

# The Unprecedented Gains in Global Development and New Directions for Development Assistance

**W**e live today in the era of the fastest and broadest development progress in the history of the world. Never before have there been such rapid reductions in poverty, increases in income, improvements in health and education, and shifts toward democracy among low-income countries as we have witnessed since 1960, and especially since 1995. But at the same time, many other countries (and regions within countries) continue to make little or no progress at all.

In the midst of these changes—and partly because of them—the global context for development is changing rapidly. Private capital flows to developing countries have grown enormously, there are far more democracies with more capable and accountable governments, cell phones and other technologies are creating tremendous new opportunities, and a plethora of new donors and foundations have entered the scene. But significant new challenges are arising, especially around growing pressures from demographic shifts, resource demand, and climate change.

These shifts have profound implications for development organizations. What worked in the past may not be appropriate in the future. Development agencies must evolve as quickly as developing countries themselves in order to continue to be effective in supporting and accelerating development progress.

## Global Development Progress, 1820–2012

Up until around 1820, the world was a very poor place, with little development progress as we think of it today. Almost everyone—except a few large landholders and those connected to royalty—was poor, illiterate, and vulnerable to disease. Fully five of every six of the world's one billion people lived on incomes less than \$1 a day (in today's money), and—shockingly—average life expectancy was a mere 27 years.<sup>1</sup>

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<sup>1</sup> François Bourguignon and Christian Morrison, "Inequality Among World Citizens: 1820-1992," *The American Economic Review* 92, no. 4 (September 2002), 727–744.



**Pakistani farmers pack oranges at a shop in Barkot, a village in the Swat Valley, on December 23, 2010. In 2009, Pakistan launched a major offensive in Swat to clear the valley of Taliban and restore government control.** | AFP Photo: Farooq Naeem

But over the next 140 years, the impacts of the Industrial Revolution, new technologies, and the opening of trade routes began to kick in. By 1960, global income had increased more than fourfold, and life expectancy had climbed to 55 years. The share of the world's population living on less than \$1/day had dropped from 85% to less than 50% (even though the absolute number had grown to 1.3 billion because of population growth). However, impressive as they were, these gains were concentrated heavily in Europe, North America, Japan (until World War II), and a few other isolated pockets such as Australia and New Zealand. Outside of these places, the world of 1820 remained largely unchanged.

But then the great era of global development began. With the end of World War II came the beginning of the end of old colonial

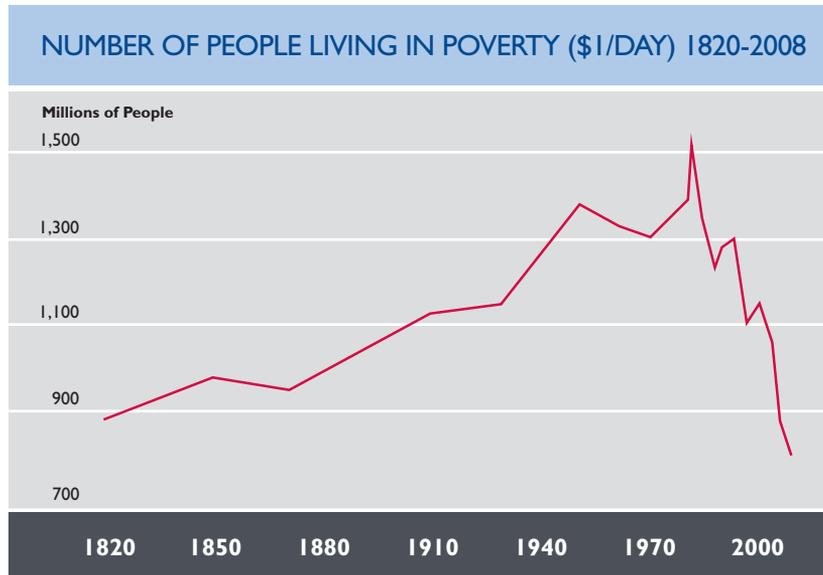
relationships, the rise of independence movements, increased global trade and integration, and the spread of new technologies such as vaccines and new seeds and fertilizers. A growing number of low-income countries began to achieve rapid growth and poverty reduction. The progress was centered in East Asia, as countries deepened their trade and integration with a resurgent Japan and with the United States. In 1980 the re-awakening of China opened vast new opportunities for one billion of the world's poor, and India began to surge in 1990.<sup>2</sup>

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<sup>2</sup> Charles Kenney brilliantly discusses recent development gains in his book *Getting Better: Why Global Development Is Succeeding—And How We Can Improve the World Even More* (New York: Basic Books, 2011). For an earlier discussion of these gains, see Steven Radelet, "Supporting Sustained Economic Development," *Michigan Journal of International Law* 26, no. 4 (2005), 1203–1222.

**Time-series data for poverty over a 188-year period. Extreme poverty steadily increased until 1981 but has dramatically decreased since then.**

Source: For 1820–1992, François Bourguignon and Christian Morrison, “Inequality Among World Citizens: 1820–1992,” *The American Economic Review* 92, no. 4 (September 2002), 727–744; for 1981–2008, World Bank Development Research Group, *PovcalNet*, online poverty analysis tool, accessed March 2012.



Contrary to popular perception, development gains were not solely confined to Asia. Between 1960 and 1995, 31 developing countries from all around the world—accounting for more than half of the world’s population—achieved greater progress than during any other period in history when compared with similar groups. Each grew fast enough—at least 2.2% per person per year (equal to the long-term growth rate of the United States)—that real incomes at least doubled over those 35 years, and in most cases, grew by much more. Across these 31 countries, average real incomes more than tripled, life expectancy rose from 51 to 66 years, and infant mortality fell dramatically from 117 to 41 per 1,000 live births.

But 1960 to 1995 was only a prelude. Since the mid-1990s, both the pace and the breadth of global development progress accelerated even more. The big change came with the end of the Cold War and the collapse of the Soviet Union. Strong forms of state control and socialism lost credibility, authoritarian dictators began to disappear in favor of democratically elected governments, and more countries began to integrate with

the global economy. Development progress spread more widely to Eastern Europe, Central Asia, Latin America, and Africa.

*Since 1995, 73 developing countries have exceeded an income growth benchmark of at least 2.2% per person per year—more than double the number of countries compared to the preceding 35 years. In just 15 years, real incomes in these countries have increased 60%, infant mortality rates have plunged 35%, and gross primary school enrollment rates jumped 13%. And democracy is much more widespread. In Sub-Saharan Africa alone, the number of democracies has grown from 3 in 1989 to more than 20 today.<sup>3</sup>*

The most dramatic change is in global poverty. Even as the *share* of the world’s population living in poverty began to decline after the Industrial Revolution, the *total number* continued to rise alongside population growth. But this pattern began to change, first temporarily in 1960, and then very

<sup>3</sup> Steven Radelet, *Emerging Africa: How 17 Countries are Leading the Way* (Washington, D.C.: Center for Global Development, 2010).

dramatically in 1980 in what must be considered one of the great changes in human history. After rising steadily alongside global population growth, the number of people living on less than \$1/day fell from 1.5 billion in 1981 to 800 million in 2008, a drop of nearly half in just 27 years.

Despite these tremendous gains, the global development picture is far from universally positive. While many countries have made great progress, many other countries (or regions within countries) have made little or none, with stagnating or declining incomes and little change in poverty. While the number of people living on less than \$1/day has fallen sharply, there are still 800 million people living on such meager incomes, and nearly 2.5 billion that live on less than \$2/day. And while democracy has swept across developing countries like never before, the gains have slowed in recent years, and many countries still live under tyranny, dictatorship, or in the midst of conflict. Sadly, some of the world's most difficult development challenges have not yet been tackled.

## **New Forces at Work**

While understanding the past is important, our real concern must be with the future. New forces are rapidly changing the global context for development. Future success will depend on understanding the past, but even more so in taking advantage of new opportunities and preparing to meet emerging threats and challenges. Six key dimensions of the changing global context stand out.<sup>4</sup>

First, as outlined above, there are enormous and growing differences in development performance across countries. Some countries are growing rapidly, some moderately, and some little at all. The high-performing group has an expanding

middle class, higher saving rates, larger markets, more government revenue, and more trained and capable workers. They have become much more attractive destinations for foreign investors. But at the same time, other countries remain stuck with slow growth, weaker investment environments, stagnant revenue and saving, few new economic opportunities, and often greater conflict.

Second, democracy has expanded rapidly, especially following the end of the Cold War and collapse of the Soviet Union. Democracy emerged in countries as diverse as South Korea, Indonesia, Poland, South Africa, Ghana, Brazil, and El Salvador. The shift is monumental: never before in history have so many low-income countries attempted to become democracies in so short a time. To be sure, these democracies are fragile and far from perfect. But as anyone with a sense of the history of the United States and Europe knows, building a representative, effective, and accountable democracy is an enormous challenge, where progress can be measured only over decades. This rise in democracy is critically important in its own right, but it also creates vital opportunities for strong partnerships based on country-led development approaches that reflect the voices and aspirations of the citizens of developing countries.

Third, in just six years between 2001 and 2007, net private capital flows to developing countries grew sevenfold from \$152 billion to \$1.1 trillion. This capital comes in many forms, including direct investments in plants and factories; portfolio investments in new stock markets, bonds, and debt instruments; and remittances from diaspora. Investors are arriving from around the world, including middle-income emerging economies such as China, India, Malaysia, Brazil, Russia, South Africa, and many others. These capital flows create some risks, but overall create huge new opportunities for job creation, skills transfer, and growth in developing countries.

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<sup>4</sup> For a discussion of some of these trends, see *USAID Policy Framework 2011–2015*.

Fourth, new technologies have led to much greater global integration. Cell phones have become ubiquitous in developing countries, and Internet access is growing quickly. The cost of shipping goods and moving people is far lower than just 20 years ago. In the most remote corners of the countryside, cell phones relay price information, transfer funds, and enable health workers to monitor patients. Virtual libraries, global research networks, and open-source software applications are giving communities new access to the world's knowledge and technical tools. These technologies are creating new economic opportunities, helping to deliver basic services, facilitating political debate, and improving transparency and accountability, all of which strengthen the prospects for continued progress in many low-income countries. And their influence will only grow in the years to come.

Fifth, pressures are growing from demographic trends, resource demand, and climate change. By 2050, the world's population will grow to around 10 billion people, with most of the new people in developing countries, and more specifically, in urban areas of developing countries. Under current trends, by 2050 about 57% of the world's population will live in urban areas, up from 50% today. The combination of more people and higher incomes will put greater pressure on the planet. Demand for critical resources—especially water, land, and energy—will grow rapidly. Global demand for food and water is likely to increase by 50% in just the next 20 years. Climate change will only add to these challenges. Skillful resource management and investments in agriculture and food security will become all the more important, whether from local governments, private actors, or donor programs such as the U.S. government's Feed the Future Initiative. Investing in, developing, and adapting new technologies will be crucial, and educating, training, and providing

opportunities for youth will be central to transforming the challenge of the “youth bulge” into an opportunity for robust growth and development.

Finally, there are far more local and international development organizations, donor agencies, foundations, philanthropists, church groups, private companies, and NGOs involved in development than just 10 years ago. China, India, Korea, Saudi Arabia, Kuwait, Brazil, and several other countries have become donors. New international agencies such as the Global Fund to Fight AIDS, Tuberculosis, and Malaria and the Global Alliance for Vaccines and Immunizations have become major players. Whereas 20 years ago there were only a handful of major foundations working in development (including the Rockefeller, MacArthur, and Ford Foundations), today there are dozens more providing important support and advice, including the Bill & Melinda Gates Foundation, the Hewlett Foundation, and many others. These new organizations provide exciting new opportunities for partnership, leveraging, learning, skills transfer, and funding for development activities.

## **New Directions for Development Assistance**

What do these changes mean for development organizations? How can donor agencies be most effective in helping to sustain and expand development progress in a rapidly changing world, especially in a time of tight budgets? To be sure, the most important forces that will determine future development success are the choices and actions of the leaders and citizens of developing countries. Development organizations can continue to play an important supporting role, as they have in the past. But these global changes suggest both that some older approaches may no longer be appropriate, and that there are new opportunities for innovative approaches in the future. Development



**Tamale Implements is a manufacturer receiving assistance under President Obama's Feed the Future Initiative to build agricultural tools that meet local farmers' needs.** | Photo: Alda Kauffeld/USAID Ghana

organizations must evolve just as quickly as developing countries to remain effective. They must re-orient themselves for this new world. There are five important ways in which they should do so:

**Develop innovative ways to work with the private sector and encourage private investment.** Foreign assistance was conceived largely as a substitute for missing private capital, aimed at filling “gaps” in savings or scarce foreign exchange. But as domestic economies have grown and foreign investors have become more interested, today there are billions of dollars more in private investment in developing countries. And there could be more, but many investors hesitate because perceived risks remain high. Except in the poorest and most isolated countries, development assistance can no longer be seen simply as a substitute for missing private capital: It must be

seen as a tool to stimulate, facilitate, and leverage private investment.

One way is through creative risk-sharing or co-investing. USAID's Development Credit Authority (DCA), for example, provides guarantees to local banks to encourage them to provide loans to promising local enterprises. Historically, more than 98% of the loans covered by DCA have been fully repaid, and the cost of the 1.75% default rate has been more than recovered by the small fees it charges partner banks. Through DCA, USAID has helped stimulate approximately \$2.3 billion in private-sector loans for more than 100,000 entrepreneurs in sectors ranging from clean energy to health to agriculture. Similarly, the U.S. Overseas Private Investment Corporation and the International Finance Corporation provide financing, guarantees, and other services to support private investors.

These kinds of approaches need to be shaped in creative ways so that they encourage new investment through risk-sharing instead of substituting for private capital. They can explore new ways to take on risks through subordinated debt, equity, or specific risks, such as helping investors exit during major market meltdowns or in the face of major adverse policy reversals. These tools also can be better integrated with other development initiatives, such as encouraging private investment in agriculture as part of Feed the Future. Similarly,

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donor agencies can help reduce risks by covering the costs of due diligence, environmental and impact assessments, and other up-front costs that investors must bear long before they decide whether or not to actually invest.

At the same time, donors can work with governments and private investors to help identify and remove roadblocks and obstacles to investment. They can help facilitate discussions and provide analysis aimed at improving the investment environment. In this way, small investments by donors can help encourage much larger private investments that will allow private capital to work as intended in creating jobs and raising incomes.

Development agencies also can be more proactive in working with investors to encourage stronger

supply-chain linkages. They can help local farmers and businesses with marketing, quality control, sourcing of inputs, or meeting basic labor or environmental standards in order to stimulate sales. For example, in 2011 USAID announced a new partnership with PepsiCo and the United Nations World Food Programme (WFP) to scale up best practices and help build long-term economic stability for smallholder chickpea farmers in Ethiopia. PepsiCo and Ethiopian partners, including Omega Farms, the Ethiopian Institute of Agriculture, and the Ministry of Agriculture, are working with farmers to demonstrate increased yields and improved chickpea quality. As PepsiCo grows its business in chickpea-based products such as hummus, it expects to source some of its global supply from Ethiopia. WFP is exploring the feasibility of sourcing these chickpeas for the ready-to-use supplementary food that they are developing with support from PepsiCo Foundation. In this way and others, development assistance can help farmers build the knowledge and capacity to participate in global supply chains.

**Work more closely with other new development partners.** The emergence of new development partners is both an opportunity and a challenge. The opportunity is clear—they bring new skills, perspectives, experiences, ideas, and funding. The challenge for developing countries is how to coordinate and collaborate with so many new organizations, especially since they operate in different ways and do not all emphasize the same priorities. For traditional donors with established mechanisms, the challenge is to creatively and collaboratively work with new organizations that operate in different ways and that may not emphasize the same priorities, such as around governance.

At a minimum, traditional donors need to coordinate much more closely with the emerging donors from China, India, Korea, Brazil, and other countries. This is especially important *because* they

do not always share the same priorities. Too often, traditional donor groups leave out the new players and miss opportunities for collaboration and dialogue. Sometimes coordination means working together to share risk, leverage investments, or otherwise combine forces when donors and host governments share objectives. For example, one partner might fund a rural road, and another might invest in agricultural extension in communities living on the road. Sometimes, coordination means working separately with a clearer division of labor—for example, with one partner working on health and another focusing on education. But as traditional donors face constrained or even shrinking budgets, it is imperative that they re-think aspects of their business model and find ways to work much more innovatively with new partners to maximize the impact of their investments.

**Invest more in technology.** It is impossible to see how developing countries can meet the challenges of widespread disease, climate change, and pressure on food supplies from growing populations except through the development and dissemination of new technologies. Aid agencies have a long history of investing in both development and dissemination of new technologies, including the seeds and fertilizers as part of the Green Revolution, Oral Rehydration Therapy, or, more recently, immunizations for meningitis A and other diseases. These investments have reaped huge returns.

To meet the world's challenges in health, education, agriculture, renewable energy, and banking, development agencies must forge new partnerships with universities, foundations, private companies, local entrepreneurs, and others to develop new technologies, and with local actors to effectively disseminate both new and existing ones. This will require new types of relationships, incentive structures, funding, crowdsourcing techniques, and knowledge sharing. It will require new thinking

about development agencies contributing to market-demand analysis, product analysis, or venture funds to support innovative entrepreneurs; and working with church groups, faith communities, and civic organizations for greater dissemination. It will require encouraging people to take risks and providing support when some investments fail.

**Work in closer partnership with and invest in governments in emerging democracies.**

Although it is easy to find flaws and weaknesses in the new emerging democracies, there is no question that most are far more open and accountable than their predecessors. The appropriate model for donors working with dictatorships is not applicable for more democratic and accountable governments, even flawed ones.

The push toward more “country-led” strategies over the last decade is not just a fad. It is driven by, and makes most sense with, more democratic and accountable governments. It will make even more sense in the future as the emerging democracies continue to strengthen their governance and build capacity. These governments must play a much stronger role in setting priorities, developing strategies, evaluating programs, and accounting for results. Doing so makes sense not just because it will lead to stronger results, but also because democratic governments—rightly—demand it. Donors must explore creative ways to invest more in building institutions and systems in these countries, and to utilize these systems for their investments. Too often, donors have used parallel systems, which may make sense in less accountable governments, but may have inadvertently weakened governments by hiring away some of the strongest personnel.

Strengthening local systems requires using them. Broad-based budget support may be appropriate in some circumstances, but not always, because it does not necessarily create the best



**A man working with a temporary employment program funded by USAID and operated by the Cooperative Housing Foundation moves rubble near the sea in Carrefour, Haiti, on February 15, 2011.** | Photo: Kendra Helmer/USAID

incentives for continued institutional strengthening. Donors and partner governments have only begun to scratch the surface on innovative approaches, but there has been some progress. For example, USAID is piloting new approaches based on public financial-systems assessments and reimbursements for agreed expenses, among other mechanisms. A USAID team conducts an assessment of financial management and auditing systems in government ministries. If—and only if—they meet basic standards, USAID and the government negotiate a partnership agreement in which the government commits to implementing policy changes and investing in certain areas (for example, purchasing anti-malaria bed nets), and USAID commits to reimbursing them for certified expenditures. As a potential next step, USAID is exploring the possibility of creating even stronger incentives by mutually committing that, as the

governments take concrete steps to measurably improve their financial systems, USAID would commit to using those systems more. Each key step to strengthen the system would be matched with a step to use it more. To work, this process must be augmented by technical assistance and training to assist countries in continuing to build their systems.

This approach echoes other new ideas, such as output-based aid and cash on delivery, although it focuses more directly on institutions and systems. Development organizations need to imagine new approaches that focus not only on *what* they spend our funds on, but *how* they spend them in order to build systems and institutions that can sustain results over time. Of course, it is not all about investing in governments. Donors must also invest in local universities, NGOs, civil-society organizations, and businesses. But in the

emerging democracies, it is particularly important that we invest in government institutions to support and sustain the spread of democratic and accountable governments.

**Use different approaches in different country contexts.** One of the clearest trends in recent decades is the growing divergence across developing countries. Many countries are emerging democracies, but others are not. Conflict has subsided in many countries but continues in others. Many more countries are growing rapidly, while others remain left behind. Capacity and competence has grown markedly in some countries, while in others, there has been little change.

Whereas 20 years ago donor agencies could rely on a small number of standard approaches, today's landscape calls for a much more diversified tool kit. Government-led strategies might make sense in democracies, but less so in dictatorships. Using local systems is appropriate only where they meet basic standards, but not otherwise. Larger and longer-term commitments are appropriate where countries have a record of achievement; smaller and shorter commitments would be better elsewhere. Partnering with NGOs makes sense in almost all countries, but which countries and how to partner differs widely.

Creating tailored approaches takes work. It is much easier to have a small set of standard operating procedures that apply across all countries. But a single recipe typically means creating a system that works in the weakest and riskiest environments, which in turn constrains opportunities for success elsewhere. Exactly what the range of tools and approaches would be should vary by donor and country, but some broad guidelines seem sensible. The better governed and more accountable the government, the more governments should be in the lead in setting priorities and designing strategies and programs; the more funds should be

invested through government systems; the larger and longer-term the commitments should be; and the more the focus should be on achieving broader, longer-term results. In less-well-governed countries, the opposite holds—less government leadership in setting priorities, less invested in government systems, shorter and smaller commitments, and more focus on achieving quicker and measurable discrete results to demonstrate progress.

The rapidly changing global development environment is creating vast new opportunities and challenges. Development organizations must evolve just as quickly to further stimulate private-sector investment, work effectively with new partners, find new ways to deliver services,

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create true partnerships with emerging democracies, and invest in new technologies. Making these changes will not be easy, but they will be crucial for making development assistance even more effective in sustaining the progress of recent years, combating poverty, and widening the circle of development and prosperity around the world.

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