TRANSCRIPT OF DEVELOPMENT DRUMS
EPISODE 7 – SOPHIATOWN

Host: Owen Barder. Guests: Alex Cobham & Stephen Devereux

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Owen Barder
Hello and welcome to Episode 7 of Development Drums.

[Music]

Owen Barder
That was of course the great Miriam Makeba, who died this week at the age of 76. She was a singer, an anti-Apartheid activist, and a campaigner against injustice in Africa. It was a life well lived, and she will be sorely missed.

I am joined today by Alex Cobham, policy manager for Christian Aid and a former fellow in economics at St. Anne's College, Oxford. And from down in South Africa, I am joined by Stephen Devereux from the Institute of Development Studies.

Coming up, we will be talking about the Financing for Development Conference in Doha, and in particular, on moves to change the rules so that companies pay the tax they should to developing countries.

But first we're going to look at the continuing food crisis that's affecting millions of people in developing countries and what both governments and donors can do about it.

[Music]

Owen Barder
Sitting here in Ethiopia, it feels to me as if there is still a serious problem. Food prices have risen in Addis Ababa for the staple food, which is teff, food prices have quadrupled. And yet across the world, people's attention has moved to the financial crisis and the credit crunch.

So I guess the first question to ask you both is whether there is still a food crisis or how the big the problem is still internationally. Stephen?

Stephen Devereux
Yes, I think that there certainly is a food crisis. It's not quite clear what the food crisis is actually is, though. Normally when you talk about a food crisis, you expect to be hearing about harvest failures, drought and so on. In fact, there are as you mentioned droughts in Ethiopia and other countries. But the problem isn't so much food supply, it's more about how the food is being utilized globally, and then the effects on prices. And I think the main food crisis in terms of poor people in Africa is on food prices.

Owen Barder
So this is the familiar point is it, that Amartya Sen made in the 1970s, that it isn't that there isn't enough food. It's that the people who need access to it don't have the entitlement to get it. It's a distributional problem.

Stephen Devereux
That's exactly it, yes. And it's also escalated by the fuel crisis, because as the price of fuel goes up, so the cost of transporting food around from surplus to deficit areas also goes up. And so even within countries, we're seeing massive discrepancies in prices between the large urban centers and the remote rural areas,

because getting food out to those rural areas requires trucking and trucking is very expensive and increasingly so with the high fuel prices.

So it's a combination of shortened supplies in terms of what's available to for sale and the cost of getting it from one place to another, which is driving up prices and making it unaffordable for the poor. And that's the real problem about the crisis. It's not lack of food, it's un-affordability of food for the poor.

Owen Barder
This is a different analysis, that – there was a lot of speculation in the press earlier in the year and around the summer that the rising food prices, and indeed rising commodity prices, were simply supply and demand. You have fast growing populations in China and India that were becoming increasingly rich, they were wanting to buy more food, buy more fuel. And because it would take time for the supply to rise in response to that, that in the meantime the price would rise. So that's an idea that there's a kind of trend increase in demand that's leading to a price rise.

The point you're making is a slightly different one, which is a micro-economic one, there's problems with transport, there's problems with particular harvests in particular countries. And that's leading to a distributional problem. Some people's harvests have failed and they can't – they don't have enough money to buy food in the market. Does that mean that our analysis of what's underlying the food crisis is now different than people were saying in the summer?

Stephen Devereux
Not necessarily. I think it's the interaction of trends and the micro level shocks, if you like, which is causing the crisis in certain areas. And it's also to me, there's a risk of complacency here. Because we're now seeing global food prices starting to level off and people are saying the crisis is over, prices are going to start coming down quite soon. And that might be true at the global level.

But these trends that you talk about with China and India suddenly increasing their demand and surpluses being diverted from the U.S. and Europe towards the Far East, et cetera. Those kinds of trends would account for slow increases in price inflation over time, which is what we have seen. But they don't explain these sudden price spikes that we've seen, with prices suddenly doubling or trebling in parts of Africa.

So I think for that, you need to look at this other set of factors, which has to do with weak markets within countries, high transport costs, monopoly pricing and also harvest failure. So you do have this supply failure at the local level, plus constrained supplies at the global level, and then the cost, as I said, of moving food around, which raises that cost again beyond just the price rises at the global level. There are also these transactions costs which make it un-affordable once you get out to Northern Kenya for example or highland Ethiopia.

Owen Barder
Alex, do you want to come in at all?

Alex Cobham
I was thinking in a sense about the – kind of the way this plays out with the financial crisis. And as Stephen said, it has kind of diverted attention, the financial crisis has diverted attention from the food crisis. But it's certainly still there. And one of the exacerbating impacts that I think we may well see is that the period of high prices for food has driven to some extent increased investment. But I would say the financing for that investment is certainly under threat now. So whether you get the kind of market response to those higher prices that you'd expect eventually over time coming through now, I think is less clear.

So the potential for – although globally, inflationary pressures are likely to fall, the potential for that to remain in food is probably quite high. Both the IMF and the World Food Program are certainly still playing up the fact that prices are higher on average, and that's having particular effects. The IMF has some analysis of food consumption having fallen in urban households, poorer urban households by 16% in Nicaragua and 3% in Mexico from the end of 2006.

Now if you see food prices coming down significantly, then that may start to unwind, leaving aside questions of the economic impacts of the crisis on people's incomes. But without investment in greater food production, it's not clear that that will happen. So you may get food inflation remaining relatively strong even as global inflation, well generally is falling. I think it is something that people need to keep an eye on.

Owen Barder
The concern that you're both expressing is that there was a flurry of interest and donors talked about investment in agriculture. And the question about whether that is – whether they've lost interest in that already, given the broader scale of the financial crisis, or whether there's still underlying work going on – I mean the cynical view might be that when food prices are threatening to cause disruption in home markets in donor countries, when prices are rising in supermarkets, then countries get interested in investing and increasing food in developing countries. But if the problems are these local spikes and local supply problems as Stephen was describing in developing countries, those are likelier to attract a whole lot less interest from donor countries. Is that – is that too cynical a view about what we're witnessing?

Stephen Devereux
I wouldn't say it's too cynical. I mean agriculture in tropical countries – Africa and South Asia, but especially Africa – has been scandalously neglected by the international donor community for decades. And even the recent World Bank World Development Report on agriculture doesn't offer very much to the small farmer. So it's only when we in the West are affected by high food prices that suddenly we become more preoccupied with trying to do something about it. But certainly there are initiatives around to try to launch a green revolution for Africa and so on and talk about renewed investment in smallholder farming.

And that hopefully will not be undermined by the financial crisis, although I think Alex makes a very good point that there is a connection there, and there is a risk that all of the recent impetus around investing in agriculture might be lost because of the refocusing on the financial crisis and the scarcity of resources, public resources for investing in agriculture.

But without that investment in agriculture, we can't either see smallholder incomes growing or food prices coming down within poor countries and that's the problem, because, there is also a paradox of course around food prices that higher food prices are actually good for farmers, but low food prices are good for consumers and the people who are most affected by hunger and food insecurity are in fact smallholder farmers who don't grow enough of their own food and so for part of the year they are dependent on markets. So for part of the year they want prices to be low and the other part of the year they want prices to be high. It's a very difficult balance to get right and right now they are losing out at both ends if you like.

Alex Cobham
That difference between the interest of producers and the consumers does go back to the things that people have said for years about the importance of, if you like, attacking the margin between those two, so making it easier for people to get their produce to market in particular and whether that's through supporting cooperatives that makes market access more economic or it's through investment infrastructure, particularly these things still have – even with Robert Zoellick at the World Bank you are talking about agriculture and hunger as one of his main priorities, these things still have a terribly low profile and in the midst of all the development ideas coming out.

Owen Barder
So one possible reason why donors may not be investing enough in agriculture and there is a common criticism from the experts that donors have backed away from this issue in the last decade or so, might be that donors don't really know what to do, they in the '60s and '70s were promoting a lot of government intervention to support agriculture, there was a lot of investment and things like extension workers and that didn't prove a great success and in the '80s they switched to a different extreme. The international agencies began to promote the idea that the private sector should be allowed to invest in agriculture and supporting small farmers and the government should get out of the way they are doing that and there was a wholesale retreat of government in developing countries from agriculture and that proved, didn't prove a success either and the question to my mind is – is have we arrived at a situation where we know what in between

those two extremes we ought to be doing. Stephen is it now clear what kind of set of policies donors and indeed partner governments should be pursuing in the agricultural sector that combines the role of government with the private sector?

Stephen Devereux
It's getting a little bit clearer but we still don't have consensus and I think in a sense we are still living through the consequences of having jumped from one extreme to the other – as you said in the '60s and '70s, the government was very interventionist with the agricultural marketing parastatals subsidies everywhere and that obviously as you said didn't work very well. So we jumped to the other extreme all of those institutions and policies were taken away and farmers were thrown on to the market, but the market was very weak and without infrastructure, especially markets transport networks, communications and so on, it was just not possible for the private sector to fill the vacuum that was left when the state withdrew.

Now the question is as you say how do we get the balance right, how do we get the mix of public and private actors in place and what should we take from what we – what we have tried in the past that didn't appear to work and adapt to the circumstances of today? For example, one thing that we have seen quite strongly in recent years is the reintroduction of fertilizer subsidies which were more or less abolished by the World Bank and other donor agencies in the '70s and '80s, but which government themselves have been pushing to reintroduce and in fact they have gone ahead and done often without donor support. Because they believe very strongly that the farmers need access to inputs and the market is not delivering that access.

So fertilizer subsidies are one mechanism which was dismissed as having failed in the past. But perhaps it was just the way it was delivered that failed in the past or perhaps we can think of new ways of doing smart subsidies as the World Bank likes to call them which would make them work more effectively now. And the object obviously is to try to get farmers to produce more to have higher yields and higher incomes. And we must look at all the mechanisms available to do that whether that requires public support or private sector development or a combination of both.

Owen Barder
Alex is it relatively clear to you what kind of interventions should be being promoted in the agricultural sector?

Alex Cobham
Well, it doesn't seem entirely like rocket science at least, and I actually say we've gone from one extreme to the other and we know the answers are in the middle. And I certainly agree with everything Stephen said that if we are concerned about yields and we know that systematically smaller farms produce higher yields from their land, the questions we need to address are around those smaller farms abilities to access markets primarily, but also to access inputs.

Now, on the one hand that may mean fertilizer subsidies, equally it may mean finally grasping the nettle of appropriate rural finance. And in some cases, I think we need to accept that is going to mean state supportive banking. Now that's kind of – become slightly less – yeah, slightly less unthinkable and over the last year.

Owen Barder
So we're talking about state investment in infrastructure by which we assume you mean roads including feeder roads and rural roads. We're talking about fertilizer subsidies and presumably also seed subsidies, we are talking about the possibility of state banks. This does sound a bit like we are going back to the kind of collectivized farming of the '60s and '70s. What's – are saying that the role for the private sector in introducing new technology is all providing financial services, isn't going to work anytime soon in developing companies.

Stephen Devereux
No, I think we need to be very context specific about this and it's not necessarily state banking that I would particularly want to push. But potentially some state support to banking if that's to private banks. So that's what it takes to get an effective rural banking system in place. And that's really going to depend a lot on the context of individual countries. I think perhaps that's what we have got, what we can take from this switch from one extreme to another that we are in a position now where there should be enough policy space and enough evidence of what works that we can be a little bit more nuanced about thinking what's appropriate in a particular context.

It does mean, I think, a bigger role for the state than we've seen. But that's almost inevitable because the donors have pushed so far away from that. But that does not meant going back to where we were before, it just means opening up a little bit and thinking a bit more about what's needed and then what will deliver that, if that's more or less of a state role or if a market role then that's where we should go.

Owen Barder
And Stephen, are you optimistic that the donors are now giving proper attention to agricultural policies as part of their package of inventions? Or is the talk that was around in the summer, that this was important and we needed to do more of it, is that being sustained, is there evidence of this that there will be programs of this kind?

Stephen Devereux
I certainly don't think that the donors can continue to ignore agriculture and the problems of the small farmers, especially in Africa. This doesn't mean that they are going to back up their rhetorical commitments with large amounts of funding, or even that they are going to accept the approach that the settlements themselves are taking. And maybe what's more encouraging is to see the lines that governments are taking and the fact that they are sometimes being rather independent and trying to come up with innovative solutions to their own problems.

And if I can go back to the example of fertilizer subsidies, because there has a certain resonance and a certain baggage attached to it but we are not talking about the old style fertilizer subsidies where there was one agricultural marketing parastatal and that parastatal imported tons of fertilizer and then sold it at a fixed price to farmers and farmers couldn't buy from anywhere else or sell their produce to anybody else, and it was entirely collectivized and entirely controlled.

What we're looking at now is much more innovative approaches for example using vouchers whereby the private sector is subsidized to deliver fertilizer to farmers and the voucher system. And sometimes even using smartcards where farmers go to a store and they buy their fertilizer and they pay for it with a swipe card or a smartcard through a point of sale device. So that's using the private sector very creatively to do the job that he was meant to do in the first place but hasn't been able to do until now, because it select the incentives or the profit margins to do that.

So if you can find ways of using new technology involving the private sector but making sure that the public sector is doing its job of getting access to inputs to farmers, getting them access to markets. Then I think that's a much better way of looking at a much more innovative approach than some of those methods that failed in the past.

Owen Barder
Now clearly, these are approaches that will help to increase food production and productivity in the long run. In the short term, with the food crisis underway at the moment, and there're a lot of people very significantly affected by that. We are seeing some interesting more shorter term programs. Here in Ethiopia there's the social protection program. Stephen, what are we learning from that? Is that – are those proving a success?

Stephen Devereux
It has actually been quite a revolution in social assistance or social protection programs in the last few years. We have moved a long way from old style food aid delivery where you just essentially dump surplus food production from the west all over Africa. There is a big backlash against that led by many donors.

And we're seeing the introduction of cash transfer programs in several countries. At least eight or ten countries that I can think of have got emergency cash transfer programs or longer term social cash transfer programs or even social pensions for citizens over 60 years old. These have been introduced in many countries.

Owen Barder
Stephen, do you want to explain for people who are not familiar with these social transfer programs, what exactly happens? And the difference between the social protection programs that are conditional cash transfers and the unconditional transfer programs?

Stephen Devereux
Yes, certainly. When we talk about social cash transfers, what we mean is there are groups of people that are identified as being vulnerable. For example, widows looking after young orphans or every person over 60 years old. And those households become eligible to receive cash transfers.

And then every month those cash transfers are delivered. Either people go to the nearest post office to collect them or else there is a cash distribution at a local pay point where people gather on a certain day and the pay point provider – the service provider arrives and delivers the cash to those people.

And that's done on a regular basis, usually every single month. And in Lesotho and Swaziland, Botswana and Namibia, these countries have all introduced social pensions, which means that every single month they are handing out cash transfers to hundreds of thousands of poor – well every person over 60. So that's happened.

And in Ethiopia there is a program, which is called the Productive Safety Net Program, which is targeting eight million people. It's the biggest program in Africa. And that again delivers cash transfers as well as food – either cash or food to households who have to work. So that's – it's a public works program actually. And that's a conditional program. So you have to work for your grant in some cases.

In Latin America, they have programs where people have to send their children to school or get them immunized in return for the cash. That's also a conditional program. But there are also unconditional grants being made in many other countries, Malawi, Zambia, Kenya, Ghana, there are programs giving unconditional cash transfers to people identified as being poor or vulnerable.

Owen Barder
And in most of these cases are these grants that are being administered by the government but funded by foreign donors. Is that a broadly accurate generalization?

Stephen Devereux
That's true of many of them. There is quite a mix. There are some projects, which are run entirely by NGOs and funded by international donors. And those are non-governmental programs usually run on a small scale pilot project level at the districts, say.

But there are all these national programs as well, which are government run. The social pension programs are all government run. The Ethiopian program is a government program with donor support. So it's usually a combination of donor and government intervention, people working together to deliver.

I think what we have learnt a lot from these experiences is that cash transfers are preferred by people in most cases because they give people more choice. You know you give a person food and they have non-food needs. But they can't meet their non-food needs unless they sell the food aid.

So cash transfers give people more flexibility and more choice. And they also tend to stimulate markets. We are having a lot of evidence of economic multiplier effects, income generated by the cash transfers of the order of two or three times the amount of the cash.

So very big positive impacts in terms of the cash transfer programs but I think what's really concerning and how the food crisis has come along and undermined a lot of these positive lessons is that obviously the value of the cash transfers falls as the price of food and other basic goods rises.

So unless you manage to index link the cash so that you are paying people enough to buy that same food basket or whatever the price of food is, you run the risk of the value of the cash eroding.

And what we've seen in Ethiopia and in Kenya is that beneficiaries of these programs are now asking for food rather than cash. They have gone back to the old reliable commodity based transfer because they know that food retains its value whereas cash loses its value when prices rise.

Owen Barder
Very interesting, very interesting. Alex, this sounds miraculous. Isn't it? These – I mean apart from the issue – the important issue that Stephen mentioned at the end there which presumably we could do something about. These cash transfer programs seem like a very important way forward.

Alex Cobham
Yeah, I mean I strongly support that. I mean it's – one of the things – coming back to the point earlier about where we might see if anywhere – us being on the spectrum of states and markets. One thing that sort of program requires is – really to be rolled out in serious scale is a state with revenues but also the bureaucratic capacity to do that and to keep the payment process relatively clean. And that kind of goes back to another neglected area where I think attention is also rising, which is the ability of states to raise tax revenues to actually fund that kind of process but also at the same time building the bureaucratic capacity needed.

Owen Barder
So we're going to move on in a second to talking about revenue raising and the financing for development conference. Before we do that I am just keen to tease out whether there is anything else in the agricultural sector. And I am thinking particularly of this controversy that Paul Collier has caused by arguing that what Africa needs is not just a green revolution in the sense of hybrid seeds that we saw in Asia but a GM revolution, genetically modified seeds.

Now that's caused a lot of controversy with people who think that it would be very dangerous for Africa to adopt GM foods against people like Paul Collier saying that this is absolutely important to raising productivity. Where do you guys both stand on the use of GM and other kind of more high-tech ways of raising agricultural productivity. Stephen?

Stephen Devereux
Personally, I have had strong feelings against GM like many people do. I think that anything that can raise yields and then more importantly I would say stabilized yields should be looked at very seriously provided that the environmental and the health risks are adequately dealt with, regulated and so on.

But I think there is a very important point here that I'd like to make before we move away from agriculture, which is that it's very important that we think about the variability and the fluctuations that people, especially small farmers face because that's a major cause of poverty. And it's going to get worse with climate change.

We are likely to see harvest becoming more unreliable, crop yields becoming more variable from year to year. And that makes it extremely difficult for farmers to plan ahead, to invest in their own farm when they don't know what the rains are going to do and therefore even to be viable in the longer run.

So I think that what we need is if we're going to look at GM technologies, we need to look at interventions that are going to stabilize yields and that means also looking at irrigation for example and ways of harvesting water more effectively.

And also I think I am afraid to say this but in the longer run, we need to find alternative livelihoods for large numbers of Africans because in the long run as climate change intensifies and we continue to have this low input, low output agricultural model that smallholders are using is going to become unviable for large numbers of people.

So we need to also be looking beyond agriculture at finding more diversified livelihood systems in order to help people maintain sustainable livelihoods in the longer run.

Owen Barder
Alex.

Alex Cobham
Yeah, I mean I agree with that. I think Paul Collier's point comes across as rather un-nuanced if we can say that. There is – I don't think anyone who cares about the ultimate development outcomes is going to say it's a yes or it's a no to GM for Africa. But we need to be very careful about recommending something that's really has yet to have any proven benefits and of the sort that we are looking for.

And earlier this year, the UK government which at various times makes positive noises about GM signed up to the Synthesis Report of the expert group, the International Assessment of Agricultural Knowledge, Science and Technology for Development, which put together by The World Bank and others and – big group of experts around the world there is no evidence of benefits from GM.

This is not the time for us to be putting political support behind what would effectively be a large scale agricultural experiment in a continent where agriculture is so important to the experience of life of people living in poverty. Let's kind of keep exploring this but somewhere else and not on that kind of scale and…

Owen Barder
But your – would your position be that the donor should be neutral about this? The countries that wish to get on the street should be supported in doing so and countries that choose not to, that's fine too, or would you actually have donors leaning against this kind of intervention?

Alex Cobham
I think given the potential risks and the absence of any demonstrated benefits I think at the minute donors would - any kind of hard-nosed analysis would lead you to lean against this and – so I think that's where I would be.

[Music]

Owen Barder
Great. Let's move on if we may to the Financing for Development Conference. This is a follow-up meeting to the meeting in Monterrey in what 2002, Alex, was Monterrey?

Alex Cobham
Yes.

Owen Barder
In which the first major commitments to increase aid but also some commitments about improving the quality of aid were made. George Bush surprised everybody by announcing very large increases at aid, in aid at the conference or immediately before it. This is the follow-up conference. It's going to be the week after next and it comes at a rather strange time because of course we are at the dying days of the Bush Administration, who will be represented there but before President Obama comes to office. Alex, what's your take on what the conference will cover and how important it could be?

Alex Cobham
I think there is one key area where there really is room for a draft. Well, on the basis of the draft outcome report – there is room for a final outcome report which goes beyond the Monterrey Consensus in quite a significant way and that area is tax. We are not expecting to see any great further movement on aid, nothing can really be committed on trade given the stage of the collapse of the Doha round of talks and the other areas in particular those relating to financial flows, private financial flows is not clear what, really what more can be said but in the area of tax there is a definite feeling that the original consensus did not nearly enough to pin down the international aspects of taxation in particular to start to address the international obstacles to countries having effective taxation systems and raising their own revenues for independent development. So that's – politically that's where I expect the pressure to be in terms of Christian Aid and great many other organizations are pushing quite hard on that.

Owen Barder
What is the specific ask of organizations like Christian Aid on the tax agenda?

Alex Cobham
From the Doha conference itself, it's relatively limited but interestingly apparently quite controversial with a number of governments including the UK, it's two things really but the first is relatively robust language around the exchange of tax information between countries. One of the real problems that developing countries have in terms of dealing with the taxation of business and of rich individuals is that they can't find the information from the other side of international transactions to know whether or not tax is being evaded, you know that's transfer pricing and abuses of it by multinational companies but also stolen assets going off into the financial sector elsewhere and so what that ask is about is pinning down some kind of statement of intent about better information exchange.

The second one is relatively technical and sounds terribly trivial but is actually quite important and this is shifting the UN Tax Committee which currently is a committee of experts that tends to spend a lot of time going line by line through documents being blocked by particularly the members from tax havens, turning that from an expert committee into an inter-governmental body which in effect would be taking political decisions about how international structures of taxation work which would report directly to ECOSOC and from there to the General Assembly.

Owen Barder
The ECOSOC is, just for people, the Economic and Social Committee of the United Nations.

Alex Cobham
Yeah. So what that – turning that committee into an inter-governmental body would give it a different type of political power.

Owen Barder
But this is a set of issues to do with, whether companies and individuals pay the taxes due in the countries where they are working. This is – we are not talking about proposals for an international tax, or a global tax, or global tax harmonization. This is simply about making sure that the tax system works as it ought to for people to actually pay the taxes that are owed, is that right?

Alex Cobham
Yeah, that's right. It's – tax has to some extent being neglected by donors, also by NGOs and to a fair extent by academics until quite recently. And yet it is the only long term sustainable source of finance for independent development.

Now our estimates are that developing countries in total lose to tax evasion by the corporate sector through the mispricing of trade. They actually lose tax revenues of about $160 billion a year, more than 1.5 times the aid budget. So there's no question of the scale of this problem and the potential and addressing it would have and to dramatically change levels of development finance.

Owen Barder
Are the NGOs who are campaigning for this confident that they are paying all the taxes that are due in every country where they are working?

Alex Cobham
I think that's a legitimate question. NGOs like other donors have historically taken advantage of their relative power in order to not necessarily behave and in a – as a training example, and that's one of the issues with tax actually that typically if you look at economic model rationality everybody, I mean, every country in the world sees much higher tax revenues being paid than rational for people to do, given the likelihood and the penalties for being found not to have done so.

The next point is that tax is a social act. So compliance really depends on two things according to the experimental economic literature. One is the early distribution that's happening. The other is perceptions of other peoples' compliance.

So if high profile individuals but also NGOs, donors, and multinationals are seen not to be paying taxes or not to be paying an appropriate amount of taxes, it can undermine tax compliance all the way through the system. And so it is really important. I think you said, the point you raised is really important that NGOs get their own houses in order and are seen to be doing so. But also that donors reassess their own attitudes to paying tax in the countries where they work.

Owen Barder
Now let's move to the other issues that are up for grabs at Financing for Development Conference in Doha. It seems on the face of it unlikely that the donors are going to arrive in Doha with their pockets bulging with additional aid pledges. Indeed it almost seems unlikely that they will even meet to the commitments they have already given, for example in Gleneagles in 2005.

Where are we on overall aid volumes and the prospects for donors living up to commitments or even increasing them?

Alex Cobham
Well, I think it's not totally encouraging. We know the difference between donor commitments and actual delivery of aid from 1990 to 2005 was about 3.4% of GDP in sub-Saharan Africa. So a huge gap there already. And I am afraid the combination of the commitments that are being made in 2005 and since and the financial crisis. Now, I think that gap can only get wider. The – so far in the U.K. at least there's a commitment across the political spectrum to keep the target of 0.7%. But I think over the next year as the economic effects of the crisis become more apparent, I think maintaining that commitment is going to be increasingly difficult. But in a sense that's one reason why it's important that the conference can come out with some – can make some progress on developing countries' ability to raise their own revenues.

Owen Barder
Stephen, do you want to comment on any of these?

Stephen Devereux
To Alex's point of importance of countries raising their own revenue. And it's not just for financial affordability or sustainability. It's also for political sustainability of programs. Because one thing that donors are famously not very good at is being accountable to the citizens in countries where they are working. So you set up a social protection program on agricultural investment project or whatever, it runs for four or five years. And that's the end of the project cycle and the donor packs up and leaves. And whereas a government – finance government implemented program, it's a kind of social contract between the state and the citizens which the citizens can then claim against.

And we've seen that with social pension programs. If social pensions aren't paid on time, the pensioners complain to their MP and in one case in Swaziland they actually stopped parliament from functioning for seven days until they got it sorted out. So, governments should raise their own revenues. They should finance their own programs and donors should support that as much as possible because in the end, development only works if you have accountability in the system and externally finance programs being run mainly or fund – mainly by international actors. There is no chance to build that kind of accountability and sustainability of these kinds of programs.

Alex Cobham
I think that's a really important point actually. The work of Stephen's colleague at IDS Mick Moore – has been very influential emphasizing the linkage between tax and governance. And there's something like a spectrum of development finance from tax at one end which appears systematically to strengthen the relationship between states and citizens and the accountability of government through aid somewhere in the middle to natural resource wealth at the other end that appears systematically to undermine those relationships. And so it's not just the quantity of revenues, it's also the governance implications of relying on different sources of finance.

Owen Barder
One of the big issues that has been foreshadowed for development financing, generally and perhaps specifically for the Doha conference is this question of financing for climate change, where we are seeing pressures for additional spending both on adaptation. That means spending money on helping developing countries to cope with the effects of climate change which the climate change is already in the system and which is coming and spending on mitigation that means spending on doing things that will limit climate change in the future. Are we going to be making any progress at Doha on questions of climate change finance, Alex?

Alex Cobham
Not, I think, any significant amount. And I think Poznań meeting, the next important meeting in the U.N. Framework Convention on Climate Change round of negotiations is in December. It's probably where that will be very high profile. I don't think Doha will add much to that.

Owen Barder
And how much money we're talking about on climate change? What are the kind of sums involved? Is this got big deal in terms of overall development finance?

Alex Cobham
Well, I mean it really depends on the estimates that you take but I think certainly some analysis of the likely cost of adaptation and investigation would imply flows from rich to poor countries and somewhat in excess and perhaps considerably so of aid flows.

And one thing that's important politically and is I think going to continue to be a bone of contention for some time is that within the climate change talks there is an absolute commitment that any flows related to climate change will be over and above ODA and will not count as ODA.

Owen Barder
ODA means Overseas Development Assistance. That's the official definition of aid that everybody uses to measure how much aid they are giving. And the commitment is or the desire is that the money should be over and above current levels of ODA, but presumably some of it will count as ODA under the current definitions.

Alex Cobham
Well, I mean it is actually a firm commitment in the Bali agreement early last year and yet there appears to be either a lack of recognition of that or a desire to backslide on that among donors. And one of the things is that a lot of the donors are looking to funnel that money through the World Bank which has at best a dubious record on climate change, which inevitably mingles it with ODA funds. And I think there is a kind of a decent prospect that there will be quite a bust up over this at some point unless it's felt that the richer countries are honoring the spirit at least, if not the letter, of the Bali agreement.

Owen Barder
So, one possibility is for the money that is spent on climate change to count as ODA. It falls within the definitions of this. A lot of the money that would be spent on adaptation falls within the existing definition of ODA. But for that money to be additional to the current aid pledges given by government. So it wouldn't necessarily be sensible for the money to flow through different institutions in different channels or for it to be counted differently, provided that it is extra. That might mean for example that instead of a pledge of 0.7% of national income, the donor should be making a pledge of 1% of national income which is the old 0.7% pledge plus the costs of climate change adaptation. And after all climate change is not being caused by developing countries and yet they are the people who are likely to suffer most from it. Would that be an unacceptable compromise from the point of view of NGOs like yours? Do you want to see the climate change money managed through separate institutions and not counted as ODA?

Alex Cobham
Well, I think for governance reason particularly it needs to be managed through separate institutions. Those are fundamental difference between ODA as charity effectively and climate change finance as the richer and more polluting nations discharging a responsibility to make some amendments for the damage they have caused to developing countries. So having a governance structure that channels that funding which is based on let's say votes according to donations clearly doesn't make sense. And I think politically that can be a serious stumbling block.

The other aspect in terms of whether it's reasonable to in a sense make a commitment which is your ODA plus climate change financing total. I don't necessarily see a problem with that, although I think over the next year we're going to see increasingly detailed discussions emerge about the form of finance and the actual financial flows, the scale of flows that should be happening that will move us along. I suppose the concern would be really that progress towards 0.7% hasn't been remarkably rapid, and progressed still to some higher target might not necessarily deliver either and without some feeling among developing countries that the commitments of the richer countries are genuine. I think it's very difficult to get developing countries to sign up to what will at least eventually become binding constraints on their development path.

So I think there needs to be some kind of demonstration of serious intent. Now – how's that works out in terms of the actual financing flows, I think isn't particularly constrained but it does need to be serious, and seen as such.

Owen Barder
That's it for this week's episode of Development Drums. Thank you for joining us, and thank you especially to Alex Cobham in Oxford, and Stephen Devereux in South Africa, and from me Owen Barder here in Addis Ababa. Thanks for listening.

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