OVERVIEW

Rethinking the Money and Ideas of Aid

Foreign aid has at times been a spectacular success. Botswana and the Republic of Korea in the 1960s, Indonesia in the 1970s, Bolivia and Ghana in the late 1980s, and Uganda and Vietnam in the 1990s are all examples of countries that have gone from crisis to rapid development. Foreign aid played a significant role in each transformation, contributing ideas about development policy, training for public policymakers, and finance to support reform and an expansion of public services. Foreign aid has also transformed entire sectors. The agricultural innovations, investments, and policies that created the Green Revolution—improving the lives of millions of poor people around the world—were financed, supported, and disseminated through alliances of bilateral and multilateral donors. Internationally funded and coordinated programs have dramatically reduced such diseases as river blindness and vastly expanded immunization against key childhood diseases. Hundreds of millions of people have had their lives touched, if not transformed, by access to schools, clean water, sanitation, electric power, health clinics, roads, and irrigation—all financed by foreign aid.

Foreign aid has at times been a spectacular success—and an unmitigated failure.

On the flip side, foreign aid has also been, at times, an unmitigated failure. While the former Zaire's Mobuto Sese Seko was reportedly amassing one of the world's largest personal fortunes (invested, naturally, outside his own country), decades of large-scale foreign assistance left not a trace of progress. Zaire (now the Democratic Republic of Congo) is just one of several examples where a steady flow of aid ignored, if not encouraged, incompetence, corruption, and misguided polices. Consider Tanzania, where donors poured a colossal $2 billion into building roads over 20 years. Did the road network improve? No. For lack of maintenance, roads often deteriorated faster than they could be built.

Financial aid works in a good policy environment.

Foreign aid in different times and different places has thus been highly effective, totally ineffective, and everything in between. Perhaps that is to be expected in a complex endeavor that has spanned half a century, with scores of countries as donors, a hundred countries as recipients, tens of thousands of specific activities, and nearly $1 trillion in finance. But hindsight is valuable only if it produces insight. The checkered history of assistance has already led to improvements in foreign aid, and there is scope for further reform. The pressing question: How can development assistance be most effective at reducing global poverty?

The answer is needed urgently. While there has been more progress with poverty reduction in the past 50 years than in any comparable period in human history, poverty remains a dire global problem. More than a billion people live in extreme poverty—on less than $1 a day. Even more lack basic services that people in developed countries take for granted: clean water, sanitation, electricity, schooling. It is ironic—and tragic—that just as economic reform has created the best environment in decades for effective assistance, donors have cut aid back sharply. In 1997 OECD donors gave the smallest share of their GNPs in aid since comparable statistics began in the 1950s—less than one-quarter of 1 percent. It would take roughly a 50 percent increase even to restore aid to its 1991 level.

There have been many excellent studies of foreign aid.[1] But there are three important reasons to revisit this previously charted territory. First, recent shifts in the global economic and political environment—notably the end of the Cold War and the surge in private capital flows to the developing world—have affected the landscape for development assistance in a way that has left many questioning the very existence of aid. Second, there has been a shift in development strategy that requires a new approach to aid as a tactic within the evolving agenda. Third, there is new empirical evidence that provides insights into the puzzle of what is effective aid and what is ineffective aid.

This rethinking of aid produces the following findings:

- *Financial aid works in a good policy environment.* Financial assistance leads to faster growth, poverty reduction, and gains in social indicators in developing countries with sound economic management. And the effect is large: with sound country management, 1 percent of GDP in assistance translates into a 1 percent decline in poverty and a similar decline in infant mortality. In a weak environment, however, money has much less impact. A $10 billion increase in aid would lift

25 million people a year out of poverty—but only if it favors countries with sound economic management. By contrast, an across-the-board increase of $10 billion would lift only 7 million people out of their hand-to-mouth existence.

- *Improvements in economic institutions and policies in the developing world are the key to a quantum leap in poverty reduction.* True, there have been sharp improvements in governance and policies in the past decade, but further reform of the same magnitude would lift another 60 million people a year out of poverty. When societies desire reform, foreign aid can provide critical support—in ideas, training, and finance. Efforts to "buy" policy improvements in countries where there is no movement for reform, by contrast, have typically failed.
- *Effective aid complements private investment.* In countries with sound economic management, foreign aid does not replace private initiative. Indeed, aid acts as a magnet and "crowds in" private investment by a ratio of almost $2 to every $1 of aid. In countries committed to reform, aid increases the confidence of the private sector and supports important public services. In highly distorted environments, aid "crowds out" private investment, which helps explain the small impact of aid in such cases.
- *The value of development projects is to strengthen institutions and policies so that services can be effectively delivered.* Aid brings a package of knowledge and finance. Most aid is delivered as investment projects in particular sectors such as roads, water supply, or education. Project finance, however, often does not increase spending in a sector any more than an untied grant would have—that is, aid finance is typically fungible. Thus, choosing such laudable sectors as primary health or education cannot ensure that money is well used. Aid is financing the entire public sector, and the overall quality of policies and institutions is the key to securing a large return from this finance. These findings highlight that the most critical contribution of projects is not to increase funding for particular sectors, but to help improve service delivery by strengthening sectoral and local institutions. The knowledge creation supported by aid leads to improvements in particular sectors, whereas the finance part of aid expands public services in general.
- *An active civil society improves public services.* One good idea that many projects have supported in recent years is a participatory approach to service delivery, often resulting in huge improvements. The best aid projects support initiatives that change the way the public sector does business.

The value of development projects is to strengthen institutions and policies so that services can be effectively delivered.

The top-down, technocratic approach to project design and service delivery has not worked in areas critical for development—rural water supply, primary education, natural resource management, and many more.

- *Aid can nurture reform in even the most distorted environments—but it requires patience and a focus on ideas, not money.* In some of the poorest countries of the world, the government is not providing effective policies or services, which is why government-to-government transfers have yielded poor results. Still, there are often champions of local or sectoral reform, and aid at times has been effective supporting these initiatives. This work is staff-intensive and results in little disbursement of funds. Successful assistance here aims to help reformers develop and test their ideas.

Financial assistance must be targeted more effectively to low-income countries with sound economic management.

Making aid more effective in reducing poverty requires five policy reforms. First, financial assistance must be targeted more effectively to low-income countries with sound economic management. In a good policy environment financial assistance is a catalyst for faster growth, more rapid gains in social indicators, and higher private investment (chapter 1). In a poor policy environment, however, aid has much less impact. Clearly, poor countries with good policies should receive more financing than equally poor countries with weak economic management. Up until the early 1990s, however, finance has gone in equal amounts to well managed countries and to poorly managed ones. Furthermore, much of aid continues to go to middle-income countries that do not need it. It is possible to make aid more effectively targeted to poor countries and to better management simultaneously.

Second, policy-based aid should be provided to nurture policy reform in credible reformers. Experience shows that donor financing with strong conditionality but without strong domestic leadership and political support has generally failed to produce lasting change (chapter 2). Continued flows to governments that pay only lip service to reform have been a major problem. Policy-based financing should go only to countries with a strong track record or where there is a demonstrable basis for optimism (to support, for example, the concrete actions of domestically initiated reform efforts or a government newly chosen on a reform platform). New governments in post-conflict situations are often good candidates for support. In countries with poor policies and no credible reform movement, assistance should assume the more modest and patient role of disseminating ideas, transmitting experiences of other countries, training future

policymakers and leaders, and stimulating capacity for informed policy debate within civil society. These measures are relatively inexpensive and do not conflict with the proposal that the bulk of finance should go to countries with sound economic management.

Policy-based aid should be provided to nurture policy reform in credible reformers.

Third, the mix of aid activities should be tailored to country and sector conditions (chapter 3). Even where institutions and policies are weak, donors have tried to find something useful to finance. Surely it must be a good thing to finance primary health care or basic education? The evidence, however, is that aid is often fungible, so that what you see is not what you get. In circumstances where similar projects would have been undertaken anyway, donor money for particular projects and sectors does not necessarily "stick"—simply expands the government's budget. Thus even rigorous project selection or reallocation of donor finance to laudable activities cannot guarantee the effectiveness of aid in a distorted environment. To measure the effect of their finance, donors must look at overall allocations and, even more important, at the efficacy of public spending.

The allocation of expenditures alone does not guarantee success, for the quality of public spending is as important as its quantity. In countries with sound economic management (of both macroeconomic policy and delivery of public services), more aid can be in the form of budget support, which would simplify administration and reduce overhead. In countries with basically sound policies but weak capacity for delivering services, project aid should be a catalyst for improving the efficacy of public expenditures. Countries without good policies, efficient public services, or properly allocated expenditures will benefit little from financing, and aid should focus on improvements in all three areas.

Fourth, projects need to focus on creating and transmitting knowledge and capacity. The key role of development projects should be to support institutional and policy changes that improve public service delivery (chapter 4). Even where money may not stick, the local knowledge and institutional capacity created by the catalyst of aid projects can. Where projects are innovative, it is crucial to have objective and rigorous evaluation of outcomes and dissemination of new information. Knowledge about what works in service provision—and what does not—is one of the most important outputs of development assistance. In many cases innovative approaches to service delivery will involve greater participation by local communities and decentralization of decisionmaking.

Aid agencies need to find alternative approaches to helping highly distorted countries, since traditional methods have failed.

Fifth, aid agencies need to find alternative approaches to helping highly distorted countries, since traditional methods have failed in these cases (chapter 5). Communities and governments are heterogeneous, and even in the most difficult environments there will be pockets of reform. Donors need to be patient and flexible and look for windows of opportunity to nurture these reform efforts. Typically, ideas will be more useful than large-scale finance. Donors' ability to work in these environments has been hampered by an "approval and disbursement culture" that does not value small-scale, staff-intensive activities. In the past agencies have too often focused on how much money they disburse and on narrow physical implementation measures of the "success" of the projects that they finance. It turns out that neither measure tells much about the effectiveness of assistance. The evaluation of development aid should focus instead on the extent to which financial resources have contributed to sound policy environments. It should focus on the extent to which agencies have used their resources to stimulate the policy reforms and institutional changes that lead to better outcomes. These are not easy questions to answer, but independent reviews of development agencies—with participation of developing country policymakers and project beneficiaries—can help establish whether agencies are doing a good job.

Box 1 Defining Aid

What is the difference between official development assistance and official development finance? The first is a subset of the second and comprises grants plus concessional loans that have at least a 25 percent grant component. Official development finance is all financing that flows from developed country governments and multilateral agencies to the developing world. Some of this financing is at interest rates close to commercial rates. "Foreign aid" is usually associated with official development assistance and normally targeted to the poorest countries. This assistance is the primary focus of this study, but many of the findings are relevant for the larger category of official development finance.

Both types of aid can be divided into bilateral and multilateral components. Bilateral assistance is administered by agencies of donor governments (such as the U.S. Agency for International Development or Japan's Overseas Economic Cooperation Fund). Multilateral assistance is funded by contributions from wealthy countries and administered by agencies, such as the United Nations Development Programme and the World Bank. Of all official development assistance, roughly a third is multilateral.

Some bilateral aid is tied—that is, it must be used to procure goods and services from the donor country. Studies have shown that tied aid reduces the value of that assistance by about 25 percent, and there is widespread agreement that untying bilateral aid would make it more effective. Among OECD countries there has been a clear trend away from tied aid. In 1995 it accounted for only about a fifth of all aid.

The New International Environment

FOREIGN AID IS A POST WORLD WAR II PHENOMENON. FROM THE start, it had twin objectives, potentially in conflict. The first objective was to promote long-term growth and poverty reduction in developing countries; the underlying motivation of donors was a combination of altruism and a more self-interested concern that, in the long term, their economic and political security would benefit if poor countries were growing. The second objective was to promote the short-term political and strategic interests of donors. Aid went to regimes that were political allies of major Western powers. Thus the strategic and developmental objectives were potentially, but not necessarily, at odds. Consider Bolivia and Zaire. Both received U.S. aid, partly for strategic reasons, yet the outcomes were vastly different. Bolivia used the resources relatively well after reforms of the mid-1980s and over the past decade has stabilized and laid a groundwork for success. In the former Zaire, by contrast, it is hard to see any benefit from its years as a major aid recipient.

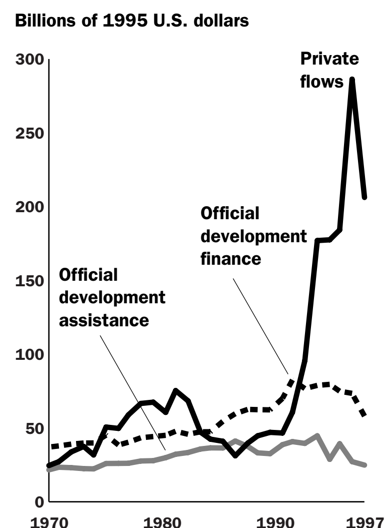
During the 1970s and 1980s foreign aid from OECD countries rose steadily (figure 1).[2] In 1991 official development assistance peaked at $69 billion (in 1995 prices; see boxes 1 and 2). In the 1990s, however, three events have lowered the absolute and relative importance of foreign aid: fiscal problems in OECD countries, the end of the Cold War, and the dramatic growth in private capital flows to developing countries.

In recent years OECD countries have been struggling to control fiscal deficits and contain growth in government spending. Even though foreign aid is a tiny fraction of budgets, it has been one of the first items for the ax. All major donors reduced aid relative to their GNPs between 1991 and 1997 (figure 2). The decline was especially sharp in the United States—aid was a mere 0.08 percent of GNP in 1997. Sweden and other Nordic countries have traditionally been generous, giving almost 1 percent of GNP. But among large countries, France is the only one that gives more than 0.45 percent. Collectively, OECD countries contributed just 0.22 percent of their GNP in 1997. The end of the Cold War likely influenced some countries' decisions. The strategic importance of aid has ebbed; as a result it risks losing its broad support among donor governments.

At the same time, there has been a surge in private capital flows to developing countries. In the 1970s and 1980s official finance—that is, money from bilateral donors and multilateral institutions—represented

After peaking in 1991, aid has fallen.

Figure 1 Financial Flows to Developing Countries



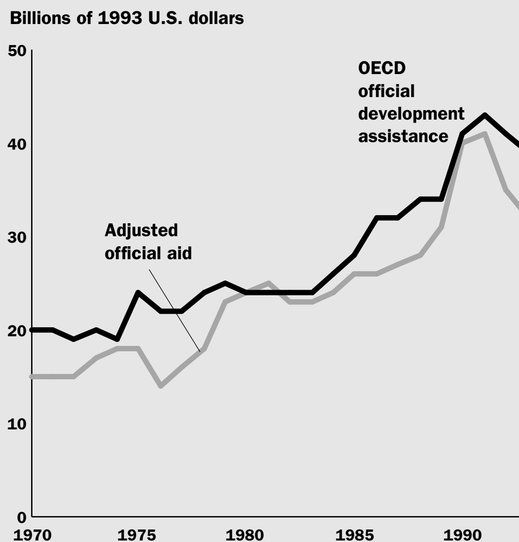
Source: Global Development Finance 1998.

Box 2 Measuring Aid

THE OECD'S DEVELOPMENT ASSISTANCE COMMITTEE publishes information on its members' aid to developing countries—that is, grants plus net disbursements of concessional loans that have at least a 25 percent grant component. A different way to measure aid is to extract from each concessional loan the grant element and add that to the figure for pure grants. Using this approach, Chang, Fernandez-Arias, and Serven (1998) developed data on aid for 103 recipients (see figure).

There are three points worth making about this new data. First, the adjusted figure tends to be lower than the traditional measure. Second, the two series are highly correlated and produce similar results in econometric analyses. Most aid is in the form of grants, so the new approach does not have much effect on the overall measure. The macroeconomic effects of aid are the same regardless of which measure of aid is used (see chapter 1). Third, the adjusted aid figures show a sharper decline in aid in the 1990s than the OECD measure. This is because international interest rates have been low in recent years, so the aid component of concessional loans is smaller. The amount of aid in a loan with a 2 percent interest rate is small if international interest rates are 5 percent and large if they are 10 percent.

Box figure 2 Total Aid: OECD Official Development Assistance and Adjusted Official Aid



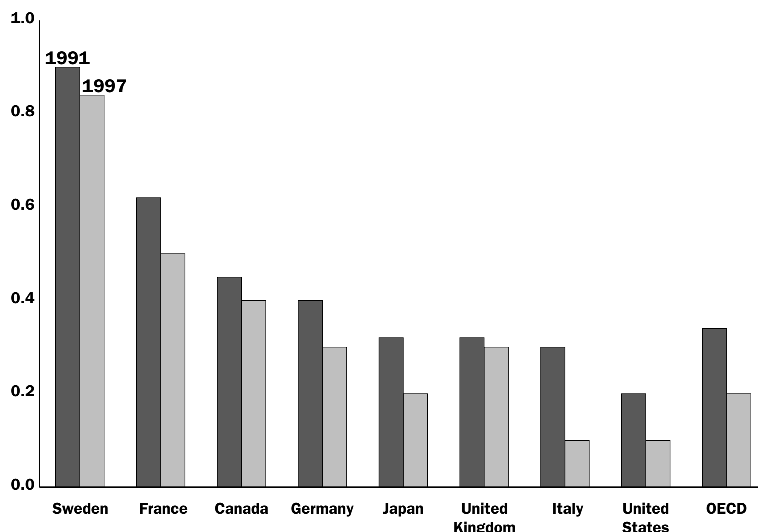
Source: Chang, Fernandez-Arias, and Serven 1998.

about half of all finance going from the developed to the developing world (see figure 1). With private flows expanding to more than $250 billion in 1996, however, official finance is now only a quarter of all finance available to developing countries.

Private capital flows are heavily concentrated in a few countries, however—and some flows are volatile. A surge in the late 1970s receded after the onset of the debt crisis in 1982. Another big rush occurred in the mid-1990s, but with the financial crises rocking East Asia in 1997 foreign investment dropped sharply. The flow of private money to the developing world fell by $80 billion between 1996 and 1997. In any event, private flows will continue to go to a small number of (mostly) middle-income countries. In 1996, 26 countries received 95 percent of private investment; the rest went to the other 140 developing countries.

Figure 2 Offical Development Assistance Relative to Gross National Product, Major Donors, 1991 and 1997

Aid is down everywhere.



Source: World Development Indicators 1998.

In a typical low-income country, foreign aid remains far and away the primary source of external finance, amounting to 7–8 percent of GNP.

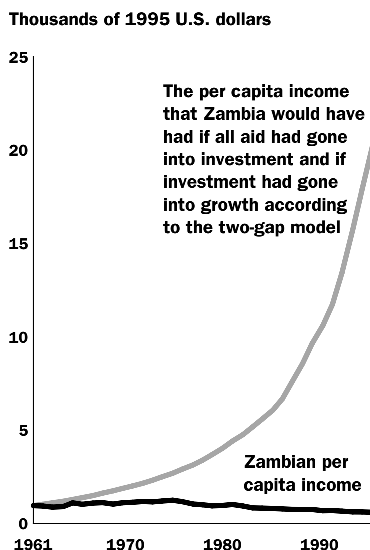
Developments in the 1990s have sharply altered the climate for foreign aid. The end of the Cold War opened up new possibilities: with aid no longer constrained by those strategic objectives, it should be possible to make aid more efficient at meeting its primary objective of long-term growth and poverty reduction.[3] Yet, given budget problems and rising private flows, donors are clearly rethinking the importance and value of foreign assistance.

New Thinking on Development Strategy

FOREIGN AID, JUST ONE WAY OF PROMOTING DEVELOPMENT, MUST fit within a broad overall strategy. Past domestic and international political conditions and beliefs about development strategy structured organizations, instruments, and implementation of aid. But those beliefs have undergone enormous, and accelerating, change.

If all the aid to Zambia had gone into productive investment, it would be a rich country today.

Figure 3 The Gap between Model and Reality in Zambia, 1961–94



Source: Easterly 1997.

In the early days of development assistance, government was seen as the positive agent for change. Domestic markets in developing countries were thought to be nonexistent and incapable of growth. International markets were tainted by the association with colonialism, as well as by the collapse of markets for commodities and credit in the Great Depression of the 1930s. In many developing countries the first flush of independence created optimism about new governments as agents of political, social, and economic change. Government-to-government aid had a plausible claim as the best way to promote development.

Development economists believed not only that poor countries were held back primarily by a lack of physical and human capital (which was, and remains, true) but also that domestic poverty and international market failures denied developing countries access to investment funds needed for economic growth.[4] Calculating countries' growth "requirements" of investment finance or foreign exchange (or both)—and comparing them with what was available—emphasized the size of the gaps to be filled. The natural tactical response was to fill the gaps with foreign aid through transfers of investible foreign exchange. If money was the problem, then "moving the money" was an appropriate objective for aid and aid agencies. The contribution of aid could then be measured in dollars.

Sadly, experience has long since undermined the rosy optimism of aid-financed, government-led, accumulationist strategies for development. Suppose that development aid only financed investment and investment really played the crucial role projected by early models. In that case, aid to Zambia should have financed rapid growth that would have pushed per capita income above $20,000, while in reality per capita income stagnated at around $600 (figure 3). The past 20 years have seen the death of centrally planned economies, stagnation in the leading import-substituting models of the 1970s (Mexico and Brazil), and broad economic failure (if not absolute disintegration) of post-independence Africa, which pursued a state-led strategy.[5] The past 20 years have also seen waves of spectacular increases in incomes and exports of East Asian economies—first, Korea, Taiwan (China), Hong Kong (now returned to China), and Singapore, followed by Thailand, Malaysia, Indonesia, and, after important economic reforms, China; the emergence of Chile as the most dynamic Latin American economy and the recent recovery of others; and successes in Africa, such as Botswana and Mauritius. The evidence suggests that rapid development is possible, and should be based on markets and on effective states playing an economically important facilitating, but not dominant, role.

So, there have been three phases of development thinking. In the first, market failures were seen as pervasive and complete, and government as the only solution to all ills. In the second there was a brief period when government failure was seen as pervasive and complete, and markets (if not the solution) as the only hope. Today's third view—pragmatic but not ideologically satisfying—is that both markets and governments have pervasive failures but that these usually are not complete. This emphasizes that government should focus on areas where the problems in the absence of intervention are greatest—but government must have the capacity to improve the situation. "We need to recognize both the limits and strengths of markets, as well as the strengths, and limits, of government interventions aimed at correcting market failures" (Stiglitz 1989, p. 202).

Together with the new development strategy comes a broader agenda.

The development strategy emerging from this view is two-pronged—put in place growth-enhancing, market-oriented policies (stable macroeconomic environment, effective law and order, trade liberalization, and so on) and ensure the provision of important public services that cannot be well and equitably supplied by private markets (infrastructure services and education, for instance). Developing countries with sound policies and high-quality public institutions have grown much faster than those without—2.7 percent per capita compared with –0.5 percent per capita (box 3). Put simply, failures in policymaking, institution building, and the provision of public services have been more severe constraints on development than capital markets.

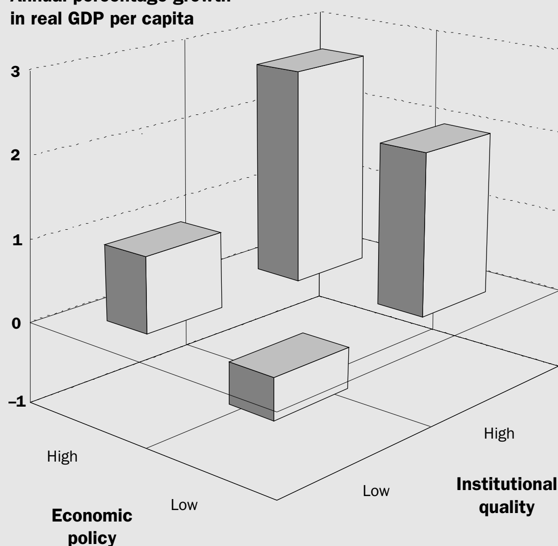
Together with the new strategy comes a broader agenda. Early development practice focused on growth of per capita income. But in reality, developing countries are concerned with broad improvements in the quality of life—higher incomes, yes, but also reduced poverty, advances in literacy and health, and environmentally sustainable development. The new agenda is reflected in the goals set forth by the donor community, in consultation with developing country partners:

- Reducing by one half the proportion of people living in extreme poverty by 2015.
- Achieving universal primary education in all countries by 2015.
- Making progress toward equality of the sexes and the empowerment of women by eliminating disparities in primary and secondary education by 2005.
- Reducing by two-thirds the mortality rates for infants and children under age 5 and by three-quarters maternal mortality—both by 2015.

Box 3 Defining Sound Management: Good Policies and Institutions

SOUND MANAGEMENT CONSISTS OF THE INSTITUTIONS and policies that will lead to rapid development and poverty reduction in a particular country. Developing countries learn about good and bad policies from their own experience and each other's experience. Sound management is difficult but not impossible to measure using a number of proxy indicators.

Box figure 3 Institutions, Policies, and Growth



Source: Burnside and Dollar 1998.

The index of economic policy used in box figure 3 combines three factors that have been shown in empirical studies to affect developing countries' growth: inflation, the budget surplus, and trade openness, as measured by Sachs and Warner (1995). A country with poor policies would be one with high inflation, large fiscal imbalances, and a closed trade regime (Nicaragua in the 1980s, for instance). An example of good economic policy would be Uganda in the mid-1990s.

The measure of institutional quality involves an assessment of the strength of the rule of law, the quality of public bureaucracy, and the pervasiveness of corruption. As the crisis of 1997–98 has shown, Indonesia is a country with poor institutional quality. Botswana, with its high-quality institutions, is a different story.

As donors make more of an effort to support good management, they likely will want to broaden the measure beyond the macroeconomic and institutional features illuminated here. For example, efforts to improve education and health are critical for successful development. And government support to agricultural research and extension and to community solidarity efforts made an important contribution to East Asia's success (Ishikawa 1960, 1978). The general point is that the definition of "good management" emerges from the actual experiences of developing countries.

- Providing access through the primary health care system to reproductive health services for all women and girls of child-bearing age as soon as possible and no later than 2015.
- Implementing national strategies for sustainable development in all countries by 2005 to ensure that losses of environmental resources are reversed both nationally and globally by 2015.

Box 4 Functions of the Development Assistance Committee

SINCE ITS INCEPTION IN 1960, THE OECD'S Development Assistance Committee (DAC) has functioned as the principal strategy-setting and policy and performance review organ of the major bilateral donors.

Bilateral aid programs are not conceived and implemented in a political vacuum. Indeed they are subject to considerable domestic pressures from political and commercial interest groups in the donor countries. And bilateral aid agencies can be subject to the same kinds of disbursement-driven dynamics as multilateral development banks, creating incentives for staff to be approval-focused rather than result-focused. They can also be more concerned to show the national flag on their development projects than to join collective sector improvement efforts in which donor identities are merged.

The DAC has been the forum where the major donors have worked to keep their programs focused on development objectives, to promote coordination, and to review aid effectiveness. Every three years, each DAC member is subject to an examination of its aid policies and performance by the other members of the Committee, based on studies by the OECD staff and led by two specially designated "examiners" drawn from the Committee. These Development Cooperation Reviews, including the conclusions reached by the DAC, have been published since 1994.

Over the last decade and a half, the DAC has codified and published a comprehensive set of Principles for Effective Aid. These guidelines and best practices cover key policy orientations and operational issues in central areas of aid management such as coordination, project assistance, program assistance, technical assistance, procurement, and evaluation—as well as for such basic dimensions of development as participation and good governance, environment, and gender equality.

The DAC's Working Party on Aid Evaluation brings together the heads of the evaluation units of bilateral and multilateral development agencies to work on evaluation capacities in developing countries.

At the strategic level, the DAC produced in 1996 the report, *Shaping the 21st Century: the Role of Development Cooperation,* which provides the basis for the kind of partnerships most likely to produce development progress: on the side of the developing country, a strong commitment to an effective policy environment and key development priorities aimed at pro-poor growth; and on the donor side, increased financial support for such policies on a program and budget level combined with an emphasis on participation and capacity-building (facilitating the transfer of "knowledge and ideas").

Source: Contributed by DAC staff.

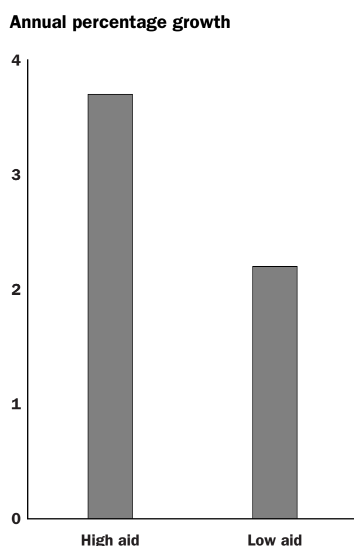
These goals are elaborated on in *Shaping the 21st Century: The Role of Development Cooperation,* produced by the Development Assistance Committee (box 4).

All this points to a different role for aid. Development assistance is more about supporting good institutions and policies than providing capital. Money is important, of course, but effective aid should bring a package of finance and ideas—and one of the keys is finding the right combination of the two to address different situations and problems.

Money Matters—In a Good Policy Environment

Aid has a large effect when countries have sound management.

Figure 4 Per Capita GDP Growth in Low-Income Countries with Sound Management



Source: Burnside and Dollar 1998.

So, given the new path in development thinking, what is important for long-term growth? Stable macroeconomic environments, open trade regimes, and protected property rights, as well as efficient public bureaucracies that can deliver education, health, and other public services. When developing countries have this kind of sound management, financial aid has a big effect on growth and poverty reduction, improving social indicators over and above what good management itself induces. Equally, aid has little effect on the development of countries with poor management. Financial aid will have a lasting effect only in a healthy climate for efficient investment and human capital development. Three sources provide the evidence—cross-country studies, research into the success and failure of investment projects financed by the World Bank, and case studies of aid effectiveness.

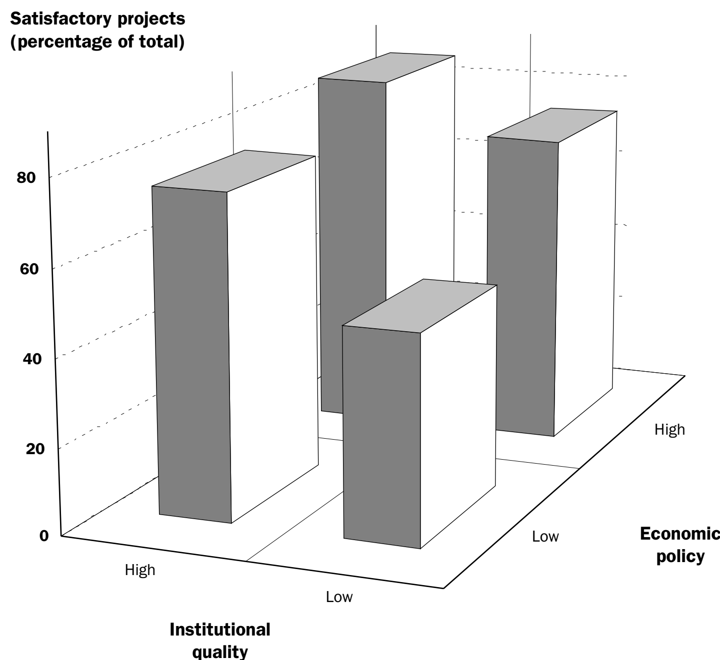
Few cross-country studies have found a robust effect of aid on growth. The picture changes, however, if countries are distinguished according to their economic management. Aid generally has a large effect in good-management environments: 1 percent of GDP in assistance translates to a sustained increase in growth of 0.5 percentage points of GDP. Some countries with sound management have received only small amounts of aid and have grown at 2.2 percent per capita. The good-management, high-aid group, however, grew much faster—3.7 percent per capita (figure 4). There is no such difference for countries with poor management. Those receiving small amounts of aid have grown sluggishly (if at all), as have those receiving large amounts. Introducing other variables does not change the picture.

The effect of aid goes beyond growth. In a country with sound management, 1 percent of GDP in assistance reduces poverty by 1 percent. Aid has a similar effect on infant mortality, but again only if there is good management.

A final lesson from cross-country studies is that, with sound country management, aid works in partnership with private capital. Specifically, 1 percent of GDP in aid crowds in another 1.9 percent of GDP in private investment. Put another way, assistance to well-managed countries increases private sector confidence and supports important public services. It hardly needs to be said, but in poorly managed countries aid crowds out private investment.

More evidence on the relationships among aid, management, and development comes from analysis of the success and failure of public

Figure 5 Project Performance by Policy and Institutional Environment



Source: World Bank 1997a.

Projects perform better with better policies and better institutions.

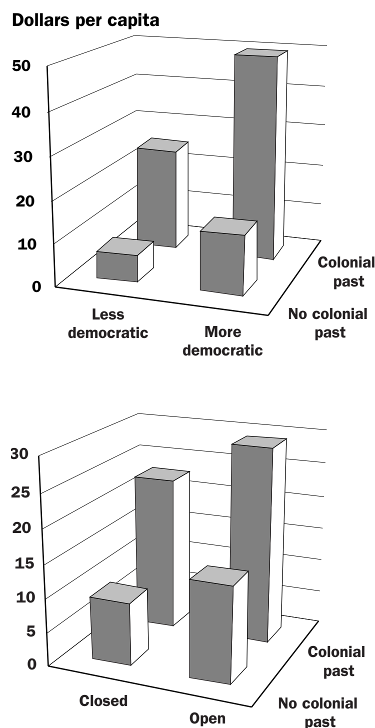
investment projects financed by the World Bank—in, for example, roads, power, and education. In countries with good macroeconomic management and efficient public institutions, projects were 86 percent successful, with much higher rates of return. In countries with weak policies and institutions, the corresponding figure is a measly 48 percent (figure 5).

Case studies of aid effectiveness have come to similar conclusions. Again, look at some earlier comparisons: the important role of aid to Bolivia after it reformed, compared with the largely ineffective aid to Nicaragua, which had poor policies throughout the 1980s; or the highly effective aid to Botswana (one of the countries with the best institutions and policies) in contrast to the many failures in Tanzania.

While it is useful as an illustration to draw a sharp distinction between good and bad management, there is in fact a continuum of policy regimes. Many developing countries fall into a gray area between good management and poor. The key recommendation from these findings is not that finance should go only to well-managed countries. Rather, we recommend that aid be allocated on the basis of poverty and economic management.

Being a former colony attracts more aid than having good policies.

Figure 6 Bilateral Aid and Colonial Past



Source: Alesina and Dollar 1998.

Among countries with similar poverty levels but different policy regimes, more finance should go to the countries with better management.

The actual allocation of aid has often been influenced by the strategic interests of donors. Although donor behavior differs, total bilateral aid has favored former colonies and political allies more than open economies or democracies. An undemocratic former colony gets about twice as much assistance as a democratic noncolony, and the same is true for a closed former colony compared with an open noncolony (figure 6). As a result, much bilateral aid has gone to countries with poor management. Indeed, countries with poor management have received about the same amount of bilateral aid as countries with good management (after controlling for per capita income and population).

Aggregating the flows from different donors obscures the different criteria on which aid is allocated. In the Nordic countries, strategic variables—such as a colonial past or United Nations voting patterns—play almost no part in allocations. Nordic aid is targeted to the poorest countries, favoring open economies and democracies. Multilateral assistance has been more effectively targeted than bilateral assistance to countries with sound management, though there is still room for improvement. Overall, aid is more effective at promoting growth and reducing poverty when it is channeled to poor countries with sound management. A $10 billion increase in aid would lift 25 million people per year out of poverty—if it favors countries with sound management. By contrast, an across-the-board increase would lift only 7 million out of poverty.

There are two reasons to be optimistic that foreign aid can be allocated more efficiently in the future. First, the end of the Cold War reduces the pressure to provide aid to strategic allies. In a few highly distorted economies (Myanmar, Nigeria, Zaire) aid declined dramatically in the early 1990s. Second, there has been a worldwide trend toward economic reform in developing nations. Thus, a growing number of very poor countries have relatively good policies. Ethiopia, India, Uganda, and Vietnam, for instance, have large populations and many poor people, but have made great strides in economic reform in recent years. Aid targeted to such low-income reformers can have a big effect on growth and poverty reduction. By the same token, large amounts of finance cannot be put to productive use before countries reform. In the highly distorted environments, donors need to find other instruments to support development

Aid Can Be the Midwife of Good Policies

More than just providing money, foreign aid must promote sound policies and help develop institutions. Recent literature shows that policy reforms that are not difficult technically (stabilization and trade liberalization) can add 2–3 percentage points to developing countries' growth. Since average developing country growth has been only 1 percent per capita, that would be a huge improvement.

Policy reforms depend mainly on domestic political and social factors.

Much development assistance is aimed at promoting policy reform, and the record is mixed. Such reforms depend mainly on domestic political and social factors, which are not easy for outsiders to influence. But where development assistance to highly distorted regimes has stimulated policy reform, the nonfinancial aspect of aid has often been the important factor. Thus it is possible for donors to make headway in promoting policy reform in difficult environments without violating the first recommendation—that is, give more money to good policy performers. In poor policy environments, ideas are more important than money.

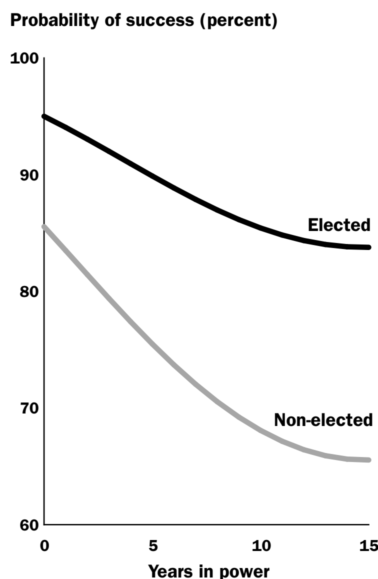
Some of the most important ways in which foreign assistance promotes policy reform are hard to measure. There has been a worldwide trend toward economic liberalization in the 1990s, and dissemination by development agencies of ideas about good policy has surely had an influence. Donors and foundations have also played an important role in financing the overseas education of policymakers. The Berkeley-trained group that designed Indonesia's reform package in the 1970s is a classic example. Many of Latin America's impressive reforms in the 1980s and 1990s were engineered by politicians and officials with advanced training that was partly financed by aid.

Some efforts may pay off only over a long period. In the early 1990s, for example, the World Bank launched a public education campaign in Ukraine to stimulate debate within civil society about economic reform. Ukraine has yet to achieve really good policies, but the support to popular education may yet have a big payoff. It is difficult to measure the precise effects of disseminating knowledge, educating officials, and stimulating popular debate. Case studies suggest, however, that they are often important to a successful reform program.

A more straightforward way to promote policy reform through aid is to make financing conditional on the adoption of certain policies—an

New governments are more likely to reform.

Figure 7 Elections, Tenure, and Probability of Successful Reform



Source: Dollar and Svensson 1998.

approach long followed by the International Monetary Fund (IMF) and the World Bank. Results have been far from uniform. In many cases policy measures were not carried out, yet loans were disbursed anyway. About a third of the World Bank's adjustment loans fail in that reform objectives are not met: "policy reforms rarely succeed unless the government is genuinely convinced that the reforms have to be implemented and considers the reform program its own" (World Bank 1997a, p. 37). While results improved in the 1990s, further progress—incorporating the lessons of the recent East Asian experience—is still needed.

A recent study found that the success (or failure) of adjustment loans could largely be predicted by a country's underlying institutional and political features, including whether the leader had been democratically elected and how long the government had been in power. A newly elected reform government had a greater probability of success, than an authoritarian government in power for a long time (figure 7). In general, new governments have a high success rate with reform and are good candidates for support. This often includes governments that arise in post-conflict situations. The study also found that variables under the World Bank's control, such as the number of conditions or resources devoted to preparation and supervision, had no significant effect on the probability of success or failure of reform.

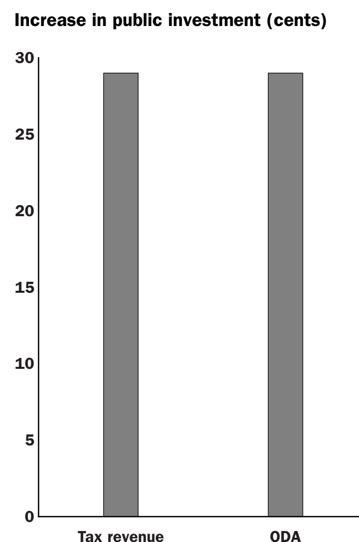
The implication: conditionality is unlikely to bring about lasting reform if there is no strong domestic movement for change. When domestic constituencies are committed to reform, adjustment loans and foreign aid can help consolidate policy gains in three ways. First, conditional loans are a means by which a reform-minded government can publicly commit to policy measures. Second, conditionality sends a signal to the private sector that a reform program is credible, and this should encourage a quicker response from investors. Third, aid spurs growth in a good policy environment. So, if reforms have moved quickly and already improved the policy environment, financial aid will have a big effect, which in turn should help sustain political support for the reforms. This is the conclusion of a review of eight successfully reforming countries in the postwar period (Sachs 1994). Sachs argues that in all cases the government was already committed to reform, but timely foreign assistance played an essential role. What aid did was to "help good governments to survive long enough to solve problems" (p. 512). Donors have gradually learned this lesson, and there is evidence that they have become more selective in providing policy-based aid: in the 1990–95 period, the

success rate of World Bank adjustment loans climbed to 76 percent, compared with 67 percent before 1990 (World Bank 1997a).

Thus, in supporting policy reform, the mix and timing of ideas and finance are crucial for effective assistance. In countries without reform movements, donors can try to nurture them through analytical work, training, and technical assistance. Such nonfinancial assistance remains important as reform movements develop and consolidate reform plans. The timing of large-scale finance must also be exact. If it comes too early, the emergence of a coherent program can be undermined, and the finance is unlikely to have much effect on growth. If it comes too late, it is an opportunity missed—to increase the effect of reform on growth and to help consolidate the policy regime. In deciding timing, donors should pay attention to the progress of reform, as well as to leading indicators of successful reform (a newly elected government, for instance). Conditionality still has a role—to allow government to commit to reform and to signal the seriousness of reform—but to be effective in this it must focus on a small number of truly important measures.

A dollar of aid increases public investment by exactly the same amount as any dollar of government revenue.

Figure 8 Public Investment from One Dollar of Tax Revenue or Official Development Assistance



Source: Feyzioglu, Swaroop, and Zhu 1998.

Money Matters—In a Good Institutional Environment

THE COMPOSITION AND EFFICIENCY OF PUBLIC EXPENDITURES affect both growth and poverty reduction. While public provision of some services is crucial, public involvement in others is at best neutral—and at worst distorts the economy and directs attention and resources from more pressing public sector responsibilities. Although most foreign aid has financed specific investment projects, what you see is not necessarily what you get. In many cases development financing is fungible. For instance, although most aid is targeted to finance investment costs, estimates suggest that the net effect of a dollar of aid is to increase public investment by only 29 cents—exactly the amount by which any dollar of government revenue would have raised investment (figure 8). Similarly, an aid dollar used to finance projects in education tends to increase government spending in all sectors to the same extent as a dollar of government revenue from any source.

If aid resources are fungible, the effects of "money aid" and "ideas aid" need to be assessed separately. Fungibility means that a government can

Countries with public sectors that provide effective, high-quality services are prime candidates for large amounts of financial support.

use increased resources as it chooses—to increase spending, fund tax cuts, or reduce the fiscal deficit. The effectiveness of finance depends on the quality of all public investments and expenditures, not simply on aid-financed sectors and projects. This finding has important implications for the evaluation and management of aid. Agencies often hone in on the success rate of individual projects as one measure of their effectiveness. At first glance, this appears to be a focus on "quality." But it can lead to distorted incentives, depending on the criteria for judging success. Since money is often fungible, the return to any particular project financed by aid does not reveal the true effect of assistance. Moreover, if agencies are evaluated mainly on the success rate of projects (defined narrowly, without accounting for spillover benefits), managers will avoid risky, innovative projects in favor of things that are known to work. With fungibility, the impact of aid is not the same as the impact of the aid-financed project. The return on the finance depends on the overall effectiveness of public expenditures. In addition, there is the important question of how the project was done differently with donor support, compared with how it would have been done without such support.

Once fungibility is recognized, choosing the level of support and the instrument for providing assistance requires a view on the overall quality of public sector management. But how to judge the composition and efficiency of public spending? Governments need to choose expenditures carefully, with an eye toward the net impact of additional spending on growth and poverty reduction. And that depends on what the private sector would supply without government. Too many developing country budgets have been devoted to activities that have no growth potential and no effect on poverty: wasteful and inefficient public enterprises, middle-class subsidies for fuel, electricity, and more, and spending that benefits mainly the rich, such as credit subsidies and free universities. Moreover, the efficiency of government spending is at least as important as its composition. Governments should be judged not on how much they spend but on how much they accomplish.

Countries with public sectors that provide effective, high-quality services are prime candidates for large amounts of financial support, and it makes sense to provide some of this as general financing of the budget. This approach recognizes the reality of fungibility and economizes on the cost (both to donors and recipients) of delivering aid. Studies of foreign aid have long pointed to the problem of poor coordination among donors and the burden that this imposes on developing countries. Delivering

more finance as general support to the budget would alleviate this problem.

As noted, many low-income countries fall into a gray area between good and poor management. Because implementing macroeconomic and trade reforms is technically easier than strengthening institutions (such as the civil service and the rule of law), these countries will often have relatively good macroeconomic policies but inefficient service delivery. Thus there will have to be more support for building institutions and implementing reforms in different sectors—more ideas, less money. A greater share of financing should come through projects whose value added is measured by the degree to which design and implementation helped improve performance in those sectors.

Donors should be more willing to cut back financing to countries with persistently low-quality public sectors.

Finally, donors should be more willing to cut back financing to countries with persistently low-quality public sectors. While it is difficult to withdraw support, attempts to work around a poor-quality public sector are unlikely to produce anything worthwhile or lasting. In these cases donor support should be geared less to financing and more to activities that in the long run may lay the groundwork for institutional and policy reform—again, back to ideas, with only enough finance to put the new ideas to work. The general point is that different country environments require different instruments of support.

Aid Can Be the Midwife of Good Institutions

MANY IMPORTANT PUBLIC SERVICES—SUCH AS MUCH OF BASIC infrastructure—are difficult (or impossible) to allocate through markets. But the economic characteristics that make these services candidates for government involvement also create problems in designing institutions and incentives that would make the public sector efficient. One major development challenge for 2000 and beyond is getting governments to do well the things that governments must do.

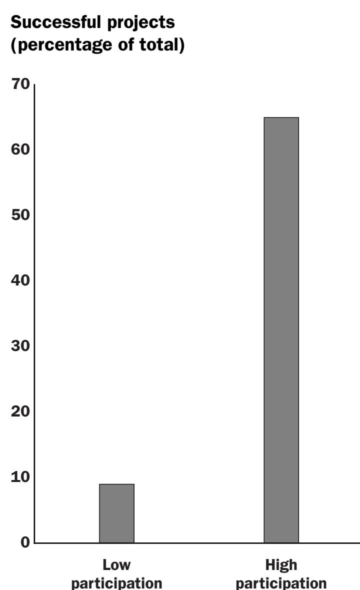
Well-designed aid can support effective public institutions and good governance by helping with the experimentation, learning, dissemination, and implementation of new ideas on service provision. Where there is demand for change, aid can make a big contribution, often through projects. As noted, the money element of a project does not necessarily stick with a particular sector because government revenues are fungible.

Thus the main rationale of projects must be to support reform of sector institutions and policies and demonstrate new ways of achieving development results.

Various historical, legal, political, and economic conditions make each country's situation unique—and often require the generation of new knowledge. Aid can help governments by bringing to bear lessons from their own, or international, experience, and by creating conditions that help experimentation and, more important, evaluation. Aid projects can assist countries to improve the performance of entire sectors.

Beneficiary participation can quintuple project success.

Figure 9 Success in Rural Water Supply Projects with Differing Levels of Beneficiary Participation



Source: Isham, Narayan, and Pritchett 1995.

Unfortunately, aid has sometimes been part of the problem. Past aid has gone almost exclusively to (or through) central governments and has affected how public services are delivered. Even though some local governments can provide services more effectively, developing countries tend to have unnecessarily centralized service provision, to which aid has contributed. The traditional design and management of aid packages have also reduced the participation of local communities in the design and implementation of development projects.

Donor responses to weak institutions have in the past often been ineffective. Faced with low implementation capacity and pressure to "move the money," aid agencies have a long history of attempting to "cocoon" their projects using free-standing technical assistance, independent project implementation units, and foreign experts—rather than trying to improve the institutional environment for service provision. In many cases these efforts have been as much, or more, of a failure as efforts to induce macroeconomic policy reform. They have neither improved services in the short run nor led to institutional changes in the long run.

Aid can help improve institutions and policies at the sector level in many ways:

- Analytical work of donor agencies, such as the World Bank, has been shown to increase the probability of success of public projects. In one study an additional $10,000 in analytical work returned $80,000 in stronger benefits from projects.
- In a sample of donor-financed rural water supply projects, the success rate was 68 percent for projects with high beneficiary participation, but only 12 percent for projects with low participation (figure 9). More important, donor efforts to promote beneficiary participation helped the adoption of this approach to service provision.
- Comparing project success across countries shows the importance of the institutional environment for public investments. In general, more

civil liberties (freedom of the press, freedom to assemble, and so on) lead to more project successes. Effective provision of community services requires that citizens' voices be heard.

- About 40 percent of World Bank projects have had a substantial effect on institutional development—that is, they have helped change the way the public sector does business.

The findings suggest that the key role of aid projects as a way of providing development assistance is not to move money but to support the creation of an effective public sector. Aid agencies can provide ideas about how to improve services and finance innovative approaches. Learning from these innovations generates knowledge about what works and what does not. This view of development projects has important implications, not only for the choice and evaluation of projects, but for the way aid agencies are designed and evaluated. In particular, the evaluation of projects from the donors' point of view should focus on whether they had a positive impact on the institutions and policies of the sector.

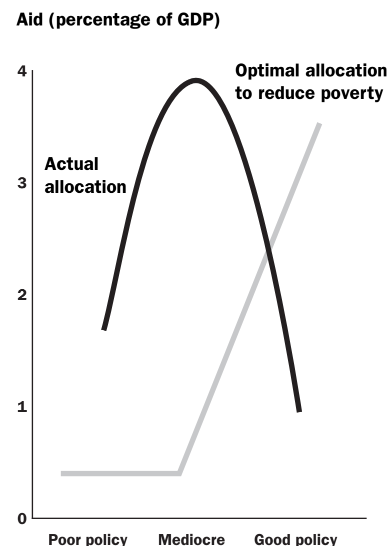
Money, but More Ideas, Too

Developing countries are to a large extent masters of their own fate. Domestic economic management matters more than foreign financial aid. Economies that lag are held back more by policy gaps and institutions gaps than by a financing gap. Aid as money has a large impact only once countries have made substantial progress with reform of policies and institutions. Poor countries with good policies should get more aid than ones with mediocre policies—but in fact they get less (figure 10).

Foreign aid has concentrated too much on the transfer of capital with (often) scant attention to the institutional and policy environment into which resources were flowing. This approach resulted from misunderstandings about development—overemphasizing finance at the expense of policies and institutions—and from external and internal pressures on aid institutions. Disbursements (of loans and grants) were easily calculated and tended to become a critical output measure for development institutions. Agencies saw themselves as being primarily in the business of dishing out money, so it is not surprising that much went into poorly managed economies—with little result.

Poor countries with good policies should get more aid than ones with mediocre policies—but in fact they get less.

Figure 10 Actual Allocation of Aid, 1996, and Optimal Allocation to Reduce Poverty



Source: Collier and Dollar 1998.

So, what can the international community usefully do in highly distorted environments? Obviously there is no simple answer to this question. Almost nothing positive has happened in Burma (Myanmar) or Nigeria in the past three decades, so it would be hubris to pretend that there is some magic solution to the problems of these and similar countries. Nevertheless, there are examples of successful assistance that has improved the lives of people in such countries.

The final chapter of the report presents four case studies of effective aid under difficult conditions: adjustment without adjustment lending in Vietnam; support to education decentralization in El Salvador, Pakistan, and Brazil; a health financing innovation in Cameroon; and the

Box 5 Stakeholder Views on Aid Effectiveness

In preparing this report, the messages were discussed with a wide range of stakeholders from the developing and developed worlds. Although there inevitably are some differences in views, the extent to which there was broad agreement on what factors account for successes in development assistance is remarkable:

Not surprising, these turn out to be a policy and institutional environment conducive to earning high returns from resources applied for development; a leading role by recipient countries in designing and managing development programs which helps elicit commitment to success and open governance to enforce accountability and prudence.

Benno Ndulu,
Head, Africa Economic Research Consortium

The new concept of "ownership," stressed in the Development Assistance Committee's new development strategy, aims to improve efficiency and efficacy by apportioning responsibility for costs and risks to those involved. The central government of the developing country has the lead role in forming development policy. In participatory development, however, citizens who participate—and bear a share of the burden—work to ensure the project's efficacy. The public draws up plans, asks for assistance, bears some construction costs, and shares in responsibility for maintenance and management. This ensures enthusiastic public participation and maintains project sustainability.

Toru Shinotsuka,
Chief Economist, Japan's OECF

Close partnership with NGOs in development projects has proven effective in enhancing ownership and community participation, thereby promoting the sustainability of projects, especially those delivering services to (and empowering) local communities. But the willingness of both donor agencies and recipient governments to involve NGOs is crucial, and, here, the environment is mixed. Not all donors welcome a strong NGO role. Likewise, government receptiveness to NGO involvement—never mind partnership—differs from country to country. Even within countries, it can vary widely among local governments, as in the Philippines. Much advocacy work remains to be done, and the World Bank's leadership in promoting civil society partnership in development cooperation is critical.

Cielito Habito,
Secretary of Socio-Economic Planning,
Republic of the Philippines

Source: OECF/World Bank 1998, 23, 15, 21.

Africa road maintenance initiative. Running through these cases of success in the difficult environments are four themes:

- *Finding a champion.* Countries, governments, and communities are heterogeneous. While it is fair to characterize Burma overall as "poorly managed," there are likely to be reform-minded elements in the community and even in the government. If aid can find and support these reformers, it can have a big impact.
- *Having a long-term vision of systemic change.* Successful reformers have a vision of how things could be different in 10 years—different both in outcomes (more kids going to school, graduating, getting jobs) and in process (community involvement in schools, broad public support for reform policies).
- *Supporting knowledge creation.* While reformers typically have a long-term vision, they often need to develop the details of reform through innovation and evaluation. Furthermore, for reform to take root requires a demonstration that it actually works. Financing and evaluating innovations is a key role of development assistance.
- *Engaging civil society.* In the highly distorted environments, the government is failing to provide supportive policies and effective services. This is why government-to-government financial transfers produce poor results. Effective aid in this case often involves supporting civil society either to pressure the government to change or to take service provision directly into its own hands.

For reform to take root requires a demonstration that it actually works.

The foregoing points concern characteristics of promising environments for change and how donors can promote those characteristics. The lessons of successful assistance also provide guidance about donor behavior. Aid is more effective when:

- *Agencies focus on long-term reform.* It is noteworthy that success in difficult environments typically involves intensive staff input from donors and small disbursements of money. It also goes "beyond projects" to support systemic reforms. In the difficult environments, effective assistance is more about ideas than it is about money or projects. Money may be one input, as in the examples in Chapter 5. Projects can also be a useful input. But the focus of assistance in these cases was on supporting people with new ideas or looking for new ideas.
- *Donors work in partnership rather than in competition.* Studies of aid have long pointed to the proliferation of donors and lack of coordi-

nation among them. Well-managed countries force coordination on donors, but in the weak environments they often run amok. It is hard to explain this behavior, except that different donors like to "plant their flags" on something tangible. In the cases of successful assistance, we tend to find strong partnership among donors with a focus on larger transformations, not on individual projects and flags.

In cases of successful assistance donors focus on larger transformations, not on individual projects and flags.

As the focus of aid expands to money and ideas, management and evaluation become trickier. Agencies are trying to support policy reform and institutional development at both the macroeconomic and sectoral levels. The privileged units of account should be the country or sector program. Individual projects will be important in supporting sectoral development, but they should be evaluated primarily on their contribution, as building blocks and testing grounds, to the reform of sectoral institutions and policies. "Evaluating the Bank's effectiveness can no longer focus only on the project, it must also measure the impact of the full range of bank activities at the sector and country levels. This calls for new evaluation instruments and modalities . . ." (World Bank 1997a, p. 1).

Donor agencies have learned from their success and failures. In the 1990s all of the major agencies have instituted reforms aimed at strengthening the focus on results on the ground. Most agencies have also developed country assistance strategies so that individual activities now must fit into a larger game plan for policy reform and institutional change. In the same vein, the focus of evaluation has risen above the level of the project to overall country program reviews. These essentially ask: Have agencies used their resources to stimulate institutional and policy changes that have led to improved services and better quality of life? This is not an easy question to answer. But it is the right one to ask. The Overseas Development Council recently sponsored reviews of the overall impact of aid in eight African countries, conducted jointly by scholars from the developing countries in question and from major donor countries—which seems to be a fruitful approach. Similarly, the shareholders of the IMF recently turned to a group of outside scholars to assess the Fund's support to low-income reformers. And the World Bank has initiated country assistance reviews with input from a wide range of stakeholders.

Called for are independent reviews of development agencies with strong input from developing countries and focusing on two questions: Has the bulk of financing gone to sound institutional and policy environments? And have agencies contributed to policy reform and institu-

tional change? Evaluating the right things should feed back into the management and incentives within agencies. With better management and evaluation, development agencies should become:

- *More selective*—putting more money into economies with sound management.
- *More knowledge-based*—using resources to support new approaches to service delivery, expanding knowledge about what works, and disseminating this information as a core business.
- *Better coordinated*—results-oriented agencies should worry less about planting their flags on particular projects and more about how communities, governments, and donors working together can improve services.
- *More self-critical*—agencies should be asking themselves continually: Why do we do what we do? And what is the impact?

There is reason to be optimistic that reform of aid agencies will succeed.

With a better understanding of development and aid effectiveness and with the end of Cold War strategic pressures, there is reason to be optimistic that reform of aid agencies will succeed.

Notes

1. Even a partial list would include books by those outside aid agencies (Cassen 1986, updated in 1994; Riddell 1996; Mosley 1987; Krueger, Michalopoulos, and Ruttan 1989), various institutional evaluations, and large bibliographies on specialized topics, such as aid and macroeconomics (White 1992), policy-based lending (Killick 1991), aid and nongovernmental organizations (Riddell, Bebbington, and Peck 1995), and aid and post-conflict reconstruction (World Bank 1998b).

2. Because of data availability, the focus of this study is assistance from OECD countries to the developing world. It does not cover South-South aid (for example, from Kuwait or Saudi Arabia) or the Soviet Union's extensive foreign aid.

3. The report focuses on international efforts to support long-term growth and poverty reduction in the developing world. There are other important types of international cooperation not covered by the study, such as efforts to reduce cross-border narcotics traffic or to promote peaceful conflict resolution. Furthermore, humanitarian aid, which accounts for less than 10 percent of development assistance and focuses on short term mitigation efforts, is a separate issue not addressed in this report.

4. The oft-made suggestion that the early consensus was on physical investment and that the new consensus is a shift to human investment is belied by the literature and by reality. Gunnar Myrdal's classic *Asian Drama,* written in the 1950s, signaled the intellectual shift to roughly equal emphasis on physical and human capital

5. It would be wrong to be overly critical of earlier views or those who held them, as economics is an inexact science and reading the evidence is difficult. A 50-year-old development economist making policy in 1960 would have witnessed in his or her lifetime: the Great Depression, the success of World War II planning in ending unemployment and raising wartime production, the spectacular rise of the Soviet Union under central planning, and the catch-up of Japan to the European powers.