China. This was the case when China was seeking to procure foreign equipment for the hydroelectric industry.

Such policies allow China to reap long-term benefits from each project and make development more sustainable. In other words, greater ownership of projects is used as a vehicle to enhance capacity. The increased capacity in turn allows China to have greater ownership by boosting its ability to articulate and deliver development results.

Source: UNDP, 2003, *China Country Case Study,* Evaluation Office, New York.

The World Bank estimates that the value of tied aid is inflated by some 15–20%, sometimes even more.[9] And tied aid often carries especially burdensome reporting requirements, further taxing capacity in aid-receiving institutions.

Developed countries are beginning to take the issue more seriously. The United Kingdom, for instance, formally renounced all tied aid. And thanks in part to pressure from nongovernmental organizations, the European Commission launched an investigation of its members' aid practices. It found sufficient evidence to begin legal proceedings against one European government whose tied ODA is more than 90%. In the wake of such pressure, overall levels of tied aid have declined—from 52.7% in 1985 to less than 20.9% in 2001—but they are still too high (figure 5.3).[10]

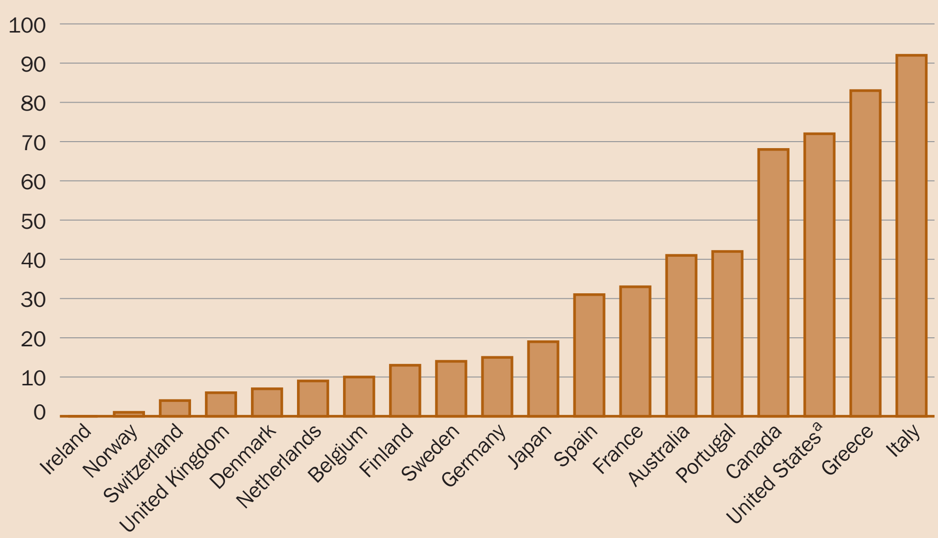
Aid should build capacity, not displace it. ODA could also be more effective if it were used to build local capacities. ODA can undermine local capacities by failing to integrate capacity transfer into project design and by preventing the accumulation of local skills, knowledge and relevant technology. For example, aid projects and programmes that rely on foreign experts (and ignore local expertise) run a greater risk of missing local factors that may be crucial to success or failure.[11] In addition, when aid projects are administered by the donor agency, the recipient's administrative apparatus fails to gain the experience of managing and implementing the programs, holding back its development. Furthermore, wages and salaries in donor-administered projects are also usually paid by donors, often at much higher rates than recipient governments can afford, resulting in a dual pay structure. This can then result in a brain drain from permanent government institutions—what has been called the "un-building of capacities".[12]

Developed countries can improve capacity through greater aid coordination (box 5.4). Developing country capacity can be threatened by excessive administrative requirements of donors.[13] Replication by multiple donors produces inefficient outcomes and places implementing, monitoring and reporting burdens on developing countries. For example, in the mid-1980s Tanzania had some 2,000 separate aid projects involving more than 40 donors.[14] Whatever the projects' individual qualities, the collective impact was chaotic, because of the huge administrative burden on the Tanzanian government and because the projects employed large numbers of the most qualified people in the country, many of whom had been lured away from the public sector.

Poorly coordinated aid could lead to "un-building" local capacities

Figure 5.3 Tied and partially untied aid

Aid that is tied or partially untied, as a share of official development assistance, by country, 2001 (%)



a. Data for the United States are from 1996.
Source: OECD–DAC 2003a.

The Tanzanian Assistance Strategy sought to overcome this problem by enhancing aid coordination. The dominance of project aid in the 1960s and 1970s has given way to various forms of resource pooling such as basket funding, sectorwide approaches and budget support. In 1998 eight European donor countries agreed to pool resources to build a Multilateral Debt Relief Fund to help Tanzania meet its debt service obligations. Local Development Assistance Committee members, under UNDP coordination, have made considerable progress in harmonizing their procedures to reduce transaction costs.

The PRSP approach, coordinated by the World Bank and the International Monetary Fund, offers the potential of better coordination, but major problems remain. Indeed, developed countries must ensure that aid coordination occurs only in a way that does not create more opportunities for donors to exert collective coercion on aid recipients.

All this points to a role for UNDP to partner with developed and developing countries to ensure that ODA is made more effective and does not reduce ownership or local capacities.

The need: challenges in reducing aid dependency

ODA can help fill resource gaps and ensure that, after recurrent expenditures, more resources are available for development. According to World Bank statistics, the flow of ODA in 2001 was equal to 8.1% of gross national income in the least developed countries and 2.3% in other low-income countries (table 5.1).[15]

While a handful of countries that were once dependent on aid now essentially do without it, such as Botswana and the Republic of Korea, a far greater number are more dependent than ever. The analysis implies that aid should be better targeted to help the development of the neediest countries and reduce their aid dependency.

The allocation of aid

Many factors influence the allocation of aid and, in turn, aid effectiveness.

Box 5.4 Aid harmonization and simplification

Multilateral organizations from the United Nations to the Organisation for Economic Co-operation and Development are simplifying and harmonizing their procedures to minimize transaction costs for governments, improve financial and programme accountability for sustainable results and increase the effectiveness of development support at the country level.

In a high-level forum in Rome in February 2003 the heads of more than 20 multilateral and bilateral development organizations and about 50 countries spent two days discussing how they could work together to enhance development effectiveness. The meeting concluded with the Rome Declaration, which makes a commitment to deliver development assistance in accordance with partner country priorities and to amend aid agencies' procedures to harmonize activities around national systems. Instead of recipients being required to cope with numerous, overlapping and inconsistent demands from donors, donors are being asked to subordinate their demands and their systems to those of the recipient. A corollary is that recipients strengthen their systems to meet reasonable international standards of transparency and accountability.

The UN System's ongoing efforts are in line with the Rome Declaration. The UN is striving to simplify and harmonize its policies, procedures and practices to maximize national ownership and minimize bureaucracy. A fundamental tenet of the UN's approach is that procedures should build on and converge around existing national systems and procedures under government ownership and leadership—and build capacities towards this end. The Common Country Assessment/United Nations Development Assistance Framework process, as the heart of UN country programming, is leading thinking in harmonization on national leadership and flexibility to avoid duplication with other processes and to emphasize building national capacities.

Source: Rome Declaration on Harmonization, 2003, High-Level Forum on Harmonization, February 25, Rome [www.undp.org/execbrd/pdf/Rome%20Declaration%20on%20harmonization.pdf].

Aid and growth

Research has evolved on what makes aid effective. Burnside and Dollar, drawing on evidence for 56 aid-receiving developing countries over 1970–93, conclude that aid raises growth in a good economic policy environment.[16] Their "good" policy environment included low budget deficits (preferably surpluses), low inflation and openness to trade.[17]

Building on this work, Collier and Dollar look at a policy framework that includes not only economic policies but also social policy and governance issues.[18] For this, they use the World Bank's Country Policy and Institutional Assessment (CPIA) scores as a comprehensive definition for policy.[19] Substituting this broader policy measure for economic policies, they conclude that the marginal efficiency of aid in terms of growth in income depends on the quality of policies—and that aid should be allocated with that in mind.

There are, however, other important factors besides policies to consider in looking at what contributes to performance. While the research on aid, growth and policies continues, other studies on aid effectiveness, while still focusing on the role of aid in promoting growth, take several other factors besides policies into account.[20] For example:

- Trade shocks and aid effectiveness. Studies suggest that aid can soften the adverse growth effects of negative export price shocks.[21]
- Structural vulnerability in aid-receiving countries and its impact on aid effectiveness. A study found that the impact of aid on growth was higher when vulnerability was high.[22] However, a separate study concludes that aid effectiveness is negatively influenced by political instability, which also seemed to reduce growth directly.[23]
- Post-conflict situations. A study found that aid is more than twice as productive in post-conflict scenarios for given policies, that a temporary growth spurt of about two percentage points higher than otherwise is seen in these post-conflict settings and that without aid there would be no growth spurt.[24]

Aid allocation and performance versus need

Developed country political, economic and strategic interests in aid allocation are subjects

There is growing pressure to allocate aid according to some measure of developing country performance

Table 5.1 Aid flows by region, 2001

Region	Country	Aid (% of GNI) 1990	Aid (% of GNI) 2001	Aid (% of central government expenditures) 1990	Aid (% of central government expenditures) 2001	Exports of goods and services (% of GDP) 1990	Exports of goods and services (% of GDP) 2001
North Africa and the Middle East	Overall	2.6	0.7			32.9	33.8
	Algeria	0.4	0.3		1.0	23.4	37.2
Sub-Saharan Africa	Overall	6.4	4.6			27.0	31.2
	Tanzania	28.8	13.3			12.6	15.6
	Senegal	14.9	9.2		41.6	25.4	29.6
East Asia and Pacific	Overall	1.2	0.5			25.0	40.7
	China	0.6	0.1	5.3		17.5	25.8
	Philippines	2.9	0.7	14.7	4.2	27.5	49.3
South Asia	Overall	1.5	1.0			9.0	15.2
	India	0.4	2.0	2.7	2.0	7.2	13.7
	Bangladesh	7.0	2.2			6.2	15.4
Europe and Central Asia	Overall	0.3	1.0			23.1	41.2
	Russian Federation	0.0	0.4		1.5	18.2	36.8
Latin America and the Caribbean	Overall	0.4	0.3			14.1	18.6
	Bolivia	11.8	9.4	68.6	34.1	22.8	18.3
	Dominican Republic	1.5	0.5	12.3		33.8	23.9

Source: World Bank, 2002.

of much debate. A World Bank study found that noneconomic factors—such as former colonial ties, the likelihood of voting with donor countries in the United Nations and special relationships, such as that between Egypt and the United States—have far greater bearing on aid allocation than do poverty, economic policies or political openness.[25] Other factors such as cooperation in antiterrorism may play a greater role at the moment.

But there is evidence suggesting that aid allocations are shifting more towards developmental criteria. There is a small upward trend in the last few years, for example, in the share of Development Assistance Committee ODA going to least developed, low-income and Sub-Saharan African countries.[26]

Aid is not necessarily allocated on the basis of need, though evidence suggests that such allocation is increasing. Moreover, there is growing pressure to allocate aid according to some measure of developing country performance. For example, the US Millennium Challenge Account seeks to allocate aid to developing countries demonstrating a commitment towards good governance, the health and education of their people and "sound" economic policies (box 5.5).

The question "what is performance" is being asked more these days, but it is seldom answered satisfactorily. For example, the World Bank's CPIA and the Millennium Challenge Account indicators are not measures of performance. They assess the prevailing conditions in a country that are assumed to make aid effective—in most cases, that means faster growth.

There are two major problems with the current interpretations of the impact of aid on performance. First, the Burnside-Dollar and Collier-Dollar approaches—both influential in suggesting that aid should be allocated to

Box 5.5 Millennium Challenge Account

In March 2002 President Bush called for establishing a "Millennium Challenge Account", a new foreign aid program that would provide considerable development assistance to countries with sound policies. Under this program the United States will increase its aid by 50% over the next three years, resulting in an annual increase of $5 billion in grants by 2006 over current levels.

Underlying the programme is the belief that economic assistance can be successful only if it is linked to sound development policies in developing countries. In particular, Millennium Challenge Account funds would target countries demonstrating sufficient commitment in good governance (civil liberties, political rights, voice and accountability, government effectiveness, rule of law and control of corruption); investing in their people (public primary education and public health expenditures as a percentage of GDP, primary education completion rate and immunization rates); and fostering economic freedom (country credit rating, inflation, three-year budget deficit, trade policy, regulatory quality and days to start a business).

To qualify, countries must score above the median on half or more of the indicators in each of the three groups. However, corruption is strongly emphasized, and a country failing to score above the median on corruption, irrespective of its performance on all the other indicators, will be ineligible for funding.

In other words, the Millennium Challenge Account assumes that U.S. aid can be made more effective by selecting a few countries based on their expressed dedication to "sound" policies and overall "commitment" to development, furnishing them with large enough amounts of aid to make a real difference, allowing them greater participation in designing aid-funded programs and holding them accountable for achieving results.

Despite its laudable goals and emphasis on results, the Millennium Challenge Account ignores many of the world's neediest countries (current estimates suggest that only about 13 countries might be eligible in the first year, of the 74 that meet the income per capita criterion). Moreover, the Millennium Challenge Account also prescribes a single policy set for all countries to achieve, despite the problems with such an approach, and postulates that such a policy prescription could enhance aid effectiveness in all countries and all contexts.

Source: Millennium Challenge Account, 2002, "Fact sheet," [www.usaid.gov/press/releases/ 2002/fs_mca.html]; Steven Radelet, 2003, "The Millennium Challenge Account," Testimony before the U.S. Senate Foreign Relations Committee, March 4, Washington, D.C.

countries with good policies—have been seriously challenged on empirical grounds. Studies have demonstrated some of the severe econometric problems with the findings of the Burnside-Dollar model.[27] Similarly, other studies raise concerns about the robustness of the Burnside-Dollar model that finds that aid works only in a good policy environment.[28]

The Collier-Dollar findings have also been heavily criticized. Part of this rests on problems of endogeneity in their model. Using indirect evidence (the CPIA information is not in the public domain), studies have demonstrated the need for skepticism when looking at the relevance of policy, as specified by the CPIA, for aid effectiveness and the appropriateness of the Collier-Dollar conclusions for aid allocation.[29]

So, neither the Burnside-Dollar nor the Collier-Dollar findings can be taken as conclusive. Nonetheless, these approaches have been used to suggest that aid should be allocated to "good policy" countries to maximize aid's impact on poverty.[30]

Second, in addition to these empirical rebuttals, there is a serious analytical problem with these models: they fail to recognize that desirable development requires achieving outcomes in many dimensions (see annex 2 for a more detailed exposition on assessing development strategies). When more than one dimension of human development is included in the analysis, the econometric model that Burnside and Dollar use to verify the role of policy environment on aid effectiveness is further weakened.

A simplified analysis was performed to assess whether aid effectiveness was still influenced by the policy environment when more than one dimension of development is included. Using a data set very similar to that of the Burnside-Dollar studies, the Burnside-Dollar analysis was reproduced with a single difference—the evaluated outcome was not growth in income but a set of Millennium Development Goals indicators representing diverse human development outcomes. (See annex 3 for details of the econometric analysis.) For illustrative purposes, one of the indicators was chosen—the percentage of children (under 1 year in age) immunized against measles (Goal 4). After the model specification errors of the Burnside-Dollar approach are corrected for,[31] the initial results show that:

- The specified policy environment does not explain the changes in outcomes, and thus the effectiveness of aid.
- Aid has a positive impact on Millennium Development Goals outcomes—for instance, increases in aid helped improve health outcomes, regardless of policy environments.

The analysis helps to reiterate the empirical point that aid effectiveness—as defined by Burnside and Dollar, Collier and Dollar and others—cannot be conclusively linked to a preconceived set of policy measures. *Aid seems to improve social indicators regardless of the type of policy environment defined in the Burnside-Dollar approach (see annex 3).*

While a good policy environment is important for development results, no single policy set is capable of producing the answers to development issues arising from different contexts. In the Development Effectiveness Report's cross-country study covering more than two decades, no systematic relationship with a particular set of policies could be discerned. This significant conclusion provides further empirical support for the proposition that the same policies may well have varying outcomes in different countries. But further research is required to examine the effect of aid on a broad range of development outcomes in a one-size-fits-all policy environment (see annex 3).

A further problem with any analysis that suggests that aid should go only to countries that are good performers (narrowly defined) is that it fails to answer a critical counterfactual question: what would happen to countries much in need of aid that have their aid allocation curtailed for failing to be identified as a potential good performer? The Burnside-Dollar approach focuses on the marginal increases in efficiency of aid but ignores the total increases in benefits resulting from aid being disbursed.

In other words, assessing the effect of aid on a country should consider not only the distributional effects of the aid and a broad

"WHAT IS PERFORMANCE?" IS BEING ASKED MORE THESE DAYS, BUT IT IS SELDOM ANSWERED SATISFACTORILY

measure of how that country will perform with that aid. It should also take into account the total losses that could be incurred if aid were reduced or withdrawn from the country.

Recommendations

The DER proposes that if it is performance that developed countries would like to see, it is performance that they should try to enhance. Since performance is linked to the three dimensions of development effectiveness—capacity, ownership and policy environment—aid should be used to ensure that these dimensions are in place and aligned to permit synergies among them in developing countries. And that is intimately connected with the needs of a country. For instance, if rent-seeking is an issue to confront, aid should be directed towards creating accountable institutions and strengthening independent civil society organizations. In other words, aid can boost performance by targeting the need, where the need is connected with the three dimensions of development effectiveness.

If it is performance that developed countries would like to see, it is performance that they should try to enhance: aid should also support the efforts of weak performers to improve their performance

Creating a global framework for development effectiveness

Aid is only one part of a global framework for effective development. In addition to development assistance, and the way it is allocated, other strategies and actions by donors have a large and critical bearing on the development prospects of developing countries. Developed country policies and practices need to be part of a truly global partnership working for development effectiveness.

Developed countries need to take action to promote development effectiveness in four additional, and very important, areas: environmental sustainability, trade, financial stability and debt relief. This is by no means an exhaustive list. But changes in policies and practices in each of these areas are critical to the success of development efforts of developing countries. And each of them has been explicitly addressed in guidelines universally agreed on, notably the Millennium Development Goals.

Goal 7 is to ensure environmental sustainability, and Goal 8 is to develop a global partnership for development by establishing, amongst other things, "an open trading and financial system that is rule-based, predictable and nondiscriminatory".[32] Trade and financial stability were also discussed extensively at Monterrey and were the subject of some of the most important statements in the Monterrey Consensus.

Environmental sustainability

A healthy global natural environment is a means and an end for development. As the economies of developing countries grow, it will be impossible for the global environment to endure the same costs as it incurred during the industrialization process in developed countries. In short, development at the expense of an irreversible deterioration in environmental amenities (fresh water, clean air) and environmental assets (including ecosystems, the ozone layer, tropical rainforests and coral reefs) is not sustainable.

Developed and developing countries share responsibility for future development to be sustainable in its impact on the environment. For developed countries the partnership approach may mean support for programmes in developing countries such as funding to preserve biodiversity, control desertification or enhance local capacities to protect the environment. But the pursuit of globally sustainable environmental development manifestly begins at home. It requires reduced consumption of nonrenewable resources and reduced production of global "bads," such as greenhouse gases, which have been linked to global climate change.[33]

The Kyoto Protocol requires industrialized countries to reduce their greenhouse gas emissions by 8% of the 1990 levels between 2008 and 2012. Yet the record on greenhouse gas emissions is very discouraging. The United States, for example, produces about 36% of all greenhouse gas emissions and about 25% of global carbon dioxide emissions (despite having just 4% of the world's people). And current U.S. policy is projected to result in an increase in emissions of 25–30% over 1990 levels.[34] Without real progress in reducing greenhouse gas emissions by the United States and other large economies, there is little chance that global warming will be halted, let alone reversed.

On environmental amenities the issue of the consumption of nonrenewable energy was raised a decade ago at the Earth Summit in Rio de Janeiro, Brazil. A proposal set forth at Rio called for countries to supply 10% of their energy from renewable sources by 2010. Yet OECD countries currently receive an average of about only 6% of their total primary energy supply from renewable sources.

Developed country pollution and consumption of global natural resources have an effect on developing country environments as well. These actions affect the extent to which developing countries can exert control over their environment and thus inhibit their ownership of their development agendas. Overall, therefore, developed countries must do more to promote environmental sustainability at home and abroad.

Trade

The prospects for future gains from trade are enormous. According to Oxfam, "If Africa, East Asia, South Asia, and Latin America were each to increase their share of world exports by 1%, the resulting gains in income could lift 128 million people out of poverty".[35] But the ability of developing countries to gain from trade depends on the terms of trade and the openness of markets in which to sell their goods. In practice, neither of these factors has favored developing countries in recent decades. Estimates of the current costs of developed country trade barriers to developing countries run between \$40 billion and \$100 billion.[36]

Developed countries can eliminate tariffs on relevant products—trade barriers are often highest on products that developing countries are most likely to export. This suggests an unequal global trading system that punishes efforts to develop. An OECD report has found that while the average tariff level of OECD countries has fallen from more than 40% to less than 10% in the past half century, the average tariff on agricultural products still approaches 50%.[37]

Tariffs also tend to be higher on higher value-added goods—processed agricultural goods, as opposed to raw materials.[38] The practice—known as escalating tariffs—effectively punishes developing countries that try to reduce their dependence on exports of commodities (whose prices are particularly volatile) by diversifying into higher value-added goods.[39] For example, tariffs on processed cocoa from Ghana are higher than those on raw cocoa.[40]

Developed countries must also aim to eliminate nontariff barriers—such as import quotas, voluntary export restraints and the capricious application of import standards, each curtailing access to developed country markets. As the World Trade Organization (WTO) notes, nontariff barriers are frequently found in labour-intensive sectors in which developing countries would otherwise have the best export prospects, including agriculture, textiles and clothing.[41] Developed countries have pledged to eliminate the textile quotas originally agreed on under the General Agreement on Tariffs and Trade, which includes the Multi-Fibre Arrangement, among others, by 2005. The successful attainment of that pledge is crucial for the trading prospects of developing countries.

Developed countries must also end export and production subsidies that severely undermine developing countries' export prospects. The scale of such subsidies is enormous. Agricultural subsidies in OECD countries total more than \$300 billion a year, almost six times what developed countries spend every year on aid.[42] The World Bank's chief economist notes that European cattle subsidies amount to \$2.50 a day per cow—at a time when three-quarters of the people in Africa live on less than \$2 a day.[43]

The World Bank estimates that during 1997–99, the average annual value of developed country agricultural subsidies was almost twice as high as the total value of developing country agricultural exports.[44] As a result, agricultural subsidies, which favour less than 5% of the OECD population, are implemented to the detriment of almost 80% of the developing world's population.

On intellectual property rights there is a need to resolve issues relating to public health as quickly as possible. For example, the treaty on the Trade-Related Aspects of Intellectual Property Rights (TRIPS) is a

OECD COUNTRIES CURRENTLY RECEIVE AN AVERAGE OF ABOUT ONLY 6% OF THEIR TOTAL PRIMARY ENERGY SUPPLY FROM RENEWABLE SOURCES

potentially important milestone in the campaign for affordable medicines, declaring the primacy of public health over intellectual property rights.[45] This is particularly important in allowing people living with HIV/AIDS to afford antiretroviral drugs. Although generic competition and public pressure have radically reduced the price of brand-name antiretroviral drugs (from around $10,400 a year to $930), they are still unaffordable to most people in the developing world. And most of these countries cannot produce the drugs themselves.[46]

The recent agreements on TRIPS are a step forward, but with some caveats. It took almost two years (from the Doha Conference in November 2001 until the end of August 2003) for WTO member governments to overcome the deadlock on allowing developing countries to import cheap generic drugs made under compulsory licensing.[47] Such delays are costly to human life and detrimental to human development. According to one estimate, in the first eight months of this year, when WTO talks on a drugs deal were stalled, an estimated 2 million Africans died. Many of these people might still be alive if they had had access to life-saving medicines.[48] In addition, there are dangers that the deal could get caught up in bureaucratic procedures—and that the drugs will continue to be unavailable to those who need them most.

In sum, it is accepted that developed countries should focus on eliminating barriers to trade, including tariffs and nontariff barriers. They should end producer subsidies, particularly in the agricultural sector. And they should address the impediments that the current intellectual property rights regime imposes on efforts to combat the global HIV/AIDS pandemic.

THE COSTS OF DEVELOPED COUNTRY TRADE BARRIERS TO DEVELOPING COUNTRIES—$40–$100 BILLION—EQUAL OR EXCEED OFFICIAL DEVELOPMENT ASSISTANCE

Financial stability

Developed countries can—indeed must—take steps to limit unregulated financial flows that undermine macroeconomic planning and stability. Although bad policies and decisions sometimes cause large and fast financial outflows, developing countries that seek financial stability require support from developed countries to limit or counter financial movements based on contagion and speculation. Greater financial stability can, in turn, promote developing countries' ownership of their development agenda. It can also help create an economic environment conducive to formulating and implementing better policies. Making investment flows more predictable, and less "hot," is very important for development effectiveness, as the East Asian financial crisis proved in the 1990s.

Short-term capital outflows can be particularly harmful. If the risk exposures of capital flows are not properly managed, the consequences for creditors and debtors—and for global financial stability—can be severe. Abrupt portfolio adjustments can involve sudden cessations or reversals of capital flows and sharp changes in asset prices. Recent history provides ample evidence that countries with fixed exchange rates and large amounts of short-term debt are prone to disruptive volatility of this sort. The systemic consequences can overwhelm even the modest development gains that developing countries have achieved.

Another worrying trend to be reversed is that developing countries are now net exporters of capital, increasingly since the turn of the century. Developing countries overall ran a $48 billion current account surplus with the rest of the world in 2002, up from $28 billion in 2001.[49] The shortage is compounded in the poorest countries by a significant drop in official development assistance from bilateral donors.

The problem of inadequate resources for growth in Africa, for example, is aggravated by the adverse terms of trade that the continent has been experiencing for the last two decades. Its terms of trade at the end of the 1990s were 21% below those in the early 1970s. Had they remained at 1980 levels, Sub-Saharan Africa's share in world exports would be roughly twice what they are now. A major factor behind the downward trend is the decline in prices of primary commodities relative to manufactures. Despite the rising share of manufactures in African exports in the last decade or so, more than 80% of the region's exports are oil and nonoil primary goods.[50]

Another area where developed countries can influence financial stability is in remittances, an important source of funding for many developing countries, such as El Salvador, Mexico, Sri Lanka and Yemen. For instance, remittances account for about 13% of GDP in El Salvador.[51] According to a World Bank report, global worker remittances reached $80 billion in 2002, up from $60 billion in 1998.[52] Latin America saw its worker remittances surge to $25 billion in 2002, up from $19 billion in 2000, and even in Sub-Saharan Africa, where remittances are still far behind those of other developing regions, remittances increased to $4 billion in 2002 from $2 billion in 2000. So, remittances are not only larger than official development assistance, they are also larger than the projected $16 billion increase in assistance over current levels by 2006, based on stated commitments.[53]

Developed countries retain the power to affect—and suppress—the flow of remittances, but there are numerous ways for them to ease this problem. One would be to relax policies curbing the migration of labour.

Debt relief

Donors must increase efforts to relieve developing countries of unsustainable debts. Since large shares of developing country budgets are set aside for debt repayment, the resources remaining for social spending are severely curtailed, inhibiting ownership of the development agenda, the development of local capacities and implementation of pro-poor policies. In particular, there is a need for accelerated debt relief for countries seriously affected by HIV/AIDS. Sixteen African countries are both "heavily indebted" and "highly infected", with unsustainable debt burdens and adult HIV prevalence rates well above the 4% critical threshold.[54]

The Highly Indebted Poor Country (HIPC) Debt Initiative in conjunction with the PRSP process has made some progress towards reducing debt in some of the most heavily burdened developing countries. But much more needs to be done.[55] Debt service as a share of exports for qualifying countries has been cut by half, from 16.5% to 8% for the period 2001–05, compared with an average for other developing countries of more than 20%. Debt service in HIPC countries was reduced from 4% to 2% of GDP and is projected to come down from 24% to about 10% of government revenue in 2005. Meanwhile, social expenditures are projected to rise substantially, in part financed by resources freed up by HIPC relief. Poverty-reducing spending is projected to rise from less than two times debt-service payments to more than four times.[56]

The current resources available for cancellation are still inadequate. Even the modest gains from the HIPC Initiative are fragile and may not be sustained. Uganda, for example, had one-fifth of its external debt written off in 1998, but a year later had a higher external debt than before the onset of "relief". Similarly, under present debt relief procedures debt service is expected to consume 23% of government revenue in Zambia, 18% in Honduras, 16% in Cameroon and 14% in Guyana.[57] Further action to reduce capacity-undermining debt burdens is clearly necessary. In addition, the HIPC Initiative needs to expand to include more eligible countries, not only those producing adjustment programmes agreed on by the World Bank and the International Monetary Fund.[58]

Debt relief is meaningful from the developing country's perspective only if it augments, rather than replaces, aid. In addition, improving debt relief mechanisms and exploring the application of the "odious debt" principle to sovereign entities represent important steps that developed countries must follow through on. More responsible lending practices are also essential.

Developed and developing countries are mutually accountable for the attainment of development goals. This chapter, like the Report as a whole, is intended as a contribution to implementation of this accountability. It is acknowledged that development effectiveness is a function of certain factors and conditions of developing countries—including capacity, ownership and policy environment—but the actions of developed countries profoundly

Developing countries are net exporters of capital; their current account surplus with the rest of the world is $48 billion

influence these factors and conditions. Many calls for action in this chapter have already been made by the donors themselves at Monterrey. But ensuring development effectiveness requires moving beyond rhetoric. Urgent action by donors is needed to make good on their pledges to promote development effectiveness.

Chapter 6

Conclusion

RESULTS MATTER—IN THE END PEOPLE'S LIVES HAVE TO IMPROVE

Why is it that some countries do better than others? The quest to understand differences in development has long preoccupied theorists and practitioners. Countless papers, task forces and special commissions have attempted to come to grips with this basic concern and with strategies and policies that can advance the progress of nations. The emergence of a shared global agenda, the Millennium Development Goals, and the partnerships that underscore them have the potential to make a departure from previous global attempts, many arising from UN conferences in the 1980s and the 1990s.

The Millennium Declaration of 2000 presents development as a multifaceted phenomenon. It recognizes that results matter and that in the end people's lives have to improve visibly. This, then, is the Millennium Declaration challenge: to design and promote development strategies and policies that are likely to make a difference in the material conditions of developing countries and visibly improve the prospects and lives of people and their communities.

KEY ISSUES, CONDITIONS AND ROLES

The framework in this Report highlights some of the key issues in development effectiveness, in the conditions that ensure sustained development and in the roles that partners can play. It argues that agency and country performance be measured in relation to the contribution to development effectiveness. It identifies some pressing challenges in this area and presents possible venues of action.

On ownership the Report argues for broad-based commitment to development that goes beyond government. It recognizes the leading and pivotal role of the state and argues for a smarter, more effective role. It raises the compelling need for greater civic engagement if development is to become sustainable and meaningfully close the gap between macro initiatives and micro and community realities.

On policy environments the Report argues for an examination of the real intent of policies and their likely beneficiaries. Experience shows that few predetermined sets of policies are likely to work in all countries or in all circumstances. Some basic questions have to be asked about policies. Are they pro-poor? Are they likely to be sustained? Even if the subject is technical, the challenges of pro-poor options remain. For instance, in transport, rural roads may well be more pro-poor in some countries than similar investments in urban roads. Clearly these policy choices do not occur in a vacuum. The politics that result from elite capture and powerful entrenched interests have to be countered by other forces in society.

Some other questions: Are policies relevant? Do they create a tolerant society? These questions require looking beyond broad aggregates such as expenditures in education, to the content of the curriculum to verify whether tolerance and ethics are being taught. When policies are seen fundamentally as country and geography specific (as this Report sees them), there is a pressing need for robust institutions and civil society groups to have the space to debate different perspectives. Policy positions reached through these processes may well differ from those encouraged by international bodies.

If development is fundamentally about transformation, then content matters—a lot.

THIS REPORT ARGUES THAT ALIGNING CAPACITY, OWNERSHIP AND POLICY ENVIRONMENTS IS KEY TO TRANSFORMATIVE GROWTH AND POVERTY REDUCTION

In some ways this goes to the heart of the development debates, especially those positions that champion incentives and sound economic policies. Economic policy is important, but so is social policy. Indeed, social policy emerges as a powerful lever for transforming the mindsets of societies and establishing social networks that are more supportive of modernization and development progress. Poverty-reducing policies have a much greater likelihood of success if there are also accompanying structural changes, such as land reform that provides the poor with better access to assets and markets.

This Report argues that the key dimensions of ownership, capacity and policy environments have to be consciously brought together. Aligning them is key to transformative growth and poverty reduction. Bold reforms are unlikely to succeed if there is little national ownership, or if societies are not open to change. The poor, not just the rich, have to become stakeholders in change and progress.

UNDP can help by sharpening its focus on ownership, by developing a policy that ensures that national ownership is explicitly emphasized in all its development initiatives. It can take the lead in promoting broad coalitions that favour national efforts to improve the conditions of the poor. The more than 450 national and regional Human Development Reports have proven to be powerful advocacy tools. Yet more needs to be done. Advocacy has to lead to action. As the PRSP evaluation underscores, UNDP can play a larger, more effective role in bringing the UN System together at the country level to help ensure that the pro-poor dimensions of PRSPs are fully brought out.[1]

But as much as countries have responsibility for their policies and commitment to development, their development efforts may have little chance of success if developed country partners are not willing to make the necessary investments by increasing official development assistance, adopting enlightened policies on trade and empowering institutions such as the United Nations to deliver on their mandates. Performance criteria have to be applied to both developed and developing countries, and to national and international institutions. Ensuring an adequate resource base is key. It is curious that despite an upturn of overall levels of official development assistance, the resources available for UN agencies remain broadly stagnant. Mandates need to be resourced.

The Report argues that higher standards should be applied in judging performance. UNDP's performance (and that of other partners) has to go beyond narrowly defined performance criteria of project success or failure. It is not enough for international institutions to argue that they are doing better, making a claim on taxpayer monies, when clearly a country or a sector is not. The Millennium Development Goals (MDGs) make this even more imperative.

If the last two years, 2001 and 2002, can charitably be seen as the start-up phase, with more than 40 MDG Reports now prepared, it is equally clear that now is the time for the MDG campaign to kick into high gear. A buildup of global and national concern is required so that there is widespread acceptance that business-as-usual approaches and strategies cannot deliver on the Millennium Development Goals. Barring a few countries, based on present and projected trends, the reality is that most countries are unlikely to deliver on the promise.

Kicking off the campaign requires some key elements:

1. *A sharp upscaling of the campaign*—recognizing that the real work starts after the MDG Reports have been produced. The debates on size, length and format of the campaign have obscured the debate that matters most—on its added value and how to make a real difference at the country level.[2] To make this happen, the UN System, led by the Secretary General and the UNDP Administrator, has to place even greater emphasis on coordinating the activities of different UN agencies.
2. *Having partnerships become active and country-focused.* For partnerships to be developmentally effective, a much stronger commitment is required—from going beyond the tracking of Millennium Development Goals and producing reports towards real and widely engaged

dialogues that produce change in national policies—and in the ways that development business is practiced. This requires a strong commitment to pro-poor polices and strategies. For PRSP countries, PRSPs have to emerge as the "action plan" for meeting the Millennium Development Goals. In light of Cancun, at the next meeting of the World Trade Organization developed countries have to do their part for development effectiveness by setting the stage for trade and related policies to support the aspirations of the developing world.

Changing the way we do business

There is growing interest from donors to rethink the way they provide aid to developing countries. The last high-level OECD–DAC meeting (April 22–23, 2003) took up this challenge of reducing transaction costs.

Direct transfers to budgets and performance-based incentives, such as those implied by eligibility criteria for the U.S. Millennium Challenge Account and the World Bank's Low-Income Countries under Stress programme, are efforts to change the way the aid and development business is practiced. Chapter 4 argues for making Millennium Development Goals the default test for country performance. This presents the challenge of localizing the goals and argues for coherent, comprehensive strategies by partners to support national efforts.

Because national systems of budgeting and accountability vary, much more flexibility may be needed in channeling aid so that it reinforces ownership and national institutions—and makes for greater transparency and accountability. This interface between donors and the recipient country requires mechanisms that provide for a shared accountability framework that brings together both donors and recipients. In some ways the PRSPs promise this. Some 66 developing countries are in the PRSP category. But as the UNDP evaluation points out, extra measures and stronger UN/UNDP engagements, drawing on the UN System's pro-poor policy expertise, civil society engagement experience and the like, can play a key role in helping the PRSPs deliver on their promise.

For non-PRSP countries there is a compelling need for the UN and UNDP to help these countries move the aid and development dialogue forward. In some cases this may require building on the UNDP-supported Round Table mechanisms. In others, such as the recent reforms by India, it will mean making the donor-recipient dialogue more manageable.

The UN Resident Coordinators, given their considerable convening power as a neutral partner, are in a unique position to support such mechanisms. For them to do so, the UN country system needs to be substantially upgraded and professionalized.

There is a compelling case to support the recommendation in the MDG Report evaluation for monitoring the partnerships implied in the Millennium Commitments.[3] This could be done in a variety of ways. Agency-specific performance evaluations could look at broader outcomes and then assess the agency (and, more broadly, country) contribution. UNDP could take this a step farther and add a note to its country evaluations, taking stock of the measures by the international community to strengthen development effectiveness for that country.

Partnerships matter: business-as-usual approaches and strategies cannot deliver on the Millennium Development Goals

Annexes

Annex 1

Organizational Performance

In addition to the success of projects and programmes discussed in chapter 3, evaluations focus on the relevance and performance of organizational interventions. Understanding trends in the relevance and performance of UNDP, and the six practice areas or five regions where it is achieving the best project and programme results, provides a more complete picture of whether the organization is *doing things right.* This is important for highlighting other strengths and weaknesses and earmarking areas for organizational improvement.

Relevance, effectiveness and efficiency

According to the evaluations received in 1999–2002, 91% of projects and programmes were deemed relevant, up from the 80% in 1992–98 (figure A1.1).

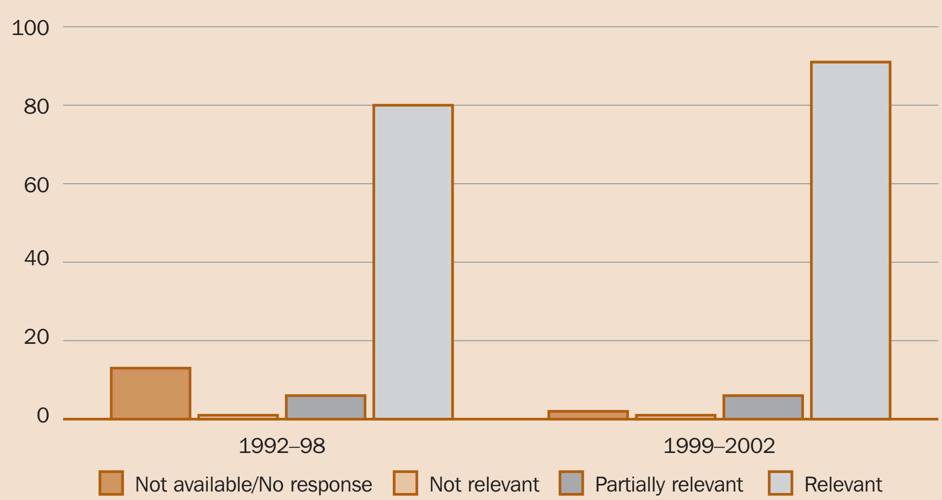
Project and programme efficiency improved even more than relevance, with 90% of projects evaluated as "efficient" or "partially efficient" over 1999–2002, compared with 71% over 1992–98 (figure A1.2).[1] Projects evaluated as "not efficient" declined from 14% to 9% over the same period.

In addition to the OECD–DAC criteria the quality of project and programme design is examined to see how well a project accorded with the realities on the ground, and allowing for it to be relevant, effective and efficient. Examination of project design also allows for greater understanding of why a project performed the way it did, by linking performance to the initial project design.

The high number of not available/no response results preclude conclusive findings on trends. Even so, 83% of projects had

Figure A1.1 Project and programme relevance

Share of projects, by evaluation year (%)



Source: UNDP Evaluation Office.

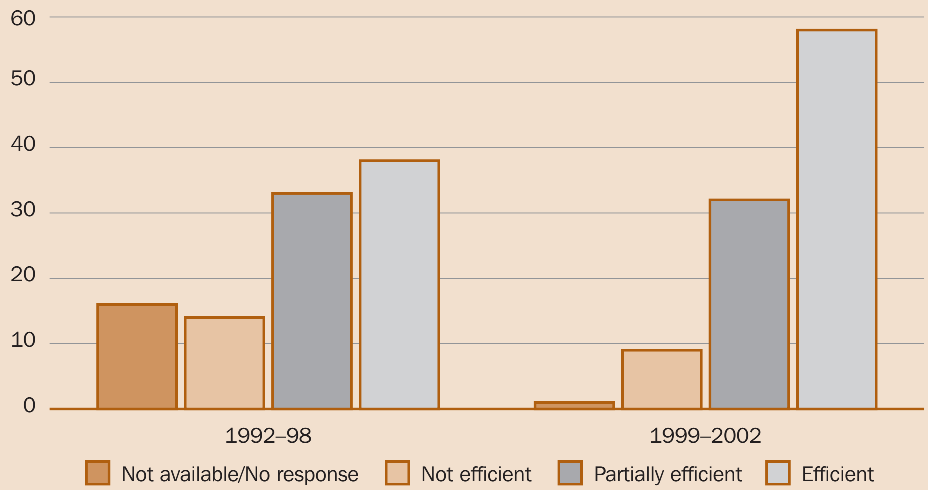
either "very good", "good" or "satisfactory" project design in 1999–2002, up from 77% in 1992–98 (figure A1.3).

The importance of project design for project performance can also be demonstrated more definitively. Indeed, there is a strong correlation between the quality of a project's design and its relevance, effectiveness and efficiency. Of projects with "very good" or "good" project design, 82% were also "effective". And 70% of projects with "very good" or "good" project design were "efficient". For projects that had "poor" project design, only 2% were "effective" and only 3% were "efficient" (figure A1.4).

In addition to these criteria the Report has expanded the evaluation of organizational performance to include an analysis of project performance in the six UNDP practice areas and the five UNDP regions.

Figure A1.2 Project and programme efficiency

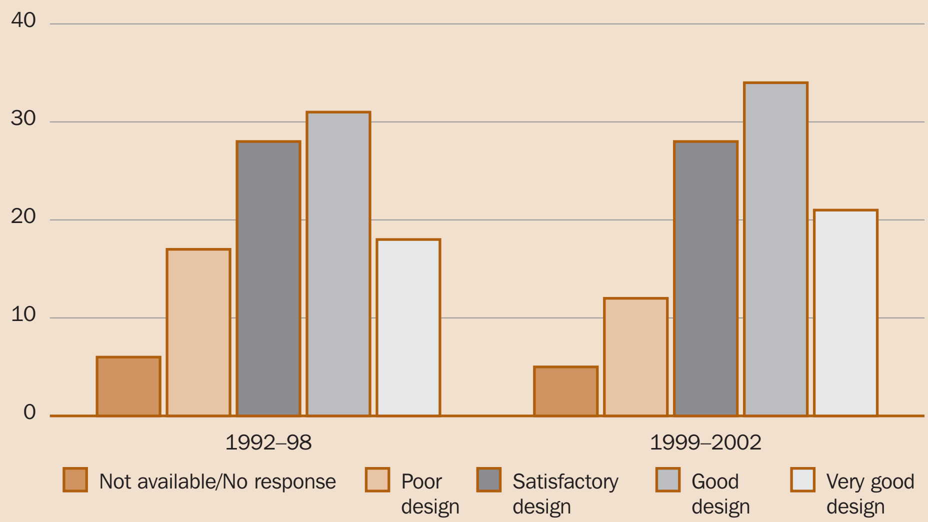
Share of projects, by evaluation year (%)



Source: UNDP Evaluation Office.

Figure A1.3 Quality of project and programme design

Share of projects, by evaluation year (%)



Source: UNDP Evaluation Office.

Practice areas

Not all practice areas have the same number of projects. Of the evaluations received in 2001–02, 47% were for Poverty Reduction, 38% for Energy and Environment, 28% for Democratic Governance, 13% for Crisis Prevention and Recovery, 12% for Information and Communications Development and 6% for HIV/AIDS. (The figures add up to 144% since projects often fit into more than one category.)

The analysis produced some interesting results. "Efficiency" ratings were higher than "effectiveness" ratings in all practice areas. The implication is that projects are better at ensuring cost-effectiveness and at producing maximum outputs from given inputs than they are at producing the desired outputs measured against established benchmarks. In other words, while the efficiency ratings suggest that outputs are being produced with minimum inputs, those outputs are not adequately meeting the targets.

Information and Communications Development had the highest percentage of projects that were efficient, 78%; 52% of projects were effective. This is consistent with the 2001 Results-Oriented Annual Report findings that annual output targets for information and communications development were fully or partially achieved in 100% of cases (figure A1.5). A worrying sign is that HIV/AIDS projects had the lowest percentage of projects that were "significantly effective", only 15%, and the second lowest percentage of projects that were "highly efficient", 46%.

Regions

Of the 220 project evaluations received in 2001–02, the Arab States had 10%, Africa 18%, Asia and the Pacific 37%, Latin America and the Caribbean 18% and Europe and the Commonwealth of Independent States 14%. (The remaining 3% of projects were either "Global" or executed in the Occupied Palestinian Territories.)

Europe and the Commonwealth of Independent States had the highest percentage of "efficient" projects, 79%. The remaining 21% of projects in this region were also "partially efficient" (figure A1.6). The Asia and Pacific Region was also rated high on efficiency, with 94% of the projects being rated "efficient" or "partially efficient" and only 4% rated "not efficient". Africa had 26% of its projects deemed "efficient", but 67% of the projects were "partially efficient", with 0% "not efficient". So, while Africa had a low proportion of its projects obtaining the

Figure A1.4 Link between quality of project design and project relevance, efficiency and effectiveness

Share of projects (%)

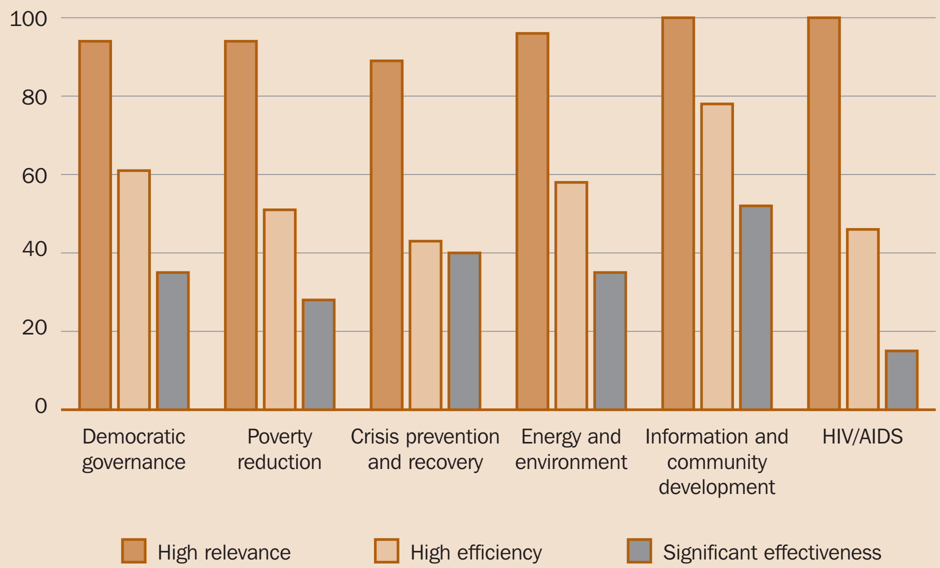
Source: UNDP Evaluation Office.

highest rating, 93% of the projects were either "efficient" or "partially efficient". In the Latin America and the Caribbean region, despite having 54% of projects "efficient", 13% were "not efficient", a figure much higher than for any other region.

On project effectiveness Africa had few projects achieve the "effective" rating (only 11%), and a vast majority achieved a "partially effective" rating (78%). More disturbing: 11% of Africa's projects were rated "not effective" (figure A1.7). Only 45% of the

Figure A1.5 Relationship between UNDP practice areas and project success

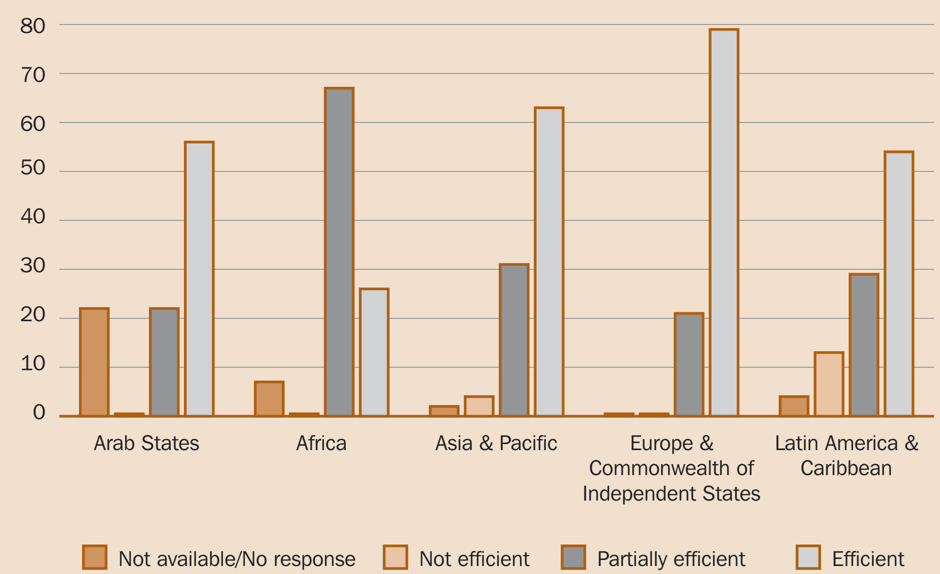
Share of projects (%)



Source: UNDP Evaluation Office.

Figure A1.6 Project efficiency by region

Share of projects, 2001–02 evaluations (%)



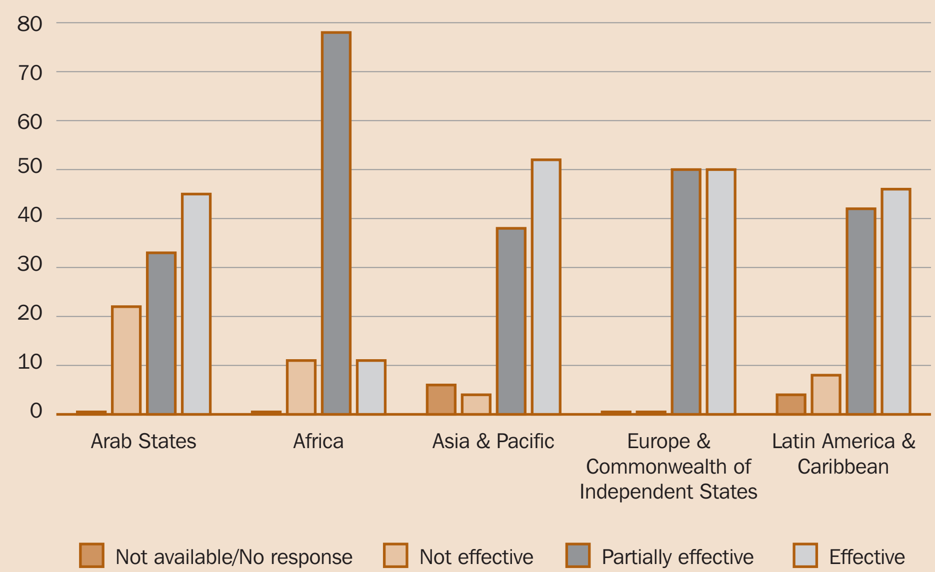
Source: UNDP Evaluation Office.

projects evaluated in the Arab States were "effective" and 33% were "partially effective", and 22% were "not effective"—more than the figure for Africa. Both the Asia and Pacific Region and the Europe and Commonwealth of Independent States (CIS) Region achieved high ratings for effectiveness—projects rated "effective" or "partially effective" were 90% in the Asia and Pacific Region and 100% in the Europe and CIS Region.

The "efficiency" scores were higher in each region than the "effectiveness" scores, again attesting to the notion that while maximum outputs may be produced from minimum inputs, fewer of the desired outputs are being achieved.

Figure A1.7 Project effectiveness by region

Share of projects, 2001–02 evaluations (%)



Source: UNDP Evaluation Office.

Annex 2

Assessing Development Effectiveness

Assessing the influence of additional resources on the well-being of people is challenging—particularly, when well-being is related to more than one development outcome (such as income growth), indeed to many desired outcomes that are consistent with human development goals. Thus for sound policy recommendations, efforts should be made to assess the total influence of resource reallocations on an appropriate global evaluation function that reflects these different dimensions of human well-being.

There is a widely held view that resources should be allocated to the countries where their impact on growth is highest, a doctrine termed "betting on the strong". A framework is presented for assessing the choice of resource priorities and development initiatives, and it is argued that "betting on the strong" is usually not optimal.

An analytical framework

The following framework presents an abstract model of development effectiveness. Let D represent a vector (or ordered list) of all development outcomes d_1, d_2, ... d_n that are of direct interest. Such outcomes may include, for example, the level of literacy, the level of life expectancy, the level of infant survival and the level of real income. Furthermore, let R denote a vector of resources that the country possesses, such as natural resources, the existing stock of skills, the current health status of the population and the stock of infrastructure. Finally, let P denote a vector of changeable conditioning parameters that influence development outcomes.

The distinction between resources and conditioning parameters is that resources refer to the means that are combined to produce development outcomes; conditioning parameters are factors that influence the way in which resources are combined to produce development outcomes. P includes the policies that together make up the policy environment of a country. Examples of such policies are the extent of trade barriers, the extent of press freedom, and the degree of independence guaranteed to nongovernmental organizations. The distinction between parameters and resources is not fixed in stone. Instead, it may be a matter of judgment whether particular factors that influence development outcomes should be classified as resources or as conditioning parameters.[1]

The development outcomes that arise in a society, and the resources and conditioning parameters that influence those outcomes, can be written as follows:

$$D = [d_1, d_2, d_3, ..., d_{n_1}]$$

$$R = [r_1, r_2, r_3, ..., r_{n_2}]$$

$$P = [p_1, p_2, p_3, ..., p_{n_3}]$$

where there are n_1 development outcomes, n_2 available resources and n_3 conditioning parameters.[2]

Figure A2.1 summarizes the relationships envisioned. Resources provided to a country become part of its resource endowment. The contribution of resources to development outcomes is in turn influenced by conditioning parameters.

This annex is excerpted from a background paper for the 2003 Development Effectiveness Report.

Suppose that a "development outcome function", $D = D(R,P)$, can be specified. The function describes the development outcomes expected to arise given the resource endowments and the conditioning parameters specific to the country.

The marginal effect of an additional unit of one of the resources on development outcome is given by $(dD/dR_i)(R,p)$. It captures the current ability of a country to incrementally transform specific inputs into specific development outcomes. It is important in assessing development interventions, but it is only one such factor, as will be shown below.

Assessing development strategies

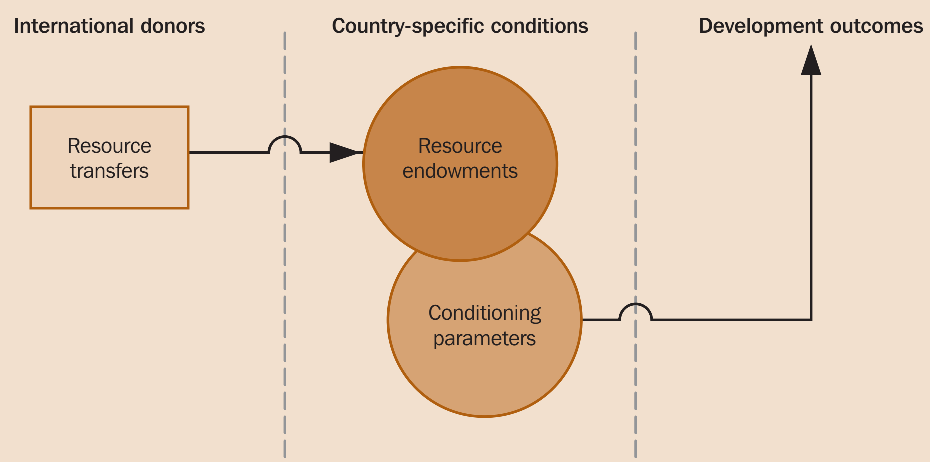
The conceptual framework for analyzing the effectiveness of development strategies can involve specifying the evaluation function of a global evaluator. Such an evaluator must be able to assess the levels of advantage to be attributed to the world as a whole in different possible states, so that these comparative assessments may provide a guide to decision-making. Distinct strategies may give rise to particular states of the world with different likelihoods. The evaluation of strategies thus requires the comparative evaluation of possible states. Once again, for simplicity, the focus is on alternative development strategies distinguished by how they allocate resources. Distinct development strategies, defined by variation in conditioning parameters, can be readily accommodated by the analysis below.

Let the function describing the evaluator's judgments be denoted by U. The evaluation function of the global advantage, U, depends on the advantage ascribed to individual countries denoted by function, W, where for the ith country $W_i = W_i(d_1, d_2, \ldots d_n)$. W_i is a function of n_1 development outcomes, d_i, that together define the features of a social state salient to the evaluation.[3]

U may take several functional forms, which reflect different value judgments about the contribution of circumstances in each country to the level of advantage attributed to the world as a whole. Here, the cases of decision-making in a certain environment and of decision-making in an uncertain environment are treated together.[4]

The framework for analyzing country choices in the face of uncertainty favors the view that development strategies need not be those that bet on the strong. A decision-maker's evaluative judgments may quite reasonably lead in the direction of safety. When choosing a given development intervention, decision-makers may wish to choose the intervention with a low risk and may wish to choose a portfolio of development interventions that minimizes overall risk. One argument for disfavouring risk is that prudence is appropriate for decision-makers making

Figure A2.1 Relationships between development outcomes, resource endowments and conditioning parameters



Source: UNDP Evaluation Office.

decisions on behalf of others—especially those who are weak and vulnerable—even if these decision-makers would take the approach of expected value maximization for decisions that affect them alone (see the arguments surrounding Rawls 1971).

1. U may be linear in its m inputs (constant returns). If there are m countries, then

$$U = \sum_{i=1}^{m} \alpha_i W_i(D),$$

where the advantage functions W_i are increasing in the elements of the development outcome vector D. The weights α_i may reflect the populations of each country or other normatively salient considerations. An evaluation function of this form reflects a willingness to trade off an advantage in one country for that in another. The focus of the evaluative judgement is on the total number of benefit units produced and not on where these are produced. As a result, there is no inherent aversion to a lopsided pattern of advantage across countries. But if individual country advantage functions exhibit diminishing returns to resources employed, even this additive evaluation function may generate some tendency for equalization of resources allocated.

If some countries are more effective in producing advantages than others, maximizing this evaluation function leads to a solution where countries most efficient at producing advantages receive more resources than those less efficient. An evaluator adopting a linear evaluation function would be willing to accept lotteries that involve the risk that outcomes will vary greatly across countries, because an evaluator of this kind is concerned only with the expected sum total of advantage.

2. U may exhibit diminishing returns. Consider an objective function of the Cobb-Douglas type, where, for m hypothetical countries

$$U = \prod_{i=1}^{m} W_i^{\frac{1}{m}}.$$

In this case, the evaluator will value incremental gains in a specific country's level of advantage less and less as its total advantage increases. This will cause an evaluator to disfavor the allocation of additional resources to the already advantaged, and to avoid lotteries that involve a risk that a pattern of advantages will arise that is lopsided across countries.

3. A global evaluator may possess strong equality preferences (sometimes described as Rawlsian[5]) and may focus on maximizing the minimum level of advantage achieved. Formally, $U = \max\min\{W_1, W_2, ..., W_m\}$. The global evaluator will consider the position of the worst-off country when evaluating a global pattern of advantage and (in the absence of interdependence among countries) will try to improve its condition before attending to any other country. The use of this evaluation function to guide decision-making will lead to resources being allocated to the worst performing country regardless of how effective that country is at transforming resources into development achievements, as long as the effect of additional resources in that country is positive. The evaluator is likely to avoid risks that states of the world will arise to make the worst off country even worse off.

4. The evaluator may incorporate "sufficiency" preferences: once countries attain some threshold of sufficiency, their level of advantage is no longer considered. If they are beneath this threshold, their level of advantage influences the evaluator. Such an evaluation function will lead to resources being allocated to the countries below the threshold of sufficiency, although the effect of additional resources may be lower than it is in countries above this level. The evaluator will seek to avoid risks that states of the world will arise in which the threshold of sufficiency is not attained.

The conclusions are summarized in table A2.1.

A risk-averse evaluator of global development strategies will generally wish to spread resources across countries due to the capacity of portfolio diversification to reduce risk.

The resource allocation decision of a global evaluator will be influenced by the marginal impact of resources allocated to a particular country on the evaluation function, described by:

Total impact of resources allocated on the evaluation function:

$$\frac{dU}{dR_j} = \frac{dU}{dW_i}\frac{dW_i}{dD}\frac{dD}{dR_j}$$

The expression suggests that the total impact of additional resources on the evaluation function comprises three distinct terms: the impact of resources on development outcomes, the contribution of development outcomes to the level of advantage attributed to a country and the contribution of the level of advantage attributed to a country to the global evaluation function.

It follows that the empirical impact of resources on any specific development outcome (such as per capita income),

$$\frac{dD}{dR_j},$$

is of only limited significance for the evaluation of development strategies. Sound policy implications cannot be driven by empirical research focused on such limited questions as where the impact of aid on per-capita income growth is greatest. Instead, effort should be made to assess the total impact of available policy interventions (including resource reallocations) on an appropriate global evaluation function, before policy recommendations are made. An exercise of this kind is inescapably normative, but it must be informed by the empirical facts about the impact of applying resources in alternative uses.

Table A2.1 Types of evaluation functions and their interpretations

Type of evaluation function	Interpretation of evaluative function	Will the evaluator always allocate resources where the (expected) impact on measured achievements is greatest?
Additive, linear, sum-ranking	The evaluator is concerned solely with the total number of advantage units that is achieved worldwide. No egalitarian preference (across countries) or risk aversion.	Yes
Nonlinear, diminishing returns	The evaluator always values gains, but values incremental increases in the development achievements of a given country less as that country's total level of advantage increases. The evaluator exhibits some "equality preference" and disfavours an unbalanced pattern of development achievements across countries. The evaluator disfavours lotteries that contain the risk that a pattern of achievements that is unbalanced across countries will arise.	No
Maximin	Strong equality preferences and risk-averse decision-making.	No
Sufficiency criterion	The evaluator is solely concerned with ensuring that countries pass some threshold level of advantage. The evaluator completely ignores countries that have already reached levels of advantage above the "sufficiency" criterion. Risk-averse decision-making.	No

Annex 3

Revisiting the Links between Aid and Development: An Econometric Study

The policy environment influences the development effectiveness of aid. The Burnside-Dollar analysis[1] attempted to show that correct policy is essential for aid to contribute towards development, a conclusion disputed on empirical and technical grounds by Hansen and Tarp.[2] In this annex, the Development Effectiveness Report's approach to measuring performance provides a *conceptual* critique of the Burnside-Dollar approach—that desired development outcomes need to go beyond a single dimension (income growth) to look at a broader array of human development results. As a first step towards this conceptual broadening of performance, the effect of aid on other development results, such as health-related outcomes, is considered. And the role of the Burnside-Dollar "policy environment" in shaping this relationship is explored.

The effect of aid on immunization rates of children under five is studied in this annex. A set of cross-country regressions highlighting the impact of effective aid flows on two development indicators is documented: the rate of vaccination coverage of children against diphtheria, pertussis, and tetanus (DPT), and the rate of vaccination coverage of children against measles.

The basic data set for the explanatory variables is from Burnside and Dollar.[3] The data are given in six four-year epochs covering 1970–93 for 56 developing countries. The data on the vaccination coverage of children against DPT and measles are from the World Bank's *World Development Indicators 2002*.[4] The immunization data are available only from 1980 and onwards, and only for 49 countries in the Burnside and Dollar country sample. In the regression analyses, the average of the years 1980 and 1981 for the third epoch (1978–81) is used instead of excluding this period. This means that the regressions cover four epochs (1978–93) for 49 countries.

The data for aid flows in the Burnside and Dollar study are based on the effective aid flows calculated by Chang, Fernandez-Arias, and Servén.[5] In addition, Burnside and Dollar calculate real effective aid flows by deflating the current-dollar effective aid flows by the unit price import index. Subsequently these values are given as percentages of GDP (using the purchasing power parity-adjusted GDP from the Penn World Tables). This measure of real effective aid as a percentage of GDP is much smaller than the often used nominal aid as a percentage of current-dollar GDP. So, direct comparisons of regression parameters based on effective aid flows and official aid flows should be avoided.

Regressions

The regressions are based on the specification of the growth models given in Burnside and Dollar.[6] However, the specification is more simplified than in the Burnside and Dollar study: it excludes the variables measuring political instability (ethnic fractionalization, assassinations and their interaction). Moreover, the variable measuring government consumption

This annex is excerpted from a background paper for this Development Effectiveness Report, based on the results reported by Henrik Hansen, Institute of Economics, University of Copenhagen and Development Economics Research Group.

is excluded from the regressions. The reason is that aid and government consumption are positively correlated (government consumption seems to increase when aid increase and decrease when aid increases). And if government consumption expenditure has a positive impact on the immunization rates, the total impact of aid on these variables will be underestimated when government consumption is included in the regressions, and hence conditioned upon.

In sum, the basic control variables in the present study consist of three policy measures (openness to trade, inflation and the budget surplus), a measure of institutional quality and (in the immunization regressions) the logarithm of GDP per capita at the beginning of each period. (The GDP measure is the purchasing power parity–adjusted GDP from the Penn World Tables). In addition, the regressions include dummy variables for Sub-Saharan Africa and East Asia and for each time period.

All results are based on simple pooled panel ordinary least squares regressions. This means that there may be problems with simultaneity bias if aid allocations react to changes in the immunization rates within the four-year periods. But at the present stage of analysis the simplest possible estimation procedure is applied to avoid discussions about choices of appropriate estimators and instruments.

Table A3.1 Regression results for coverage of DPT immunization among children under 12 months

Variable	(1)	(2)	(3)	(4)	(5)
Openness	2.365	–0.139	–0.415	–0.340	3.739
	(0.64)	(0.04)	(0.10)	(0.09)	(0.83)
Inflation	–2.662	–2.751	–2.464	–2.460	–0.897
	(1.39)	(1.45)	(1.19)	(1.30)	(0.40)
Budget surplus	–0.372**	–0.194	–0.225	–0.183	–0.210
	(2.33)	(1.07)	(1.05)	(1.05)	(1.00)
Institutional quality	3.370***	3.999***	4.017***	4.289***	4.415***
	(2.85)	(3.59)	(3.60)	(3.86)	(3.93)
Initial GDP per capita	1.183	4.391	4.343	5.044*	5.259*
	(0.43)	(1.51)	(1.50)	(1.67)	(1.71)
Sub-Saharan Africa	8.155**	1.969	2.024	0.205	–0.012
	(2.00)	(0.51)	(0.52)	(0.05)	(0.00)
East Asia	1.135	3.102	3.398	3.512	4.871
	(0.25)	(0.70)	(0.71)	(0.78)	(0.97)
Infant mortality, beginning of period	–0.285***	–0.283***	–0.283***	–0.282***	–0.280***
	(3.93)	(3.87)	(3.84)	(3.86)	(3.82)
Effective aid		2.976***	2.862***	4.907***	5.448***
		(3.54)	(2.90)	(2.82)	(2.90)
Effective aid × policy		0.092			0.123
			(0.23)		(0.33)
Effective aid squared				–0.214	–0.280
				(1.32)	(1.55)
Policy squared					–0.540*
					(1.76)
Observations	170	170	170	170	170
R-squared	0.63	0.66	0.66	0.66	0.66

*Significant at 10%; ** significant at 5%; *** significant at 1%.

Note: Sample is 49 countries over four four-year periods (1978–93). Numbers in parentheses are robust t-statistics. All regressions include intercept and time dummy variables.

Results

The regression results for the two immunization rates are given in tables A3.1 and A3.2. The dependent variable in table A3.1 is DPT immunization, and is measles immunization in table A3.2. As mentioned, the regressions are based only on 49 countries over 1978–93. The results are fairly similar for the two immunization rates, as one might expect, though there are important differences.

The baseline regression for DPT immunization (regression 1 in table A3.2) shows that only four of the control variables are statistically significant. The budget surplus has a negative impact on the immunization rate, while institutional quality has a positive impact. This result suggests an interesting difference between good policies and good institutions. But as tables A3.1 and A3.2 show, the negative impact from the budget surplus is not robust for the inclusion of aid or the change in dependent variable from DPT immunization to measles immunization. So the main conclusion about the Burnside and Dollar policy variables seems to be that they have no significant impact on the immunization rates.

Another interesting result is that, on average, countries in Sub-Saharan Africa have a higher rate of immunization, conditional on the control variables. But again, for DPT this result is not robust for the inclusion of aid in the regression. This is interesting because it indicates that aid flows to Sub-Saharan Africa are used for health expenditures.

Finally, the baseline regression shows that a high infant mortality rate at the beginning of each period has a negative impact on the immunization rate. This indicates that poor countries, with low levels of human development, have lower immunization rates on average than more developed countries.

Regression 2 in table A3.1 adds effective aid to the baseline regression. The result is that aid has a significantly positive impact on DPT immunization. The impact of aid is quite strong. This may be exemplified by a comparison of some of the normalized beta coefficients. The normalized beta coefficient of institutional quality is 0.19—a one standard deviation increase in institutional quality leads roughly to a 0.2 standard deviation increase in the immunization rate. For aid a one standard deviation increase leads to a 0.24 standard deviation increase in the immunization rate. So in that sense, aid has a stronger impact on immunization rates than does institutional quality.[7]

Regressions 3–5 in table A3.1 show that the Burnside and Dollar aid-policy interaction is unimportant for aid's impact on DPT immunization in the sample and that there are only weak signs of nonlinearities of the kind that may be captured by a second-order Taylor expansion involving aid and policy. Thus, regression 2—in which only institutional quality, infant mortality and aid are statistically significant—seems to be the preferred regression for DPT immunization.

As mentioned, the results for measles immunization are similar to those for DPT immunization. The main difference is that institutional quality is insignificant in the regressions for measles immunization. Instead, GDP per capita is significant in all regressions in which effective aid is also included. Because institutional quality and GDP per capita are positively correlated, this may simply be a result of the slight decrease in the sample moving from DPT immunization to measles immunization.

Possibly more interesting, the coefficient on the Sub-Saharan Africa dummy variable stays significant after controlling for aid, though there is a large drop in the point estimate. This indicates an extraordinarily high rate of immunization for measles in Sub-Saharan African countries.

The results for aid impact are in line with the results discussed above. That is, aid has a statistically and economically significant impact on the immunization rate, and there are no signs of policy interactions or other forms of nonlinear impacts.

In sum

The regressions in this annex have shown two things. First, the growth model by Burnside and Dollar, emphasizing the importance of policy and institutions, does not explain much of the variation in the immunization rates for DPT and measles. Second, aid is associated with higher rates of immunization for DPT and measles.

But several qualifications must be borne in mind before the results are used in general statements about the effectiveness of aid and the selectivity of aid allocation. In particular, the regression samples are quite small in country coverage and time coverage. This means that some effort should be made to extend the sample across countries and across time. In addition to extending the sample, it is important to add some form of theoretical body to the cross-country regressions. The regressions here are meant to explain economic growth, not other dimensions of human development. So it is not possible to infer whether the positive impact of aid is a direct causal link or a result of omitted (causal) variables correlated with aid. The results should thus be interpreted as encouraging preliminary results that merit further research.

Table A3.2 Regression results for coverage of measles immunization among children under 12 months

Variable	(1)	(2)	(3)	(4)	(5)
Openness	6.773*	4.558	4.557	4.392	6.963
	(1.70)	(1.12)	(1.01)	(1.05)	(1.41)
Inflation	2.228	2.099	2.100	2.293	3.088
	(1.00)	(0.88)	(0.85)	(0.93)	(1.23)
Budget surplus	–0.008	0.129	0.129	0.131	0.122
	(0.04)	(0.62)	(0.50)	(0.65)	(0.48)
Institutional quality	0.840	1.325	1.325	1.567	1.639
	(0.61)	(1.01)	(1.01)	(1.21)	(1.27)
Initial GDP per capita	4.966	7.758**	7.758**	8.297**	8.383**
	(1.43)	(2.03)	(2.03)	(2.09)	(2.09)
Sub-Saharan Africa	15.864***	11.208**	11.208**	9.781*	9.661*
	(3.38)	(2.28)	(2.26)	(1.88)	(1.85)
East Asia	–9.992*	–8.442	–8.441	–8.166	–7.469
	(1.74)	(1.47)	(1.36)	(1.41)	(1.13)
Infant mortality, beginning of period	–0.173**	–0.172**	–0.172**	–0.173**	–0.173**
	(2.45)	(2.42)	(2.41)	(2.42)	(2.42)
Effective aid		2.323***	2.323**	3.903*	4.259**
		(2.78)	(2.35)	(1.91)	(1.98)
Effective aid × policy			0.000		0.036
			(0.00)		(0.10)
Effective aid squared				–0.174	–0.213
				(0.98)	(1.11)
Policy squared					–0.316
					(0.94)
Observations	159	159	159	159	159
R-squared	0.60	0.62	0.62	0.62	0.62

*Significant at 10%; ** significant at 5%; *** significant at 1%.

Note: Sample is 49 countries over four four-year periods (1978–93). Numbers in parentheses are robust t-statistics. All regressions include intercept and time dummy variables.

Annex 4

Towards Measuring Development Effectiveness

This annex presents indicators to assess development effectiveness in keeping with the three-driver approach presented in chapter 2. This is not a comprehensive set. It should be treated as the first tentative step towards identifying critical measures of development effectiveness.

To compare development effectiveness for two countries, it is necessary to construct measures that can be compared across countries and across time. In this report chosen indicators are mostly quantitative (objective) indicators. These indicators may need to be supplemented by a set of qualitative (subjective) indicators appropriate to the context of each country. Quantitative indicators, though they allow better scope for comparisons, are not necessarily more reliable or more rigorous than qualitative indicators.

Indicators of capacity and policy

These include indicators of individual, organizational and societal capacity.

Individual capacity

Health. The health status of individuals can be determined by outcome indicators such as *life expectancy at birth* and *child mortality.* These are measures of the quantity of life. Life expectancy at birth indicates the health status of the overall population. *Under-five mortality rate* highlights the health status of a vulnerable group, namely, children. While these represent development impact, more intermediate-term outcome indicators are the rate of vaccination coverage of children against diphtheria, pertussis, and tetanus (DPT) and the rate of vaccination coverage of children against measles. *Public expenditure on health as a percentage of GDP* is a standard indicator of health policies.

Education. The result of schooling is indicated by *adult literacy rates,* reflecting the overall status of knowledge. Again, adult literacy rates are stock variables and show little mobility during relatively short intervals. *Net primary school enrollment ratio* is a more appropriate indicator of outcomes in the educational sector. As before, inputs at the policy formulation level are indicated by *public expenditure in education as a percentage of GDP.*

Income. Income should be treated as a proxy indicator of a decent standard of living and is measured by GDP per capita (in U.S. dollars in purchasing power parity terms). *Percentage of population with access to improved water, with access to sanitation and below minimum level of calorie consumption* are other direct indicators of standard of living, particularly in low income countries. The outcomes of state policies against poverty could be indicated by *prevalence of poverty*—measured as *head count index,* which gives the percentage of the population living below an accepted standard poverty line. These are also indicators for the Millennium Development Goals.

Organizational capacity

Development of the private sector is indicated directly by the *number of registered private companies.* While this presents a crude estimate of quantity, it does not reflect the relative size of the private sector compared with the public sector. The strength of private sector development could be discerned from proxy input indicators for the manufacturing side of the private sector, such as *commercial energy use per capita* and *banking- and trade-related lending,* which measures overall private sector activity on the input side.

Development of legal institutions is also hard to measure. *Number of cases taken up* in the court system is sometimes suggested as an indicator. But this measure has limitations because it does not necessarily reflect the development of the system. For instance, the number of fundamental rights violations cases pending in a particular country may be a reflection of the political space available in the country to file such cases rather than the capacity of the legal system.

The capacity for research and development is typically indicated by the *number of researchers and scientists per unit of population*. On the output side, the *number of patents claimed* would be an indicator of R&D capabilities.

Institutional capacity is also assessed by many well known indicators—for instance, the World Bank's Country Policy and Institutional Assessment (not yet publicly available) and International Country Risk Assessment, which deals mostly with institutional capacity relevant for the business sector.

The accountability and transparency aspect of institutional capacity is a relatively new entity that is being measured. Several research groups attempt to quantify accountability and transparency—for instance, CPIA, Transparency International, International Country Risk Guide, and World Competitiveness Year Book. While accountability and transparency is covered again under ownership, for purposes of institutional transparency and accountability, level of decentralization is identified as a key factor. The *total number of elected bodies* at both the local and national level would represent a measure of accountability and transparency.

Societal capacity

Societal capacities are determined by the level of social inclusion, social cohesion and development of civil society. Like accountability and transparency, social capital is very difficult to assess. More research is needed to identify appropriate measures. The following measures must be considered only as interim measures. The level of social inclusion (or exclusion) could be discerned from the existing level of inequalities in income or consumption as expressed by the *Gini coefficient* of income or consumption. Another standard measure of social exclusion is the *persistent unemployment rate*. This measure represents not just the unemployed but, those who are almost permanently excluded from formal economic activities. Those employed in the informal sector are also excluded from a range of protective measures accorded to the formal employment sector (such as unionizing and employment security). Gender-based social exclusion is indicated in many registers: persistence of preventable mortality, the *maternal mortality ratio;* exclusion from knowledge, *gender ratio of illiteracy* (ratio of illiterate women to illiterate men); exclusion from economic activity, *gender ratio of unemployment* (ratio of unemployed females to unemployed males in the work force); and exclusion from access to political power, *proportion of parliament seats held by women*.

A plausible indicator of the absence of social cohesion is the prevailing *crime rate* in countries. But data for crime rates are not widely available. *Homicide rates* in a country, on the other hand, are more likely to be available. *Presence of civil war* is another direct indicator of lack of social cohesion. A reasonable outcome indicator is the *number of refugees and internally displaced people*. The development of civil society can be directly measured from the *number of nongovernmental organizations* registered in the country and the *percentage of workers unionized*.

Indicators of ownership and policy

As discussed in chapter 2, ownership constitutes opportunities for participation in development initiatives, accountable and transparent practices to ensure stakeholder participation and commitment to those initiatives. Opportunities for participation are determined primarily by the level of decentralization, access to decision-making at all stages of development initiatives, access to national and international markets and availability of untied aid. Government commitment is determined by the resources allocated for development initiatives.

Indicators of opportunities for participation

In practice, access to decision-making in many western democracies is reduced to *voter participation* and hence will be used here as an indicator. Other forms of access include presence and availability of autonomous media. *Number of daily newspapers per thousand* is recognized to be a limited, but plausible, indicator for access to decision-making. Newspapers do not provide direct access to decision-making. But by presenting information on issues and providing a forum for a wide-scale discussion, newspapers have the potential to influence decision-makers and thus are considered as an indirect measure. Subjective indices such as freedom index of news media and Polity IV are available and should be subject to careful scrutiny before acceptance.

The *corruption perception* index of Transparency International is a possible, but controversial, indicator for transparency. Accountability to development initiatives has not been adequately addressed in development literature. In this analysis stakeholder failure to own

Table A4.1 Sample indicators for development effectiveness

Immunization rates (DPT and measles) of children under 12 months
Life expectancy at birth
Percentage net enrollment in primary school
Youth literacy rate
Percentage of population below minimum level of calorie consumption
GDP per capita
Commercial energy use per capita
Banking and trade related lending
Exports as percentage of GDP
Number of commercially operated companies
Percentage of long-term unemployment
Maternal mortality ratio
Proportion of seats held by women in parliament
Gender ratio of unemployment
Number of refugees generated
Percentage of workers unionized
Number of registered nongovernmental organizations
Aid as a percentage of GNI
Total debt service as a percentage of GNI
Terms of trade
Polity IV Index[a]
Voter participation
Daily newspapers per thousand
Subnational government share of public expenditure (% of GDP)
Subnational government share of tax revenue (% of GDP)
Growth rate
Public expenditure on health (% of GDP)
Public expenditure on education (% of GDP)
Prevalence of poverty
Percentage of youth unemployed (15–24)
Presence of high inflation
Foreign direct investment as percentage of GDP
Gross domestic fixed investment

a. Polity IV Project Dataset 2003.

the environmental consequences of development initiatives is taken to represent accountability or its absence. In this regard, *emission of air pollutants* and *emission of organic water pollutants* could serve as indicators of accountability.

Level of decentralization can be determined through observable institutional arrangements. This annex explicitly addresses two forms of decentralization, fiscal and electoral. Fiscal decentralization is represented by the *subnational government share of public expenditure* as a percentage of GDP and *subnational government share of tax revenue* as a percentage of GDP. These indicators represent the capacity of local bodies to generate (through taxes) and allocate resources outside the orbit of the center. Electoral decentralization can be measured by the *number of elected subnational tiers* as well as the *number of local level jurisdictions,* such as municipalities, in the country.

Ownership of initiatives becomes a meaningless exercise if the products of these initiatives are unable to reach domestic or international markets. In light of the previous discussion on the relevance of trade openness and what constitutes trade openness, this annex addresses basic issues with access to markets, such as the *terms of trade*—a decline in the terms of trade would be of concern to all parties to the ongoing debate about the appropriate policy environment. Another indicator for access to international markets is the *percentage of exports without tariffs and duties. Foreign direct investment* is yet another indicator that reflects stakeholder access to markets. The inflowing foreign capital signifies the demand for potential outputs in the international markets.

Quality and quantity of aid are important aspects of ownership and are represented by *aid as a percentage of GDP, total debt service as percentage of GNI, aid to build capacity* and *ratio of aid to basic services.*

These indicators are a combination of stock variables (literacy rates) and flow variables (GDP per capita). But, as with the Human Development Index, it is not always possible to avoid stock variables. In addition, subjective data-based indicators may be essential to capture diverging development contexts (tribals and informal sector).

Notes

Chapter 1

1. Collier and Dollar (2001).
2. Stiglitz (1998a); Sen (1999); Rodrik (2000).
3. United Nations (2001).
4. Report of the International Conference on Financing for Development, Monterrey, Mexico, March 18-22, 2002, Paragraph 2.
5. UNDP (2002b).

Chapter 2

1. Stiglitz (1998a); Rodrik (2000); Sen (1999).
2. Fukuda-Parr, Lopes, and Malik (2002); UNDP (2002c); UNDP (1995a,b); Browne (1999); Chortiz (2003).
3. Fukuda-Parr, Lopes, and Malik (2002).
4. Radelet and Sachs (1998).
5. World Bank (2001a).
6. Johnson and Schleifer (1999).
7. Stiglitz (1998a).
8. Acemoglu and others (2002); Rodrik (2000).
9. Rodrik (2001).
10. Stiglitz (1998b).
11. Woolcock (1998) defines societal capacity as the "the norms and networks, facilitating collective action for mutual benefit".
12. Fukuda-Parr, Lopes and Malik (2002).
13. UNDP, Evaluation Office (2001b). These findings have been confirmed by studies conducted in other international organizations as well. For instance, analysis of 99 structural adjustment loans of the World Bank in 42 countries showed that in 73% of the cases examined, borrower ownership was strongly predictive of the program success with outlier examples being attributed mainly to exogenous economic shocks (Johnson and Wasty 1996).
14. A key result of the National Execution system is a heightened feeling of ownership among partner country stakeholders. According to the study, this helped increase both the sustainability of projects as well as local administrative capacity. Indeed, activities conceived by local authorities, or those in which they have assumed responsibility, are more likely to continue being supported by local partners after donor activity is completed.
15. UNDP and BMZ (2000).
16. Amsden (1992). In the Republic of Korea policies first focused on providing universal education. These policies enhanced the transfer of skills and improved learning-while-doing on the shop floors by workers and managers when the state began to focus on manufacturing and industrialization.
17. In China, for example, the government's gradual liberalization of markets from a centrally planned economy over the last two decades has led to improvements in the lives of the poor. For instance, there have been significant gains in economic growth (according to UNDP 2002h, China's GDP grew at 9.2% during the last decade) and reductions in income poverty. Estimates of the number of people escaping income poverty from 1978 to 1998 range from 160 million (World Bank estimates) to 218 million (Chinese official estimates).
18. Thomas, Strauss, and Enriques (1991).
19. Jeffrey D. Sachs, an adviser to the Russian president from 1991 to 1994, has observed that "we were witnessing a profound transition of a social, political and economic system of a scale unprecedented in history, and we sent a handful of fiscal accountants to manage that transformation" (noted during a presentation at a Harvard University Kennedy School of Government seminar in 2000).
20. Burnside and Dollar (2000); Collier and Dollar (2001).
21. The possible empirical limitations of these analyses are presented elsewhere and in chapter 5. Also see, Hansen and Tarp (2000).

Chapter 3

1. "Essentials" are UNDP Evaluation Office publications that summarize and synthesize main lessons learned and recommendations made by UNDP and other development agencies on selected subjects.
2. Results-Oriented Annual Reports and the other evaluations present a picture of UNDP performance.

However, the Results-Oriented Annual Reports measure UNDP performance according to goals that the organization has set for itself, and the evaluation exercise is led by UNDP programme managers. In contrast, the other evaluations are led by independent evaluators and commissioned by the UNDP.

3. The project and programme evaluations analyzed in this Report were conducted by independent evaluators upon the request of UNDP Country Offices. The evaluations were conducted following methods established and monitored by the Evaluation Office of the UNDP. Combining the 220 project evaluations received in 2001–02 with the 174 received in 1999–2000, and comparing all 394 evaluations with the 622 from 1992–98, increases the size of the sample and ensures greater robustness for the trend findings. The evaluations examined include mandatory ones, required for all projects with budgets exceeding $1 million and projects that had lasted for 10 years (the system in place before 2001/2002), as well as optional project and programme evaluations that the Country Office or programme unit at headquarters decided to undertake.

4. The Project Evaluation Information Sheet attachment asks the evaluator numerous questions about a project's performance. These questions include the standard Organisation for Economic Co-operation and Development–Development Assistance Committee (OECD–DAC) criteria for evaluating project and programme performance. OECD–DAC evaluation criteria for projects are relevance, efficiency, effectiveness, sustainability and impact.

5. Impact refers to the overall effects that a project has on the community where it is undertaken. The PEIS questions on impact try to capture the social, economic, environmental and other developmental changes as a consequence of the project or programme. Impact here is different from how the word is used in Results-Based Management, as long-term countrywide development changes.

6. UNDP (2003g).

7. The World Bank methodology differs in a few significant ways—for instance, it groups projects by exit year instead of approval year (as UNDP does); also, it focuses on outcomes as opposed to immediate objectives.

8. However, a significant percentage of Department for International Development project completion reports did not contain a rating for sustainability (Fagan and others 2001).

9. UNDP (2000, 1999).

10. UNDP (2003g).

11. UNDP (2001d).

12. UNDP (2002b).

13. UNDP (2003g).

14. UNDP (2003c).

Chapter 4

1. Government ownership reflects the quality and extent of government involvement in directly supporting the programme, implementing it and taking responsibility for its outputs.

2. UNDP (2003c).

3. UNDP (2001c).

4. UNDP (2003g).

5. UNDP (2003g).

6. UNDP (2003j).

7. UNDP (2001d).

8. Fukuda-Parr, Lopes, and Malik (2002).

9. For instance, many political economists of the twentieth century—Karl Polyani, John Maynard Keynes, Joseph Schumpeter—had recognized the importance of nonmarket institutions in market economies.

10. Rodrik (2000).

11. UNDP (2001a).

12. UNDP (2003j).

13. UNDP (2003j).

14. UNDP (2002l).

15. UNDP (2003p); UNDP (2002i).

16. UNDP (2003g).

17. UNDP (2002i).

18. Sen (1999).

19. Under the new Multi-Year Funding Framework presented to the UNDP Executive Board in September 2003, the Strategic Results Framework has five strategic goals. Gender is not a standalone goal but is mainstreamed into every goal (UNDP 2003h).

20. UNDP (2003f).

21. It is possible, as the Report on the Multi-Year Funding Framework suggests, that gender-related spending is underreported or reported elsewhere. But it is also a concern that there are unresolved methodological issues about how to determine gender-specific programmatic expenditures.

22. This analysis draws mainly from the study commissioned by Nordic governments in spring 2001 to propose measures to strengthen their work with Common Country Assessment and United Nations Development Assistance Framework at the country level (COWI 2001). The evaluations are based on the experience of eight countries: Cambodia, Ethiopia, Malawi, Mozambique, Nepal, Nicaragua, Tanzania and Zambia.

23. UNDP (2003f).

24. Other estimates range from $40 billion to $100 billion per year. United Nations (2001).

Chapter 5

1. United Nations (2002).
2. UNDP (2003e).
3. The $100 billion figure is from Oxfam (2002c).
4. United Nations (2001).
5. Cassen (1994)
6. IDA (2002).
7. The following figures are from the OECD–DAC (2003b), table 1.
8. ODA is counted as tied when the donors mandate that the recipient must use all or part of the aid to procure goods and services from the donor country. Tied aid also serves as a trade subsidy to the donor countries.
9. The estimate comes from Morrissy and White (1995), as used in World Bank (1999). Jepma (1996) places the upper bound of the figure at 40%.
10. Figures include tied and partially tied aid; OECD–DAC (2003b), table 7b.
11. Denning (2002).
12. Hesselmark (1999).
13. Tasks will often vary substantially across donor agencies; OECD–DAC (2002b).
14. Van de Walle and Johnston (1997).
15. ODA receipts as a percentage of government expenditure—or, more important, development expenditures—would be higher still. Unfortunately, reliable data on development budgets in developing countries are sparse, while data on the total development expenditures are virtually nonexistent.
16. Burnside and Dollar (2000).
17. The budget surplus is used to assess the management of fiscal policy. Inflation is used as a measure of the management of monetary policy. Closed economies, according to the Sachs-Warner Index for trade openness, are those that have average tariffs on machinery and materials above 40%, or a black market premium above 20%, or pervasive government control of key tradables.
18. Collier and Dollar (1999).
19. The 1998 Country Policy and Institutional Assessment (CPIA) had 20 components covering macroeconomic management (general macroeconomic performance, fiscal policy, management of external debt, macroeconomic management capacity, sustainability of structural reforms); structural policies (trade policy, foreign exchange regime, financial stability and depth, banking sector efficiency and resource mobilization, property rights and rule-based governance, competitive environment for the private sector, factor and product markets, environmental policies and regulations); policies for reducing inequalities (poverty monitoring and analysis, pro-poor targeting and programs, safety nets); and public sector management (quality of budget and public investment process, efficiency and equity of revenue mobilization, efficiency and equity of public expenditures, accountability of the public service). Each component is given a score between 1 and 6 and given equal weighting in calculating the overall policy score. (Revisions have been made since 1998 to further emphasize poverty, equity and public sector management.)
20. McGillivray (2003).
21. Collier and Dehn (2001).
22. Guillaumant and Chauvet (2001).
23. Guillaumant and Chauvet (2002).
24. Collier and Hoeffler (2002).
25. Specifically, Alesina and Dollar (2000) use an ordinary least squares regression to show that Egypt receives 481% more aid than would be "expected" given all other factors (including its level of poverty and levels of openness, as well as its UN voting record and colonial past). Israel, which is not a developing country in the sense that the aid it receives does not qualify as official development assistance, receives 450 times (45,000 percent) more aid than would be "expected" given other characteristics.
26. McGillivray 2003.
27. Hansen and Tarp argue that the Burnside and Dollar model is extremely sensitive to re-specification and that their own analysis, using different quadratic and interactive terms, illustrates that aid is effective irrespective of policy. Hansen and Tarp (2000); Lensink and White (2000); Dalgaard and Hansen (2001).
28. Easterly, Levine, and Roodman (2003).
29. Dalgaard, Hansen, and Tarp (2002).
30. Roland-Holst and Tarp (2002).
31. Hansen and Tarp (2000).
32. UN Millennium Development Goals, http://www.un.org/millenniumgoals/.
33. Scientific support for this link has increased steadily throughout the past decade. In 1996, the Intergovernmental Panel on Climate Change's Second Assessment Report concluded that the balance of evidence suggests that there is a discernible human influence on global climate (IPCC 1996). In 2001 that body summarized the subsequent evidence and analysis as having reinforced that conclusion, meanwhile noting that most of the observed warming over the last 50 years is likely to have been due to the increase in greenhouse gas concentrations (IPCC 2001).
34. Agence France-Presse (2002). The European Commission suggested a similar figure. BBC News (2002).
35. Oxfam (2002a), p. 3.
36. Oxfam (2002a).

37. OECD–DFAF (2002c).
38. UNDP (2003e).
39. Malhotra and others (2003).
40. UNCTAD (2000b).
41. WTO (2001).
42. Stern (2002).
43. Stern (2002).
44. World Bank (2001b).
45. UNDP (2003e).
46. Oxfam (2002b).
47. Compulsory licensing allows a government to temporarily override a patent. This allows generic copies of a patented product to be produced domestically, with compensation paid to the patent holder.
48. BBC News (2003).
49. World Bank (2003).
50. UNCTAD (2001).
51. Center for Global Development (2003).
52. World Bank (2003).
53. OECD (2003b).
54. UNDP (2002g).
55. UNDP (2003e).
56. World Bank (2002a).
57. World Bank (2002a).
58. UNDP (2003e).

Chapter 6

1. UNDP (2003c).
2. UNDP (2003f).
3. UNDP (2003f).

Annex 1

1. This increase is greater than the 16% of "not available/no response" results for 1992–98, which refer to cases where information is not available in the project evaluations in the particular category in question. Therefore, the not available/no response results should be treated with caution as they could have pointed to any of the alternative ratings if the information had been available.

Annex 2

1. For instance, the degree to which labour is abundant in a country influences, whether the techniques of production that may be most economically employed in a country are labour-intensive or capital-intensive. Thus, the availability of labour may be viewed as a conditioning parameter of the development process. On the other hand, labour is itself a resource employed in the production of development outcomes.
2. Assume that each of the vectors can be represented as possessing a finite number of components.
3. Assume that each of the d_i's is measured in dimensionless units, perhaps because they have already been subject to transformation by a score function.
4. In practice the environment facing any decision-maker is characterized by uncertainty. Decision-making in the presence of uncertainty will be influenced by the likelihood of occurrence and the desirability of different possible states of the world that may occur in the future. A decision-maker may be risk-averse or risk-neutral. In the case of risk-neutrality, the decision-maker is concerned purely with the expected value of the payoffs (advantages) that can be expected to arise from a "lottery" that can give rise to distinct states of the world and is indifferent to increases in uncertainty as to which state of the world will be attained, as long as the expected value of the payoffs (advantages) from the lottery remains unchanged. In contrast, a risk-averse evaluator is influenced by the level of uncertainty concerning the state of the world that will be attained, as well as by the expected value of the payoffs (advantages) from the lottery. In particular, a risk-averse evaluator will prefer to attain a particular state with certainty to entering a lottery for which the expected value of the payoffs (advantages) is the same as would be garnered in the certain state.
5. Rawls (1971).

Annex 3

1. Burnside and Dollar (1997, 1998, 2000).
2. Hansen and Tarp (2000).
3. Burnside and Dollar (2000).
4. The series are immunization, DPT (% of children under 12 months), and immunization, measles (% of children under 12 months).
5. Chang, Fernandez-Arias, and Servén (1998).
6. Burnside and Dollar (2000).
7. Aid only has the second largest normalized beta coefficient. Infant mortality at the beginning of each period has a normalized beta coefficient of –0.4.

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