

Multilateral Development Banks: Promoting Effectiveness and Fighting Corruption

HEARING

before the

COMMITTEE ON FOREIGN RELATIONS

UNITED STATES SENATE

ONE HUNDRED NINTH CONGRESS

SECOND SESSION

Tuesday, March 28, 2006

Testimony by William Easterly, Professor of Economics, New York University

“Accountability for multilateral development banks”

Introduction*

* My publisher would like me to announce at this point for copyright purposes that this testimony is excerpted from William Easterly, *The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good* (The Penguin Press: New York), 2006. This does not prohibit the posting of this excerpt on the Internet.

I am driving out of Addis Ababa, Ethiopia to the countryside. An endless line of women and girls is marching in the opposite direction into the city. They range in age from 9 to 59. Each one is bent nearly double under a load of firewood. The heavy load propels them forward almost at a trot. I think of slaves driven along by an invisible slave-driver. They are carrying the firewood from miles outside of Addis Ababa, where there are eucalyptus forests, across the denuded lands circling the city. They bring the wood to the main city market, where they will sell the load for a couple of dollars. That will be it for their day's income, as it takes all day to heft firewood into Addis and to walk back.

I later found that BBC News had posted a story about one of the firewood collectors. Amaretech, age 10, woke up at 3 a.m. to collect eucalyptus branches and leaves, then began the long and painful march into the city. Amaretech, whose name means "beautiful one," is the youngest of 4 children in her family. She says:

I don't want to have to carry wood all my life. But at the moment I have no choice because we are so poor. All of us children carry wood to help our mother and father buy food for us. I would prefer to be able to just go to school and not have to worry about getting money.¹

The World Bank and other aid agencies aim at reducing this tragic poverty. Former President James Wolfensohn of the World Bank put on the wall of the lobby of World Bank headquarters the words "our dream is a world free of poverty." He wrote about this dream with inspiration and eloquence:

If we act now with realism and foresight,
if we show courage,
if we think globally and
allocate our resources accordingly,
we can give our children a
more peaceful and equitable world.
One where suffering will be reduced.
Where children everywhere
will have a sense of hope.
This is not just a dream.
It is our responsibility.²

The two tragedies of the world's poor

UK Chancellor of the Exchequer Gordon Brown is also eloquent about the tragedy of the world's poor, at least one of their two tragedies. In January 2005, he gave a compassionate speech about the tragedy of extreme poverty afflicting billions of people, with millions of children dying from easily preventable diseases. He called for a doubling of foreign aid, a Marshall Plan for the world's poor, an International Financing Facility (IFF) to borrow tens of billions more dollars against future aid to rescue the poor today. He offered hope by pointing out how easy it is to do good. Medicine that would prevent half of malaria deaths costs only 12 cents a dose. A bed net to prevent a child from getting malaria costs only \$4. Preventing 5 million child deaths over the next 10 years would cost just \$3 for each new mother. An aid program to give cash to families who put their children in school, getting children like Amaretech into elementary school, would cost little.³

However, Gordon Brown was silent about the other tragedy of the world's poor. This is the tragedy in which the West already spent \$2.3 trillion on foreign aid over the last 5 decades and still had not managed to get 12-cent medicines to children to prevent half of all malaria deaths. The West spent \$2.3 trillion and still had not managed to get \$4 bed nets to poor families. The West spent \$2.3 trillion and still had not managed to get \$3 to each new mother to prevent 5 million child deaths. The West spent \$2.3 trillion and Amaretech is still carrying firewood and not going to school. It's a tragedy that so much well-meaning compassion did not bring these results for needy people.

Planners versus Searchers

A big part of the problem in aid is that aid agencies like the World Bank adopt sweeping goals like ending world poverty, for which it is impossible to hold them accountable. They follow an unproductive Planners' approach to foreign aid, where a more humble but much more productive Searchers' approach would work better. In foreign aid, Planners announce good intentions but don't motivate anyone to carry them out; Searchers find things that work and get some reward. Planners raise expectations but take no responsibility for meeting them; Searchers

accept responsibility for their actions. Planners determine what to supply; Searchers find out what is in demand. Planners apply global blueprints; Searchers adapt to local conditions. Planners at the Top lack knowledge of the Bottom; Searchers find out what the reality is at the Bottom. Planners never hear whether the Planned got what they needed; Searchers find out if the customer is satisfied. Will Gordon Brown be held accountable if the new wave of aid still does not get 12-cent medicines to children with malaria?

Indeed, the two key elements that make searches work, and the absence of which is fatal to plans, are FEEDBACK and ACCOUNTABILITY. Searchers only know if something works if the people at the bottom can give feedback. This is why successful Searchers have to be close to the customers at the bottom, rather than surveying the world from the top. Consumers tell the firm “this product is worth the price” by buying the product, or decide the product is worthless and return it to the store. Voters tell their local politician that “public services stink” and the politician tries to fix the problem.

Lack of feedback is one of the most critical flaws in existing aid. It comes about because of the near-invisibility of efforts and results by aid agencies in distant parts of the world. Many aid critics are beginning to explore how to address this flaw, from employing local “watchers” of aid projects to doing independent evaluation of aid projects.

Of course, feedback only works if somebody listens. Once a Searcher implements the result of a search, they take responsibility for the outcome. Profit-seeking firms make a product they find to be in high demand, but they also take responsibility for the product – if the product poisons the customer, they are liable, or at least they go out of business. A political reformer takes responsibility for the results of the reform. If something goes wrong, they pay politically, perhaps by losing office. If it succeeds, they get the political rewards.

Although all governments include bureaucracy, in well-developed democratic governments the bureaucrats are somewhat more specialized and accountable for specific results to the citizens (although God knows they try hard not to be). Active civic organizations and

political lobbies operate from the bottom up to hold leaders and bureaucrats accountable, correcting mistaken steps and rewarding positive ones. Rich voters complain if municipal trash collectors don't pick up their trash; politicians and bureaucrats have political incentives to correct any breakdown in trash collection. Feedback guides democratic governments towards supplying services the market cannot supply, and towards providing institutions for the markets to work.

At a higher level, accountability is necessary to motivate a whole organization or government to use Searchers. In contrast, Planners flourish where there is little accountability. Again, outsiders don't have much accountability and so are Planners; insiders have more accountability and are more likely to be Searchers.

We will see some of the helpful changes that can happen in aid when increasing accountability, shifting power from Planners to Searchers. Aid agencies can be held accountable for specific tasks, rather than the weak incentives that follow from collective responsibility of all aid agencies and recipient governments for broad goals that depend on many other things besides aid agency effort. Aid workers now tend to be ineffective generalists; accountability would make them into more effective specialists.

To oversimplify by a couple gigawatts, the needs of the rich get met because they give feedback to political and economic Searchers, and they can hold the Searchers accountable for following through with specific actions. The needs of the poor don't get met because they have little money or political power with which to make their needs known and to hold somebody accountable to meet those needs. – they are stuck with Planners. The second tragedy continues.

The prevalence of ineffective Plans is because the results of Western assistance happen out of view of the Western public. More ineffective approaches survive than they would if results were more visible. The Big Plans are attractive to politicians, celebrities, and activists who want to make a big splash, without the Western public realizing that the Big Plans at the top are not connected to reality at the bottom.

Desperate needs

The effort wasted on the Plans is all the more tragic when we consider some of the simple, desperate needs of the poor, which Searchers could address piecemeal. The typical country in Africa has a third of the children under 5 with stunted growth due to malnutrition. A group of women in Nigeria report that they are too weakened by hunger to breast-feed their babies. Throughout Africa, there is a long “hungry season” in between when the stores from the last harvest run out and the new crop becomes available. Even in a more prosperous region like Latin America, a fifth of children suffer from malnutrition. Malnutrition lowers the life potential of children, as well as making them more vulnerable to killer diseases. As a woman in Voluntad de Dios, Ecuador put it, children get sick “because of lack of food. We are poor. We have no money to buy or to feed ourselves.”⁴

In Kwalala, Malawi, wells break down during the rainy system because of lack of maintenance. Villagers are forced to take their drinking water from the lake, even though they know it is contaminated with human waste from the highlands, causing diseases like diarrhea and schistosomiasis.⁵ Schistosomiasis is caused by parasitic worms passed along through contaminated water; it causes damage to the lungs, liver, bladder, and intestines.⁶

An old man in Ethiopia says:

Poverty snatched away my wife from me. When she got sick, I tried my best to cure her with tebel [holy water] and woukabi [spirits], for these were the only things a poor person could afford. However, God took her away. My son, too, was killed by malaria. Now I am alone.⁷

Some success stories show that aid agencies can make progress on problems like these. There have been successful programs feeding the hungry, which means children could get food in Voluntad de Dios, Ecuador. Success on expanding access to clean water could help the villagers of Kwalala, Malawi. In Mbwadzulu, Malawi, in fact, two new boreholes have allowed villagers to discontinue using polluted lake water, causing a decline in cholera.⁸ The Ethiopian man’s tragedy could have been avoided with cheap medicines.

In Ethiopia, Etenshe Ajele, 36, spent 12 years carrying firewood into Addis Ababa. Now she is trying to help women and girls like Amaretech. She runs the Former Women Fuelwood Carriers' Association, whose members teach girls so they can stay out of the firewood brigade. Etenshe Ajele and her colleagues also teach women alternative skills, like weaving, and give them small loans for start-up capital. "Most women know how to weave but do not have enough money to buy materials," says Ajele, "So we provide that and we also help them with new and different designs so that they can sell the shawls and dresses that they make more easily."⁹ This Association is no panacea – it still has not reached Amaretech – but it shows the kind of homegrown effort that foreign donors could support much more.

Accountability and Evaluation

If a bureaucracy shares responsibilities with other agencies to achieve vague goals that depend on many other things, then it is not accountable to its intended beneficiaries – the poor. Without accountability, then the incentive for finding out what works is weak. True accountability would mean having an aid agency take responsibility for a specific, monitorable task to help the poor, whose outcome depends almost entirely on what the agency does. Then independent evaluation of how well the agency does the task will then create strong incentives for performance.

Although evaluation has taken place for a long time in foreign aid, it is often self-evaluation, using reports from the same people who implemented the project. My students at NYU would not study very hard if I gave them the right to assign themselves their own grades.

The World Bank makes some attempt to achieve independence for its Operations Evaluation Department (OED), which reports directly to the Board of the World Bank, not to the President. However, staff move back and forth between OED and the rest of the Bank – a negative evaluation could hurt staff's career prospects. The OED evaluation is subjective. Unclear methods lead to evaluation disconnects like that delicately described in Mali:¹⁰

it has to be asked how the largely positive findings of the evaluations can be reconciled with the poor development outcomes observed over the same period (1985-1995) and the unfavourable views of local people. (p. 26)

Even when internal evaluation points out failure, do agencies hold anyone responsible or change aid agency practices? It is hard to find out from a review of the World Bank's evaluation web site. The OED in 2004 indicated how eight "influential evaluations" influenced actions of the borrower in 32 different ways, but mentioned only two instances of affecting behavior within the World Bank itself (one of them for the worse).

The way forward is politically difficult – truly independent scientific evaluation of specific aid efforts. Not overall sweeping evaluations of a whole nationwide development program, but specific and continuous evaluation of particular interventions from which agencies can learn. Only outside political pressure on aid agencies are likely to create the incentives to do these evaluations. A World Bank study of evaluation in 2000 began with the confession "Despite the billions of dollars spent on development assistance each year, there is still very little known about the actual impact of projects on the poor."¹¹

After years of pressure, the IMF created an Independent Evaluation Office in 2001. The World Bank in 2004 laudably created a Development Impact Evaluation Taskforce. The taskforce will use the randomized controlled trial methodology followed by most academic researchers to assess the impact of selected interventions on the intended beneficiaries. The taskforce has started two dozen new evaluations in four areas (conditional cash transfers in low income countries, school based management, contract teachers, use of information as an accountability tool for schools and slum upgrading programs). It remains to be seen if the evaluation results change the incentives to do effective programs in the operational side of the World Bank. The World Bank also changed the name of its Operations Evaluation Department to Independent Evaluation Group, although it is unclear as of this writing to what extent this represents real change.

Despite the use of the word “independent” by both the IMF and the World Bank, these evaluation units still remain housed within these organizations and use the same staff, which obviously compromises their independence. I know personally from my time at the World Bank of several examples of pressure being brought to bear from the rest of the Bank on OED (now called IEG) to alter its evaluation.

The solution is as obvious as it is unpopular – create a truly independent group of evaluators who have no conflict of interest with the World Bank or other multilateral development banks. Require all the multilateral development banks to set aside some of their budget (such as the part now wasted on self-evaluation) for these independent evaluators. Many would understandably squirm at the thought of a new Evaluation Bureaucracy, but the good news about evaluation is that it can – and should – be one of the least bureaucratic activities imaginable. It can be completely decentralized, so that a loose network of independent evaluators can write their reports on a random sample of each multilateral development bank’s projects and programs. An evaluation unit should be more like The New York Times than like The Bureaucracy that Ate Foreign Aid. A minimal staff of “editors” can simply assign projects to “reporters” (evaluators) and publish the results. Of course, there has to be incentives to do something as a result of the evaluations – allocations of money to multilateral development banks should go up or down depending on their average performance as rated by the independent evaluators. Also multilateral development banks should get credit for discontinuing failed programs or fixing them if they are fixable, while inaction should be correspondingly penalized.

Success through evaluation

In 1997, the Mexican Deputy Minister of Finance, a well-known economist named Santiago Levy, came up with an innovative program to help poor people help themselves. Called PROGRESA (Programa Nacional de Educación, Salud y Alimentación), the program provides cash grants to mothers IF they keep their children in school, participate in health education programs, and bring the kids to health clinics for nutrition supplements and regular checkups.

Since the Mexican federal budget didn't have enough money to reach everyone, Levy doled out the scarce funds in a way that the program could be scientifically evaluated. The program randomly selected two hundred and fifty-three villages to get the benefits, with another two hundred and fifty-three villages (not yet getting benefits) chosen as comparators. Data was collected on all 506 villages before and after the beginning of the program. The Mexican government gave the task of evaluating the program to the International Food Policy Research Institute (IFPRI), who commissioned academic studies of the program's effects.

The academic findings confirmed that the program worked. Children receiving PROGRESA benefits had a 23 percent reduction in the incidence of illness, a 1-4 percent increase in height, and an 18 percent reduction in anemia. Adults had 19 percent fewer days lost to illness. There was a 3.4 percent increase in enrollment for all students in grades 1 through 8; the increase was largest among girls who had completed grade 6, at 14.8 percent.¹²

More anecdotally, people in a small village called Buenavista have noticed the difference. One mother says that she can feed her children meat twice a week now to supplement the tortillas, thanks to the money she receives from PROGRESA. Schoolteacher Santiago Dias notices that attendance is up in Buenavista's two-room schoolhouse. Moreover, Dias says "because they are better fed, the children can concentrate for longer periods. And knowing that their mothers' benefits depend on their being at school, the children seem more eager to learn."¹³

Because the program was such a clearly documented success, it was continued despite the voters' rejection of the long-time ruling party in Mexico's democratic revolution in 2000. By that time, PROGRESA was reaching 10 percent of the families in Mexico and had a budget of \$800 million. The new government expanded it to cover the urban poor. Similar programs began in neighboring countries with support from the World Bank.¹⁴

The lesson for aid reformers is: a combination of free choice and scientific evaluation can build support for an aid program where things that work can be expanded rapidly. The cash-for-education-and-nutrition in itself could be expanded, with suitable local adjustments, to more

countries and on a much larger scale than it is now. A program like this in Ethiopia could get the girls around Addis Ababa out of being slaves to firewood and get them in school where they can gain the skills to escape poverty.

Conclusion

Only an elite few in the West can be Planners. People everywhere, not just in the West, can all be Searchers. Searchers can all look for piecemeal, gradual improvements in the lives of the poor, in the working of foreign aid, in the working of private markets, in the actions of Western governments that affect the Rest. Many Searchers can watch foreign aid at work in many locales around the world and let their voice be heard when it doesn't deliver the goods. It is time for an end to the second tragedy of the world's poor, which will help make progress on the first tragedy. To gradually figure out how the poor can give *more* feedback to *more* accountable agents on what THEY know and what THEY most want and need. The Big Plans and Utopian Dreams just get in the way, wasting scarce energies. Can't we just hold the agents of charity accountable, so they *do* get 12-cent medicines to children to keep them dying from malaria, *do* get \$4 bed-nets to the poor to prevent malaria, *do* get \$3 to each new mother to prevent child deaths, *do* get Amaretech into school?

Endnotes

¹ http://news.bbc.co.uk/1/shared/spl/hi/picture_gallery/04/africa_ethiopian_wood_collector/html/7.stm

² WORLD BANK, OUR DREAM: A WORLD FREE OF POVERTY (NOVEMBER 2000)

³ Gordon Brown speech at National Gallery of Scotland, January 6, 2005. International Development in 2005: the challenge and the opportunity, gordon brown Press 2005-03.htm

⁴ WHO and World Bank, Dying for Change, Washington DC, 2003, p. 10

⁵ *ibid*, p. 11

⁶ http://www.cdc.gov/ncidod/dpd/parasites/schistosomiasis/factsht_schistosomiasis.htm

⁷ WHO and World Bank, Dying for Change, Washington DC, 2003, p. 21

⁸ From Many Lands, Voices of the Poor Volume 3, World Bank, 2002, p. 63

⁹ http://news.bbc.co.uk/1/shared/spl/hi/picture_gallery/04/africa_ethiopian_wood_collector/html/7.stm

¹⁰ OECD and UNDP 1999

¹¹ Judy L. Baker, Evaluating the Impact of Development Projects on Poverty A Handbook for Practitioners DIRECTIONS IN DEVELOPMENT The World Bank, Washington, D.C.

¹² I am paraphrasing the summary of Esther Duflo and Michael Kremer, Use of Randomization in the Evaluation of Development Effectiveness, mimeo MIT and Harvard University, 2004

¹³ http://news.bbc.co.uk/1/hi/programmes/crossing_continents/412802.stm

¹⁴ Duflo and Kremer 2004.