

TRANSCRIPT OF DEVELOPMENT DRUMS [EPISODE 2 – HARARE]

Host: Owen Barder. Guests: Peter daCosta and Adrian Wood

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Owen Barder

Welcome to a new series of Development Drums, a podcast which takes an in-depth look at key issues in international development. This is Owen Barder from Addis Ababa in Ethiopia. In this 21st edition of Development Drums we'll be taking a close look at rigorous evaluation of development programs and in particular the role of randomized controlled trials

Owen Barder

So hello and welcome to the second edition of Development Drums recorded on 19th September 2008. Development Drums is a podcast about current news in global development and our aim is to give you a quick synopsis of the main stories in global development this week and some comment and views from experts. And we've got two terrific guests on the podcast this week. In Kinshasa, I'm pleased to welcome Peter daCosta. Peter knows the breadth and variety of Africa as well as anybody I know. Originally from Gambia in West Africa, Peter trained as a journalist and reported on West African affairs during the 1990s. He then moved in 1994 to Zimbabwe where he was the regional director of the Inter Press Service, and in 1997 Peter moved here to Ethiopia to Addis Ababa to become the Director of Information at the United Nations Economic Commission for Africa. And then after some time in London doing a Ph.D., Peter now lives in Kinshasa with his wife. Peter welcome to Development Drums.

Peter daCosta

Thank you, Owen.

Owen Barder

And my second guest is Professor Adrian Wood. Adrian is the Professor of International Development at Oxford University. He went from teaching economics at Cambridge after studying at Cambridge and Harvard in the 1970s where he went on to the World Bank to work on China and Turkey, and on the 1980 World Development Report which if I remember rightly was about adjustments in growth.

Adrian Wood

No, it was about poverty and human development.

Owen Barder

Oh was it? It was about poverty?

Adrian Wood

Yeah.

Owen Barder

There we are. And Adrian then spent five years as a professorial fellow at the Institute of Development Studies at the University of Sussex and then five years as the chief economist at the UK Department for International Development. And that's where I had the privilege of working with Adrian. And saw firsthand Adrian your ability to explain complicated economic ideas to ministers and senior officials not all of whom were instinctively taken to understanding the world through the eyes of an economist. So it's a great gift you have and thank you for coming on the show.

Adrian Wood

Thank you, I'm very happy to be here.

Development

Drums





Owen Barder

Now, before we start I just want to tell you about the feedback we have had some – from our inaugural episode last week. We’ve heard from a couple of listeners that they really liked the idea of a podcast looking at development news and we’ve had lots of compliments about the content and the style of the show. We’ve also had a couple of people saying they wanted a bit more diversity of voice and views, so we have got twice as many people on the panel this week, and a bit more voice from people from developing countries. So Peter your input from Kinshasa will be particularly welcomed by the listeners. And a couple of people have said that they want us to be a bit shorter and a bit snappier. So my mission this week is going to be to make sure that none of us rambles.

This week we are going to be looking at whether donors should cap the amount of aid they give to Africa. We’ll be talking about the new power sharing agreement in Zimbabwe and what that means for development and for donors. Care International has published a new report saying that we should do more to prevent disasters and help people with security rather than spending money on dealing with problems when they happen, and the World Bank has published its latest Doing Business surveys. So it’s a packed week of news.

So, this week there has been a lot of controversy on websites and on the blogs in response to an article, in The Financial Times saying that donors should cap aid to Africa. The author of that piece was none other than Adrian Wood. So Adrian, can you tell us why you think that African countries should have a little help from their friends but there is such thing as too much help?

Adrian Wood

Yeah, my concern is that if you give too much aid to a country for too long, although you are going to get a lot of benefits along the way, the long-term effect is to undermine governance in the country fundamentally because if a government is relying for most of its revenue on donors, it’s going to pay much more attention to what donors are saying and not enough attention to what its citizens are saying.

Owen Barder

So your worry is mainly about the accountability of government to its citizens if those citizens are not paying for services through the tax.

Adrian Wood

Exactly.

Owen Barder

And is not so much the point that you sometimes hear about the macroeconomic effects of aid the so called Dutch Disease effect, or do you think that’s also a problem?

Adrian Wood

There are a range of problems that you get if you give high levels of aid to countries for long periods of time. Macroeconomic problems, problems of controlling corruption, they are all quite serious problems but I think that they can be dealt with if governments and donors behave in the right kind of way. My worry about the governance, the undermining accountability problem is that it’s much, much more difficult to see a way around this.

Owen Barder

So this is similar to the idea that Mick Moore, one of your former colleagues at IDS has been making that the evolution of the state has depended historically on a social contract between the government and the people in taxes. So it is what you are saying that if you have too much aid then a social contract doesn’t evolve?

Adrian Wood

Very, very much that and you get a very, very similar problem if a government has large oil or other resource rents for long periods of time, doesn’t have to raise taxes from its citizens, doesn’t have to get



their consent to being taxed, to how the money is spent simply, this, its revenue comes out of the sky as a free gift and fundamentally, you know, as you see in the range of countries governments do what they like.

Owen Barder

So your article in The Financial Times suggested that donors should cap aid at 50% of the tax revenue they are receiving, is that right?

Adrian Wood

That's right. I mean 50% of the revenue that they are raising from their citizens in non-coercive, non-distortionary ways. And I mean that why 50%? Well, fundamentally that means that governments are then always going to get at least two-thirds of their revenue from their own citizens. They are never going to be in a situation where majority of their revenue is coming from donors. And so they, the bulk of their attention is going to have to be focused on their citizens and what they are saying and with donors in a much, much smaller role.

Owen Barder

So 50% is inevitably an arbitrary number? It could – and presumably it could be, it could be matching their own tax revenues or 25% of their revenues. Is there a particular reason based on the empirical evidence why a ratio of \$2 of internal tax revenue to \$1 of aid is the right number or is that – are you just trying to make a judgment?

Adrian Wood

I mean, it's a place to start a debate fundamentally. I mean 50% is – I mean, no specific percentage is ideal for every country. I mean what you'd like to do is actually to, in each country, looking at the circumstances balance the benefits of additional aid against the costs of undermining accountability and that balance is going to vary from one country to another. And if any limit of this kind were ever imposed in reality I would hope it would be implemented in a more nuanced way than by simple 50%. But 50% I think is probably the upper limit. I mean what I want to achieve is a situation where donors are, very clearly, as it were, minority funders relative to citizens. So I think 50%, a third of revenue from donors is probably as much as one could accept.

Owen Barder

Let me bring in Peter. Peter, have you experienced and seen first hand a situation in which the existence of large volumes of aid make government less accountable to their citizens? Do you agree with this idea of capping aid?

Peter daCosta

Well I agree with the – I think it's important to – the debate about the sustainability and the value of aid in this context, I think it's a very interesting idea to kind of speak of trying to sort of somehow force accountability by having donors put a conditionality on the amount of aid and tie it to taxes. Now, I think the problem with this is – yeah I mean it's great in the marketplace of ideas to have this kind of discussion and it's certainly very stimulating for economists and other sort of aid experts, of which I confess I am not one. But in reality, if we look at reality on the ground not many countries in Africa, okay, can sort of boast the kind of accountability compact between people and the government that, you know, would be ideal. And I am not sure that imposing sort of caps on aid from the outside would actually trigger or also force or capitalize this accountability.

I mean I think there are lots of complex issues related to governments within countries in Africa, and those issues fundamentally have to be addressed from inside by the people. And I think in this era where we are talking about post Accra, the high-level forum, where it emerged very clearly that there is a huge transaction cost to aid for lots of countries. There is a growing fragmentation of aid. There are huge issues with alignment and so on. I think what we need to try and do is see if we can get donor behavior in a collective way just to somehow enable the impact of aid, enable aid effect as opposed to, I mean, if we have an idea like this we'll have to take into account the fact that aid is in no way coordinated and is quite fragmented at this point, and that there are actually increasing numbers of donors. And so, to then come in and try and impose collective behavior in terms of a cap on aid would be probably undoable.



Owen Barder

Adrian, let me put that point to you explicitly, wouldn't it be better to go on giving the aid and getting the benefits that you say aid brings, but doing it in such a way that it doesn't undermine domestic accountability. Are you saying that there is no feasible way for donors to, for example, by putting aid through government systems, to augment government's resources in developing countries but still leave then that government itself in a position where it can be accountable to its own people for how they use its resources?

Adrian Wood

I think it's very, very important to improve the way aid is delivered. I mean that's something I emphasize a lot in my work and I think that there are certain kinds of improvements in aid delivery that actually diminish the problem I am worried about, the problem of undermining governments. But it's not actually as simple as I would like it to be. I mean what Peter was talking about which is the fragmentation of aid and the appalling way in which aid is delivered, there I think what's called the country-led model which is fundamentally, you know, put governments in the driving seat and donors support that, donors channel financial resources through the governments budget, have it spent by the government's own civil servants, that's very, very good in terms of avoiding the problem of undermining government competence, government capacity. But it's not clear that it is actually reducing the problem of accountability.

The problem with a country-led model where you are delivering aid through the budget is that it gives donors a very big stick, and they talk in a nice friendly way, but if something goes wrong in a country and Ethiopia is a very nice case in point of how this happens, with the country-led level, with a lot of budget support, you get into a situation where if something happens that donors find politically difficult to deal with at the donor country end, questions will be asked in parliament, the aid budget will be questioned. Then you have a situation where donor's got the power to simply turn off aid or cut it in aggregate very easily and very quickly which would have been much-much more difficult in the bad old days of thousands and thousands of small projects.

And, so there is a kind of political pathology here which I have actually seen. I mean I got worried about this actually working in DFID because I saw this happening. If something happens in a country you are giving large amounts of aid to particularly through budget support, I mean either there is some corruption scandal or something goes wrong in an election and people are being arrested or people are being shot, the Secretary of State for International Development has no choice politically but to get on the phone and call the president or the prime minister of the country concerned and tell them to stop doing it.

Owen Barder

But, Adrian, now we are talking here about aid which I think you would accept and, you know, people like Jeff Sachs would argue are, you know, being used to save lives, to build the infrastructure, to develop agriculture, to help countries to adapt to climate change and it's actually useful. And what you are saying is that we should limit the amount of that useful spending that we are investing in because when something goes wrong in the country we as donors won't be able to help ourselves. We will feel it necessary to interfere in the internal politics of that country and that the country is worse off as a result – as a result of that interference. And therefore because we are unable to help ourselves in that, from doing that, it would be better that we don't spend the money on building infrastructure and saving lives and developing agriculture. That, is that a correct characterization of your argument.

Adrian Wood

It is, it is unfortunately is a correct characterization, it's a very, very difficult trade off here between the immediate benefits of aid which are very large and all the ways you describe and the longer term risks of undermining accountability, of undermining good governance. And good governance is absolutely fundamental to successful all round development. I mean all the countries that have become rich or are on the road to becoming rich have had strong, good and in some fundamental sense accountable governments.

Owen Barder



So your argument is not that a government will only be accountable if people are paying taxes, your argument is that because of the way the donors behave and feel it necessary to step in, if there is something happening that they disapprove of that because of that tendency of the donors therefore it's better not to give aid at all in the first place.

Adrian Wood

I mean, I'm not saying not to give aid at all. No, that's not at all what I'm saying. I'm saying you can have too much of a good thing. You got to be very careful not to give too much for too long, if you are going to avoid this problem. I'm not saying don't give aid, far from it.

Owen Barder

And there is no way that you could think of that the donors could instead modify their behavior so that they don't cause the problem that you describe while still providing the aid that has benefits?

Adrian Wood

Alas, no. I mean I thought about this very, very hard. When I said to you, that when something goes wrong in a country to which say DFID is giving large amounts of aid, the secretary of state has no option but to get on to the phone with the prime minister. That is just a harsh political reality that there is no way of avoiding as far as I can see. It's simply that the entire aid budget depends on credibility in the eyes of parliament and the public and the press. If that is undermined even in one country, the *raison d'être* of the whole aid program is under threat.

So you've got this, as far as I can see, unavoidable – because fundamentally it's because the government of the donor country has got to be accountable to its citizens and its citizens care about what's going on in these developing countries. And the other half of the political problem is that, of course is that in a situation where most of the government's revenue is coming from donors, the prime minister or president of the recipient country has no option but to take that phone call.

Owen Barder

Yeah.

Adrian Wood

You know, I mean, in China it would be an entirely different story. I mean if the secretary of state wanted to get on the phone to the prime minister of China, he wouldn't get the call put through.

Owen Barder

They'd have a job, wouldn't they? Peter, do you buy this? Do you find this a persuasive argument that donors should limit the amount of aid they give, supposing they could, as you said earlier, they may not be able to do that?

Peter daCosta

Well, yes. I'm not sure I'm qualified to just talk about the merits or demerits of that particular 50% proposal. I mean what I do think is interesting is the fact that, you know, domestic tax revenue is put on the table. And I will come back to that in a second.

But I was talking to a contact of mine who is a governor of a central bank in an Eastern African country. A country which is a very, you know, is considered by donors to be doing extremely well. And his complaint was that, you know, we need to set aside duty of governance because once you have, you are in a mature relationship with donors and a proportion of your budget is accounted for by aid money, which is meant to be predictable and meant to come in the volume that was promised and all of a sudden there is an issue of corruption that's raised, then the whole sort of budget is threatened because donors who have promised to be predictable in their financing all of a sudden raise an issue of governance and his argument is that issues of governance should be set outside the aid relationship and should be addressed but in a different sphere and they shouldn't interrupt issues of predictability.



Now in an ideal world where a given country would know exactly how much it was getting from donors and what kind of aid it was getting from donors, it would be in a much better position to plan its own development and to be able to fill its budget.

Now another country in Eastern Africa, Kenya is a country which is – the minister of finance – the last minister of finance said very clearly, very recently, that Kenya does not rely on aid for an iota or a penny of its budget. Kenya’s tax collection system is quite advanced probably one of the most advanced in the African continent. And Kenya clearly doesn’t rely on aid, sees aid as residual. Now I think that’s important but then in order for tax to become a sort of a guaranteed source of income for the government, the government needs to be able to be accountable to its people. That’s where, that of course, in a lot of countries we are not yet at that point. But I think, you know, a discussion of this nature, it’s important to have a sort of external discussion of that but I think ultimately we need to look at the reality on the ground in countries and recognize that each situation is quite different and recognize that the impetus for any sort of major change or evolution of the aid relationship should really come from the inside of these countries based on these realities, you know, as opposed from the outside, yeah, admittedly there are some very interesting ideas on the table.

But my last point in the whole sustainability of aid, and I think a number of countries are beginning to sort of diversify their sources of financing, you know, Ghana is one, Tanzania is another. They are beginning to look to private markets or private equity and so on to try and finance the development. And this is probably a recognition that aid is, A-insufficient, B-unpredictable, C-introduces a particular transaction cost on the governments and D-is not sustainable. So I think, you know, we need to look at aid in that broader context and also understand that from a sort of a perspective of the countries.

Owen Barder

Adrian what do you make of the idea that developing countries themselves ought to be setting caps on how much aid they want to receive from donors rather than having donors get together and set it themselves.

Adrian Wood

In my heart it's what I really want and I'm very uncomfortable in any situation where as it were donors are telling developing countries what to do. You know, but my head and what I have actually seen happening in reality is that it's, you know, donors make it much, much harder, can make it much harder for governments to move ahead with improving the relationship with their own citizens because they are inundating them with aid revenue. And so it's really, it's a very difficult dilemma and, you know, but I don't see it as being politically realistic in most countries for governments to sort of self impose limits on how much aid they receive. I just don't, I don't see that as happening politically, realistically.

But I'm not really deeply in disagreement with either Peter or you about the specifics of this. I mean I don't think – I think there is a problem out here of aid and accountability. I think it's a problem that donors have not thought about enough and really I want them to think about it more. I want us to understand much better the nature of the problem and also think much more seriously and strategically about what's the right way to deal with it. I mean what I wanted to do is to sort of start a debate on this which I think ought to have been happening and hasn't.

Owen Barder

And Adrian you have started a debate. People who want to read a bit more about this, there are links on the Development Drums blog for today's episode but there is a lively discussion both on the FT Economists' forum that Martin Wolf hosts and on the Center for Global Development forum in which Adrian and some very eminent development economists and others have been offering opinions.

So if you want to read some more about that I do recommend you go and look at that debate. Adrian was there anything in those comments that came up online that made you think again or that you, that would make you want to modify your proposal?

Adrian Wood



Well, there are a lot of very sensible and specific suggestions. I think people quite rightly highlighted the arbitrary nature of the 50% rule and I particularly liked the contribution from Paul Isenman where he said well, 50% fine, but think of that as it were as a yellow card. That's the point which donors should think, "Hang on, hang on, you know, is there a risk here." It's not like a red card. You then have a debate about what to do. And I think that's one of the good way of thinking about it.

Owen Barder

Well, thank you for raising the issue, Adrian. Before we move on to our next story, I just want to thank the several listeners for getting in touch with us to give us feedback. Please, if you haven't already, go the Developmentdrums.org and tell us what you think about the show. Obviously, tell us if you like it but more importantly tell us what issues you wanted us to discuss. If you have suggestions for who we might have on the future, or how we can make the podcast more useful for you.

[Music]

Owen Barder

That was Oliver Mtukudzi or Tuku, the singer whose lyrics have inspired optimism in his native Zimbabwe with a song calling for unity in Zimbabwe. This week we've seen a new power sharing agreement between Robert Mugabe and Morgan Tsvangirai. Peter, you lived for a number of years in Zimbabwe. What do you make of the new power sharing agreement and what do you think the rest of the world should do in response?

Peter daCosta

Well, it's a momentous occasion for a lot of people, you know, particularly those who were involved in the sort of political negotiations and in particular, of course, President Thabo Mbeki, of South Africa who is, it's being claimed is as triumphant in having brought this about. But in reality there are lots of flaws. I mean, it's great there has been a degree of accommodation. But there are lots of flaws in the agreement, lots of gaps and of course given the track record of both parties, well, all three parties since there is a third faction involved, you know, it's a wait and see really situation as to whether or not this will really pan out into something that, you know, brings Zimbabwe off from the brink or whether it's an agreement that will be – continue to be problematic.

For example, there are some of the big issues related to sort of division of labor between ZANU PF, Robert Mugabe and Morgan Tsvangirai's MDC. You know, there is a sort of a convoluted arrangement whereby Robert Mugabe remains head of state, controls the security services and also runs the cabinet whereas Morgan Tsvangirai runs the sort of council of ministers which is effectively subordinate to the cabinet. And it's rumored he will run finance, that means the finance ministry and also the ministry of interior, therefore controlling the police. So it's difficult to conceive of a situation where the security services who were – the apparatus was very much loyal to Robert Mugabe is now being balkanized to be sort of managed by two different people. So that's going to be difficult to see how that works in practice.

And of course there is all the wrangling over the different ministries. The ruling party has 15 ministers. Morgan Tsvangirai's faction will have 13 and the MDC offshoot faction will have three. Thereby ensuring sort of a balance of power but it's not quite clear yet which ministries will go where and there is a big sort of fight going on over whether finance should be handed over to MDC and there is all sorts of rhetoric. So the actual, and then there is also practical issues of trying to incorporate into the constitution, you know, this new agreement. And the negotiators are saying it's going to take 60 days for that to happen.

So you know, there is still quite a lot to do to sort of flesh out the agreement. Now, in terms of a way that the international community should respond, as you are aware the European Union met just after the agreement was signed on Monday, and basically said that it wasn't going to change its position. It still maintains sanctions on more than 150 senior officials in the government. It will not come back to the table with aid until it sees, you know, that there is the restoration of rule of law and some democratic space has been opened up. And this is really the position of other major donors to the Zimbabwe, you know, the United Kingdom and United States. So it's everyone sort of in a wait and see but the assumption is that if Morgan Tsvangirai is able to sort of wrest the reins of power from Mugabe as he says he will gradually



through the instruments that have been agreed on, then the donors will come back to the table and that promises of huge amounts of money, a lot of it humanitarian but some of it also sort of more long-term developmental.

Owen Barder

Peter, what's your view on this – I mean is it the beginning of a tendency across Africa where a government loses an election or appears to lose an election but instead of retiring gracefully we end up with the power sharing agreement and which takes months of effort and certain amount of violence to come to? I mean is this a trend that you think is – is this a trend in Africa and what's your view on whether this is a good way of doing business?

Peter daCosta

Well, I think power sharing is kind of very much in the spirit of African tradition, and as the African Union and President Mbeki have emphasized, it's extremely important that there be African solutions to African problems. Now, before Zimbabwe we had the case of Kenya earlier this year where we had a power sharing agreement, and in fact there have been a number of others. You know, if you go back, you know, governments of National Unity have been tried and failed in Angola, Ivory Coast, Liberia, Sierra Leone, Sudan, and if you go back as far as 1980, in Zimbabwe, shortly after independence there was some sort of attempted government of National Unity which failed, and also in South Africa. So this is not a new tendency as such. I think it just reflects the fact, the difficulty of trying to bring sort of belligerent parties to some sense of accommodation.

Now, I think in the case of Kenya, what that agreement did was put an end to all the uncertainty and the violence and stuff, and it really created the environment for the economy to get back on its feet for people to get about their business. I mean, the ordinary citizen in Kenya recognizes it. The major beneficiaries of this agreement have been the two parties and the egos of the leaders. But, ultimately, over the long-term it constitutes a guarantee that the political process will move forward in an atmosphere that's non-violent and it also strengthens the hand of the citizens because they then – having been through this turmoil are able to much more sort of strategically to exercise their vote.

Now, in the Zimbabwe context, it's a bit more complicated. Because whereas the violence in Kenya was, well, partly orchestrated by politicians but also a lot of it was spontaneous based on sort of age old grudges. In the Zimbabwean context, you had an apparatus of security, you had the military, the security services, the police, all basically unleashed against anyone who look like an opposition supporter in Zimbabwe. And, you know, this agreement doesn't necessarily reign in these people. I mean in a sense, you know, Zanu PF has negotiated impunity, because there is absolutely nothing on the agreement about prosecuting people who killed others, who attacked and beat up and raped others. And these are very sort of major issues of restitution that have to be addressed before people can feel that there is any sort of credibility in this government. Now, but obviously before that happens Tsvangirai is going to have to try and negotiate his way through this maze of ambiguity before he can actually sort of start. But he has already asserted the importance of people being brought to justice.

Owen Barder

Let's come to this question of what the rest of the international community should do in response to this. Because Tsvangirai has also said that – in his speech as Prime Minister of Zimbabwe he said we are grateful to the support you have shown us over the past nine years, he said addressing himself to the international community, and we appeal to our regional neighbors, our African brothers and sisters and the international community to assist us in rebuilding our nation, to assist us, to address problems facing our society, our education and our healthcare systems and our economy. The first priority of government is to unlock the food already in our country, we need doctors and medicines back in our hospitals, teachers back in our schools. And he said the international aid organizations came to help our country and found our doors locked. We need to unlock our doors to aid.

But Peter what you are saying is that we are in a wait and see, that we don't yet know how this is going to pan out, how these different institutional arrangements are going to be in and as you say the EC has said well, let's see what happens. Now what do you think, should we respond to Tsvangirai's request to his



appeal for help and should the donors now be thinking of large scale programs to assist in the rebuilding of Zimbabwe or do you think they should wait it out and see what happens?

Peter daCosta

Yeah, I mean, obviously the issue of having the systems in place in Zimbabwe to be able to absorb all this aid is a major question and, you know, one of the characteristics of the slide, you know, that Zimbabwe has undergone since 2000 when whole land issue sort of broke out is that the systems have been undermined. The institutions were in place, are no longer in place, the government institutions and networks and so on. So I think the new government of National Unity has a major challenge on its hands which is to try and create the environment in which all this aid of different kinds, you know, can actually come and make a difference. And you will recall that some of the as – as Tsvangirai was referring to, in fact, that there was aid in the country but it was sort of somehow blocked. The implication here is that the food aid that was distributed by sort of humanitarian agencies was basically diverted to supporters of Zanu PF and you know denied supporters of MDC. So there is that issue. I mean it may not be necessarily that there is not enough food in Zimbabwe; it maybe that the distribution channels need to be unblocked.

And then, you know, you have the government has unbanned – it basically took, it had banned the activities of a number of NGOs and international aid organizations and that has been reversed. Now that's a positive move which will obviously you know, help sort of the distribution of food and aid and so on. But then there is also aid of different types. I mean obviously there is stabilization aid. Zimbabwe's inflation rate is 11 million percent at this point and some are predicting that by the end of the year it will be 40 million percent. So you know that needs to be addressed with an IMF kind of stabilization program and there is – so discussions would have to be had with IMF on that. Then there is also, you know, and people are suggesting for example that the currency needs to be pegged to the South African rand in the short term to try and stabilize it. And then there is also obviously the sort of, you know, immediate casualties of this crisis have been health, education; social services need to be reconstructed and so on.

So I think in terms of, I think the international community should, I mean, rightly sort of rally around to help but with the recognition that the conditions need to be right politically and also infrastructurally for that aid to work. And I saw an editorial in the Economist which basically said that Europeans now have to get ready to save Zimbabweans from starvation. Now, that sort of, you know, attitude I mean, you know, sort of rendering of the situation tends to sort of create a defensiveness among Zimbabweans. Clearly there will be a lot the international community has to do to help but it needs to be marshaled in such a way that it actually makes a difference as opposed to, you know, just crowds out, you know, the situation.

Owen Barder

Adrian, if you were still the chief economist in DFID what would you be recommending now?

Adrian Wood

Well I think it would be very much what the donor communities are saying. There is no disagreement among the donors whether the official donors or the NGOs on this, they use slightly different words but they are all fundamentally saying the same thing as Peter which is, we don't quite know what's going to happen. Everybody wants to – everybody wants very, very much to do two things. One is to relieve the sufferings of the people of Zimbabwe and the other is to help Morgan Tsvangirai strengthen his political position. The problem is we don't know exactly what we need to do to make either of those things happen at this point. In other words, it's one of these things, you know, where the devil is in the details and where, I think, there is going to have to be very, very hard discussion is about, you know, exactly what certain sorts of assistance we should give and what those certain sorts of assistance should be contingent on in terms of what's happening in the country. And I think to be able to formulate that kind of detailed, that sort of detailed plan, A, you need a lot of information about what's going on in Zimbabwe and, B, you are not going to know it now. I mean you have to wait and see what happens and learn. So I think actually the donors are being quite sensible about this and I think I would be arguing very much the same thing.

Owen Barder

Let's move now to a new paper that's been published by an NGO called Care International which was actually on the BBC World Service yesterday. It's made the news, it's been published in advance of the



conference next week in New York on meeting the Millennium Development Goals which we will be covering in next week's edition of Development Drums.

The Care International paper says that the world is spending too much money on helping people cope with disasters and is spending too little money on resolving the underlying issues that trap people in extreme poverty and leave them in conditions of insecurity. Adrian, did you have a chance to look at this and what did you make of it?

Adrian Wood

I did, I did. I mean who could disagree with this, these propositions which have been made, god knows how many times before over an enormous number of years. You know, ideally the way you want to crack these problems is fundamentally by doing whole range of things, not all of them aid related but that will promote development in poor countries. And a part of it is indeed improving the way in which aid is delivered and its effectiveness. And, if we can do all those things successfully then the need for this kind of emergency firefighting is going to be reduced.

That's absolutely indisputable and I don't think that Care International has offered anything particularly new in terms of specific things that need to be done, you know, in these more fundamental areas. And, you know, what are they saying? I mean, yes, we've spent \$100 billion on emergency aid over the last seven or eight years. Are they saying that we shouldn't have done that? I mean that we should have just sat back and waited for the development assistance system to improve in the long run. No, they are not saying that. I mean they couldn't possibly be. So as I say, I wonder what the value added in this report is.

Owen Barder

Peter did you think that it made proposals for change or was it just repeating the same criticisms as before?

Peter daCosta

I agree with Adrian that it's not saying anything new as such. I mean what makes it sort of, you know, relevant at this time is the fact that, you know, obviously this time to come out, you know, on the basis of the food crisis and it sort of somehow comes out on the back of the shocks that peoples are experiencing, that the poor experiencing worldwide.

Now, yes, as Adrian says, I mean, it's saying absolutely nothing new and the international system should, I mean, should have stopped, you know, and sort of, you know, tried to do something different. What we are basically faced with here is a reminder that the global sort of architecture and development institutional architecture needs to be overhauled and again this we've have heard many times. The UN assisted needs to reform and so on and there are various things happening in the UN to try and bring back the coherence.

But the yawning gap which still exists is the fact that humanitarian assistance is sort of, almost despite the fact that there is an impetus to provide development assistance, I mean there is a huge gap between, you know, food aid, for example, which the World Food Programme doles out and, you know, stuff that UNDP is doing on development and other aid agencies are trying to do, and unless that sort of gap is closed, you know, and also we recognize the gap between emergency assistance in situations of conflict and sort of more mainstream development type activity. Unless I mean there has been a lot of rhetoric about post conflict and all of this stuff. And different agencies have categorized different countries and tried to build a continuum between sort of emergency and limited development. But in reality very little is happening on the ground and so the default position is that every time there is a crisis people get, you know, food thrown from planes and at the same time in the same country other stuff is going on which, you know, isn't necessarily congruent with this food aid. So --

Owen Barder

Peter, you are saying one issue is that we need to join up better between the humanitarian effort and the development effort. But there does seem to be an issue that they've identified in the report which they talk about in the case of Niger. But I have seen it right here in Ethiopia as well which is that, when you see a problem coming, you can have all the early warning system, you can have all the evidence and yet nobody does anything about it until it turns into a crisis by which time not only is there enormous human suffering



and tragedy that could have been avoided but it actually becomes much more expensive to deal with than if you had stepped in sooner with an appropriate response, and helped people, for example, to improve nutrition while staying in their home rather than moving, for example to a relief center or a feeding center. And here in Ethiopia we have people who are in food crisis because of a harvest that failed in February and March this year, and we had the early warning signs as early as March and April. We had the – there are early warning systems in place, we knew there was going to be a food crisis but it wasn't until CNN had pictures of starving people on televisions that any money was forthcoming to do anything about it.

Now, Adrian, you said, well, should we be spending \$100 billion a year on emergencies. Well, wouldn't it have been better to spend \$100 billion a year on helping those people before they got into the situation they are in now?

Adrian Wood

It absolutely would, and I mean the situation you described is just yet another instance of the problems that arise from a fragmented uncoordinated aid system where nobody is in charge, nobody can hold, as it were, donors to account. I mean this is – it's an extraordinary situation. This is an orchestra without a conductor, and as I say it's what you see in the situation of emergency aid is just, you know, nobody is in charge and it's, you know, it happens across the board and I'm very, very – I entirely agree when Care International is saying that in addition to fixing the problems of the – as it were - the aid system in general, you need to fix the problems of the emergency aid system, that is absolutely right and it's been said many times before and it's very, very difficult to do anything about it because you come back to these fundamental political problems of a very, very fragmented aid system.

[Music]

Owen Barder

That was Eric Clapton with Let It Grow. This week the World Bank has published its Doing Business Report. Doing Business is a measure of the costs of doing business in developing and in developed countries. They produce a report each year looking at 10 indicators to see what progress is being made in helping create an environment in which business can invest and grow. And this year, in among the top 10 reformers there are three countries from sub-Saharan Africa, Senegal, Burkina Faso and Botswana, but Eastern Europe and Central Asia dominated the list of reformers with Azerbaijan, Albania, the Kyrgyz Republic and Belarus all showing very strongly as places that are increasingly good to do business. Peter, what did you make of the Doing Business report which always gets a lot of attention in the press and is treated as a very strong indicator of government policy?

Peter daCosta

All right, well, I think the – in a sense it's a no-brainer that any country worth its salt will basically try and improve its business climate. Now, I think, yeah, the report is very useful. I think maybe we may want to ask some questions about the indicators. You know, to what extent are they sort of ideologically linked to the sort of ideological reform of the '80s and '90s and to what extent do they really reflect, you know, the reality of the business climate today? Now, but as far as the – I think the idea of most countries I think, you know, if we move beyond structural adjustments, we move beyond those debates, and most countries recognize pragmatically that they need to be able to attract investment. Now, the question is what sort of investment are we talking about?

Now, in the past the investment that most countries are trying to attract was FDI from sort of, you know, the north basically, the industrialized north. And, you know, lots of studies have shown how difficult it was to attract that investment even if the fundamentals were in place. You know, the fact that FDI doesn't really move beyond certain regions of the world. Now, what's changed today is that countries are looking south, southern countries are looking south for investment and they are no longer just trying to improve their business climate to attract investment from the north. So that's one major sort of underlying fact. And then, on top of that also – I mean obviously that's led to a certain environment, a certain attitude on which it's quite prevalent in countries that are resource rich that is not so much about us improving our climate, it's about us opening our doors to China for example, where they come and improve our infrastructure, and in return they can have as many natural resources as they want.



So, it's created, you know, there are a number of different dimensions to this, and it's no longer about FDI from the north coming to countries in the south.

Adrian Wood

This is the most straight-forwardly good news story of the week. You know, this is not going to revolutionize development, but what's happening, what's being described in this report is unambiguously an improvement. And, I mean these reforms are actually not fundamentally aimed at foreign investments at all. They are 99% aimed at local investors and they are very, very simple things like making it much, much easier to set up a small firm, to pay taxes, to carry on business in the country and where I see the benefits coming is simply facilitating and stimulating entrepreneurial business activity by local people in their own countries. And, as I said, it is truly a win-win thing, you reduce the regulations, you streamline the process of setting up a business that is both good in terms of promoting economic efficiency and growth, but it also reduces corruption and it also reduces the number of people you have to pay bribes to to set up a business. It seems to me – as I say, this is – it's not – this is not a very, very big deal because the list of indicators they look at is quite restricted. It excludes some very, very important things like quality of infrastructure, crime, you know, indeed even business expectations, but, you know, let's not make the best the enemy of the good, and this is unambiguously good.

Owen Barder

That's all for this week's edition of Development Drums. I would thank both of my guests Adrian Wood, who is at my sister's house in Brighton, and Peter daCosta who is at home in Kinshasa. And I would like to thank my sister, Virginia, for hosting Adrian and making him coffee, and to mention particularly Bob Smith, who recorded the Development Drums jingle.

Next week we'll be talking about the big meeting in New York, about progress towards the Millennium Development Goals and we are expecting some announcements there which we'll cover in detail.

Please do visit Developmentdrums.org, give us your feedback on this edition of Development Drums. We really want to hear from you about what you like and what you don't like about this podcast and what you want us to discuss in future. From me here in Addis Ababa thanks for listening and I hope you'll join us again next time.
