PART II

ACTING OUT THE BURDEN

CHAPTER FIVE

THE RICH HAVE MARKETS, THE POOR HAVE BUREAUCRATS

To err is human,

To really screw up takes a committee.

ANONYMOUS

FFOREIGN AID DONORS spent two billion dollars in Tanzania during the past twenty years building roads. The road network did not improve. Roads deteriorated faster than donors built new ones, due to lack of maintenance.[1] I have been on my share of bad roads in Africa, roads so bad that you can only creep along them at about five miles per hour. You may think roads are not so critical, but maybe you would change your mind if you were a desperate husband traveling at five miles per hour with a wife in labor, trying to get her to a health clinic to address life-threatening complications. The poor need roads; the aid bureaucracy fails to deliver them. We should be tough on a bureaucracy that fails to turn aid money into critical services for the poor.

The international aid bureaucracy includes the World Bank, the U.S. Agency for International Development and other national government agencies, the regional development banks such as the Inter-American Development Bank, and the United Nations agencies. How well have we foreign aid bureaucrats done through the $2.3 trillion we've spent on the problems of the poor?

The "growth industry" in Tanzania is actually bureaucracy. Tanzania produced more than 2,400 reports a year for its aid donors, who sent the beleaguered recipient one thousand missions of donor officials per year.[2] I myself wasted government officials' time on five continents during my bureaucratic career. Foreign aid did not supply something the poor wanted (roads), while it did supply a lot of something the poor probably had little use for (me and my fellow bureaucrats).

Contrast this with the efficiency of bottom-up Searchers. We have seen that the conditions for markets are often absent, but when they are present, as in rich countries, market Searchers work wonders. It is hard to go ninety miles on a road in Tanzania, but you can book online in about five minutes a nonstop flight from New York to Los Angeles leaving in about an hour and a half from this moment, and be three thousand miles away by this afternoon. No bureaucrats assess your needs for air travel over the next year. You file no reports with strategies or plans for your travel over the next fiscal year. Southwest Airlines is not offering to transform the world; it just searches for a way to get you to Los Angeles right away so you will buy a ticket and contribute to its profits. Despite this lack of bureaucracy, the flight from New York to Los Angeles is available to whoever wants it at a price of $299.

You might think this comparison is unfair. Markets do not supply all goods for the rich. Some goods are public services, such as roads, that have to be supplied by the state. The state does use bureaucracy to meet these needs. Yet the bureaucracy in rich countries works better than the bureaucracy of the aid agencies for the poor. The previous chapter has already shown how better public services go along with democracy, so let me just give an anecdote here. I once had a pothole in front of my house in Takoma Park, Maryland. I got the city bureaucracy to fix the pothole in three easy steps: (1) I called my city councilwoman, Kathy Porter, and asked her to please have the city repair the pothole; (2) the next day, the Takoma Park Public Works bureaucracy was out there filling in the pothole; and (3) actually, there was no third step. This worked because the city bureaucracy is accountable to elected politicians such as Kathy Porter, who is accountable to me and other voters. Kathy Porter is a Searcher. She built her political career in Takoma Park on responding to constituents. Today, she is entering her eighth year as mayor of Takoma Park. Of course, rich-country democracy doesn't always work this well, but it works well enough to get many public services to its rich citizens.

This example shows that bureaucrats are not automatically ineffective. Markets themselves use bureaucracies. Southwest Airlines, like all corporations, has a corporate bureaucracy that organizes its delivery of travel services to the customers. The difference from aid bureaucracy is that the corporate bureaucrats are accountable to those same customers—if they don't deliver the goods, they go out of business. The market forces corporate bureaucracies to use Searchers to find out how to deliver services most cheaply for the highest degree of customer satisfaction.

The tragedy of poverty is that the poorest people in the world have no money or political power to motivate Searchers to address their desperate needs, while the rich can use their money and power through well-developed markets and accountable bureaucracies to address theirs. The foreign aid bureaucracy has never quite gotten it—its central problem is that the poor are orphans: they have no money or political voice to communicate their needs or motivate others to meet those needs.

To make things even worse, aid bureaucrats have incentives to satisfy the rich countries doing the funding as well as (or instead of) the poor. One oversight in the quest to help the poor was the failure to study the incentives of its appointed helpers. The bureaucratic managers have the incentive to satisfy rich-country vanity with promises of transforming the Rest rather than simply helping poor individuals. Internal bureaucratic incentives also favor grand global schemes over getting the little guy what he wants.

This is not to say that self-serving incentives determine everything in either markets or bureaucracies. People take pride in doing good work, achieving results, and helping others in both private and public organizations. Many aid agency staffers are hardworking, caring, honest professionals dedicated to helping the poor. The question is whether the incentives work *for* or *against* the well-intentioned workers. In private markets, incentives and pride in doing good work reinforce each other. In democratic bureaucracies, political incentives are on the same side as the professional norms of good performance. In aid bureaucracies, unfortunately, the political incentives too often work against the professionals trying to get results.

Understanding the bureaucratic obstacles to serving the interests of the poor can point the way toward more effectively helping the poor. This chapter is a modest step toward shining a light into some of the bureaucracies' dark corners, and motivating others to do the same, in order to begin to change incentives for the helpers to deliver results rather than plans. This chapter will suggest some hypotheses as to why aid agency bureaucracy works badly, and then test these hypotheses with as many case study examples as possible. Unfortunately, in this area I have to rely more on case studies and even anecdotes than systematic data, as bureaucratic behavior is harder to quantify than other things this book covers.

Bottom-up Feedback Again

The beauty of the market's focus on the individual is that customer choice gives feedback to suppliers. If flights to Los Angeles on Southwest are fully booked and you attempt to book an additional seat, that's a signal to Southwest to schedule more flights or raise prices. The wonder of markets is that they reconcile the choices of myriad individuals. A price that clears the market is like a heating thermostat. When the house gets too cold, the thermostat automatically turns on the heat. If the house gets too warm, the thermostat turns off the heat. If you still feel too cold at the current setting of the thermostat, you change it. *You* decide if you are too cold, and *you* control the thermostat. The market works in the same way—if there is excess demand, the price goes up; if there is excess supply, the price goes down. Democracy also features feedback. If a citizen or civic lobby observes a problem and calls a public official to get it fixed, it often gets fixed. If the government does something that really pisses off the majority of the population, the voters scream loudly enough that the government changes its behavior.

To see how unique a well-working feedback system is, consider a mix-up that once happened to me. My companion and I were going to sleep on a cold night under a dual-control blanket. Each of us could control the warmth on our own side of the blanket. We got the controls mixed up so that I was unknowingly controlling her side and she was controlling my side. I felt too warm and turned the control down, which made her side colder, so she turned her control up, which made my side even hotter, which made me turn down my control even more, which made her side even colder, which made her turn her control up…

The difficulty of foreign aid agencies is that a bureaucrat is controlling the thermostat to the distant blanket of some poor person, who has little ability to communicate whether she is too hot or too cold. The bureaucratic Planners get little or no feedback from the poor. So the poor foreign aid recipients get some things they never wanted, and don't get things they urgently need. Searchers can do better by getting out in the field, talking to the poor, designing feedback mechanisms such as surveys, and experimenting with what works in local conditions.

Me Principal, You Agent

Not that there are easy solutions in foreign aid. The aid problem is inherently difficult. Rich-country politicians control the foreign aid agencies. To make the relationship between rich-country politicians and aid bureaucracies more precise, think of principals and agents (an agent is anyone who acts on behalf of another person, the principal—there is a lot of research in economics about this setup). Think of the rich-country politician as the principal and the aid bureaucrat as the agent. The big problem already noted is that the principal is the rich-country politician and not the real customers, the poor in poor countries. Voters in the rich country and their representatives are the ones who choose the actions of the foreign aid agency. They love the Big Plans, the promises of easy solutions, the utopian dreams, the side benefits for rich-country political or economic interests, all of which hands the aid agency impossible tasks.

But even if voters and their representatives were more focused on feasible actions to help the poor, problems would remain. In the usual principal-agent setup, the principal cannot execute all of a task himself, so he delegates part of it to an agent, who will perform it on his behalf. For example, a store owner cannot man the cash register all the time, so she hires an employee. But the principal and the agent do not have the same interests. The store owner wants the employee to serve as many customers as energetically as possible to maximize store profits. The employee wants to conserve his energies for after-hours barhopping. The owner and the employee can resolve the incompatible goals by writing a contract that gives the agent the incentive to do what the principal wants. The employee gets rewarded if he serves the customers, and gets fired if he blows them off.

However, principal-agent contracts do not work if the principal cannot observe performance by the agent. With no ability by the principal to monitor the agent, the agent has no incentive to work hard for the principal's interests.

These problems become a nightmare under the Planner's mind-set, where there is some utopian objective such as ending world poverty. The rich-country politician could judge the aid agency based on the overall poverty outcome—but that assumes a known relationship between foreign aid efforts and poverty reduction. On the contrary, because the poverty outcomes in the Rest depend on many factors besides the bureaucracy, the aid agency's contribution in the field is invisible.[3]

Pity the aid agency for having an almost impossible problem. The agency must indulge the dreams of the rich-country principals of transforming the Rest. The agency must work with local government institutions and local elites who themselves may not care about poverty reduction. There is uncontrollable variability about poverty outcomes, due to such unanticipated factors as political upheavals, droughts, or export price declines. Although rational principals could control for the difficulty of the environment, conditional evaluation requires inside knowledge that only the aid agencies themselves have.

Again, the invisibility of individual aid agency efforts and outcomes is at the core of the problem. To see how visibility matters, suppose you are the agent and your principal is the dinner guest you have invited over to your home. Compare the cleanliness of your dining room and your attic. The dining room is observable to your dinner guest. The attic is not. Your dining room is a lot cleaner than your attic. You devote much more effort to cleaning the dining room than to cleaning the attic. In fact, you may even make the attic messier in the process of cleaning the dining room, shoving dining room junk up into the attic. If someone comes up with a utopian plan to transform your attic, nobody will ever know if it succeeded or not. When nobody can tell whether aid agency efforts make a difference, the aid agency managers have only weak incentives to exert effort. This goes back to one of the key predictions of this book: visibility gives more power to Searchers, while invisibility shifts power to Planners.

The problem with aid is that the poor are mostly invisible. Foreign aid and other development efforts take place in the attic of the rich people's world. Does the ineffective utopian vision survive in foreign aid because nobody is paying much attention? Let us see if we can make aid perform better by throwing open the attic to public view.

The Kids Contribute Some Bathroom Humor

Trying to do everything with foreign aid creates a situation with many principals and many agents. Principal-agent theory says that multiple principals (many rich-country governments and issue lobbies) weaken the incentives for the agent (the international agency). The messianic urge of the West to solve all of the Rest's problems creates multitudinous objectives for the aid agency. Each principal (say, each issue lobby) influences the agent to pursue its objectives and neglect the other principals' objectives; together, this weakens incentives for the agent to achieve any one objective.[4] Anyone with more than one boss knows this. Whenever one boss complains about your halfhearted performance, you make the excuse that you were working for the other boss.

The solution to this particular problem is to have fewer objectives. If the aid business were not so beguiled by utopian visions, it could address a more realistic set of problems for which it had evidence of a workable solution. A further step would be to have each aid agency specialize more in some subset of these workable solutions.

Foreign aid is also complicated by having many agents—many different aid agencies who answer to different bosses. Operating in the Bolivian mountains are the International Monetary Fund the World Bank, the Inter-American Development Bank, USAID, the U.S. Drug Enforceme Administration, the UK Department for International Development (DFID), just about every other ric country's aid agency, multiple NGOs, and Bono. None of the agencies is responsible for a particular outcome, and the effects of their individual efforts are unobservable. They jointly affect what happens to economic development in Bolivia. When something goes wrong in Bolivia, such as the economic and political crisis in 1999–2005, after years of effort by these agencies, which one is to blame? We don't know, so no one agency is accountable. This weakens the incentive of agencies to behave.

Consider the following analogy, inspired by a discussion with my kids that drew upon their deep reserve of bathroom humor. Suppose a child is uncouth. When he is on a school elevator that contains only one other child, should he suppress flatulence? The answer is yes, to avoid extreme disapproval from the other child. But now suppose he is on a crowded elevator. The incentive to suppress, as my kids analyze this sensitive subject, is not as strong, since the other children on the elevator won't know whom to blame.

A dysfunctional bureaucracy is an agency or group of agencies where no one is to blame: "that's not my department." Principals don't know whom to hold accountable when something goes wrong. The problem is more severe the more general the objective, and thus the more agents that could have contributed to the outcome.

This is the flaw in exercises in international cooperation such as the Millennium Developmen Goals. All the rich-country governments and international aid agencies are supposed to work together to achieve the MDGs. So when the goals are not attained, no one agent can be held accountable. This weakens the incentive of any one agent to break its neck to reach the goals. Collective responsibility for goals doesn't work for the same reason that collective ownership of farmland in China didn't work.

Yet going along with collective responsibility is an optimal strategy for individual aid agencies to protect themselves from the hostile political environment facing foreign aid. With success on the big goals of foreign aid so dependent on many other factors besides aid agency effort, it is understandable that aid agencies want to share the blame with as many other agencies as possible if something goes wrong.

The free market in rich countries solves the problem of many principals and many agents. There are many firms (agents) supplying goods to many consumers (principals). A decentralized search by both firms and consumers through the free market creates a number of matches. Each match creates a temporary principal-agent relationship between the consumer and the firm. If the firm's product is defective, the consumer knows whom to blame and can ask for his money back. The firm thus will have an incentive not to make a bad product. With nothing analogous to the marketplace in foreign aid, the many principals don't know from which of the many agents to demand their money back.

As the previous chapter notes, bureaucracy works better—though, God knows, far from perfectly—in countries with governments democratically accountable to their citizens. The analogue to market feedback in democracy is voter feedback. If the citizens don't get results from government bureaucracy, they complain to politicians who depend on the citizens' votes. The politicians (principals) try to design bureaucracies (agents) with incentives to deliver results to the voters. In rich-country democracies, bureaucracies are more likely to be assigned a simple, doable task (Takoma Park Public Works, U.S. Government Veterans Affairs, the State Highway Department Social Security) rather than visionary ambitions. Politicians will blame bureaucracies (and voters will blame politicians) if they fail to deliver results (potholes fixed, veterans' benefits delivered, new roads built, retirement checks issued).

To Repair a Pothole

Now consider a poor person in the countryside of Tanzania who wants to get a pothole repaired in front of his house. As we saw in the beginning of this chapter, Tanzanians have not enjoyed good roads. In contrast to the ease with which I got my pothole fixed in Takoma Park, the poor Tanzanian has no way of getting anyone to act in his behalf. The Tanzanian government looks to foreign aid for financing of public services. This poor person somehow communicates his desires to "civil society representatives" and/or nongovernmental organizations (NGOs), who articulate his needs through the government of Tanzania to the international donors. The national government solicits a "poverty reduction support credit" (PRSC) from the World Bank (also known as the International Bank fo Reconstruction and Development, or IBRD) and a Poverty Reduction and Growth Facility (PRGI from the International Monetary Fund (IMF).

To get loans from the IMF and the World Bank, the government must complete a satisfactory Poverty Reduction Strategy Paper (PRSP), in consultation with civil society, NGOs, and other donor and creditors. Although they do advocate free markets, the IMF and World Bank show a curious affinity for the national Planners who will create a Poverty Reduction Strategy Paper.

The World Bank then follows a series of internal steps to approve a PRSC, including preparation of a Country Assistance Strategy (CAS), a pre-appraisal mission, an appraisal mission negotiations, and board approval, all in accordance with the Comprehensive Development Framework (CDF), Operational Directive (OD) 8.60, Operational Policy (OP) 4.01, and Interi PRSC Guidelines. The government also seeks qualification for the Enhanced Heavily Indebted Poc Country (Enhanced HIPC) Debt Initiative so that the new loan doesn't simply go to service old loans The creditors and the government conduct a debt-sustainability analysis (DSA). The HIPC, PRS(and PRGF require numerous reform conditions, such as participation of the poor in designing projects, poverty-reducing government expenditure monitored through annual "public expenditure reviews" (PERs), fiscal deficit targets, revenue-mobilization targets, and structural reforms such as implementation of a Financial Information Management System (FIMS) in the government, financia sector reform in line with the Basel standards and the eleven areas of International Standards and Codes recommended by the IMF and World Bank, control of money laundering, and privatization lowering trade barriers in ways governed by the World Trade Organization (WTO), perhaps by applying the Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries. The PRSP plan may or may not include money that could finance road repair for this poor person. The amount of money for road maintenance will depend on a prioritization of various needs for expenditure in a multi-year "medium-term expenditure framework" (MTEF).

Meanwhile, if beleaguered Tanzanian government officials have any time left, the PRSP Sourcebook also suggests that they cost out all the various ways the government is making progress toward the Millennium Development Goals for poverty, hunger, infant and maternal mortality, primary education, clean water, contraceptive use, AIDS, gender equality, and the environment. Meanwhile, other international bodies will review the Tanzanian PRSP, such as the United Nations Development Program (UNDP), the African Development Bank (AfDB), the United Nation Conference on Trade and Development (UNCTAD), the Food and Agriculture Organization (FAO), the World Trade Organization (WTO), the World Health Organization (WHO), the International Labour Organization (ILO), the European Union (EU), the United Nations Children's Fund (UNICEF), as well as NGOs and the national aid agencies such as those from Austria, Belgium, Canada, Finland, France, Germany, Ireland, Italy, Japan, Netherlands, Norway, Spain, Sweden, Switzerland, United Kingdom (DFID), and the United States (USAID). If IBRD, IMF, UNDP, FAO, WTO, EU, WH AfDB, DFID, and USAID approve the PRSP and release new funds to the national government, th the government will allocate the money in accordance with the MTEF, PER, CDF, PRGF, PRSC, ar PRSP, after which the money will pass through the provincial governments and the district governments, and the district government may or may not repair the pothole in front of the poor person's house.

The analysis points to possible improvements: Have aid agencies specialize more in solving particular problems in particular countries, rather than having each agency responsible for everything. Then hold each agency responsible for progress on its particular problem, which might encourage it to cut red tape. And give the poor Tanzanian Kathy Porter's phone number.

No matter how hard you try, every once in a while, something is going right.

COROLLARY TO MURPHY'S LAW[5]

Success

Don't abandon all hope. Even with all the possible bureaucratic pitfalls to making aid work, it sometimes *does* work. There *are* successful projects in the World Bank's portfolio, for example. The World Bank in the early 1990s helped fund the Food for Education program to keep Bangladeshi girls in school by giving their parents cash payments in return for school attendance (this is the kind of program that could help Amaretch in Ethiopia). Female enrollment doubled in the areas covered by the program. Another World Bank project in Bangladesh helped reduce the percentage of malnourished children from 13 percent to 2 percent in the areas covered. The World Bank's Peru Rural Roads Project helped Andean villagers get their crops to market in one tenth the time it used to take before the project.[6]

In 1991, the World Bank co-financed a ten-year $130 million project in China to control tuberculosis deaths. Local TB clinics tested 8 million people for TB during 1991–2000. Of these, 1.8 million tested positive. Doctors gave TB patients the proven regimen of streptomycin and other drugs. Because it is critical that patients take their medicine regularly (a weak point in many previous anti-TB programs), the project assigned health workers to watch patients do so. (This is the DOTS "directly observed treatment, short course," approach successfully pioneered by the World Health Organization.) Local units reported on caseload and treatment to provincial and central committees, which made possible continuous evaluation of whether the program was working. The program was a success: the cure rate for TB increased from 52 percent to 95 percent. Chapter 5 discusses other health success stories.

The WHO and UNICEF supported a child nutrition project in the Iringa region of Tanzania beginning in 1983. The project held community health days in which all the children got a weight-for-age calculation to identify which children were malnourished. The project also trained village health workers and traditional healers to recognize the signs of malnutrition. Feeding centers got food to undernourished children. In the five years of its operation, the program reduced severe malnutrition by 70 percent and moderate malnutrition by 32 percent. The World Bank and other donors started similar projects in other parts of Tanzania in the 1990s.[7]

Foreign aid likely contributed to some notable successes on a global scale, such as dramatic improvement in health and education indicators in poor countries. Life expectancy in the typical poor country has risen from forty-eight years to sixty-eight years over the past four decades. Forty years ago, 131 out of every 1,000 babies born in poor countries died before reaching their first birthday. Today, 36 out of every 1,000 babies die before their first birthday. Kids enrolled in primary school in the typical poor country went from 65 percent of their age group in 1960 to 100 percent today. (There are a number of countries below 100 percent enrollment, but more than half of poor countries have 100 percent enrollment—hence the "typical" poor country has 100 percent enrollment.) The corresponding ratios for secondary school were even more dramatic: only 9 percent in 1960, 70 percent today. Despite the zero-growth payoff to aid in Africa, there has been a fall in infant mortality and a rise in secondary enrollment (see figure20) in that most aid-intensive continent.

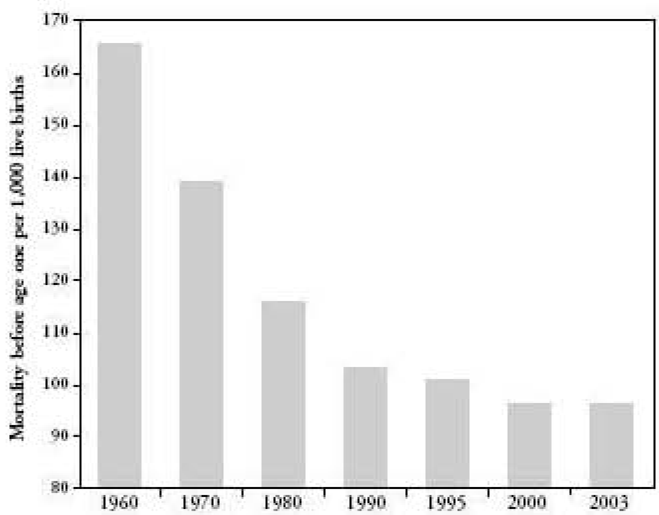

Fig. 20. Infant Mortality in Sub-Saharan Africa

Organizations such as the IMF and the World Bank do succeed in attracting professionals who are dedicated to the mission of poverty reduction. Employees with strong norms of professional conduct do perform better than suggested by the more cynical analysis of aid agency incentives to please the rich. Even if aid didn't work well at the top, agents at the bottom sometimes made it work anyway. Professional fieldworkers can discover projects that do convey real benefits to poor people—e.g., better economic policy; better health, education, and sanitation; and better access to water, sanitation, and electric power.

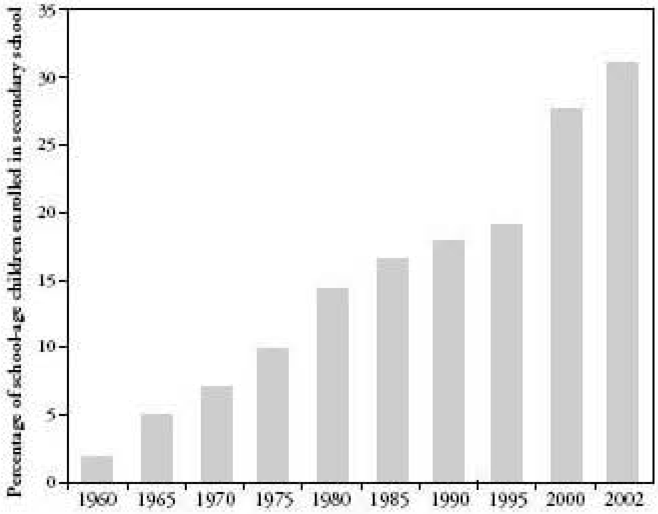

Fig. 21. Secondary Enrollment Rate in Africa

Maybe aid even works on average in some sectors, such as health, education, and water and sanitation. For example, maybe aid agencies had something to do with the improvement in water and sanitation in Africa. From 1970 to 2000, the percentage of the population with access to clean water went from 20 percent to 60 percent, and the access to improved sanitation went from one sixth to two thirds in the typical African country. Attributing these successes to aid is conjectural because there has not been enough of a scientific attempt in aid agencies to evaluate the impact of aid projects, but at least it lends some suggestive hope that aid can sometimes work.

Predictions of Bureaucratic Behavior

The concepts discussed earlier suggest that we bureaucracies will devote effort more to activities that are more observable and less to activities that are less observable. By the same token, we bureaucrats will perform better when we have tangible, measurable goals, and less well when we have vague, ill-defined dreams. We will perform better when there is a clear link from effort to results, and less well when results reflect many factors besides effort. We will perform better when we have fewer objectives, and worse when we have many objectives. We will perform better when we specialize in particular solvable problems, and less well when we try to achieve utopian goals. We will perform better when there is more information about what the customers want, and less well when there is confusion about such wants. We will perform better when agents at the bottom are motivated and accountable, and less well when everything is up to the managers at the top.

All of these positive factors shift power from Planners to Searchers. When aid efforts meet these criteria, Searchers offer the bureaucracy visible results that will burnish its external image, protecting it in a politically hostile environment.

Unfortunately there are large areas of aid efforts that do not meet the criteria for favorable opportunities for success, leaving power in the hands of Planners. We expect bureaucracies to do worse than private firms at matching their supply of services to their customers' demands, since bureaucracies are less accountable to their intended customers—the poor. The lack of a scientific approach to evaluating actions in the bureaucracies may also reflect the same lack of accountability.

Aid agencies will perform better when they can recruit dedicated professionals, and less well when there are political pressures to hire staff based on other criteria. Professionals will be easier to attract when the achievement of well-defined specific tasks can bolster professional morale.

We can use these predictions to speculate how we got some of the success stories just noted. Perhaps health interventions are more successful because the outcomes are specifically defined and easily observable—you can keep track of deaths from disease. Particular diseases can be monitored; you get feedback from how well the agency is doing on a particular disease, and adjust accordingly. The health field may also benefit from having a large organization with the narrow goal of improving health—the World Health Organization (WHO). Where there are visible indicators of success, even top-down efforts can work. The WHO's vaccination campaigns, which get part of the credit for the fall in infant mortality, involved a lot of top-down control, but there was feedback from the bottom through measures of vaccination coverage. Similarly, educational enrollment ratios can be monitored easily, and so effort at increasing enrollment gets rapid feedback. Likewise, nutrition projects can monitor the weight and height of children and thus get better feedback on whether their efforts are working. The prominence of the specific health, education, and nutrition goals for most of the history of foreign aid and the agreement of virtually all principals on these goals helped facilitate achievement here. The successes of expanding access to clean water and sanitation reflect the aid agencies' greater success at visible infrastructure projects than at more intangible (and less visible) goals.

Moving outside of projects, aid that promotes piecemeal reforms, in areas such as cutting red tape or ensuring better banking regulation, has visible results—such as the number of days to start a new business, the number of new businesses started, or the number of bank failures. We can hope for better results from piecemeal policy advice than from aid that promotes comprehensive reforms, where nobody can tell what is causing what.

The link from efforts and inputs—medicines, vaccination, food, construction of classrooms and water infrastructure, power generation, regulation simplification, etc.—to results is simpler and clearer in health, education, nutrition, water, electrification, and piecemeal policy reform than with other more general goals, such as how to achieve overall economic growth. It is easier to tell in these sectors what customers want—starving children obviously want food. Searchers have the inside track when there is the hope of visible results in these areas, in spite of bureaucracy above and around them.

Of course, it would be circular reasoning just to attribute any success in aid to Searchers and any failure to Planners. Instead, we have specific testable predictions based on how piecemeal an outcome is, how visible it is, and how much individual accountability is feasible. A piecemeal, visible, and individually accountable outcome, such as clean water for a village, is more likely to be addressed by Searchers, while a general, invisible, and unaccountable outcome, like a contribution to economic growth, is more likely to be addressed by Planners. The areas with piecemeal, visible, and individually accountable outcomes are more likely to experience success, while areas where objectives are general, efforts are invisible, and individual accountability is infeasible (or evaded) are more likely to experience failure.

This story is plausible but includes some speculation because the aid agencies didn't have enough incentives to evaluate (independently) what was working and why.

Aid Volume

In other areas the emphasis on observable indicators was less productive. Given that the goal was the development and transformation of poor countries, the aid agency somehow had to show progress toward that millennial vision. When the contribution of the agency to development *output* is unobservable, the agency planners try to advertise the volume of their *inputs* to development. One visible indicator of input that foreign aid agencies advertise is the volume of money they disburse. What Judith Tendler wrote about foreign aid back in 1975 is equally true today:

> *A donor organization's sense of mission, then, relates not necessarily to economic development but to the commitment of resources, the moving of money…. The estimates of total capital needs for development assistance in relation to supply seem to have been the implicit standard by which donor organizations have guided their behavior and judged their performance…the quantitative measure has gained its supremacy by default. Other definitions of success and failure of development assistance efforts have been hard to come by.*

Longtime World Bank president Robert McNamara cut his teeth in a previous life on the combined military intervention and aid program in Vietnam. McNamara had an infamous penchant for using numbers to monitor success in the Vietnam War, such as the body counts. Once he got to the World Bank, his numerical measure of success was less gruesome—it was loan volume: "we proposed to double the Bank's operations in the fiscal period 1969–73 compared to the previous 5-year period 1964–68. That objective has been met" (McNamara, 1973).

Advocates for the world's poor throughout the decades have focused on increasing the *volume* of foreign aid. The recommended increase displays a strange fixation on *double:* "the current flow of ODA [Official Development Assistance]…is only half the modest target prescribed by the internationally accepted United Nations Strategy for the Second Development Decade" (McNamara 1973). "A cut of just 10 percent in military spending by the countries of the North Atlantic Treaty Organization would pay for a doubling of aid" (World Bank, World Development Report, 1990). "If we are serious about ensuring a beneficial globalization and meeting multilateral development goals we have all signed on to, we must double ODA from its current level of about $50 billion a year" (World Bank president James Wolfensohn, 2001). A World Bank technical study on the cost of meeting the Millennium Development Goals concurred on doubling: "An increase in foreign aid of an amount equal to current foreign aid…is about the right order of magnitude for achieving the development goals" (World Bank, 2002). Aid mounted throughout the period when agencies were emphasizing volume (see figure 22).

British prime minister Tony Blair and the chancellor of the exchequer Gordon Brown placed an increase in foreign aid, especially to Africa, high on the agenda of the G8 meetings in 2005. The recommended increase: double. In his 2005 book, *The End of Poverty,* Jeffrey Sachs called for a doubling of aid in 2006, then nearly a doubling again by 2015.

Aid had declined in the first half of the 1990s, perhaps explained by the end of the cold war and a weariness with meager results. However, a new wave of aid expansion commenced in the new millennium and shows no sign of abating under the international war on terrorism.[8] The G8 did indeed agree in July 2005 to double aid to Africa.

The only problem is that foreign aid volume is an input to development, not an output. It seems strange that bureaucrats and politicians would focus on the input—total aid dollars spent. The Hollywood producers of *Cat-woman,* which won an award for being the worst movie of 2004, would not dare to argue with moviegoers that the movie wasn't so bad because they had spent $100 million on making it. We can understand the emphasis on aid volume only as reflecting the pathology that in aid, the rich people who pay for the tickets are not the ones who see the movie.

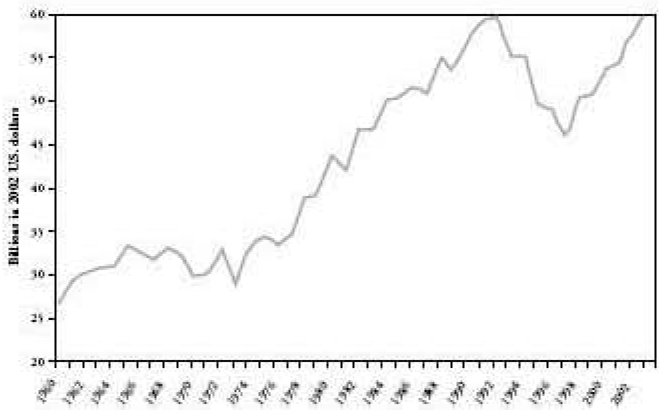

Fig. 22. Foreign Aid 1960–2003

This particular pathology has a solution, at least in theory. The rich-country monitors of aid agencies should disqualify aid disbursements (and the spending they finance) as a measure of success. The aid agencies have tried to deemphasize aid disbursements themselves, but in vain, given the political payoff to advertising disbursements. Aid critics have to persuade the rich-country public and politicians not to reward agencies for how much money is mobilized; what matters is results.

Yosemite Sam in the Tropics

The managers at the top of aid agencies had the incentive to show observable effort to the rich-country public. This caused them to produce many visible frameworks, task forces, reports, and meetings of statesmen. The World Bank evaluation of its activities in 1997 cited "the Interagency Task Force on an Enabling Environment for Social and Economic Development" that "followed up on two key conferences held during 1994–1995: the Copenhagen Social Summit (March 1994) and the Fourth World Conference on Women (September 1995)." During 1994–1996, the World Bank "chaired ninety formal meetings and provided substantial input to thirty-eight formal meetings chaired by other donors." Likewise, the United Nations Development Program (UNDP) discussed in a report its success at arranging meetings:

Trust Fund resources have been used to support the preparation and dissemination of social *sector expenditure reviews in seven African countries.... Five of these reports have already been finalized and a workshop has been or will be held to discuss their findings and recommendations. Preliminary findings of these studies were shared in three regional meetings, co-sponsored by UNDP and UNICEF, which served to sensitize policy-maker: about the 20/20 initiative and prepare them for the international meeting which took place in Hanoi in October 1998..*[9]

In 2005, the UN Millennium Project issued its report, summarizing the meetings of ten differen task forces, which in turn built upon a previous task force on poverty and development that had issued a report in 2004, summarizing meetings hosted by the UN Economic Commission for Africa (with th assistance of UNDP Ethiopia) and the UN Economic and Social Commision for Asia and the Pacifi (with the assistance of UNDP Thailand).

Likewise, the aid agencies put a lot of effort into writing reports. They write reports for eact other and for the rich-country media. The World Bank and the IMF noted in a 256-page joint report on meeting the Millennium Development Goals in April 2005 that the report drew upon: "Evidence fron an OECD DAC Working Party on Aid Effectiveness and Donor Practices (WP-EFF) survey, Strategic Partnership for Africa (SPA) surveys, and the United Nations Economic Commission for Afric: (UNECA)—DAC Mutual Review of Development Effectiveness in the Context of the Ne Partnership for Africa's Development (NEPAD).[10]

In late 2004 and early 2005, besides the UN's 3,751-page Investing in Development: A Practical Plan to Achieve the Millennium Development Goals, we have the British government's 453-page Ou Common Future: Report of the Commission for Africa, plus the latest update of the IMF and th World Bank's 1,246-page PRSP Sourcebook.

The World Bank in 2001 discussed the frameworks produced by different aid organizations, with an output by one organization often serving as an input to another. "The UN Common Countr Assessment, the Bank's Economic and Sector Work (ESW), and the IMF's analytical and technica assistance work would contribute to governments' analytical base for PRSPs. [The World Bank] alsc welcomed the European Union's decision to base its Africa, Caribbean and Pacific (ACP) assistanc programs on the PRSPs." In 2002 alone, the World Bank's frameworks included those produced b the International Conference on Financing for Development in Monterrey; the G7/8 Summit on Afric: and the Millennium Development Goals in Kananaskis; and the Johannesburg Summit on Sustainabl Development. After a bit of a breather, 2005 brought more summits and frameworks, with the Blair Commission for Africa; the Gleneagles, Scotland, G8 Summit on Africa and the Millenniur Development Goals, in July; and the UN Millennium Summit on the Millennium Development Goal in September.

The proliferation of summits and frameworks confirms the prediction that aid agencies will skew their efforts toward observable output (these summits and frameworks get a lot of press attention). The frameworks and summits also confirm the prediction that aid agencies will embrace *collective* responsibility, as the summits are occasions for *joint* commitment to general worldwide goals, and the frameworks of different agencies are mutually dependent.

Aid agencies are rewarded for setting goals rather than reaching them, since goals are observable to the rich-country public while results are not. An unintended side effect of the increased activity of NGO issue lobbies has been to expand even further the set of goals that foreign assistanc has been trying to achieve. Since no issue lobby takes into account the effect on other issue lobbies of its demands on the scarce aid and administrative resources of agencies, each lobby overemphasizes its goals. This is analogous to the "tragedy of the commons" problem in which too many cows overgraze pastures held in common. To make things worse, each separate aid agency has felt the political pressure to add all of these goals in response to its own rich-country constituency. This is because bilateral aid agencies each have their rich-country publics with multiple goals, and a multilateral agency like the World Bank is fair game for lobbies worldwide. Although this book stresses the virtues of feedback and accountability, it is feedback from the intended beneficiaries that is the desideratum; feedback from rich-country lobbies that don't represent the poor could make things worse rather than better.

The end result is that aid agencies are like Yosemite Sam, firing at random in all directions. Managers at the top feel pressure to promise everything.

For example, World Bank president James Wolfensohn set out his Comprehensive Development Framework in 1999, with a checklist of fourteen items, each with multiple subitems. To his credit, President Wolfensohn recognized that development was complicated. However, as a checklist for World Bank action to address this complexity, it is unworkable. The long list included "capacity building," "property, contract, labor, bankruptcy, commercial codes, personal rights laws," "internationally acceptable accounting and auditing standards," "lessons of practice and history from indigenous peoples and communities," "a strategy for sewerage," [reducing] "the use of wood and fossil fuels," "wind-up radios without batteries," [preserving] "historic sites, artifacts and books, but also the spoken word and the arts," "integrated solutions to rural development," and "appropriate laws.[11] The Johannesburg Summit on Sustainable Development in 2002 upped the ante even further by recommending 185 actions by rich and poor countries, including "efficient use of cow dung."

The UN Millennium Project developed yet another framework in 2005 with the help of 250 development experts, commissioning thirteen reports from ten task forces. All this helped the project to come up with its framework, with its eighteen indicative targets for the eight MDGs, its ten key recommendations (which are actually thirty-six recommendations when you count all the bullet points), "a bold, needs-based, goal-oriented investment framework over 10 years," seventeen Quick Wins to be done immediately, seven "main investment and policy clusters," and ten problems to be solved in the international aid system.

Meanwhile, the aid agencies drive the recipient governments and their own frontline workers insane when they declare each objective to be priority number one. Reaching as many poor as possible would dictate that greater effort go to goals with low costs and high benefits, and that little or no effort go to goals where the costs are very high relative to the benefits. It would recognize that doing more on one goal implied doing less on another goal—politicians and bureaucrats are terrified of the word "tradeoff."

Aid bureaucracies are like my children, who, when asked to choose between a chocolate bar and ice cream when they were young, would say "both." The aid agencies do a little bit on each goal, which forgoes the gains from specialization and leaves low-cost/high-benefit activities underfunded. It follows that the aid community's "do everything" approach thus fails to reach as many people in need as it could. Aid agency managers do talk about setting priorities, but their behavior says otherwise—the political incentives to do token amounts of everything are too strong.

In contrast, the free-market Searchers for the rich provide specialized goods and services that meet consumer needs, not all-inclusive "frame-works" that do everything for the consumer. Consumers pay the cost of asking a product to meet additional goals, and so there is no "tragedy of the commons" excess demand for goals on any one product. Consumers face tradeoffs between alternative products, choosing the one that gives the highest satisfaction for the lowest price.

Economists since Adam Smith have also stressed the efficiency gains from specialization, which suggests that organizations and individuals should focus on a few things and not do others. Since firms can meet consumer goals more cheaply by specializing and having limited objectives, the free market also tends to produce specialized suppliers. You would never go to a dentist who was also an auto mechanic and talk show host. Yet the market has no trouble meeting the multiple objectives of providing consumers with dentistry, auto repair, and talk shows. This is because the decentralized market coordinates through the price system the specialized supplies of each of these services.

Rich democracies also feature bureaucracies that are more specialized than those in foreign aid. Each interest group can concentrate on the bureaucracy addressing their issue. Local governments handle local issues, national government national ones.

Part of the solution is changing the rich-country political marketplace that aid agencies face. If Western governments and NGOs really want to make poor people's lives better, it will take some political courage to admit that doing everything is a fantasy. The rich-country public has to live with making poor people's lives better in a few concrete ways that aid agencies can actually achieve.

Good Observables

Some of the glossy reports produced by aid agencies are worthwhile. The World Bank and the IMF have a happier intersection of the visibility imperative and the needs of poor countries in their research-based efforts. Both institutions have large research departments devoted to studying development issues, staffed by researchers whom the outside academic community respects professionally. They publish extensively in competitive academic journals. This is an example of the bottom-up staff observing professional norms, accountable to the outside world for their efforts, with the power and motivation to perform well. This book draws heavily on the work of IMF and World Bank researchers.

Outside of the research departments, there are many other outposts of professionals in the aid agencies devoted to rigorous analysis of development problems. Such professionals produce many valuable reports and studies on development. The judgment of the outside world provides an incentive for them to publish something useful.

The key publication of the IMF is the World Economic Outlook. This is a high-quality analysis of the state of the world economy and its prospects. It is widely covered in the business press when it comes out.

The flagship report of the World Bank each year is the World Development Report. The 2004 World Development Report studied the determinants of government delivery of services such as health and education. Shanta Devarajan, director of the World Development Report 2004, said "Services can work when poor people stand at the center of service provision—when they can avoid poor providers, while rewarding good providers with their clientele, and when their voices are heard by politicians—that is, when service providers have incentives to serve the poor.[12] The 2002 World Development Report was on institutions for prosperity. Roumeen Islam, director of the World Development Report 2002, has written about the need to adapt institutions to local conditions and traditions, as well as the need for donors and governments to get feedback from the citizens. These examples show that some Searchers in the World Bank *are* aware of the need for feedback from the poor.

Both the IMF and World Bank produce reports on individual poor countries, which are available on their Web sites. Together these reports make up the world's best supply of information on the economic situation of individual countries—most of them are ignored by the American press.

Low-Maintenance Development

Unfortunately, the incentives to produce observable output also create mismatches of the aid agencies' services and the poor's needs. As exemplified by the Tanzanian story that opens the chapter, the downside of the agencies' success at visible road building is their failure on (less visibly) maintaining those roads. For decades, aid reports bewailed the neglect of operating supplies and maintenance after infrastructure projects were completed. Donors consistently refuse to finance maintenance and operating supplies, with the idea that this is the responsibility of recipient governments, even though there is intense client demand for these goods.

Besides the visibility bias toward new construction, the underfunding of maintenance reflects the elusive goal of "sustainability" (best summarized by that tiresome cliché about giving a man a fish versus teaching him to fish). Donors envision the local government taking over the project, which they think is necessary to make it last.[13] This intuition was once appealing, but the decades of evidence show that that dog won't hunt. As Michael Kremer of Harvard and Edward Miguel of Berkeley argue trying to make the project "sustainable" usually guarantees that it will *not* be "sustained." Since we have already seen the weak commitment of many governments to development, and the inability of donors to transform governments, the takeover of the project usually doesn't happen. But donors keep flailing away at this infeasible but inflexible objective.

This is another example of how having a grandiose instead of a modest goal makes things worse rather than better. By aiming at the unworkable goal of "sustainable projects" (meaning new projects combined with changing the government's behavior so it can take over those projects), the donors failed at the simpler tasks of providing well-maintained roads, children with textbooks, and clinics with medicines.

Here is one way to make aid work better: aid donors should just bite the bullet and permanently fund road maintenance, textbooks, drugs for clinics, and other operating costs of development projects. Politically dysfunctional governments that don't do maintenance can concentrate on other things.

The World Bank's periodic reports on Africa show they know about the low-maintenance problem but are prevented by their grandiose goals from fixing it: "Vehicles and equipment frequently lie idle for lack of spare parts, repairs, gasoline, or other necessities. Schools lack operating funds for salaries and teaching materials, and agricultural research stations lack funds for keeping up field trials. Roads, public buildings, and processing facilities suffer from lack of maintenance" (World Bank, 1981). "Road maintenance crews lack fuel and bitumen…teachers lack books, chalk…health workers have no medicines to distribute" (World Bank, 1986). "Schools are now short of books, clinics lack medicines, and infrastructure maintenance is avoided" (World Bank, 1989). "Typically, 50 percent of the rural road network requires rehabilitation" (World Bank, 1995). "Many countries suffer chronic shortages of current funding, especially for operations, maintenance, and nonwage inputs" (World Bank, 2000).

World Bank researchers Deon Filmer and Lant Pritchett estimate that the return on spending on instructional materials in education is up to fourteen times higher than the return on spending on physical facilities, but donors continue to favor more observable buildings over less observable textbooks.[14] This has undercut the donors' success on increasing educational enrollments noted earlier. Quantity of education has gone up, but quality remains low.

Coordination

From the earliest days of aid, the emphasis of all participants has been on coordination of all the aid agencies. After reading the literature, one can hardly say "aid" without adding "coordination." One reason that aid bureaucracy is so excessive is that multiple aid agencies are all trying to do everything, which means they are duplicating each other (each aid agency has the incentive to take on multiple goals to satisfy its own constituency). In 1969, an aid commission said, "A serious effort is necessary to coordinate the efforts of multilateral and bilateral aid-givers and those of aid-receivers" (Pearson Commission, 1969). Thirty-six years later: "The multilateral agencies are not coordinating their support" (UN Millennium Project report, 2005).

These continued calls for coordination and complaints about lack of coordination illustrate that everyone knows it is desirable but is unable to change anything to achieve it. Of course, the Planners' answer is a Plan:

> [The government should negotiate] an external assistance strategy *...that explicitly identifies the priority sectors and programs for donor financing.... More detailed external assistance strategies can then be developed for key areas through sectoral working groups in which representatives of major donors and line agencies participate....* Agreeing on financing priorities for individual donors within the framework of a global external assistance strategy, *rather than through bilateral agreements..*[15]

This suggestion worsens rather than improves one of the main problems with multiple, uncoordinated donors—the huge strain the donors put on the few decision-makers in the recipient government. The donors pour a huge flow of aid money, donor missions, and projects into a funnel. The narrow part of the funnel is the administration in the recipient government. To do another plan to coordinate all the previous plans would demand even more of this administration.

Coordination plans have failed to achieve coordination for four decades. Coordination is impossible under the current aid system, when every agency reports to different bosses who have different agendas. Once again, we see the Planners flailing away at an insoluble problem. Some of the recommendations already made about focusing on solvable problems—such as donor specialization and bypassing government—would alleviate the coordination hornet's nest.

Collateral Benefits, Collateral Damage

The agencies are less effective at helping the poor not just because of little voice or feedback from the intended beneficiaries but also because there are noisy rich clients—the rich countries that actually pay the bills. Since aid agencies need to please the electorate in rich countries, the agencies often strive to produce side effects for rich countries at the same time they are transforming the Rest. Thus, rich-country donors restrict some part of aid to purchases from their own country's exporters ("tied aid"). The United States requires recipients to spend the aid receipts on products from American companies for about three quarters of its aid.[16] Other donor nations have similar restrictions (although the share of tied aid is not as high as that of the United States). Tying of aid lowers its value to the recipient because it restricts choice on what products can be purchased and from whom. Technical assistance to poor countries is even worse, since rich countries typically insist that their own nationals be the technical advisers. Hence, a good part of technical assistance aid is simply flowing back to some rich-country consultant handing out the kind of deep insights that come from two weeks' acquaintance with a poor country. (Tying of aid shows rich-country hypocrisy, but this hypocrisy is not the reason why aid fails to raise growth—see chapter 2.)

Aid agencies are also attentive to the need to reward political allies of the rich countries with aid. The frequency with which a recipient country votes with the donor in the UN, and whether the recipient is an ex-colony of the donor, affects how much aid that country gets.[17] After September 11, 2001, agencies gave new aid to allies in the war on terror, such as Central Asia, Pakistan, and Turkey.

Evaluation

If a bureaucracy has a rich donor mandate vague goals for it *and* is not accountable to its intended beneficiaries, the poor, then the incentive for finding out what works is weak. Although evaluation has taken place for a long time in foreign aid, it is often self-evaluation, using reports from the same people who implemented the project. My students at NYU would not study very hard if I gave them the right to assign themselves their own grades.

The World Bank makes some attempt to achieve independence for its Operations Evaluation Department (OED), which reports directly to the board of the World Bank, not to the president. However, staff move back and forth between OED and the rest of the World Bank; a negative evaluation could hurt staffs' career prospects. The OED evaluation is subjective. Unclear methods lead to evaluation disconnects such as that delicately described in Mali.[18] "it has to be asked how the largely positive findings of the evaluations can be reconciled with the poor development outcomes observed over the same period (1985–1995) and the unfavourable views of local people (p. 26)."

Even when internal evaluation points out failure, do aid agencies hold anyone responsible or change agency practices? It is hard to find out from a review of the World Bank's evaluation Web site. The OED in 2004 indicated how eight "influential evaluations" influenced actions of the borrower in thirty-two different ways, but mentioned only two instances of affecting behavior within the World Bank itself (one of them for the worse).[19]

The anthropologist James Ferguson offers a rare detailed case study of an aid project by an independent outsider. A Canadian International Development Agency/World Bank project was to help farmers in the mountains of Lesotho (the Thaba-Tseka region) to gain access to markets and develop modern methods of livestock management and crop production. The project would lend Western expertise at livestock management and cash-crop production and would build roads to enable beneficiaries to carry their products to market.

The only problem was that the beneficiaries were not that interested in farming, since they mainly were migrants working in South Africa. They already had access to markets, where they had long since learned that cash-crop production was not competitive given the region's poor agricultural conditions. The Canadian/World Bank Thaba-Tseka project sought to improve livestock and food production. The project would improve livestock production by scientific range management, dividing the land into eight controlled grazing areas, with grazing associations to control overgrazing through resting and rotation of livestock. The project designers promised that scientific range management would eventually allow the land to support twice its current animal population, with each animal becoming 20 percent heavier. The only catch was that the project had no legal authority to restrict access to grazing, as land in Lesotho is publicly owned and livestock owners are free to graze the open range. Scientific range management didn't happen.[20]

The project promised to increase food yields by 300 percent. Instead, a pilot potato project had losses due to bad weather, disease, and mismanagement. Other cash-crop experiments fell victim to the area's "killing frosts and hail, and erratic and infrequent rainfall." The project managers complained that the local people were "defeatist" and didn't "think of themselves as farmers." Perhaps the locals didn't consider themselves farmers because they were *not* farmers—they were migrant workers in South African mines.[21]

The main accomplishment of the project was the building of roads that brought South African lorries carrying grain *into* the region (driving the few existing local farmers out of business).

Aid agency watchers should be tough on such disasters, if only with the aim of strengthening the accountability lobby in foreign aid, so we can shift power from Planners to Searchers. The way forward is politically difficult: truly independent scientific evaluation of specific aid efforts; not overall sweeping evaluations of a whole nationwide development program, but specific and continuous evaluation of particular interventions from which agencies can learn. Only outside political pressure on aid agencies is likely to create the incentives to do these evaluations. A World Bank study of evaluation in 2000 began with the confession, "Despite the billions of dollars spent on development assistance each year, there is still very little known about the actual impact of projects on the poor.[22]

After years of pressure, the IMF created an Independent Evaluation Office in 2001. The World Bank in 2004 laudably created a Development Impact Evaluation Task Force. The task force will use the randomized controlled trial methodology discussed in chapter 2 to assess the impact of selected interventions on the intended beneficiaries. The task force has started two dozen new evaluations in five areas (conditional cash transfers in low-income countries; school-based management; contract teachers; use of information as an accountability tool for schools; and slum upgrading programs). It remains to be seen if the evaluation results change the incentives to do effective programs in the operational side of the World Bank.

Evaluation—with consequences for a bad evaluation—is one of the keys to accountability of aid. You evaluate what we bureaucrats accomplish, and you hold us responsible for it. Accountability for aid would transfer power from Planners to Searchers—maybe then somebody could figure out how to keep potholes fixed in Tanzania.

Participation Through Planning?

If one problem in foreign aid is that the poor have little power to hold anyone accountable for meeting their needs, the World Bank and the IMF to their credit now show some awareness of this problem

They seek some role for the poor's choices. They have recently put increased emphasis on "participation by the poor." It is good that there is some awareness of the feedback problem with the poor.

However, it just shows how stubborn bureaucratic incentives are that the chosen vehicle for bottom-up participation is a detailed central government plan (the PRSP, Poverty Reduction Strategy Paper, already mentioned). The multivolume PRSP Sourcebook of the World Bank suggests some pretty detailed planning—the PRSP needs to include a medium-term expenditure framework (MTEF) in which:

> *The sector ministries prepare medium-term strategic plans that set out the sector's key objectives, together with their associated outcomes, outputs, and expenditure forecasts (within the limits agreed upon by the Cabinet). These plans should consider the costs of both ongoing and new programs. Ideally, spending should be presented by program and spending category with financing needs for salaries, operations and maintenance, and investment clearly distinguished.*[23]

Alas, even when we visualize the poor participating, we can't give up our central planning. Such planning inevitably implies giving *more* power to the Planners at the top, not less. The last thing poor countries need for greater democratic accountability is a plan that strengthens already strong authoritarian officials.

The officials who talk about "participation" and "local ownership" can't seem to let themselves shift power to the locals—the bureaucratic incentives against it are too strong. The African founder of a private school where he lives once told me about the frustration in dealing with Planners who paradoxically seek "participation." The founder had started a high-quality private school in Africa, with many scholarships for poor children. He started it with his own money, but sought to expand activities and scholarships further by getting outside donor funding. He approached one of the world's largest official aid agencies with a proposal for funding. They turned down his proposal. The founder asked them why. They wouldn't tell him, saying that he had to demonstrate "local ownership" of the project by coming up with his own ideas without regard to what they would approve or reject. He lost his temper, saying that he could waste a lot of time submitting proposals to try to figure out what they would approve, or they could just have a frank discussion of what their criteria for project approval were. Finally, the aid agency official told him that his proposed pupil-teacher ratios were too low. Their planning incentives were to show as many students as possible reached with an aid grant, and they suggested a pupil-teacher ratio of fifty to one. This contradicted the founder's objective of fostering high-quality education in Africa, and he told them to get lost.

The appeal of planning to aid visionaries is so strong that they map out top-down plans at the same time that they emphasize "local ownership" and emphatically deny that they favor top-down planning. To supplement the above example, consider the following explanation by the UN Millennium Project of how it goes about implementing the MDGs (which it describes as "open and consultative, involving all key stakeholders").[24] The head of the UN Millennium Project denied to me in person that this is a top-down plan, so I quote from it at length so you can judge for yourself:

> *In each of these countries, the Project and local research partners built upon international best practices to identify...the input targets that would be needed for the country to achieve the MDGs by 2015. These estimates cover hundreds of interventions...that need to be provided to meet the Goals.... The second stage of the planning process will be for each country to develop a long-term (10–12 year) framework for action for achieving the MDGs, building upon the results of the MDG needs assessment.... This MDG framework should include a policy and public sector management framework to scale up public spending and services, as well as a broadly defined financing strategy to underpin the plan. The third stage of the planning process will be for each country to construct its medium term (3–5 year) poverty reduction strategy (PRS) and, where appropriate, its Poverty Reduction Strategy Paper(PRSP) based on the long term MDG plan...and should be attached to a Medium Term Expenditure Framework (MTEF).... Fourth, both the 10-year framework and three-year PRS should include a public sector management strategy.... Bringing together a wide variety of inputs from expert resources, the Millennium Project secretariat has been coordinating a multi-step process to develop a methodology for country-level MDG needs assessments.*

Far from promoting "participation," planning patronizes and diminishes the poor, who have little voice to say what they want and need. Unfortunately, decades of participation rhetoric have not changed the balance of power in foreign aid. At some point the donors just have to trust the recipients to be self-reliant enough to follow their own interests, to seize the opportunities created by aid. Certain kinds of aid can create opportunities for the poor and maximize payoff by letting the poor self-select, that is, show willingness to exert effort toward making the best of the opportunity.

I once got a big boost from such an aid program. The National Science Foundation (NSF) gave me a three-year fellowship to get an economics Ph.D., with tuition paid plus a stipend. Without this, I couldn't have gotten a Ph.D. The NSF did not send me missions of NSF staff to look over my shoulder as I was studying. They did not ask me to attend meetings of "stakeholders" to write a Ph.D. Promotion Strategy Paper. They had no conditions at all other than my enrolling in school and not flunking out. They allowed me the dignity of self-reliance. I could have wasted the opportunity by skipping my courses and spending all my time going to Woody Allen film festivals. But the NSF trusted the choices of the Ph.D. candidates, who the NSF thought would act in their own best interests with the opportunity given to them to get a Ph.D. The NSF could have this confidence because the applicants for the fellowships were self-selecting: only those who are willing to do the hard work of getting a Ph.D. apply.

Similarly, scholarships or matching grants for poor individuals or entrepreneurs could promote true "participation" in which the poor make their own choices. If you really want to put the poor in the driver's seat, aren't there any ways to do so directly? Could you give many more scholarships to poor students? Could you give matching grants to poor entrepreneurs who put their own money at stake to start a new business? Could you have village elections that select (or reject) aid projects? Could you give the poor "aid vouchers" that they could spend on aid agency services of their choice? None of these are easy answers, and all have pitfalls, but new thinking is needed. The final chapter explores these ideas further.

As for aid agency staff, a more effective way to listen to the poor than costing out a Big Plan would be to have aid agency specialists spend time learning about a particular sector in a particular region. In other words, have aid agency staff be sufficiently specialized to be effective Searchers. Aid bureaucracies tend to do the opposite: they reassign staff frequently across countries and across sectors, producing generalists who are much better at producing Big Plans than local solutions. They opt for universality rather than specificity, for worldwide "best practices" rather than what works in each locale. As James C. Scott points out, Planners are impatient with local peculiarities: "the lack of context and particularity is not an oversight; it is the necessary first premise of any large scale planning exercise.[25] To change practice, we must persuade the aid agencies to give up their utopian planning in favor of piecemeal intervention. This is not easy when the power and prestige of the existing aid agency managers may depend on keeping the planning approach.

Prior Lives

One characteristic of private markets is that they foster innovation: new products, new business techniques, new financial instruments, in short, new and better ways of doing things. Searchers learn not to repeat prior mistakes; Planners with no feedback keep doing the same failed plans.

In the movie *Groundhog Day,* a television reporter played by Bill Murray is condemned to endlessly repeat the day on which he must report on whether a groundhog sees its shadow. The aid agencies seem to be stuck in a similar lame cycle of repeating themselves, as table 3 shows. Bill Murray escapes his torment only when he is able to resolve his relationship with his beautiful producer, played by Andie MacDowell.

TABLE 3. *PLUS ÇA CHANGE, PLUS C'EST LA MÊME CHOSE*

Aid Idea	*Stone Age*	*Iron Age*	*Silicon Age*
Donor coordination	"a cooperative enterprise in which all nations work together through the United Nations and its specialized agencies" (Truman, 1949)	"Aid coordination . . . has been recognized as increasingly important . . ." (World Bank, 1981)	"[The donors need] to ensure better coordination and stronger partnership in . . . development cooperation." (World Bank, 2001)
Increasing aid volume	"an increase in the per capita national incomes cannot be brought about without . . . a sum of money . . . of about \$3 billion a year" (UN Expert Group, 1951)	"the current flow of ODA . . . is only half the modest target prescribed by the internationally accepted United Nations Strategy" (World Bank President Robert McNamara, 1973)	"If we are serious about . . . meeting multilateral development goals we have all signed on to, we must double ODA from its current level of about \$50 billion a year." (World Bank President James Wolfensohn, 2001)

Aid idea	*Stone Age*	*Iron Age*	*Silicon Age*
Selectivity about whom you give aid	"objective No. 1: To apply stricter standards of selectivity . . . in aiding developing countries" (President John F. Kennedy, 1963)	"the relief of poverty depends both on aid and on the policies of the recipient countries" (Development Committee Task Force, 1985)	"[the World Bank] should increase its selectivity . . . by directing more assistance to borrowers with sound policy environments" (World Bank, 2001)
Increase in poverty emphasis	"far greater emphasis on policies and projects which will begin to attack the problems of absolute poverty" (McNamara, 1973)	"an even stronger emphasis on poverty reduction in [the World Bank]'s programs" (World Bank, 1990)	"increasing the focus . . . on the overarching objective of poverty reduction" (World Bank, 2001)
Country ownership	Development policy is "the responsibility of the recipient alone" (Partners in Development, 1969)	"novel approaches to community involvement in service provision" (World Bank, 1981)	"greater national ownership of development programs " (World Bank, 2001)
Debt relief	"the debt-servicing problem, already severe in the early 1960s, has [become] increasingly difficult" (World Bank, 1970)	"more concessional reschedulings for the poorest debtor countries" (G7 Summit, 1990)	"further national and international measures . . . including, as appropriate, debt cancellation" (Monterrey Consensus, UN, 2002)

The lack of historical memory in the aid community inhibits people from learning from mistakes. Moreover, the unchanging approach to many of these desirable objectives shows again that aid agencies keep throwing in more and more resources to try to reach a predetermined, although unattainable, goal.

Differences Among Aid Bureaucracies

I took most of my examples of aid agency bureaucracy from the World Bank because of my personal familiarity with its operations. However, there are differences between the international organizations, which give some insight into when aid succeeds and fails. The International Monetary Fund is somewhat more successful in achieving its narrow goals, although there have been failures (see next chapter). The World Bank is more prone to meaningless frameworks and goal proliferation, but it is actually among the better aid agencies, as some of the positive examples I have given illustrate.

There are also differences between national aid agencies. USAID brazenly states its objective is to further "the foreign policy goals of the United States.[26] The United Kingdom's aid agency, the Department for International Development (DFID), says its objective is helping the world's poor and it is more committed to independent evaluation of its projects than most other aid agencies.

Going to the other extreme, I have just read some UN documents on what they label "The Open Ended Ad-Hoc Working Group on Integrated and Coordinated Implementation of and Follow-up to the Outcomes of the Major United Nations Conferences and Summits in the Economic and Social Fields." This open-ended ad hoc working group faces some challenges, as it coordinates the follow-up to nine reports on country-level coordination, four reports on the PRSPs, eleven reports on the Bretton Woods Institutions (aka the World Bank and IMF), eleven reports on the MDGs, the annual reports of the Administrative Council on Coordination, reports from the five regional commissions of the UN, reports from five other specialized UN agencies, and the follow-up to eighteen UN world conferences.[27] The working group labels the background papers for its efforts "non-papers." (I am not making this up; see http://www.un.org/esa/coordination/ecosoc/wgga/nonpapers.htm.) The first non-paper says that the work of the open-ended ad hoc working group

> *should be consistent with the provisions of resolution 50/227 and the follow-up mechanisms decided upon by the respective United Nations conferences and summits and should respect the interlinked nature of their outcomes as well as the thematic unity of each conference.... [C]ross-sectoral thematic issues for further consideration throughout the existing structure should be decided upon at the intergovernmental level and should focus on implementation, bearing in mind that the process of integrated and coordinated follow-up to the outcomes of the United Nations conferences and summits in the economic, social and related fields should be fair and balanced and should respect the principle of multilateralism and the principles contained in the Charter of the United Nations.*

To be fair, there is incomprehensible language also in private-sector documents, such as investment prospectuses or engineering designs. The difference is that in private-sector documents, the jargon actually has some meaning to specialists. In UN documents, the jargon has no substantive content for anyone.

To help “focus the work of the UN,” non-paper one sets out twelve “cross-cutting themes” previously set out by the Economic and Social Council (for example, theme twelve is “participation, democracy, human rights, accountability and partnership with major groups and non-governmental organizations”). Non-paper one then goes on to list eleven “areas calling for greater attention” identified by the secretary general (e.g., “greater coherence in United Nations action in support of Africa’s development”). Finally, the non-paper wraps up with ten new “cross-cutting themes” that emerged from recent UN conferences, many with multiple sub-themes. Non-paper three lists all the UN non-conferences on which it is based.

Just as other aid agencies like to produce observable output, the UN holds big world summits. UN officials are travel weary from attending all these utopian summits: Environment and Development (three summits), World Food Summit (two), World Summit for Children (two), World Assembly on Ageing (two), World Conference Against Racism, International Conference on Financing for Development, UN General Assembly Special Session on AIDS, UN Conference on Human Settlements (three), UN Conference on the Least Developed Countries (three), Millennium Summit, World Summit for Social Development (two), World Conference on Women (five), Global Conference on Sustainable Development of Small Island Developing States (two), International Conference on Population and Development (two), and the World Conference on Human Rights. Officials who participate in these summits mean well, but the reason these summits are repeated so often is that previous summits haven’t accomplished their goals.

Another sign of the ineffectiveness of the UN is its dubious economic analysis, in contrast with the higher-quality analysis cited above at the IMF and the World Bank. To take one of the worst examples, the analysis by the UN Commission on Trade and Development (UNCTAD) of the predicament of the least-developed countries (LDCs) is the Rube Goldberg diagram in figure 23. Poor countries may not be in a poverty trap, but UNCTAD itself seems to be trapped in some kind of intellectual maze, with arrows flying in all directions.

Fig. 23. UNCTAD Explains Poverty

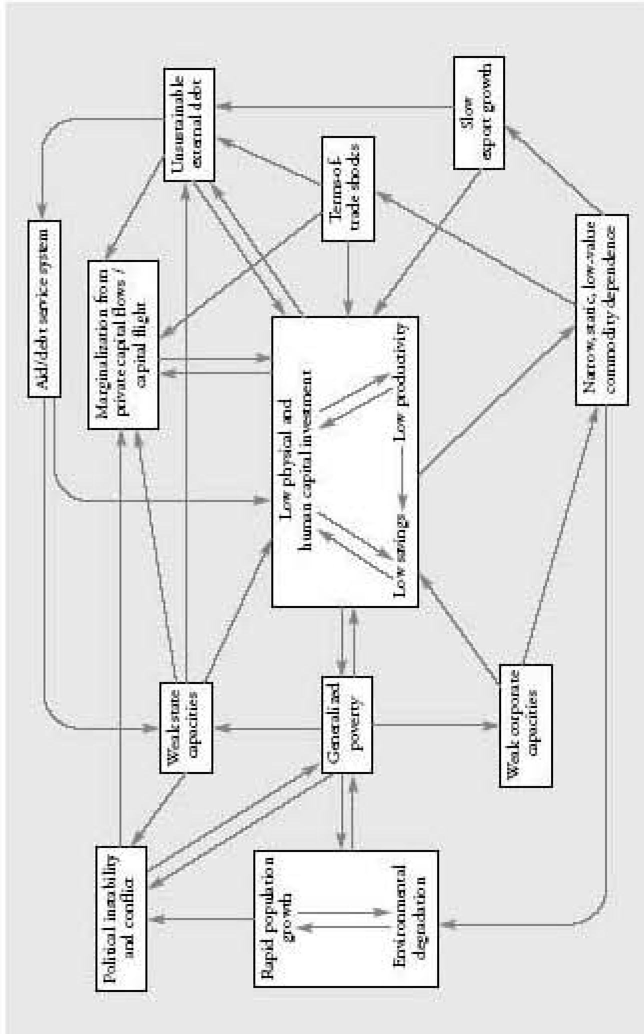

Fig. 23. UNCTAD Explains Poverty

What makes the UN worse than other aid bureaucracies? Conditions for bureaucratic behavior are even more unfavorable for the UN because an unwieldy General Assembly with "one nation, one vote" runs it. Answerable equally to 191 member states (many of whom are undemocratic), the UN has an especially severe problem of multiple principals and collective responsibility. The multiple principals have political goals such as making sure the UN employs a sufficient number of staff from their country. Perhaps because of this constraint, the UN has been less successful than the World Bank and IMF in attracting high-quality professionals. The voting power of the large group of undemocratic states makes the UN susceptible to coalitions of tyrants. Since the UN does not actually represent anyone in particular, nobody is paying much attention to what it does. (I may have been the first person to have voluntarily read some of the documents I have just quoted.) Except for a few high-profile things that the rich countries want the UN to do, the UN is operating in the attic.

Making Progress

This chapter discusses why we aid bureaucrats who are often unable to supply what the poor so desperately need. The analysis points the way to some improvements. Again, extreme humility is in order because of all the efforts to reform aid in the past. My suggestions for improvement are no doubt flawed, but they may be less flawed than those of the status quo. I aim these remarks at the Searchers out there on the ground, as well as the reformers who seek to shift power away from Planners and toward Searchers.

A big part of the problem probably originates with the rich-country governments who set the mandates of the aid agencies. Dear rich-country funders, please give up your utopian fantasies of transforming the Rest. Don't reward aid agencies for setting goals that are as impossible as they are politically appealing. Please just ask aid agencies to focus on narrow, solvable problems. For example, let them focus on the health, education, electrification, water problems, and piecemeal policy reforms to promote the private sector—where they have already had some success—and fix some remaining problems such as the refusal of donors to finance operations and maintenance.

Collective responsibility for Millennium Development Goals or any other goals does not work Hold aid agencies individually responsible for what their own programs achieve, not for global goals. Letting different agencies specialize in different areas would also lessen the coordination problem.

To facilitate both specialization and effectiveness, consider ways that aid agencies (including NGOs) could compete to supply development services, so that those who were best at doing a particular something in a particular country would "win the contract" to do that something. Those who failed to deliver something reliably and effectively would lose the contract, and could concentrate on something that they were better at doing.

How to tell who is doing a good job? Aid agencies need independent evaluation of the effects on the poor of their programs to motivate them to find the things that work. What aid agencies do today is mostly self-evaluation. Even the commendable steps toward independent evaluation taken by the World Bank and IMF still keep the evaluation unit within the organization. Sixty years after the founding of the World Bank and IMF, independent evaluation is long overdue. How about if aid agencies and international organizations put some of their budgets into an escrow account, which would fund independent evaluators (themselves chosen by actors who had no stake in the evaluation outcome) to look at a random sample of their projects and programs?

Academic researchers could play more of a fruitful role even in the absence of official independent evaluation. Academics could do public service by applying their techniques to evaluate the projects, programs, and approaches taken by aid agencies. They do this already in publications in academic journals, in aid agencies' own research departments, and in consulting assignments for aid agencies. However, none of these outlets is adequate to the task at the moment. What gets published in academic journals is selected on very good scientific criteria, but journals tend to undervalue research that is unoriginal but relevant to evaluating aid agencies.

Aid agency research departments and consultants have incentives not to deviate too far from the party line of aid Planners, even though they manage to produce some good research anyway. More independence for aid agency researchers would help. One idea would be for all aid agencies to contribute to a research fund, which would set up an independent research outfit to study aid and development policy.

Businessmen are also a great untapped resource for aid watching. One can imagine schemes for giving private business a stake in aid outcomes, so that they formed part of the army of watchers for good results. Think of what could happen if an army of independent aid watchers, including those from inside the country receiving the aid, were keeping tabs on the aid agencies.

Please understand that the foreign aid problem is inherently difficult because of the complexity of development, the weak power of the poor, and the difficulty of getting feedback from beneficiaries and of learning from failure. Throw into the trash can all the comprehensive frameworks, central plans, and worldwide goals. Just respond to each local situation according to what people in that situation need and want.

The sad part is the poor have had so little power to hold agencies accountable that the aid agencies have not had enough incentive to find out what works and what the poor actually want. The most important suggestion is to *search* for small improvements, then brutally scrutinize and test whether the poor got what they wanted and were better off, and then repeat the process.

It hasn't worked to tell the poor what to do. Just screen aid recipients to select those likely to act in their own interest, give them incentives and opportunities to better their lives, and then trust in their self-reliance, with no further strings attached. Programs like this are already working. The Food for Education program in Bangladesh lets poor families choose whether to keep their daughters in school, making this choice more possible by offering the families food and money to do so. The Progresa program in Mexico (domestically conceived and operated) similarly creates opportunities for the poor by giving cash payments to parents who keep children in school, and gets nutritional supplements to the children.

There should be much further exploration of mechanisms that give control of aid resources directly to the poor and let them choose what they most want and need. Participation should mean more buying and voting power in the hands of the poor in aid, not strategies or frameworks. This is not easy, but I suspect this is the future of foreign aid.

The aid agencies need tough love from the critics—who must not abolish them but must pressure them so that aid reaches the poor. This may in itself seem utopian—haven't we already tried for fifty years to make aid work?

But progress happens in public policy. The good news about the noisy anti-globalization protesters, the hardworking NGOs, the rock bands and the movie stars, and the rich-country governments' increased interest in the Rest coming after 9/11 is that the constituency for the poor is growing. It's time for the rich-country public to insist that aid money actually reach the poor. Isn't it past time that donors got held accountable for actually fixing the impassable roads that keep Tanzanians from saving the lives of sick children and pregnant women?

SNAPSHOT: PRIVATE FIRMS HELP THE POOR IN INDIA

DIARRHEA IS ANOTHER deadly disease often overlooked by foreign well-wishers for the poor. A baby suffering from diarrhea and the dehydration it induces suffers from rapid heartbeat, sunken eye sockets, indentations in the skull, and reduced nutrient supply to tissues and vital organs. If the baby survives, the diarrhea contributes to her malnutrition—the child will be stunted and abnormally thin. Commonly, a baby suffering from diarrhea-induced dehydration goes into shock and dies. Preparing food with unwashed hands spreads the bacteria and viruses that cause diarrhea.

In 2005, C. K. Prahalad, a University of Michigan Business School professor, wrote a fascinating book, *The Fortune at the Bottom of the Pyramid: Eradicating Poverty Through Profits*. He shows how private firms can sometimes find it in their own interest to help solve some of the problems of the poor that are traditionally addressed by aid agencies. The Searchers in a free market do much better than aid agencies in solving specific problems of the poor, although having a profit incentive to do so is not the typical case. Still, Prahalad's book is a good reminder of what we know from free markets—self-interested behavior can do good things for others.

Prahalad gives the example of Hindustan Lever Limited (HLL), a subsidiary of the giant multinational Unilever. HLL sold a very simple product, soap, which it realized could find a larger market if it was tied to preventing diarrheal diseases of the poor. Hand washing with soap is critical to preventing the spread of the viruses and bacteria that cause diarrhea. HLL realized that if it could promote increased awareness among the poor of the benefits of antibacterial soap, a product with which HLL dominated the Indian market, it could significantly increase sales.

Getting people to use soap is not as easy as it sounds. Poor people are not well informed about the science of disease transmission. Most poor people wash their hands only if they are visibly dirty, not when their hands are covered with invisible germs after using the latrine or changing a baby's diaper. Invisible germs on hands are the main transmission mechanism for diarrhea. HLL had to change behavior.

To realize this market potential, HLL also had to find ways of gaining the poor's trust in its health-promoting product. Working with the government, aid agencies, and NGOs, it started educational programs, including a program called Lifebuoy Swasthya Chetna, (Lifebuoy Glowing Health), which sent out two-person teams to show schoolchildren how they could avoid stomach, eye, and wound infections by washing with Lifebuoy soap. The teams enlisted the village doctors to speak to the children's parents about how hand washing with soap could prevent diarrhea and other health complications. Lifebuoy Swasthya Chetna formed health clubs in the village.

Sales of HLL's antibiotic soap did indeed increase, and on its way to profits it also succeeded in persuading villagers to use a product that protected them against disease.