The Cartel of Good Intentions:

The Problem of Bureaucracy in Foreign Aid

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Abstract: A group of well-meaning national and international bureaucracies dispensed foreign aid under conditions in which bureaucracy does not work well. The environment that created aid bureaucracies led those organizations to (a) define their output as money disbursed rather than service delivered, (b) produce many low-return observable outputs like glossy reports and "frameworks" and few high-return less observable activities like ex-post evaluation, (c) engage in obfuscation, spin control, and amnesia (like always describing aid efforts as "new and improved") so that there is little learning from the past, (d) put enormous demands on scarce administrative skills in poor countries. To change this unhappy equilibrium, policymakers in rich and poor countries should experiment with decentralized markets to match those who want to help the poor with the poor themselves freely expressing their needs and aspirations.

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1. Introduction

Consider a poor person in the countryside of Ethiopia who wants to get a pothole repaired in front of his house. The Ethiopian government looks to foreign aid for financing of public services. This poor person somehow communicates his desires to “civil society representatives” and/or non-governmental organizations (NGOs), who allegedly articulate his needs through the government of Ethiopia to the international donors. The national government solicits a “poverty reduction support credit” (PRSC) from the World Bank (also known as the International Bank for Reconstruction and Development, or IBRD) and a Poverty Reduction and Growth Facility (PRGF) from the International Monetary Fund (IMF). To get loans from the IMF and World Bank, the government completes a satisfactory poverty reduction strategy paper (PRSP), in consultation with civil society, NGOs, and other donors and creditors. The government prepares the PRSP in light of the fourteen-point Comprehensive Development Framework (CDF) of the World Bank. The World Bank follows a series of internal steps to approve a PRSC, including the preparation of a Country Assistance Strategy (CAS), a pre-appraisal mission, an appraisal mission, negotiations, and Board approval, all in accordance with OD 8.60, OP 4.01, and Interim PRSC Guidelines. The government also seeks qualification for the Enhanced Heavily Indebted Poor Countries (Enhanced HIPC) 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). HIPC, PRSC, and PRGF require numerous reform conditions such as participation of the poor, poverty-reducing government expenditure monitored through annual Public Expenditure Reviews (PERs), fiscal deficit targets, revenue mobilization targets, and structural reforms such as the Civil Service Reform Program (CRSP), implementation of a Financial Information Management System (FIMS) in government, financial 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 may or may not include money that could finance road repair for this poor person, depending on the national development program (NDP) that forms part of the government’s Agricultural Development Led Industrialization (ADLI) strategy. 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).[1]

[1] The thousand-page *Poverty Reduction Strategy Paper Sourcebook* of the World Bank provides guidance like the following for determining spending on road maintenance: "The sector ministries prepare medium-term strategic plans that set out the sector’s key objectives, together with their associated

Meanwhile, if beleaguered Ethiopian government officials have any time left, the PRSP Sourcebook also suggests that they cost out all the various ways the government is making progress towards the International Development Goals (IDGs, also known as Millennium Development Goals or MDGs), which include targets for poverty, hunger, infant and maternal mortality, primary education, clean water, contraceptive use, AIDS, gender equality, and the environment. These were all on the agenda of world leaders who assembled for the UN International Conference on Financing for Development in March 2002. Meanwhile, other international bodies will review the Ethiopian PRSP, such as the United Nations Development Program (UNDP), the African Development Bank (ADB), the Consultative Group to Help the Poorest, the United Nations Conference on Trade and Development (UNCTAD), the Food and Agriculture Organization (FAO), the World Trade Organization (WTO), the World Health Organization (WHO), the International Labor Organization (ILO), the European Union (EU), the United Nations Children's Education Fund (UNICEF), the United Nations High Commissioner for Refugees (UNHCR), as well as NGOs and the Development Assistance Group (DAG), which includes representatives of 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 the international lenders and donors approve the PRSP and release new funds to the national government, then government will allocate the money in accordance with the NDP, ADLI, CRSP, MTEF, CDF, PRGF, PRSC, and 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. Within the World Bank, the transport economist must try to convince the desk economist that a Road Maintenance Loan that would repair this particular pothole merits higher priority than some other project, like say an Education Reform Loan pushed by the education economist (see diagram for a rendering of the World Bank organization chart applicable to a typical African country).[2] If the poor person is dissatisfied and wants to complain, he faces so many different organizations and such a complex hierarchy within each organization he is understandably at a loss.

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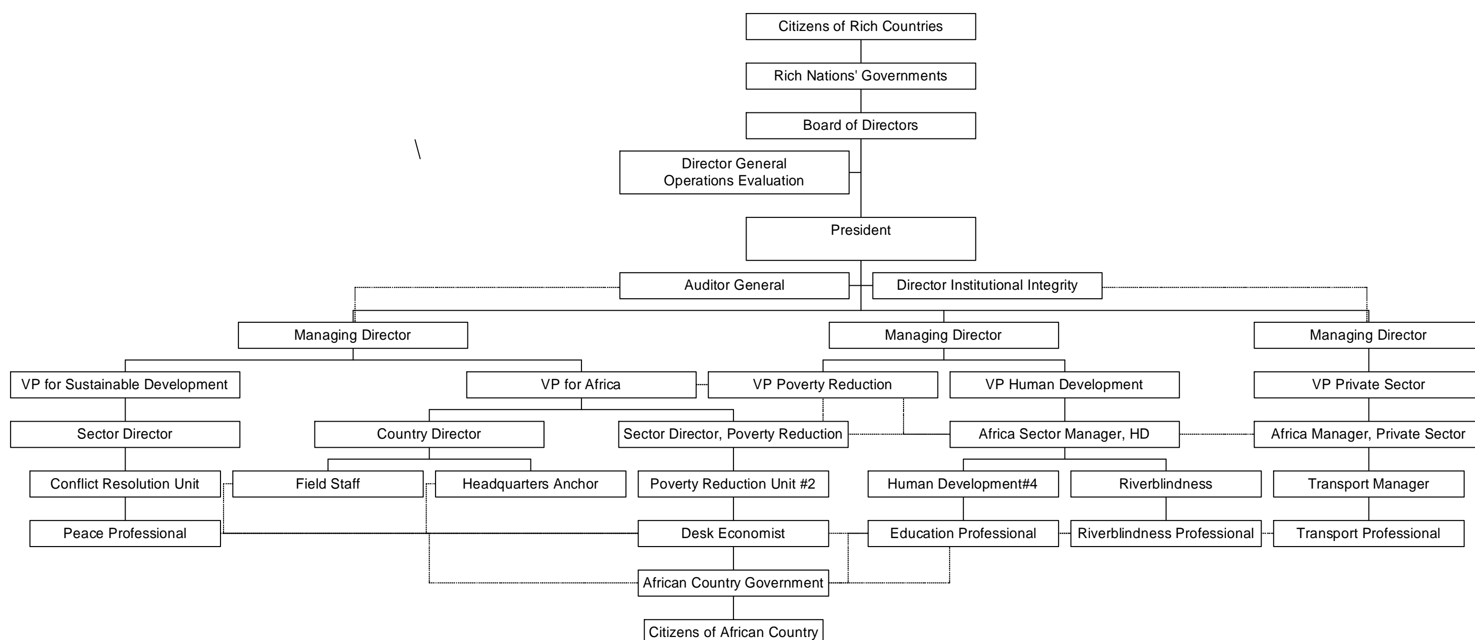
outcomes, outputs, and expenditure forecasts (within the limits agreed upon by the Cabinet). These plans should consider the costs of both ongoing and new programs. Ideally, spending should be presented by program and spending category with financing needs for salaries, operations and maintenance, and investment clearly distinguished."

[2] I had to arbitrarily shift some VPs from one Managing Director to another so they would fit in the chart, and to omit altogether such relevant managers as the Senior Vice President and Chief Economist (no offense intended).



Why does the business of delivering foreign aid services to poor people in poor countries involve so much unproductive bureaucracy? It's not that aid bureaucrats are bad; in fact many smart, hard-working, dedicated professionals toil away in the world's top aid agencies. But the perverse incentives they face explain the organizations' obtuse behavior. Bureaucracy works best where there is high feedback from beneficiaries, high incentives for the bureaucracy to respond to such feedback, easily observable outcomes, high probability that bureaucratic effort will translate into favorable outcomes, and competitive pressure from other bureaucracies and agencies.[3] In short, bureaucracy works best when it functions something like a free market.

All of these conditions are unfavorable in foreign aid. Although a poor person in Ethiopia can easily observe a pothole outside his house, it is hard for a foreign aid agency to continuously observe how country B's pothole prevalence. Moreover, it is very hard for aid bureaucracies to get constructive feedback from past mistakes, like financing a road full of

[3] There is a large literature that makes these common sense points. See especially Wilson 1989. The World Bank's 2001 World Development Report on Institutions presented evidence that direct election of individual politicians, more political competition, and a free and independent media reduced bureaucratic corruption and improved public service delivery. Djankov et al. 2001 similarly finds that government domination of the media worsens social service delivery. La Porta et al. 1998 found that more democratic governments were more efficient and delivered more public goods, as were governments bound by common law rather than civil or socialist law (arguing that common law gives more voice to citizens). Kaufmann et al 2001 and Kaufmann et al 2002 show how bureaucracies in Bolivia with more citizen voice and more transparency deliver a higher quality and quantity of public services. Isham, Kaufmann, and Pritchett 1995 found that countries with civil liberties had higher returns on aid projects. Pritchett and Woolcock 2002 describe the failure of the bureaucratic model in public service delivery under unfavorable conditions in poor countries.

potholes, because any admission of past failure is a threat to getting new aid resources to dispense in the future. Additional bureaucratic aid agency effort at fixing potholes in country B will likely miscarry, given the absence of feedback and the dependence of the outcome on government officials and other agents in country B outside of the agency's control. If poor countries are poor because of bad government and other collective action problems, then bureaucratic effort in those countries is less likely to succeed than in rich countries. Finally the industrial structure of foreign aid limits competitive pressure on aid agencies, who make up a "cartel of good intentions".

Bureaucracy in foreign aid evolved to face a hostile environment. The resulting edifice of national and international bureaucracies has not provided services effectively to the world's poor. Despite numerous attempts at reform, bureaucratic characteristics of foreign aid stayed remarkably persistent throughout its fifty year history. The tragedy is that bureaucracy captured foreign aid under conditions in which it didn't work well.

2. A case study of bureaucracy in foreign aid

A convenient starting place for the history of foreign aid is with the Point Four program of Harry S. Truman, which he announced in his inaugural address on January 20, 1949: "We must embark on a bold new program for … the improvement and growth of underdeveloped areas. More than half the people of the world are living in conditions approaching misery… For the first time in history, humanity possesses the knowledge and the skill to relieve the suffering of these people." I believe this was the first call for peacetime aid from one state to another in history. At the moment of birth, we have some characteristics of foreign aid that will last through the years – the call for a new program, the rationale in terms of poverty, and the optimism that foreign aid programs can make a big difference.

Unfortunately, as I argue below, the environment that created aid bureaucracies led those organizations to (a) define their output as money disbursed rather than service delivered, (b) produce many low-return observable outputs like glossy reports and "frameworks" and few high-return less observable activities like ex-post evaluation, (c) engage in obfuscation, spin control, and amnesia (like always describing aid efforts as "new and improved") so that there is little learning from the past, (d) put enormous demands on scarce administrative skills in poor countries.[4]

[4] Many frustrated with the ponderous bureaucracy of aid agencies call for non-governmental organizations (NGOs) to take over part of foreign aid delivery. Unfortunately, many NGOs show some of the same behavior as aid bureaucracies. Like aid agencies, NGOs market themselves to the public of the rich countries who provide donations, and they do not necessarily have any better feedback mechanisms from the poor they are meant to help. In addition, many NGOs already get money from official aid agencies, so

2.1 Redefining Output

A statement two years after President Truman's address by a group of UN experts was more precise: "a 2 percent 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). This started a fashion of setting precise targets, calculating aid "requirements" to achieve this target, and then calling for an aid increase. So Walt Rostow in his famous *Stages of Growth* declared that "an increase of $4 billion in external aid would be required to lift all of Asia, the Middle East, Africa, and Latin America into regular growth, at an increase of per capita income of say, 1.5% per annum." (Rostow 1960). The model for these early efforts to calculate the aid requirement was the Harrod-Domar growth model: growth was proportional to investment, which was in turn financed by aid. Solow's 1957 article on growth had already discredited the Harrod-Domar model in the mainstream profession (as Domar himself acknowledged immediately, saying he had meant to model the business cycle rather than growth), but the model lived on in the development literature (see Easterly 1997).

The statements advocating increased aid continued: "we recommend a substantial increase in official aid flows" (Pearson Commission 1969), "the current flow of ODA … is only half the modest target prescribed by the internationally accepted United Nations Strategy for the Second Development Decade" (World Bank President Robert McNamara, 1973), "additional concessionary resources would be required to achieve both higher rates of growth in the poorest countries" (World Bank, IDA-6, 1980), "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…real growth in aid of only 2 percent a year is an unacceptably weak response to the challenge of global poverty" (World Bank WDR 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 international 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).

While aid advocates have been effective in increasing aid flows (if all foreign aid given since 1950 had been invested in US Treasury Bills, the cumulative assets of poor countries by 2001 would have amounted to $2.3 trillion), the goal of increased living standards and reduced

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the line between NGO and GO is not always clearly defined. So it is not surprising that NGOs often engage in the same types of behaviors as aid agencies.

poverty in the typical poor country has not been attained. In response (and fitting in with the campaign to estimate aid requirements of achieving certain goals) aid agencies have tended to redefine their mission as being more one of disbursing money than achieving economic development. Thus, such aid agencies have established a tradition of focusing on the volume rather than the effectiveness of aid.

For example, World Bank President McNamara bragged about 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…In the five years we achieved a level of operations that exceeded the total of all the operations that the Bank has undertaken in the developing world in the 23 years from 1946 through 1968." (McNamara 1973) Periodic IDA reports continued the stress on volume: "IDA lending to Sub-Saharan Africa rose from a level of $950 million in ..FY80.. to over $1.2 billion in FY83, while the share of IDA going to Sub-Saharan Africa rose from 27 percent to 37 percent." (World Bank 1983) The World Bank's IDA continued to define itself in terms of volume in 2001: "IDA, as the largest source of concessional assistance to the world's poorest countries, plays a critical role in their efforts to achieve growth and poverty reduction." A World Bank publication in 2001 advertised ten accomplishments of the organization – all ten involved volumes of assistance for different purposes.[5] Although voices have been raised throughout the years against "pushing loans" and "moving money," and change may actually have occurred, the continuity of stressing aid volume is more noticeable than the changes.

This is also reflected in internal incentives within aid organizations. The weak incentives that do exist tend to reward staff for tangible outputs like making a new loan or for activities directed at the rest of the organization rather than those activities that benefit the final clients in the outside world. This emphasis on moving money had a number of consequences for the aid business. Since the weak institutions of the recipient were often the critical bottleneck in disbursing funds (more on this below), donors often substituted their own institutions for those of the recipient so as the keep the money flowing. As Tendler's timeless 1975 study puts it: "much of the initiative and work involved in generating public projects in developing countries has been transferred gradually from its usual location – a country's public sector institutions – to the lending institution." Alkali 1989 describes how a $132 million agricultural development project in a Baiuchi State, Nigeria spent $27 million of its funds on expatriate project staff and and training by international experts. The Programme Manager and the Chief Engineer were both

[5] World Bank, Ten Things You Never Knew About the World Bank, 2001

expatriates; in all 64 expatriate staff were located in Baiuchi during the first four years of the project in 1981-84.

In addition, the emphasis on moving money led to IFIs allocating too little effort to two important activities: (1) insuring that loan conditions were actually observed, and (2) ex-post evaluation of loan effectiveness. Loan conditions were not effectively enforced because the IFIs kept coming back to the same countries with "adjustment loans" with little regard for the performance on previous loans. There was no progress on economic reform indicators from one adjustment loan to the next in the same country (Easterly 2002). The World Bank and IMF gave Argentina 33 adjustment loans over 1980-2001 during repeated macroeconomic crises, yet at the end Argentina went into an even more severe macroeconomic crisis than the previous ones (complicated by the huge debt now owed to multilateral institutions).

Ex-post evaluation also receives very low priority in World Bank activities; the Bank reviews only 5 percent of its loans after 3 to 10 years following the last disbursement for development impact (Meltzer Commission 2000). The World Bank has done client surveys since the mid-1990s, but the results have not been made public and there seems to be little mechanism for having managers learn from them (Wade 2001). Aid agencies rarely engage in controlled experiments of particular interventions, despite the small amounts required relative to loan volume. They also show little interest in improving the atrocious statistical systems of the poor countries so that the aid agencies or recipient governments would even be able to know what is happening to growth, poverty, or social indicators. Aid agencies rarely engage in primary data collection and do not even store for future use the (secondary) data contained in their own country reports.

Finally, what evaluation does take place is self-evaluation, using reports from the very people who implemented the project. This leads to evaluation disconnects like that delicately described in OECD and UNDP (1999) on Mali: "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 unfavorable views of local people. Gauging the degree to which project objectives are achieved during the actual project period clearly fails to give a proper reflection of the lasting impact on standards of living (p. 26)".

2.2 Observable output

Similar to the tendency to redefine output as money disbursed is a tendency by the aid community to stress low-return observable outputs like international meetings of statesmen, glossy reports for the public, and the proliferation of framework and strategy papers. The standard

response to any Third World tragedy is to hold a meeting about it. The World Bank evaluation of IDA 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 IDA10: the Copenhagen Social Summit (March 1994) and the Fourth World Conference on Women (September 1995). During FY94-96 IDA chaired ninety formal meetings and provided substantial input to thirty-eight formal meetings chaired by other donors.” Likewise UNDP in a recent report discussed 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-makers about the 20/20 initiative and prepare them for the international meeting which took place in Hanoi in October 1998."

It is a lot easier for aid agencies to produce observable frameworks rather than actually implement risky programs like “empowering the poor” (risky because local elites would resist, as they do even in industrial countries). The aid agencies thus do not have to face hard choices between a number of competing claims on their scarce implementation resources, potentially alienating single issue lobbies that might influence aid revenues. This allows the frameworks to include a Christmas tree of aims like “an increased focus on issues like good governance at national and international levels and the fight against corruption, respect for all internationally recognized human rights, gender issues, capacity and institutional building, social services supply and environmental concerns” (UN Conference on the Least Developed Countries 2001) Likewise World Bank President James Wolfensohn set out his “Comprehensive Development Framework” in 1999 with a checklist of 14 items (including a good government, effective legal system, well-organized financial system, social safety net, education issues, health and population issues, water and sewage, energy, roads, transportation and telecommunications, environment and cultural issues, rural strategy, urban strategy, private sector strategy and special national considerations) each with multiple sub-items and a list of additional items governments should worry about (GDP growth, price stability, sustainable government and external debt, a competitive real exchange rate, and adequate level of international reserves).[6] Similarly the Millennium Development Goals calls for the simultaneous achievement of multiple targets by 2015, without asking if these arbitrary benchmarks are the most effective use of scarce resources to help poor people in every country. Nor do the agencies spell out whether there are enough separate policy instruments to

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[6] http://www.worldbank.org/cdf/cdf-text.htm

meet all of these separate policy targets simultaneously, or whether an overstrapped bureaucracy can manipulate these instruments in just the right combination to attain the targets.[7]

There are more specific consequences of the emphasis on observable outputs. Aid reports for many decades have bewailed the tendency of donors to finance new capital investment projects (easily observable at a point in time) and the neglect of operating supplies and maintenance after the project is completed (which requires more costly ongoing site by site monitoring). Donors consistently refuse to finance maintenance, with the idea that this is the responsibility of recipient governments. The result is a recurrent theme of the World Bank's periodic reports on Africa: "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 have difficulty keeping up field trials. Roads, public buildings, and processing facilities suffer from lack of maintenance." (World Bank 1981) "in country after country, highways are falling into disrepair, if not disuse, from … inadequate funding of maintenance." (World Bank 1983) "inadequate funds have been allocated to operations and maintenance… there are shortages of schoolbooks, medicines, transport fuel, small tools, and spare parts" (World Bank 1984) "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) As these quotes show, donors are very aware of the anti-maintenance bias but are seemingly unable to fix the problem. Filmer and Pritchett (1997) estimate that the return on spending on instructional materials in education is up to 14 times higher than the return to spending on physical facilities in a wide-ranging sample of poor countries, but donors continue to favor more observable buildings over less observable textbooks. In another field, Morton 1994 points out how donors were willing to finance hugely expensive but observable satellite early-warning systems for drought in Africa, allowing the inexpensive but unobservable system based on widely scattered rain gauges to fall apart. Aid agencies, themselves an example of top-down bureaucracy, tend to favor highly visible top-down bureaucracies to deliver services in poor countries, even though the conditions for effective bureaucracies are absent (Pritchett and Woolcock 2002).[8]

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[7] Several years ago, I read a World Bank report on Nigeria that listed 300 "main" recommendations at the beginning of the document.

[8] Since the outputs that really matter are what is observable to the electorate in rich countries, aid agencies often strive to produce side effects for rich countries. Thus, rich country donors often restrict aid to

The inverse of donors' desire to produce observable positive outputs is their fear of producing observable negative outputs. Donors feel this more than ever in recent years with the increased success of non-governmental organizations (NGOs) in popularizing particular causes in the rich country media. For example, NGOs will blame donors for an aid project that produces visible environmental damage or does politically sensitive resettlement. Thus, for example, the World Bank got tremendous grief for supporting a Chinese project that would resettle poor Han farmers in an area considered to be a Tibetan culture area, eventually causing the Chinese government to withdraw the project (Wade 2001).

In response, aid agencies are choosing increasingly elaborate control procedures to minimize the risk of visible negative outputs. The unfortunate officer on a World Bank country desk is required to produce or commission five separate reports on each client country: a Country Economic Memorandum (CEM)/Development Policy Review (DPR), Country Financial Accountability Assessment (CFAA), Country Procurement Assessment Review (CPAR), Poverty Assessment (PA), and Public Expenditure Review (PER). Four other reports are identified as "important in advancing the Bank's corporate priorities": Country Environmental Analysis, Investment Climate Assessment, Country Gender Assessment, and Financial Sector Assessment Program Report. Twelve other sector reports are mentioned in management guidelines as part of the "menu" but are mercifully optional. Wade's (2001) insightful study of the World Bank describes the proliferation of NGO and US government pressures that has led the World Bank to adopt "safeguard policies" in the following areas: environmental assessment, natural habitats, forestry, pest management, resettlement, indigenous peoples, dam safety, projects on international waterways, and projects in disputed areas. That is, the beleaguered World Bank project manager has to certify that they are not doing anything wrong in any of these areas. This grab-bag of issues has no particular claim on being the most salient for welfare of the poor, they just happen to be politically visible concerns monitored by NGOs and American political lobbies.

2.3 Spin control

A third characteristic of foreign aid bureaucracies is their willingness to engage in obfuscation. Carefully hedged diplomatic language is an art form in aid agencies: A war is a "conflict-related reallocation of resources" (World Bank Ethiopia report, 2001) Rich country aid efforts to anarchic warlords like in Liberia are "difficult partnerships" (OECD 2001) Countries with homicidal rulers are also known as "low income countries under stress" (World Bank 2002).

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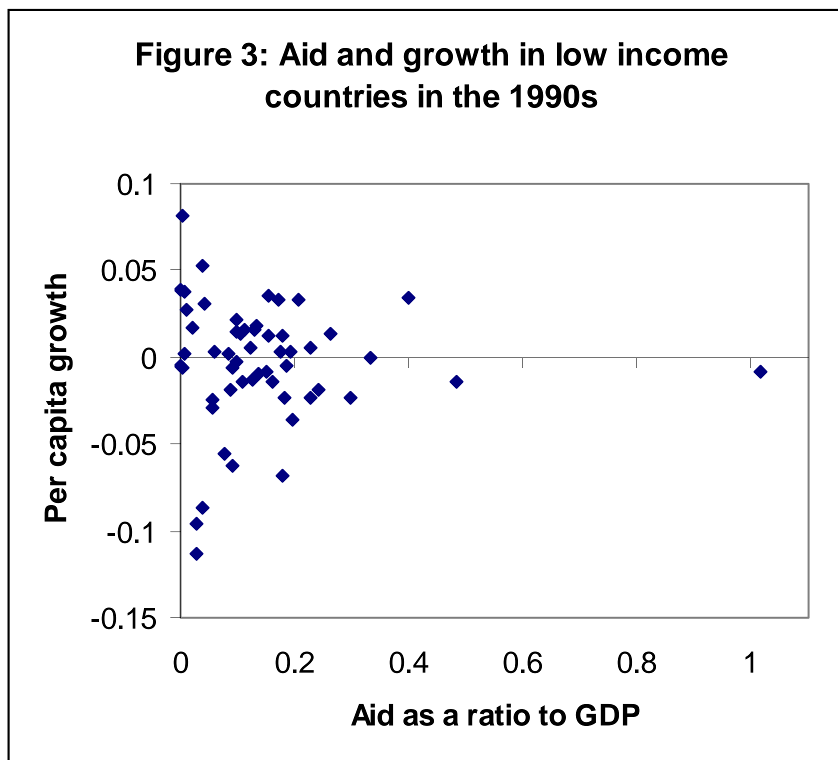
purchases from their own country's exporters (the infamous "tied aid") and aid agencies are attentive to the need to reward political allies of the rich countries with aid. The rich countries also contribute to proliferation of conditions by themselves imposing conditions on the multilaterals. Of course, the loading down of aid with all kinds of extraneous rich country objectives makes it less likely to benefit the poor.

Countries whose presidents loot the treasury experience "governance issues." Bad performance is "progress {that} has not been as fast and comprehensive as envisioned in the PRSP" (World Bank PRSP Sourcebook 2001). When government officials don't want what the aid agency insists upon, there are "differences in priorities and approaches {that}… need to be reconciled." Soliciting donations is "resource mobilization." Slums are "inadequate human settlements." Being clueless on the destination of debt relief means "continued progress on the Expenditure Management and Control Program will be needed to maximize the benefits from the HIPC Initiative." [9] Other aid community jargon (like "good investment climate") simply lacks any meaning that economic science can discover. You might as well say "the investment climate will be stormy in the morning, gradually clearing by afternoon with scattered expropriations."[10] Aid documents often wander into content-free zones: "We encourage all international organizations to seek to continually improve their operations and interactions" (UN Monterrey Consensus 2002). As Tendler 1975 said, the aid professional has "a tremendous fear of his own writing."

Aid agencies also, when they report on the effects of past programs, report on whatever was successful and claim some credit for the success. For example, the World Bank (2002) offers six aid success stories: China, India, Mozambique, Poland, Uganda, and Vietnam. This is a somewhat surprising list, since China and India receive little aid relative to their GDP (0.4 % and 0.7% of GDP respectively in the 80s and 90s, which is the period the World Bank study mentions). Poland and Vietnam are also below average recipients of foreign aid, even if we ignore the periods before recent reforms when they got no aid. And there is a little irony in highlighting two of the world's few remaining Communist party dictatorships (China and Vietnam) as a triumph of aid from Western capitalists![11] Of course, the reason for selecting these countries is not such a mystery: China, India, Mozambique, Uganda, and Vietnam are the fastest growing low income countries in the 1990s (which is the period the World Bank focuses on for all but China and India), except for #3 Sudan that the World Bank apparently didn't want to celebrate. Poland is the fastest growing transition country. It's not convenient to point out that as many aid-receiving low income countries had negative per capita growth as positive, or that most aid-receiving transition countries were a disaster in the 1990s. Among all low income countries, there is not a clear relationship between aid and growth (Figure 3).

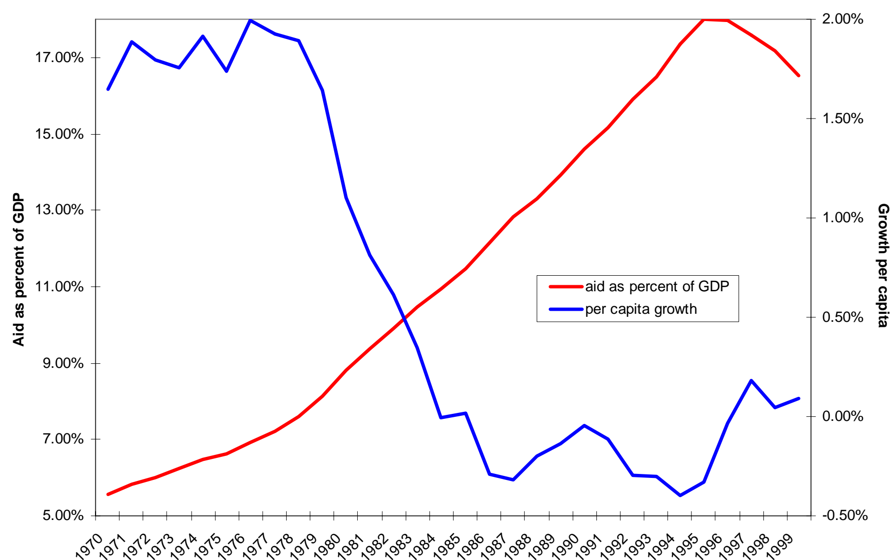
9 Interim Poverty Reduction Strategy Paper, Joint Staff Assessment, Ethiopia
[10] The President of the World Bank, April 2002.
[11] Milanovic points this out.



Longer term success stories are not that easy to come by. The aid agencies had often mentioned Ghana as an African success story since reforms started in 1983, but recent struggles have apparently dropped it from the list. World Bank 2002 mentions South Korea and Botswana as long term success stories (again apparently selected by virtue of their near world-record growth rates over the past four decades). Although many other African countries received more, Botswana did receive significant amounts of aid during its period of rapid growth. Unfortunately, a study for the World Bank's Operations Evaluation Department found that Korea's growth accelerated only after the decline in US aid, and did so following policies contrary to the advice of US aid officials; hence, the consensus of most studies of Korea is that aid contributed little to Korea's takeoff (Fox 2000).

In cases where aid has been unsuccessful in the past, the prominent technique of spin control is to assert that things have now changed for the better. This technique is particularly prominent in Africa, the continent where foreign aid has had its most difficult hours. Foreign aid became increasingly important over the decades while growth deteriorated (Figure 2).

Figure 2: Aid and growth in Africa (10-year moving averages)



The World Bank did a steady stream of progress reports on Africa over the last two decades. They first described the poor state of African policy reform: "domestic policy inadequacies…trade and exchange rate policies have overprotected industry, held back agriculture… " (World Bank 1981) "unless major changes in African programs and policies are introduced, no amount of external assistance can generate rising levels of income" (World Bank 1984) "Weak public sector management has resulted in loss-making public enterprises, poor investment choices, costly and unreliable infrastructure, price distortions (especially overvalued exchange rates, administered prices, and subsidized credit)" (World Bank 1989) "most African countries still lack policies that are sound … few besides Ghana come close to having adequate monetary, fiscal, and exchange rate policies…governments continue to intervene heavily in the marketing of export crops… the scarce evidence on public enterprise reform suggests that there has been no significant reduction in financial flows to public enterprises or in the volume of assets held by government…financial reform lags behind as well…nor is there much evidence that public spending within those sectors {health and education} is being reallocated away from costly tertiary programs and toward the basic services most likely to reach the poor." (World Bank 1994) "While the former Zaire's Mobuto Sese Seko was reportedly amassing one of the world's largest personal fortunes (invested, naturally, outside his own country), decades of large-scale foreign assistance left not a trace of progress… Consider Tanzania, where donors poured a colossal $2 billion into building roads over 20 years. Did the road network improve? No. For lack of maintenance, roads often deteriorated faster than they could be built… Zambia, for example, received 18 adjustment loans between 1966–69 and 1990–93 while its policies got worse" (World

Bank, Assessing Aid, 1998) "the adjustment decades also saw a substantial deterioration in the quality of public institutions, a demoralization of public servants, and a decline in the effectiveness of service delivery in many countries." (World Bank 2000) Africa in 2002 is still suffering from "the cruel effects of the HIV/AIDS pandemic, civil wars, and persistent low growth rates" (World Bank African Development Indicators Press Release April 11, 2002).[12]

The international community failed to hold aid agencies responsible for this failure. Instead, rich countries were influenced by aid agencies' perpetual promises of a change for the better in Africa: "Policy action and foreign assistance … will surely work together to build a continent that shows real gains in both development and income in the near future." (World Bank 1981) "There is now evidence that many African governments are more clearly aware of the need to take major steps to improve the efficiency of productive sectors of their economies" (World Bank 1983) "This optimism can be justified by recent experience in Africa …African leaders increasingly recognize the need to revise their development strategies…some countries are introducing policy and institutional reforms"(World Bank 1984) "progress is clearly under way. Especially in the past two years, more countries have started to act, and the changes they are making go deeper than before" (World Bank 1986) "since the mid-1980s Africa has seen important changes in policies and in economic performance" (World Bank 1989) "African countries have made great strides in improving policies and restoring growth" (World Bank 1994) "Since the mid-1990s, there have been signs that better economic management has started to pay off" (World Bank 2000) "Africa's leaders … have recognized the need to improve their policies, spelled out in the New Partnership for African Development (NEPAD) …{they} have pledged to pursue a compact of good governance with their people. " (World Bank African Development Indicators Press Release April 2002).[13] Such optimism (much of which staff knew was misguided according to interviews later conducted by Kapur et al. 1997) facilitated the continuing flow of resources to Africa.

Similar to the spin on Africa, aid programs in general are always "new and improved." One instrument for conveying this spin is the "reorganization" of the aid agency. The World Bank, founded in 1946, had its first reorganization in 1952. Further reorganizations came in 1972, 1981, 1987, 1991, and 1993 (Kapur et al 1997). World Bank President James Wolfensohn has

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[12] See the discussion of aid's failure in Africa in Kanbur 2000 and Van de Walle 2001.

[13] The contradiction between "great strides in improving policies" and the continued description of bad policies calls to mind the story about the Japanese homefront during World War II. The long-suffering Japanese people could get their war news only from their government's propaganda. Nevertheless they could follow the war's course by tracking the location of the glorious victories of The Emperor's forces, which seemed to be moving ever closer and closer back to Japan.

carried out further large-scale reorganization since he took office in 1995. The US foreign aid effort was reorganized in 1948, 1951, 1953, 1955, and 1960, before USAID was finally created in 1961. Further changes in organization of US aid occurred in 1973, 1979, 1985, 1989, 1992, and 1999 (when USAID was moved back into the State Department). President George Bush in 2002 proposed an important new reorganization of the US aid effort with his Millennium Challenge Account.[14]

A related spin is increased emphasis on a desirable "new" goal. As Table 1 shows, various donor fads have been around for some time. As an example, take the new emphasis on "selectivity" of foreign aid. Because "aid has a big effect on growth and poverty reduction" only in countries with good policies (World Bank, Assessing Aid, 1998), every successive aid document over the decades has called for increased "selectivity." So the very latest document to solicit funds for the 13th replenishment of the World Bank's concessional loan facility states "to improve development effectiveness, IDA should increase its selectivity … by directing more assistance to borrowers with sound policy environments." (World Bank, 2001) Thirty eight years earlier we have: "objective No. 1: To apply stricter standards of selectivity … in aiding developing countries" (President John F. Kennedy 1963) "Above all, it is realized that … that no foreign help will suffice where there is no national will to make the fundamental changes which are needed. It has become very clear that the impact made by contribution of resources from outside depends on … his overall economic and social policy" (Pearson Commission 1969) "This report stresses that the relief of poverty depends both on aid and on the policies of the recipient countries" (Cassen Development Committee Task Force on Foreign Aid, 1985). "The Deputies underlined the importance of sound macroeconomic and sectoral policies as a basis for effective use of IDA funds in all recipient countries." (Stern 1990, IDA-9) “"Even very well designed projects cannot succeed in a poor policy…environment." (Wapenhans Report 1992, quoted in Meltzer Commission Report).

Table 1: Plus ça change, plus c'est la même chose

Aid Epoch

[14] http://www.usaid.gov/about/chronology.html

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 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 Wolfensohn, 2001)
Aid works in a good policy environment	"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)	"IDA should increase its selectivity … by directing more assistance to borrowers with sound policy environments." (World Bank, 2001)
Increase 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 IDA'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 1960's, has {become} increasingly difficult" (World Bank 1970)	"more concessional reschedulings for the poorest debtor countries." (G-7 Summit, 1990)	"further national and international measures ... including, as appropriate, debt cancellation." (Monterrey Consensus, UN, 2002)

Africa desperately needs reform	"domestic policy inadequacies…trade and exchange rate policies have overprotected industry, held back agriculture… " (World Bank 1981)	"most African countries still lack ... adequate monetary, fiscal, and exchange rate policies…nor is there much evidence that public spending... is being reallocated ... toward .. basic services ." (World Bank 1994)	"{There was} a substantial deterioration in the quality of public institutions... a decline in the effectiveness of service delivery … persistent low growth rates" (World Bank 2000, 2002)
Africa is already reforming	"many African governments are more clearly aware of the need to take major steps to improve the efficiency...of their economies" (World Bank 1983)	"African countries have made great strides in improving policies and restoring growth" (World Bank 1994)	"Africa's leaders … have recognized the need to improve their policies, spelled out in the New Partnership for African Development (NEPAD)" (World Bank 2002)

However, whether aid has actually become more selective over time is a matter of debate. The World Bank in a recent report on aid effectiveness (World Bank 2002) stated that overall aid allocation has shifted in favor of countries with good policies: "in 1990, countries with bad policies received $44 per capita, while those with good policies. . . received less: only $39 per capita. By the late 1990s, the situation was reversed: good policy countries received $28 per capita, or almost twice as much as the poor policy countries ($16 per capita)." In order to reproduce this result, you have to follow these steps: First, restrict your analysis to countries eligible to borrow from the Bank's concessional loan facility (IDA). Then, define "good" policy countries as those whose CPIA scores are better than the 67th percentile among these countries, and "poor" policy countries as those whose CPIA scores are below the 33rd percentile. Then, remove India and Indonesia from the sample. If all aid-receiving countries are included, or if only India and Indonesia are included, then good policy countries received only a third to a half as much aid per capita as bad policy countries.[15]

There are also plenty of anecdotes that belie the new "selectivity." Well after the new emphasis on selectivity, in the summer of 2000, the World Bank and IMF announced new adjustment loans to President Daniel Arap Moi's government in Kenya, despite 22 years of economic mismanagement during 19 previous adjustment loans to this same government. In the

[15] This paragraph is based on unpublished joint work with Amar Hamoudi.

year 2000, prominent members of Moi's government appeared on a corruption "list of shame" issued by Kenya's parliament. Since then, Moi has again failed to deliver on his economic reform promises, and international rating agencies still rank the Kenyan government among the world's most corrupt and lawless. Ever delicate, a 2002 IMF report conceded that "efforts to bring the program back on track have been only partially successful" in Kenya.

In a couple of weeks in the fall of 1999, donors made Cameroon among the first eligible for debt relief, and Transparency International declared Cameroon the most corrupt country in the world for the second year in a row (Van de Walle 2001). Indeed, since Van de Walle wrote, Cameroon reached the "decision point" on HIPC debt relief in October 2000 (meaning the World Bank and IMF thought it had a three year track record of good performance). Despite IFI enthusiasm, in 2001 Cameroon was still rated among the most corrupt countries in the world by TI and was classified as one of the most undemocratic countries in the world ("not free") by Freedom House. This unsavory combination would qualify the current government of Cameroon for the appellation of "odious" according to Birdsall, Williamson, and Deese 2002 (such an appellation implying no donor funds should go to it). To give a third example, the Bank made a second tranche disbursement of a financial sector adjustment loan to Peru in September 2000, despite well-documented reports of widespread corruption and the failure to keep the IMF agreement in place at the time.[16]

More systematically, there is no relationship between the developing countries' score on quality of governance (democracy, service delivery, regulation, corruption, etc.) in 2001 and those who received World Bank adjustment loans in fiscal year 2001. As Table 2 makes clear, there is no evidence of a robust and significant positive association between good policies (using the World Bank's own subjective rating) and aid flows (ODA) or World Bank loans (IDA) in the 1990s or at any other time. If there has been progress, it is that at least there is longer a negative association between good policies and aid as there was in the early 1980s. Of course, the "improved" behavior could have happened more recently than is captured by the available data. The aid agencies' always presenting themselves as "new and improved" makes spin control easier, in that it is impossible to test how "improved" they are at any given moment. One can do research on the past but not on the present.

[16] On the failure of the World Bank and other donors to enforce "selectivity" and "conditionality", see Kanbur 2000, Van de Walle 2001, Kapur et al 1997 and Lancaster 1999.

Correlations of foreign aid (ODA) with World Bank country policy and institutional assessments (CPIAs)

Correlation of variable with CPIAs:	ODA/ GDP		Log of ODA per capita		obser- vations
1977	0.172		0.131		35
1978	0.167		0.086		37
1979	0.104		0.124		37
1980	0.006		0.111		41
1981	-0.162		-0.011		42
1982	-0.349	**	-0.247	*	42
1983	-0.420	***	-0.357	**	42
1984	-0.241		-0.269	*	43
1985	-0.159		-0.182		47
1986	-0.060		-0.234		48
1987	-0.110		-0.141		48
1988	0.010		-0.076		49
1989	-0.002		-0.032		50
1990	-0.024		0.012		50
1991	0.026		0.024		49
1992	0.153		0.091		49
1993	0.173		0.113		51
1994	-0.084		0.091		51
1995	-0.040		0.081		55
1996	0.049		0.123		57
1997	0.063		0.141		57
1998	-0.028		0.072		57
1999	-0.079		0.136		50

***Significant at 1% level

**Significant at 5% level

*Significant at 10% level

Correlation performed on sample of low income countries

Correlations of IDA lending with World Bank country policy and institutional assessments

Correlation of variable with CPIAs:	IDA net disbursements/ GDP	Log of IDA net disbursements per capita		obser-vations
1980	-0.028	0.086		54
1981	-0.143	-0.080		53
1982	-0.217	-0.359	***	53
1983	-0.070	-0.112		50
1984	0.147	0.037		50
1985	-0.024	-0.046		55
1986	0.153	-0.151		59
1987	0.027	-0.025		59
1988	0.103	0.207		57
1989	0.103	0.214		54
1990	0.079	0.119		54
1991	0.116	0.354	***	57
1992	0.166	0.304	**	59
1993	0.089	0.154		61
1994	0.063	0.345	***	67
1995	-0.054	0.138		66
1996	-0.023	0.141		68
1997	0.119	0.208	*	71
1998	-0.031	0.043		70
1999	0.185	0.253	**	71

***Significant at 1% level

**Significant at 5% level

*Significant at 10% level

Correlation performed on sample of positive IDA net disbursements

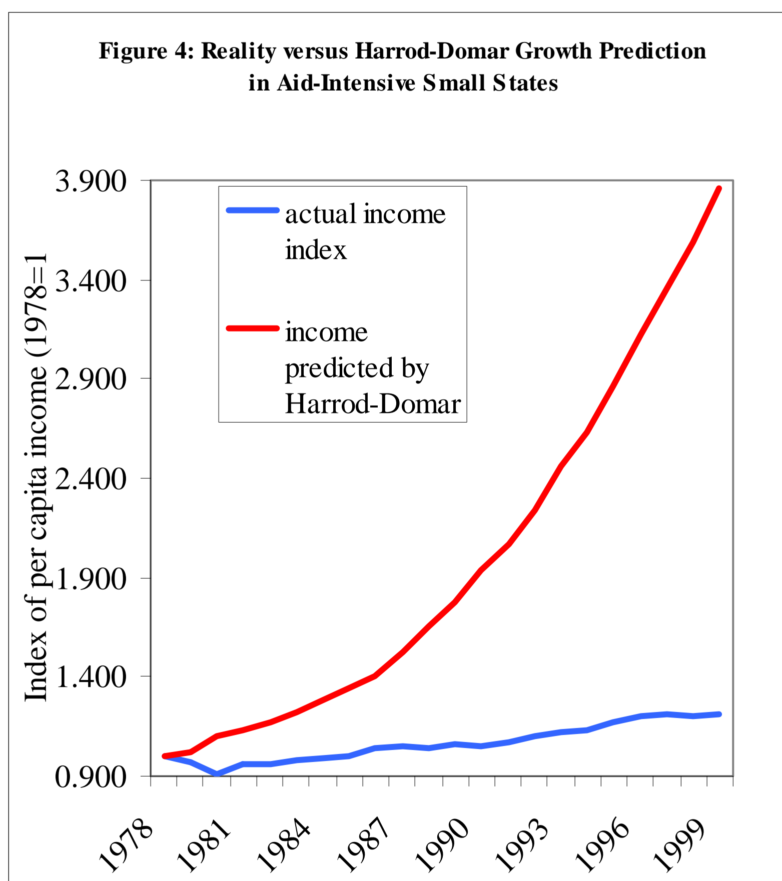
The examples above of a "new" initiative that repeats many previous initiatives reflects the lack of historical memory in the aid community. As described above, the aid community does not want to critically examine the past because doing so might lead to negative publicity of past failures, threatening the ability to raise new aid revenue. Ironically, the unwillingness to shine light on past failures makes new failures more likely. Studies produced in the international aid community often duplicate one another and repeat the themes of previous studies without citation (sometimes because they are unaware of the previous studies). Klitgaard 1990 gives the example of a World Bank agriculturalist recommending a cut in cocoa taxes, despite not having had the time to read four previous World Bank reports on cocoa production in Equatorial Guinea. A USAID consultant recently gave me the example of a large mission that had produced a report on corruption in Uganda in 2001, unaware that a British team had produced a report on the same topic six months earlier. World Bank reports often repeat the same recommendation for many years, without analyzing what had gone wrong with previous recommendations. For example, an independent consultant had pointed out financial problems in Kenya Railways as long ago as 1972. World Bank reports repeated the recommendation to restructure or privatize Kenya Railways numerous times, such as in 1983, 1989, 1995, 1996, and 2000, each time failing to point out the previous history of failed recommendations.

In addition, there is insufficient effort to implement the most up-to-date development knowledge in operational work. I mentioned above the continued use of the Harrod-Domar model (also known as the Two-Gap Model) in analyzing aid requirements and growth potential in the World Bank (2002) study of aid effectiveness. It is remarkable that this model continues to be used, although the World Bank's (1998) own research has shown how short the model falls of predicting country growth. The World Bank (1998) showed the gap between reality and Harrod-Domar prediction in the case of Zambia, in which the Harrod Domar model would have predicted an income per capita of $20,000 by 1995 (in contrast to actual income of $600).[17]

Here, to keep whipping a horse that should have expired long ago, I do another exercise of this kind and show the gap between what the Harrod-Domar model would predict for income in a natural laboratory of intensive aid in small states. Figure 4 shows the actual reality compared to the Harrod-Domar prediction that all saving and aid go into investment and investment goes into growth with a typical "incremental capital-output ratio" of 4. Income per capita hardly

[17] This graph was based on a paper of the present author Easterly 1999 and also reproduced in the author's book Easterly 2001.

increased at all in these aid-intensive small states, where the venerable Harrod-Domar model says it should have increased by 3.9 times over 1979-99.[18]



There is little effort in aid agencies to collect case studies of adjustment programs, projects, and sectoral programs, and to use these case studies to inform current management and staff what mistakes to avoid and what more successful methods to repeat. For example, the chapter on macroeconomic adjustment in the World Bank's PRSP Sourcebook does not mention the conclusions of many observers that structural adjustment lending was a failure.[19] Similarly, the chapter on rural poverty does not mention the record of general failure of integrated rural development projects, or even the lessons of their occasional successes (as set out in for example in Tendler 1993). The World Bank had an expensive program of sending managers for six-week intensive training at the Harvard Business School. They would have done better just to send the

[18] This laboratory is a sample of any small state with average aid in the 80s and 90s above 10 percent of GDP – the countries so selected are Dominica, Guyana, Maldives, Samoa, Solomon Islands, Suriname, Tonga, and Vanuatu.

[19] see Kanbur 2000, Van de Walle 2001, Kapur et al 1997 and Lancaster 1999. For a poignant description of the structural adjustment fiasco in Zambia, see Ferguson 1999.

managers to the World Bank's own library and document archives, where they could read case studies of programs and projects failing and succeeding. For example, there is an excellent 500-page Ph.D. dissertation on the successes and failures of an Agriculture Development Project in Bauchi State, Nigeria in the 1980s in the IMF/World Bank library (Alkali 1989). A check of library records reveals that in June 2002, I was the eighth person to check this out since its publication.

Similarly, the Bank might have learnt from the failure of its $25.6 million Institutional Development II project in Malawi, which ended in June 2001. Despite training 1584 officials and providing computers and manuals, an internal review concluded that the project did not improve the efficiency or effectiveness of civil servants. It also failed to prevent such incidents as the disappearance of the government's grain reserve, apparently sold for the benefit of government parties unknown, which according to latest reports is threatening some Malawians with famine in 2002. Similar insights might be gained from the study of the Bank's $28 million health project in Haiti, which ended in March 2001. An internal review concluded the project failed to attain most of its objectives, including control of AIDS and TB. Health conditions did not improve in Haiti over the life of the project, perhaps compromised by political instability and the lack of interest in the Ministries of Finance and Health in the project. Even in more politically stable states like India and Mexico, a Bank shrimp-farming project that ended in 2000 failed to improve the well-being of its intended 14,000 very poor Indian beneficiaries, while a 1994-2000 Bank project on solid waste management in Mexican municipalities failed to make any progress on expanding modern sanitary landfills.[20]

Finally, spin control can also gloss over the contradictions in the different efforts of the aid agencies. So the contradiction between "country ownership" and the requirement that countries meet arbitrary Millennium Development Goals goes unremarked. The contradiction between "participation" and the imposition of the PRSP process by the IFIs (who determine when the recipient has "participated" enough to satisfy them) goes unremarked. The tradeoffs between targets set out in the Comprehensive Development Framework and the Millennium Development Goals – say between faster poverty reduction and greater environmental protection -- also escape

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[20] Of course, there are more successful projects in the Bank's portfolio, like the $70 million loan to Ceara state government in the Brazilian Northeast concluded in June 2001, where high commitment by the government led to innovative initiatives in land reform, rural electrification, and water supply. In fact, most projects in the Bank's portfolio are rated as "satisfactory" by the (somewhat-less-than-independent) Operations Evaluation Department. What is sad is that there seems to be little effort to draw lessons from successes and failures to inform future efforts, either in the World Bank or in other aid agencies.

mention. The answer is "do everything." In aid agencies, there are no second priorities and there are no conflicts between competing goals, much to the chagrin of the unfortunate frontline workers who have to implement "everything." And much to the chagrin of the political and economic actors in different societies who are expected to follow the same universal blueprint to move on the same straight line towards "development."

2.4 Excessive administration

From the earliest days of aid, the emphasis of all participants has been on coordination rather than competition. After reading the literature one can hardly say "aid" without adding "coordination". President Truman signaled in 1949 that "this should be a cooperative enterprise in which all nations work together through the United Nations and its specialized agencies wherever practicable." Two decades later, an aid commission repeated "A serious effort is necessary to coordinate the efforts of multilateral and bilateral aid-givers and those of aid-receivers." (Pearson Commission 1969) The World Bank's 1981 Berg report on Africa agreed that "Aid coordination, both within recipient countries and among major financing agencies, has been recognized as increasingly important…" (World Bank, 1981) Despite repeated calls for coordination, there was never enough: "donors must act more in concert – with each other and with recipients. This report suggests six ways to improve coordination." (World Bank Africa report, 1986) "Better coordination among international financial institutions is needed." (World Bank, IDA-12, 1998) "Deputies encouraged Management … to maintain close collaboration with other multilateral development banks (MDBs), the OECD-DAC Task Force on Donor Practices, the Strategic Partnership with Africa (SPA), the United Nations and its specialized agencies, and bilateral development assistance agencies. They also noted progress in strengthening partnerships between IDA and other development institutions…and welcomed the recently negotiated Memoranda of Understanding with the African, Asian and Inter-American Development Banks." (World Bank, IDA-13, 2001)

The "coordination" in foreign aid protects the smallest players in the business, even when dealing with them drives the poor countries' governments to distraction. One wonders if the transactions costs were worth the effort for the Senegalese government to receive 3,344 Euros from the Finnish Ministry for Foreign Affairs Department for International Development Cooperation in 2001,[21] or how well Yasser Arafat is monitoring tenders in November 2001 for Consultancy Services for the Palestinian–Finnish Education Programme, Phase I. As the World

[21] http://global.finland.fi/english/publications/annual/2001/annual_02appendices.pdf

Bank (1998) said, “It is hard to explain this behavior, except that different donors like to “plant their flags”.”

The multiplicity of donors impelled the aid community to call for centralization of aid and all other revenues by the recipient government: "**Negotiating an external assistance strategy in the context of the PRSP process** 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 strateg**y, rather than through bilateral agreements… (World Bank Poverty Reduction Strategy Sourcebook, 2001)." This asks recipient governments to do central planning, which even rich countries with far more administrative capacity than poor countries have a hard time doing (even without worrying about small grants from the Finnish Ministry for Foreign Affairs Department for International Development Cooperation). This asks the undermanned government of Ethiopia to decide where and whether a given pothole merits repairing, and then “coordinate” which amongst a sea of donors and programs will do the job.

All of the classic criticisms of central planning – the vast information requirements, the oversimplification to quantifiable targets as opposed to the real subjective wants, the meeting of targets without regard to relative costs and benefits, the lack of feedback from local practical knowledge – apply with even more force in a poor country with poor institutions and under-skilled civil service than in a rich country. Having a weak government bureaucracy even attempt to “coordinate” donors puts the aid community in a half-way house where they substitute monopoly for competition. First, the “cartel” enables donors to escape pressure for reduction of high costs. Second, the donors present a united front to the well-intentioned people in the rich countries who want to give money to people in poor countries, making it difficult for them to discriminate which among the donors is the most effective channel. Third, the donors impose an unequal relationship on the recipient government, who can only take or leave what the United Donors offer. Finally, the “cartel of good intentions” extends to include the local government bureaucracy, confronting the beneficiaries with a monopoly that is not always customer-friendly. There are many reports like the one in Ukraine of “humiliation that one endures from government bureaucrats, infamous for their ferocious and insulting tone.”

Coordination also undermines the potential gains from specialization and division of labor among aid agencies. Aid organizations are notorious for trying to do it all. Even small bilateral aid agencies cover the whole spectrum of development topics, rather than focusing

on a few. The IMF, World Bank, and regional banks all get involved in short-run financial crises, just as the IMF, World Bank, and regional banks all get involved in reducing long-run poverty. The aid agencies discourage staff from specialization – they prevent them becoming country experts by rotating them frequently among countries and regions. Knowledge of local history, politics, and languages (outside of French, Portuguese, and Spanish, and not even always that) is rare on country desks in aid agencies.[22]

The result of all the donors doing everything is an incredible multiplicity of demands on the scarce administrative staff of the poor countries (more on this below). Tanzania had to produce more than 2,400 reports a year for the donors, who sent the poor country 1000 missions a year. (World Bank Africa Development Indicators 2002). It is a paradox of foreign aid that it demands the most from bureaucracy under the conditions in which bureaucracy functions worst. Aid bureaucracy has to operate with little effective feedback, as mentioned earlier, and must contend with severe skill shortages in the recipient countries. Yet aid bureaucracy tries to manage aid through a hierarchical top-down process.[23] Even though top managers are overwhelmed, individual agents in aid agencies continue to refer back to the same center of power for authorization of their actions.[24] The center is sometimes within the larger assistance agencies like the World Bank or IMF, where the recipient government is weak and other donors are small (as in most African countries). Sometimes a bilateral aid agency will take the lead when it has an especially large program in a country, like USAID in Egypt. In large countries with strong governments, like India, the recipient government becomes the center. Even where the center of power is de facto in aid agencies, agencies try hard to get formal approval from the recipient government of all programs and projects.

Given the multiple goals and procedures described earlier, consistent with the urge to produce visible outputs and avoid visible fiascos, the center is the chokepoint for aid. Frontline staff in aid agencies can barely keep up with the flood of mandates, political pressures, procedural requirements, and authorizations required to keep the aid money flowing. In the recipient government, the relative burden on the management is even greater, given the scarcity of skills, the extreme political pressures in factionalized societies, and the prevalence of red tape and

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[22] Ferguson 1994 has a critique of a World Bank report on Lesotho. He shows the document got wrong the most elementary facts about Lesotho's economy and history. For example, the report portrayed Lesotho as an exotic land untouched by the modern market economy, when in fact it had been integrated into the South African mining industry for more than a century.

[23] See the excellent description by Morton 1994.

[24] There is of course a huge literature on the shortcomings of central planning. F.A. Hayek was an early critic, although long dismissed as an ideologue. James Scott's important book (1998) is wonderfully insightful about many real-world planning fiascos (interestingly, Scott appears to come from almost the opposite ideology of Hayek).

corruption.[25] There is a "tragedy of the commons" problem in that different aid agency executives (operating independently) treat the time of the recipient country staff as a free good, without taking into account congestion externalities. For an aid agency executive, adding one more "priority #1" mandate for a poor country has the large benefits of satisfying some rich country constituency that cares about that mandate, and only minimum costs since he treats the time of the poor country civil servant as a free good.

One egregious example is aid to small states (countries with less than 1.5 million people). A task force on small states (Commonwealth Secretariat and World Bank 2000) was somehow able to combine in the same document the understandable recommendation that high transactions costs of tiny governments dealing with multiple donors be reduced, while it listed in great detail the plans for small states contained in The World Bank Framework, The Commonwealth Secretariat Framework, The European Framework, The World Trade Organization Framework, The International Monetary Fund Framework, The UNCTAD Framework, The United Nations Framework, The United Nations Development Programme (UNDP) Framework, The African Development Bank Framework, The Asian Development Bank Framework, and The Inter-American Development Bank Framework.

It is not surprising that in a country like Ethiopia one major donor noted a "slow pace of disbursement," which is due to "capacity constraints" at both the government and donor level. This in turn led this donor to emphasize "capacity building" as the "major cross-cutting theme" of its development assistance (European Union 2001). Capacity building has been a theme of donor recommendations since forever, although it continues to exert its fascination in the latest reports (it is point #5 in the World Bank President's 2002 seven point Agenda for Action After Monterrey). There is a certain irony in donors increasing the pressure on the government's managerial capacity through donor red tape and then turning around and trying to satisfy their own demands through "capacity building." No amount of "capacity-building" seems likely to relieve the severe managerial bottlenecks to the foreign aid process.

It does not really address the problem to call for increased "results-based" evaluation of aid agencies. Centralized monitoring and evaluation (M&E) just becomes one more activity imposed on the frontline staff, adding to the pressure on the funnel. M&E is central planning with output targets. M&E has already been a part of many World Bank projects, without much effect. Morton 1994 pointed out that "vast sums of money and unbelievable levels of technical complexity have been expended to make Monitoring and Evaluation … into a functional tool… World Bank representatives did not quite admit that they had spent $40 million, of money lent to

[25] Tendler 1975 has a very good description of this process, which remains timely today.

the Nigerian government for Monitoring and Evaluation, to very little effect."[26] Moreover, bureaucracies can manipulate quantitative indicators of performance to achieve "success" without real quality improvements.[27] (This is different from evaluation for the sake of learning lessons for future practice, like control group methodology for particular interventions.)

Aid agencies do not face incentives to economize on the very scarce administrative resources in the recipient governments or even in their own front line staff. They instead have the incentive to keep producing the visible frameworks and strategies and procedures (all above the funnel). The river of aid keeps flowing, but effective benefits dribble slowly out of the bottom of the funnel.

3. Trying to explain dysfunctional bureaucracy in foreign aid

Why has foreign aid bureaucracy been so unproductive?[28] The most obvious cause of bureaucratic dysfunction is that bureaucracies do not face the same degree of market feedback on their actions as private firms. This problem is particularly acute in foreign aid, where the intended beneficiaries have little ability to give feedback, and even when they do there is no mechanism by which the aid agencies suffer adverse consequences if the "customers" are dissatisfied.

A second source of dysfunctional behavior is that aid bureaucracies are often monopoly providers of services in their area of responsibility. The idea of bureaucracies as monopolies goes back to Niskanen (1968). Niskanen's model, which I give reflecting later amendments to which he agreed, postulated that a bureaucracy behaved like a monopoly firm facing a downward sloping demand curve for the quantity of bureaucratic services as a function of the "price". The bureaucracy maximized the equivalent to firm profits, usually called the discretionary budget (total budget minus costs of producing the service). A larger net budget was associated with perks

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[26] A more recent example is the World Bank-supported Social Action Program in the 1990s in Pakistan, where numerous "results-based" targets were set for the health, education, and rural water supply sectors. Performance was so unsatisfactory that the program had to be redesigned halfway through (SAP II replaced SAP I), and then performance of the redesigned program was in turn unsatisfactory.

[27] The World Bank's Poverty Reduction Strategy Sourcebook (2001) gave the example of the target to reduce the backlog of cases waiting to be treated in Britain's nationalized health service. Administrators put pressure on doctors to treat less serious cases first, because those could be treated more rapidly and thus bring down the backlog more quickly. Another famous anecdote is the condition that the Australian government gave for disbursing aid to parks in aboriginal communities, that the communities keep the lavatories clean. The communities easily met the condition by cleaning the lavatories once, and then padlocking them.

[28] There is a large economics literature on the theory of bureaucracy, principally started by Niskanen (1968, 1971), with good recent surveys by Niskanen (2001), Moe (1997) and Wintrobe (1997). There is also a rich literature on bureaucracy from other social scientists, of which the outstanding example is Wilson (1989). Finally, there is a more general economics literature on firms and organizations, summarized in Milgrom and Roberts 1992, Prendergast 1999, and Shleifer and Vishny 1999, which offers some valuable insights into large bureaucratic organizations.

for the bureaucrats (or bureaucrats may genuinely care about their field and so maximize the budget it gets.) The bureaucratic monopolist equated marginal revenue to marginal cost, which tended to raise the price and restrict the quantity of services relative to the non-bureaucratic competitive outcome. Hence, Niskanen's model gave a simple explanation for bureaucratic inefficiency (high price relative to marginal cost) and under-provision of services.

In principle, the bureaucratic monopoly problem could be solved by the bureaucracy's political supervisors. The political authorities could design incentives that would give an optimal outcome, using a principal-agent contract. The usual source of perverse outcomes in principal-agent theory is that performance by the agent can only be imperfectly observed. The standard principal-agent problems of adverse selection and moral hazard are likely to be particularly severe. With private information that is available to the agent but not to the principal, bureaucracies will ex-ante overstate the benefits of aid programs and understate the costs (adverse selection). Principals will take into account the incentive of aid bureaucracy agents to act in this way and will "buy" less aid services than they would if there was perfect information. Ex-post, after getting the aid contract, the performance of the aid agency can only be imperfectly observed, and so the aid agency exerts too little effort (moral hazard).

These problems are particularly severe because foreign assistance to poor states is a very difficult and risky business – the causes of national poverty are many and the proven successes are few. Poor nations include an incredible variety of cultures and histories, from the millennia old civilization in China to the artificially and recently created nation of East Timor. The whole idea of summing up all this diversity into a "Third World" waiting to be "developed" by outside altruists has little connection to reality.[29] The knowledge about how to achieve economic development, however defined, is itself underdeveloped. The aid agency must satisfy a lot of extraneous political objectives of the rich country government as well as try to reduce poverty. The aid agency will have to work with local elites and problematic local government institutions who themselves may not have an incentive to see their society achieve poverty reduction. The more severe these problems in a society, the more likely that it is a client of a foreign aid agency. Even worse, the aid agency will often be called upon for help just when an already difficult situation gets even worse – in a social and economic crisis. Probability of failure is high. The aid agency is in the unenviable position of being blamed for a likely bad outcome. There is an asymmetry of information in that bureaucratic mistakes – an indigenous group displaced or environment ruined by an aid agency dam or road – are likely to be more observable than successes with diffuse benefits for many. Although rational principals could control for the

[29] Escobar 1995 has a good discussion of this.

difficulty of the environment, conditional evaluation requires inside knowledge that only the aid agencies themselves have – and of course they are not credible when they protest how hard their job is (adverse selection). Since nobody can tell whether aid agency efforts are really making a difference, they have only weak incentives to exert effort (moral hazard).

To make matters worse, foreign aid is an example of a situation with many principals and many agents. Principal-agent theory says having multiple principals dramatically weakens the incentives for the agent (the international agency). Each principal will try to get the agent to pursue their objectives and neglect the other principals' objectives; in the aggregate this weakens incentives on all objectives for the agent.[30] Having many agents monitored by the many principals makes things worse, as the joint product of the many agents makes it hard to evaluate the efforts of any one agent.

The problem of visible mistakes makes collusion among agents more likely. Agencies handle the high risks in foreign aid by the time-honored bureaucratic strategy of sharing blame. The bureaucracies intermingle their outputs so evaluators don't know who to blame for bad outcomes. Monitors don't know whether to blame the international aid community or the national recipient government for bad policies. They don't know whether to blame bad economic design of aid programs, or bad politics that undermines their implementation. The monitors don't know whether to blame the International Monetary Fund for excessive fiscal austerity that restricts funds for worthy programs, or the World Bank for failure to preserve high return areas from public expenditure cuts. Evaluators don't know whether the IMF and World Bank are too tough or too lax in enforcing conditions, or if it is really the regional development banks are being too hard or easy in their conditions for aid. Monitors don't know whether to blame the bilateral aid agencies for being influenced by foreign policy priorities, or the multilaterals for applying a "one size fits all" ideological program to all countries. This sharing of blame is a convenient equilibrium for all aid agencies together. The multiplicity of actors in the aid outcome reduces the probability of blame for any one actor. Hence, there is safety in numbers in the foreign aid business.

Driving competitive foreign aid bureaucracies out of business doesn't make sense since it increases the probability of blame for the remaining bureaucracies. Once a collusive agreement is in place, bureaucracies will not cheat on the agreement by supplying a larger quantity of foreign aid services at a lower price. Such "rogue" bureaucracies are dangerously exposed to bearing solitary blame for their extra activities if they turn out to fail.[31] The higher is the risk of failure,

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[30] For a review, see Dixit 1996 and 2000

[31] A similar blame-sharing story could explain why foreign aid bureaucracies collude to form a united front relative to a foreign aid recipient, rather than competing to satisfy the recipients' needs. Any agency that

the lower is the incentive to cheat and the higher the incentive to remain in the blame-sharing coalition. Moreover, aid bureaucracies know that an all-out war of negative advertising about other bureaucracies would likely lead the public to form negative images of foreign aid that threaten all of them.[32]

Conditions in foreign aid make it likely that aid bureaucracies will face a non-competitive industrial structure. Why? First, aid agencies garner more aid revenues by acting collectively, because they realize economies of scale in campaigning for aid revenues. Second, for the aid agencies as a whole, market power is greater and the degree of inefficiency and output restriction worse because the demand for foreign aid is more inelastic than in many other types of bureaucracies. Third, there are frequent interactions between different aid agencies and high probability that both the aid industry and individual agencies will survive indefinitely (the problem of world poverty will not go away anytime soon). The theory of repeated games says that these conditions give strong incentives for agencies to cooperate, because they know any "rogue" behavior today jeopardizes the long stream of future benefits from cooperation. (an aid agency is also likely to have a low discount rate because they are very stable organizations with low turnover). Fourth, there is a small number of major aid agencies involved in any one country, making cooperation easier. Even when there are multiple small aid agencies, there is usually one large agency able to absorb supply fluctuations by the small players (the World Bank may play the role in the aid cartel that Saudi Arabia plays in the OPEC cartel). Fifth, aid agencies operate in multiple markets (countries). Undercutting one's rivals in one market will lead to retaliation in other markets, making deviation from cooperation less likely. Sixth, product differentiation between aid agencies makes collusion more likely to be stable, because it reduces the ability of a "cheating" agency to capture other agencies' markets (products are differentiated in foreign aid because British voters are not indifferent between a DFID project and a USAID project). Seventh, the degree of innovation in foreign aid is low, removing one possible source of disruption that has broken up private sector cartels. Finally, the public disclosure requirements of aid bureaucracies make deviation less likely than if they operated in secrecy (cooperative agreements break down more easily when the other parties cannot observe the deviant's behavior). The increase in "transparency" that NGOs have pushed upon the international aid agencies may have

"wins the contract" to service recipient X to the exclusion of its rivals becomes dangerously exposed to blame if anything goes wrong in X.

[32] These same considerations may also restrain competition among NGOs. One of the bylaws in InterAction's Private Voluntary Organization Code of Standards is that "The organization shall not undertake negative advertising or criticize other member organizations to benefit themselves." http://www.interaction.org/pvostandards/index.html

paradoxically led to more inefficient cartel-like behavior of the agencies, because it made it easier to detect deviance from the cartel norms![33]

Thus, the international aid community has formed a cartel of good intentions which unites donor organizations with different objectives and agendas.[34] As a result advocates of one objective agree to support other objectives in return for support for their own cause ("log-rolling" in political economy terminology). Conversely, one aid agency will not criticize another agency's interventions; the second will reciprocate such critical restraint.[35] This collusion destroys information, since one aid agency knows more about bad performance of another agency than outside evaluators. Overall critical evaluation of past aid efforts is suppressed by all agencies because it threatens the overall aid budget. Controlled group experiments, like those that made critical progress possible in medicine, are dangerous because they may generate negative publicity for the whole aid effort. Evaluation of individual interventions (like a particular method of agricultural extension) is forsworn in favor of unconditional support for a myriad of development efforts. The feedback from experimentation and learning by doing that is essential to success in any activity is therefore mostly absent. This robs the aid community of its historical memory. The collusion among aid bureaucracies is probably more passive than active. It is not that aid agencies go out of their way to reach collusive agreements. Rather, they refrain from competition out of recognition that competition would be mutually destructive. The environment I described above makes this a stable equilibrium.

The noncompetitive industrial structure and the severe principal-agent problems in foreign aid have lead to the types of behavior discussed in Section 2. For example, foreign aid bureaucracies respond to the difficulty of monitoring by principals by skewing the composition of their output in favor of items that are more observable to those outside the aid agencies.[36] The cartel can threaten with public embarrassment any agency tempted to shift from producing visible low return outputs to invisible high return outputs, since the rogue agency will have little to show

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[33] This section draws upon the textbook treatment of conditions favoring collusion in Cabral 2000, Church and Ware 2000, and Martin 2002..

[34] This is not to say that the participants in the aid cartel have to like each other. There is always pressure to gain advantage at the expense of one's rivals, hence the frequent occurrence of "turf wars" in foreign aid. (Anyone who thinks cartels are one big happy family should watch The Godfather movies.) One way to make sure that one's rival doesn't expand at your expense is to simultaneously require that rival bureaucracies use inputs from your agency while you strategically restrict the supply of those inputs. The bureaucratic politics of aid is full of examples of this kind of behavior – e.g. the IMF telling the World Bank that it cannot proceed in sector Y of country X without consulting the IMF's own experts on (X,Y), and then restricting Bank access to information from the IMF on (X,Y).

[35] This argument is inspired by Pritchett's (2001) model of why "it pays to be ignorant."

[36] Tirole 1994 has a principal-agent model that also delivers the prediction that government agencies producing multiple outputs will focus their efforts on the observable ones. Dixit 2000,Prendergast 1999, and Milgrom and Roberts 1992 also make this point in a principal-agent framework.

the public. Thus, even agencies that would like to produce more invisible effective services are kept in the fold. The collective equilibrium is still an emphasis on observable output.

Likewise, aid agencies are more likely to use bureaucratese, acronyms, and misleading euphemisms than other less risky bureaucracies. However, there is a tradeoff to the bureaucracy -- more obfuscation lowers not only the probability of blame but also the observability of output, which lowers demand for the output as I have just argued. So the obfuscation will hide bad outcomes, while advertising good outputs. Collusion enforces the use of "spin control" since a deviant agency that allocates too many resources to producing development services and too little to spin control will be vulnerable to public relations attacks by the other agencies. Thus, donors acquiesce in a cartel out of the best of intentions. The fact that donors are immune from competitive pressure may explain the inefficiency of foreign aid and for its disappointing output.

4. Conclusions

Aid foundered in a sea of bureaucracy, despite the good intentions, altruism, and genuine professional dedication of the individuals involved. The aid community responded to its difficult environment by organizing itself as a cartel of good intentions, suppressing critical feedback and learning from the past, suppressing competitive pressure to deliver results, and suppressing identification of the best channel of resources for different objectives. The bureaucracy controlled foreign aid, with the result that foreign aid lost support in the rich countries and liberal political and economic ideals lost support in the poor countries.

Since the bureaucratic mode of delivery of foreign aid has been so unsatisfactory, a big agenda for future work is to devise alternatives. It would be interesting to explore in future work alternative non-bureaucratic channels such as cash grants to the poor, vouchers for public services given to poor communities, transferring aid funds through NGOs, and contracting out aid services to private firms. All of these have their own pitfalls, but the unsatisfactory performance of aid bureaucracy suggests that fresh thinking and experimentation is badly needed.

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