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Tired Old Mantras at Monterrey

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Abstract (Document Summary)

Rich countries failed to hold both their own aid agencies and international institutions like the International Monetary Fund and World Bank accountable for results. If the Department of Veteran Affairs fails to serve U.S. veterans, it will sure hear from veterans' organizations. There was no such potent lobby to call aid agencies to account when Africans didn't see their living standards rise despite all the aid and lending to Africa over the past 40 years. By the 1990s, aid amounted to an average of 17% of African countries' GDP. Infant mortality and education improved, which was heartening, but we're still waiting for African growth to begin.

Don't blame everything on poor countries' governments. Because we weren't holding them accountable, donors and institutions also had bad incentives. Rich countries and aid agencies rewarded bad governments that were the West's political allies more than good governments that were strategically unimportant. Just when we were celebrating the end of Cold War alliances that led to such obscenities as propping up Mobutu in Zaire, we discovered allies in the war against terrorism. So now Pakistan and Central Asian countries, with a record of economic mismanagement, poor social service delivery, and social conflict, are suddenly aid darlings.

Aid administrators promise they are now more "selective," and President [Bush] says he intends to hold them to it. Unfortunately, it's a promise that aid donors and institutions have been making for 40 years. The World Bank has had in place "performance ratings" as a basis for loans since 1977, yet still delivered more to bad performers than to good performers into the 1990s. The institutions are now more selective than during the Cold War, but we still get inexplicable loans, like those made in 2000 to Kenya's President Daniel Arap Moi.

Full Text (1098 words)

The tragedy of foreign aid is not that it didn't work, it's that we didn't really care whether it did.

Rich countries failed to hold both their own aid agencies and international institutions like the International Monetary Fund and World Bank accountable for results. If the Department of Veteran Affairs fails to serve U.S. veterans, it will sure hear from veterans' organizations. There was no such potent lobby to call aid agencies to account when Africans didn't see their living standards rise despite all the aid and lending to Africa over the past 40 years. By the 1990s, aid amounted to an average of 17% of African countries' GDP. Infant mortality and education improved, which was heartening, but we're still waiting for African growth to begin.

This lack of accountability will be on display at the five-day United Nations conference on Financing for Development, starting today in Monterrey, Mexico. The conference title gives away the ending without having to see the movie. The emphasis on volume of financing, which has been the obsession of the aid community for decades, remains unchallenged.

The enthusiasm for President Bush's recent announcement of increased U.S. aid misses the point. Sure, foreign aid is ludicrously tiny. I spent more this morning on a snack at Starbucks than the average American taxpayer spends in a year aiding Africa. But the real issue is not the amount of money, but what it goes for.

"Financing for Development" keeps alive the failed idea that a certain amount of growth "requires" a certain amount of aid, and that supplying that aid will lead to investment and growth. The World Bank last month came up with a $56 billion number for the "required aid increase" using exactly that idea, which has been discredited in the economics profession since the Nobel prize-winning work of economist Robert Solow in 1957. Rich countries let the aid agencies get away with economics that would fail an undergraduate mid-term. Is it because we don't care?

Likewise, Monterrey is recycling the tired old fetish of school enrollment targets, with accompanying "financing requirements." But we've already seen that movie too. Poor countries' school enrollment ratios soared over the past 40 years, helped in part by foreign aid, but countries' growth failed to respond, Africa again being Exhibit A. Is anybody in the rich countries paying attention?

What we should have learned over the past 40 years is that it's not the quantity of aid, or investment, or enrollment, that brings economic development; incentives do. When governments' incentives are for political patronage rather than development, aid supports incompetent but politically-connected schoolteachers, builds schools without textbooks, and roads that attract crooked contractors but little maintenance.

But don't blame everything on poor countries' governments. Because we weren't holding them accountable, donors and institutions also had bad incentives. Rich countries and aid agencies rewarded bad governments that were the West's political allies more than good governments that were strategically unimportant. Just when we were celebrating the end of Cold War alliances that led to such obscenities as propping up Mobutu in Zaire, we discovered allies in the war against terrorism. So now Pakistan and Central Asian countries, with a record of economic mismanagement, poor social service delivery, and social conflict, are suddenly aid darlings.

Moreover, institutions and aid agencies have a bottom line that is not like private firms, which seek customer satisfaction and profits. Instead, aid agencies have an incentive to "move the money." The aid agencies get new money -- and justify their mission -- by disbursing existing funds. The World Bank has a glossy brochure of achievement called "Ten Things You Never Knew About the World Bank." Unfortunately, all 10 are about volumes of financing. The only result cited was the elimination of river-blindness.

Aid administrators promise they are now more "selective," and President Bush says he intends to hold them to it. Unfortunately, it's a promise that aid donors and institutions have been making for 40 years. The World Bank has had in place "performance ratings" as a basis for loans since 1977, yet still delivered more to bad performers than to good performers into the 1990s. The institutions are now more selective than during the Cold War, but we still get inexplicable loans, like those made in 2000 to Kenya's President Daniel Arap Moi.

Since he took power in 1978, Mr. Moi has established a remarkably consistent record of running his nation's economy into the ground and enriching cronies. His current government even includes a cabinet minister who was accused by an independent inquiry of having ordered the murder of another cabinet minister who was a reformer. But that hasn't stopped the IMF and World Bank from giving Mr. Moi 21 "structural adjustment" loans (aid conditional on good government). Aid to Kenya has since been suspended, confirming that the loans given in 2000 were a bad idea.

But what price have aid agencies paid for such mistakes? Markets hold corporations to account (see Enron), but rich countries have yet to hold the managers of aid institutions accountable for their long record of failure. The poor results of past aid should not be an excuse to keep aid paltry, however; even President Bush's new proposal only returns U.S. aid efforts to the 1997 level. We need rich nations to care more, and get it right.

President Bush's new proposal of a central aid pool to which rich countries invite poor countries to apply is a great step in this direction, but it doesn't cover enough aid or hold the aid agencies themselves accountable for the results. We should announce in advance that only the best country proposals (defined mainly by track record of past good government) will receive funding. Nonpartisan observers could help evaluate proposals, past performance, and future results, using control group methodology and objective indicators.

Don't just preach about getting money to the poor -- try asking them if they got it. And once poor countries with good governments get the funding, let them choose which aid agencies they want to deliver the services. Take money away from aid agencies with poor results and give it to those that do better. Let recipients and donors experience the bracing winds of competition and we might get better results. If we care enough to hold aid agencies accountable for results, then -- and only then -- should we put more money into foreign aid.

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