



## Transcript

# Combating Poverty: Foreign Aid, Good Governance and Economic Growth

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**Claire Melamed:**

Good afternoon everybody, and welcome to this seminar here at Chatham House on what are potentially four of the most interesting and controversial issues in development at the moment, that we're all throwing together into the pot. First is ending poverty and whether it's in fact possible to do that, as we're currently being told. The second is foreign aid: what's the future of foreign aid, given the changing world in which we live, the changing configurations of countries? The third is good governance, whether there is indeed any such normative thing as 'good governance' or whether there's just good governments. The fourth, of course, is economic growth: how you get it and how you make sure that when you do get it, it does the things you want to do (such as, for example, reducing poverty and enabling governments to work better). In order to tackle this, I'm not sure we're going to actually find the answer to any of these things over the next hour, but we'll certainly have a very good go and an interesting conversation.

My name is Claire Melamed, I'm the head of the Growth, Poverty and Inequality Programme at the Overseas Development Institute, which is another – I won't say rival – think tank based just over the river, focusing particularly on development and poverty, humanitarian issues. We have a great line-up of speakers today. On my right here is Daniel Runde, who is director of the Project on Prosperity and Development at CSIS (Center for Strategic and International Studies), based in Washington, DC – another think tank which I'm sure many of you will know well. He's here to present the insights from their new report on governance, aid and economic growth. On my left is Sabina Alkire, again who I'm sure is well known to many of you, the director of the Oxford Poverty and Human Development Initiative, the creator of the Multidimensional Poverty Index, which has really changed many of the ways that we think about measurement in relation to some of these issues. To my far right, Lydia Prieg, who is a researcher at the New Economics Foundation – another think tank very well known in this area, lots of interesting insights coming out from there. Lydia focuses particularly on financial reform and regulatory issues and the role of the private sector in relation to some of these things we're going to be talking about today.

In a moment I'll ask Daniel to kick us off and then the other speakers will give a moment to respond before we turn it over to you for questions. This event is on the record. This event is being live-streamed, so I'm guessing that even though we are in Chatham House, that means the Chatham House Rule doesn't apply. Everybody will know what you say as you say it because they'll be watching it online. You can ask questions on Twitter, it says here, using

#CHEvents – while also remembering to keep your phones on silent while you do so. Without further ado, let me ask Daniel to kick us off. Thank you very much.

### **Daniel Runde:**

Thanks very much, Claire. I want to thank Chatham House – Robin Niblett in particular, who's an alum of CSIS and was very generous – and I want to thank all the folks at Chatham House for helping make this possible. I also want to thank my colleague Conor Savoy, who's a senior fellow at CSIS and did the major lift on making this report possible. We did this with support from the Smith Richardson Foundation.

We wanted to do this report frankly because – and we wanted to do this conversation here in London – because I think much of the shifting conversation on development is happening here in the UK and is being driven by the UK government and many fine research institutions here in London and the broader United Kingdom, on this issue of governance. There has been a discussion around what's called the 'golden thread of governance' that I think has created a political window to rethink how we use foreign assistance to support governance-related issues. There's a political window and there's been about 20 or 25 years of research by folks like [James] Robinson and [Daron] Acemoglu (many of you may have read the book *Why Nations Fail*) but also my wife's favourite economist, after her father and her two brothers – her fourth favourite economist is Douglass North, the famous institutional economist. There's the whole institutional economics stream of thought that also heavily influenced USAID, the bilateral equivalent of DFID in the United States, which has just come out with a new democracy, human rights and governance strategy and cites significant work like the Acemoglu and Robinson work, the Douglass North work. There have been some other significant reports. The *Emerging Africa* report by Steve Radelet, the former chief economist at USAID who was a distinguished fellow at the Center for Global Development, about 'emerging Africa' – one of the factors was around governance, and democratic governance being a factor in the 17 or so winners, if you will, or emerging winners in Africa. Also, the 'democracy advantage' is another stream of work that Morton Abramowitz and other significant writers have put out about five or ten years ago.

So there's a political window, I think driven by the United Kingdom frankly, as well as a research window that opens up the possibility for us to rethink how we use our limited foreign assistance. The argument that we make is that

there is an opportunity to shift some resources toward a series of governance issues – in particular, strengthening government capacity and effectiveness, strengthening rule of law, improving regulatory policies. I'm not saying more regulation or less regulation but clear regulation and regulatory bodies that are enforcers of regulation, but in particular I think certainly towards investment and business-friendly climates, so I think there is a bias toward less regulation in what I'm saying. And fourth, barriers to entry in terms of participating in a free economy. I'm not a libertarian and this report is not about saying 'get government out of the way'. There is a very central and important role for government, for a society to be effective.

So we want to have effective states and there is a role for foreign assistance, whether it's DFID or the multilaterals, whether it's the EBRD (European Bank for Reconstruction and Development) based here in London or the World Bank or the African Development Bank. So our argument is that there is a series of problems in much of the development bureaucracy and infrastructure where the democracy, rights and governance community are recovering lawyers, if I can use that term, or they're also PhD political scientists, and then the folks who think about economic growth are pure economists and don't want to get their hands dirty with that politics stuff. So there's a disjuncture between two parts of the development bureaucracy world as well.

The additional problem that we've encountered is that this governance stuff is not all that sexy compared to some of the other topics that you can think about in the foreign aid world. It takes a really long time to see results. It's hard to measure. It's working on a lot of plumbing issues that are not emotionally compelling and are hard to generate a political constituency for. But we need to take advantage of this window that the UK has created through the Cameron government, through DFID and through a lot of thoughtful people who aren't associated with the Cameron government, who are just part of UK society that have created this window more broadly in the international community around governance. These aren't huge dollar amounts. We're not talking hundreds of billions of dollars. We're talking about a significant amount of money – it's probably several billion dollars to insert some shifts that we'd like to see over time. We're not saying massively increase assistance, but there are a series of targeted sorts of activities that we think matter in terms of making governments work better. It's the sort of thing that we know from research works or is important if you want to have a society that is successful.

So we made a series of recommendations, specifically primarily to the US government because that was the one that's closest to us in Washington. I worked in the US government for a period of time (I also worked at the World Bank). So we talked about several things that I think are applicable across a series of donors. We went and visited three countries as part of this work. We looked at Tanzania, Indonesia and Peru as three democracies – I'd also put on the table our bias that we'd like to move toward democratic governance. It's certainly a bias in Washington but I also think here in Europe as well. We want to see societies move toward democratic governance. There are certainly examples, whether it's China or Singapore, where people will say: look, you can have economic prosperity without democracy. That is true but I do think that over time we want to see, both from a normative standpoint but also from making it easier for breaking up certain sorts of crony arrangements or corrupt arrangements – you want to have democratic accountability to break those sorts of arrangements up, because those things do gum up the works and make societies far less successful over time.

So here are some of the quick points in terms of our recommendations. I do recommend that you take a look at the paper, at least skim the executive summary and look at our conclusions. If you have trouble sleeping at night, read the whole thing – it's 72 pages. We suggested to the US – we interviewed DFID offices, we visited with the regional development banks and the World Bank, but we also spent a lot of time with DFID given that they're so on the cutting edge of both the practice and also the thinking about this.

We said we need increased focus at the country level on governance and growth as a nexus. We said that donors need to think about tackling the politics of governance and growth and put on a political lens and understand the politics of what's going on in a country. Not saying necessarily take a side, but one has to be able to put on your 3-D political glasses and understand what's going on and what are some of the arrangements and incentives that are at play. I think oftentimes the development community eschews dealing with politics. They don't like to think about these things. If they're from an economics background it's not something they want to get their fingernails with. I think it's an important thing and that's one of the things that the research has been showing.

Our view is we should make some investments of people, time and money towards this governance and growth set of issues. Our view is, in the US context at least, to get people's attention. Out of the \$30 billion official development assistance budget of the United States government, you ought to shift \$1.5 billion. Do I think that's going to happen anytime in the next 12

months? Probably not, but did I want to get some people's attention in the system? I did. I think we're going to get some attention by saying that.

We need to do a far better job within the bureaucracies of having these, in essence, separated, stovepiped talks to each other – the democracy, human rights and governance community talk to the economic growth people and understand that states matter and state effectiveness matters. Then our view was, pick a dozen or so, or two dozen countries that seem to be most promising. We went and looked at three that we thought at least were interesting, in the case of Tanzania, Peru and Indonesia. We had some recommendations. One of our quick takeaways was okay, at least in the US government context – not in every donor context – there's very much a supply-driven donor situation where we're answering the mail on certain important, basic human needs but these sorts of issues of governance that at least the research says is important are totally underfunded or orphaned. So people are not walking the talk, at least in the US context and I suspect in much of the rest of the donor community, of saying governance is important but then when push comes to shove, you say: are you going to put your people, time and money into that? And people say: actually, no, I've got my three or four pet rocks of other topics that I want to keep funding because I've always been doing that.

So we think there's a political window here, I think the UK has done it – has done a really great service to the world by putting this on the table. I think the research is there and is moving in the right direction. But we need the donor community to walk its talk. So those are my ten minutes of remarks.

### **Claire Melamed:**

Thank you very much, fascinating. I should say on this issue about supply-driven, one of the projects that we run at ODI (Overseas Development Institute) is a big global survey called the My World Survey, which we run jointly with the United Nations. We have to date had 1.27 million responses globally, from 194 countries, a very broad range of demographic groups responding. Globally, an honest and responsible government comes out as the fourth most important priority. The survey is asking people to choose from a range of priorities, what are the things that are most important to them and their families. An honest and responsive government, which is one of the 16, comes out fourth globally and is higher among some low-income groups in poor countries. So you can see that clearly there is a real demand for this stuff. The question is more, what exactly are people asking for and, as you

say, how to supply it and what the role of donors might be there. Let me turn to Sabina for her take on this.

### **Sabina Alkire:**

Thank you very much. I did read the full report and I do commend it to you. I work on poverty, on multidimensional poverty, which means looking at the deprivations that batter poor people's lives at the same time – whether it's having no sanitation or unclean water, whether it's being malnourished or having a child who has died, whether it's not having good work or not having an education. We developed profiles at each individual or household level of the people that experience these kinds of poverty together, and then we really tried to study how to combat it.

So the intersection between my work and this report is that the report is entitled *Combating Global Poverty*. What I would like to do is offer three questions to keep the discussion going: predictably, one about growth, and then two about governance.

The report frames these investments in growth and governance as being critical means to reduce poverty. Whether poverty is defined by income or in a multidimensional way is not clear so I'm going to take a broad view of poverty as including things like malnutrition or not ever having an education. The question is, in a sense, first of all: will you specify a particular kind of growth? On page 11 of the report, for example, they say that growth is fundamental to poverty reduction, and yet on page 14 they say that poverty reduction has to supplement growth, because in so many countries there have been impressive growth rates and yet an ongoing number of people who have not had other reductions. This is one of the surprises that I think has come up in the past five years, when we have had data now on growth, on income poverty reduction and on other kinds of reduction.

So just to share one image, if you could – former chief economist to the World Bank, François Bourguignon, together with the chief economist of DFID, Stefan Dercon, and other economists looked at the trend data, at growth rates and reduction in non-income MDGs (Millennium Development Goals) as well as in the income poverty MDG. They found a significant relationship between growth and reduction of people who live on less than a dollar a day. But they found 'little or no correlation' between growth and any of the non-income Millennium Development Goals, whether it's ratio of girls to boys in school, children attending primary school, under-nutrition of children or other indicators. They have scatter plots to show that these are not associated. I'm

an economist, I was trained they would be associated – this is a surprise. It's been a surprise that motivates people to really examine the kinds of growth that include reductions in these deprivations and also the complementary sectoral policies that will enable that growth, which in many cases is essential – I completely would acknowledge that – but enable that growth to become a growth in achievements for poor people in these other dimensions. So that's one question where I think a bit of discussion would be very useful.

A second is on governance. Here there are many different kinds and ways of investing in governance. The World Bank have huge programmes of investment in legal and judicial reforms. So what I wanted and what I was hoping you could clarify here is: what particular kinds of governance investments for donors will have the biggest impact on poverty?

Let me give you an example. Again, I work mostly with national governments and not with aid, but our work on multidimensional poverty has been officially adopted by countries like Mexico and Colombia, and a whole group of them have formed a network with over 20 governments that are working on exploring multidimensional poverty measures. There are two primary motivations. One of them is they get the results faster than income poverty, so it happens within an election cycle. You put kids in school, your poverty changes right then and not when the kids grow up and earn an income.

But the relevant bit for this discussion is that they can use different metrics to coordinate policies. So very briefly, in Colombia the government has set up a committee of ministers – no delegates are permitted – chaired by the president, where they go through each of their 15 indicators. They find that having a meeting with people from different sectors together, holding them accountable for their delivery of certain sectoral objectives, helps to coordinate policies and break the silos that so often exist. So I really wanted to know what kinds of governance reform you were looking at.

I will close with my second question on governance, which is whether some of the existing programmes could, in a sense, be recalibrated to have a fit. So you describe a lot of AID investments as being meeting basic needs. I don't know a lot about that, but I would observe that in some – one area where I know a bit is the Feed the Future programme, where we have done the Women's Empowerment in Agriculture index. Women's empowerment in agriculture is not correlated with income, it's not correlated with their education levels and it's not immediately correlated with official political participation. Yet it seems that these kinds of investments could be a long-term contribution. Similarly, if you look at the programme design of certain



programmes like, in India, the Midday Cooked Meals Programme or the National Rural Employment Guarantee Programme, there are ways that the programmes are designed to try to encourage transparency, citizen accountability and a dialogue where civil society holds government to account. So I'm wondering if some of these reforms could actually be broader than simply investment in governance, and also look at the way that programmes to reduce poverty directly can themselves catalyse governance reform.

**Claire Melamed:**

Thank you very much. I think for me the interesting thing when you come to the national level, as Sabina has been talking about, is when you start to look at it from that point of view and see what needs to be done, there seems to be an interesting point between these two conversations which is a question – a research question, if you like – about what the role of aid is in driving some of these positive national-level reforms. Just because something is important and needs to be done doesn't necessarily mean that foreign aid is the right instrument for doing it. I think that's another thing that we might want to think about in the discussion, but I don't want to pre-empt Lydia.

**Lydia Prieg:**

Thank you, Daniel, for your report. There are lots of parts of it that I absolutely agree with. Obviously putting an emphasis on trying to build good, strong, democratic institutions is hugely important, although I will say we've got to be careful not to look hypocritical in the sense that obviously a lot of our international financial institutions, like the World Bank and the IMF, are highly undemocratic. So I would put that in as a caveat.

But I would like to give a couple points where I would urge caution. The first is on the issue of holding growth up as an objective in and of itself. The second is a little bit of a caution about the trend that we've been seeing over the recent decades towards the financialization of development.

To start first on the growth thing, I'd like to reiterate what we've heard before about some of the cautions about, yes, countries have seen growth but are people actually being lifted out of poverty? Are people actually seeing an improvement in the standards of ordinary people's lives? This is something looking beyond GDP. It's something that applies not just to developing countries but also applies to countries like the UK. For example, if you look at

the situation we're in at the moment, we're seeing a small uptick in growth and we're all sort of applauding ourselves and saying yes, we're on the right track – but we need to be looking deeper than that. Yes, unemployment is coming down, but what's the duration? To what extent are these jobs actually permanent? What's the standard of the jobs – are they good jobs, do they give people stability, do they give people good wages? What's the impact on inequality, what's the impact on regional inequality? And crucially, how sustainable is this growth?

That kind of leads me on to the issues I have with the financialization of development. Something I feel that we've been seeing over the past couple of decades, and also that picks up on a lot of the points that Daniel referred to in his report – so really trying to encourage establishing property rights, lowering barriers to entry, lowering regulation to make these more attractive environments for business – we have been encouraging smaller, more developing countries to open their economies to the forces of international finance, to enormous flows of capital from very large multinational institutions. I think there's a role for foreign businesses absolutely in combating poverty, but I think it also has to be approached with caution. We've seen from our own experiences recently with our own financial crisis that unregulated capital flows can be hugely destabilizing. It can be particularly destabilizing if you are a very small economy. Unfortunately what we're doing at the moment is on the one hand we're saying, right, create a really great environment for business, let's encourage all this international investment – but on the other hand, we're penalizing these countries in trade agreements and in terms of saying, no, that's bad governance, if they try to impose any sort of checks and balances and regulation on the type of money coming into their country. I don't think we should be taking the attitude that all money coming in is good money, because that's just not the case. Booms and busts will do a lot more damage to countries than a steady, lower level of actual, proper, sustainable growth.

So I really do think we need to be looking at allowing these smaller economies to explore things like capital controls – like countries like Brazil have been doing – but taking a more radical stance on it than the IMF, who has very much changed its point of view on this recently, in the past few years, in light of the crisis, but still hasn't gone far enough in terms of understanding that for a lot of economies, these are tools that should not be chastised. They are tools that can be used in everyday governance of your economy, not just when you're in the middle of a financial crisis.

I also think we need to be making sure that we're trying to encourage smaller businesses – businesses that are actually properly rooted in local economies – as opposed to the fickleness of large corporations. And finally – realistically, when you've got studies from people like Christian Aid who estimate that a lot of the developing world actually loses more money (for example, due to tax havens, due to secrecy jurisdictions) than they get in aid, we need to be going beyond aid. When you say we need to not just be concentrating on alleviating symptoms – because obviously that's what aid is – but we need to be tackling root causes. We need to be looking at things like eliminating secrecy jurisdictions, properly eliminating them, so we're not just encouraging the downright looting of states. Also looking at things like global financial stability and questioning – yes, big business is good for some things, but as we've also seen recently, big business can also make mistakes. So we need to give these countries the freedom to control the money that's actually coming in and out. Thank you.

**Claire Melamed:**

Thank you very much. Before I turn it over to you – just mull over your questions for a minute – Daniel wants to come straight back.

**Daniel Runde:**

Thank you. A two-fingered – do you use that term, a two-finger here?

**Claire Melamed:**

Yes. It can mean something else, depending on the context in which you say it.

**Daniel Runde:**

Oh no, sorry! Didn't mean it, sorry. One of those – two people separated by one language. I missed one point, and I want to respond to the very thoughtful questions and comments you both put on the table. Thank you very much.

I missed one point I wanted to add about the political window. I think the new round – I neglected to mention this – the new round of the Millennium Development Goals, the sustainable development goals – if you go read the High-Level Panel Report that came out in May, there are only a couple

additions. They use UN-speak for this stuff, you have to be almost like a criminologist to understand what they mean. But they talk about livelihoods. My read of what that means in UN-speak is small and medium-sized enterprise, private sector. It's basically jobs but in my view, as nine out of ten jobs in the world are from the private sector, it basically means: how do we support the private sector in creating jobs? That doesn't mean unfettered, it doesn't mean libertarian, it doesn't mean no government. It just means, how do we create an environment to support, certainly at the very least, small and medium-sized enterprise? My addendum to that would be small and medium-sized enterprise in the formal sector. I'm going to come back to that in another point.

The second point that's in the High-Level Panel Report is the issue of governance. If there were eight MDGs – I know in the United States we're perceived as not as up on the MDGs–

**Claire Melamed:**

We know you love them now.

**Daniel Runde:**

We love them now. So if there were eight before, there's going to be 10 or 11. So number nine, let's say it's livelihoods. Number ten is governance. How did that come about? Because Ngozi, who many of you know – I will not pronounce her last name [Okonjo-Iweala] but she was at the World Bank and she's been in government many times in Nigeria, she's sort of a towering giant both as a thought leader and as a practitioner in development – stood up on the High-Level Panel and said: I need something on governance. I want to talk about governance. So there were a number of people on the High-Level Panel – I believe John Podesta, who was at the Center for American Progress supported that, and I worked with John Podesta on a bipartisan statement on democracy and governance principles in Washington. I was proud to do that with John Podesta, who I would say is a friend of mine. So I'd say it's livelihoods and governance.

So when I go back to my original point, which is that there's a political window, very much driven by the UK, but also there is UN cover for this conversation. Dollars to donuts, if you'll allow me to use that American idiomatic expression – dollars to donuts, we're going to have some sort of official, MDG 2.0 on governance. So there is going to be a big window for the

donor community to think more strategically about this as a result of it being blessed by the UN system. So that's the one thing I wanted to reference.

Let me just respond very briefly and then you kick me under the table when I'm – I know I'm almost there so I'll be quick. I just want to reference a couple things. I want to talk about the changed world that we're in from 20 years ago, from development, because I think it matters in terms of – what's the role of donors, what's the role of aid, needs to change. We're in a very different world. I used money as a shorthand – money is more or less a vector of change. It's a vector of empowering certain groups, it's a vector of knowledge. It may not necessarily in the future be about more assistance per se – I'm not against that but I would just say the following. Let me list some changes in the world. If you look at the number of cellphones in Africa, I think there's something like 300 million. We were talking 15 years ago about a digital divide – there are pockets of the digital divide but it's a lot different than it used to be and I think it means something for assistance.

Second, if you look at some of the statistics around Africa and poverty – there were some comments about poverty – if you look at Africa, the number of people that are living on \$1.25 a day, for the first time ever – I think it was in February 2012 – the World Bank metrics said that less than half, for the first time since they've been measuring it, are below \$1.25 a day. If you follow what I'm saying, more than 50 per cent are living on above \$1.25 a day. Does that mean there's still a lot of people living in poverty? Yes. Does it mean that there is some movement upwards? Yes.

**Claire Melamed:**

Why don't you hold the rest of that, keep them back for answering people's questions.

**Daniel Runde:**

I'll keep them, I'll stop there.

**Claire Melamed:**

You don't want to leave yourself with nothing to say. This is a fascinating – I'm not going to try to summarize that, but I will just say one thing that I think might be helpful to think about. I think there's a big distinction here, when we think about governance, between form and function. To me that's exemplified

by the case of China, which often hovers over these discussions – the country which has done more than any other in terms of income poverty, which is really responsible for those huge global improvements in income poverty. Clearly the forms of government in China leave an enormous amount to be desired in terms of our normative views about good governance and how we would like – I can't speak for all of you, but how it seems to me the people on the panel were roughly saying that we would think would be some of the standards of how governments ought to behave in relation to their citizens. Yet the Chinese state is obviously enormously effective in terms of being able to implement its economic policy, do some of the things that we require states to do. It seems to me that that big question which hovers over a lot of the generalizations that we make on governance, and challenges a lot of the generalizations that we like to make on governance, throws open this distinction between form and function. It might be helpful to think about the difference between the two. But let me open it up now to you.