The FORUM

Discussing International Affairs and Economics

# AFRICA

## Development Aid

BENEFICIAL? OR 'DEAD AID'?

CHINA'S INVESTMENT IN AFRICA

CAN THE CHALLENGES TO DEVELOPMENTBE OVERCOME?

## Reconstruction in Post Conflict Areas

## PLUS:

## Global Food and Water Security

# An Open Letter To Aid Skeptics

**Owen Barder**
Center for Global Development
**UNITED STATES**

This letter makes a proposal that should appeal to aid skeptics as well as aid enthusiasts.

Aid skeptics promote an interesting and unexpected idea: that aid can cause harm to the people it is meant to help. This type of counter-intuitive thinking turns economists into overnight celebrities, and it certainly helps to sell their books. It also adds to the number of people who would like to see aid cut or stopped altogether.

I don't mean to imply that the skeptics put their career interests ahead of concern for human suffering. If they are right, poverty is prolonged by the well-intentioned but misguided efforts of the aid industry, and the skeptics are right to call for this to end. But what if they are wrong? Cutting off aid could kill thousands of people and compound unnecessary suffering for millions more.

In other words, the debate about aid effectiveness is, quite literally, a matter of life and death.

Aid skeptics tell us that trillions of dollars are blindly spent with few tangible results. But is this right? Have trillions of dollars been sent to Africa? They tell us that more aid will not improve life for the world's poor, and may even delay needed reforms. Of course, the reality around the world is much more varied. In an ideal world, we would give aid only where it really makes a difference, and avoid wasting it elsewhere; but there are strong institutional and political biases which make it hard to make clear-sighted judgments about an uncertain future. Perhaps Cash on Delivery aid, as proposed recently by the Center for Global Development, would enable us to sidestep these problems, to the satisfaction of both aid skeptics and aid enthusiasts?

**Trillions of dollars spent on aid? Hang on….**

First, let's get some facts straight. Aid skeptics like to say that the west has spent trillions of dollars on aid to Africa since independence.[1] This is not true: according to OECD statistics, since aid began in the 1960s donors have given a grand total of $502 billion to sub-Saharan Africa, worth about $866 billion in today's prices.[2] This is not trillions of dollars- not even one trillion dollars.

The G-20 countries have, over the whole history of aid, given less aid to sub-Saharan Africa than they spent on fiscal stimulus in the single year of 2009.[3]

In the Marshall Plan, America invested more than $200 a year for each citizen of the countries they helped back on to their feet after the Second World War Though the needs in Africa today are much greater, and the donors are more numerous and much richer, we choose to give much less. Over the last twenty years, total aid to sub-Saharan Africa has hovered at about $37 per person per year.[4] (Part of the reason the amounts for Africa are unexpectedly low is that less than two fifths of all aid goes to very poor countries.[5]) On the rare occasions that aid has reached Marshall Plan levels it has often been associated with rapid growth. For example, aid to South Korea was over $200 per person per year in the two decades from the mid 1960s, during which time South Korea achieved annual growth of nearly 9%. In Botswana, in the two decades after independence and before diamond exports made it largely unnecessary, aid was over $150 per person per year, peaking at $200 per person in 1980; during this time Botswana had the highest average economic growth rate of any country in the world, bar none.[6]

By contrast, I am writing this letter from Ethiopia, one of the poorest countries in the

1 *Pace* Dambisa Moyo, *Why Foreign Aid is Hurting Africa*, WSJ, March 21, 2009, http://online.wsj.com/article/SB123758895999200083.html
*Pace* William Easterly, *The White Man's Burde*n, 2008, p4.
*Pace* The Catholic Herald, *Why a trillion dollars of aid has not saved Africa*, http://www.catholicherald.co.uk/reviews/r0000439.shtml
2 OECD Development Assistance Committee database, table 29. Figures exclude debt relief.
3 The 2009 stimulus was $692 billion, according to Prasad & Sorkin, Assessing the G-20 Stimulus Plans, Brookings Institution http://www.brookings.edu/articles/2009/03_g20_stimulus_prasad.aspx
4 All figures are in 2009 prices.
5 OECD DAC Table 26 – aid to less developed countries.
6 Growth in Botswana from 1966 to 1999 averaged 9% a year.
7 Figures are for 2008. Source: http://www.cms.gov/NationalHealthExpendData/02_NationalHealthAccountsHistorical.asp

world, where aid has been steadily rising in recent years to the less-than-princely sum of $25 per person per year.

I'm not claiming that this proves that if we give more aid, economic and social transformation will follow. The point of these figures is merely to dispose of the old lie that we have given trillions of dollars of aid to Africa and have nothing to show for it. On the contrary, we have given rather little aid to Africa, despite which there is plenty of success to celebrate. If the transformation has not been as profound as we would have liked, perhaps it is because we have been too stingy, rather than because we have been over-generous.

**Could we deliver aid more effectively rather than cutting it off?**

Aid skeptics say that the constraint is not lack of money but poor governance. They say that while countries are ruled by kleptocratic dictators and their rent-seeking side-kicks, extra aid is not going to generate economic growth or improve services for poor people.

Having lived and worked in many African countries and having worked with the ministers and officials of many African governments, I think there is more capacity and willingness to deliver services than many outsiders believe. Africans understand their context and priorities better than the donors, and a new generation of political leaders want to improve their nations. Very often, the missing ingredient is money.

Take Ethiopia, for example. Here, the government is able to invest just $10 per person per year in health. (This includes foreign assistance, much of which comes with grotesquely inappropriate strings attached, greatly reducing its effectiveness.) Sadly, Ethiopia does not yet have health care as good as in America, but that could be because America spends about $7,700 per person per year, including $4,100 per person per year spent by government. With only $10 per person, Ethiopia has made extraordinary progress. Thirty thousand government health workers provide a suite of core health services in remote rural areas, increasing childhood vaccination rates, reducing infant and maternal mortality, reducing deaths from measles and malaria, increasing access to family planning, and improving hygiene and preventative health. The Minister of Health is smart, honest, and hard working: certainly more than a match for many ministers and officials in the countries who say they want to help. In my view, Ethiopia does not need to be given lessons by westerners on how to improve health care: it needs more money and the freedom to spend it well.

I'm not asking you to take my word for it. This proposal will test whether I'm right, and cost almost nothing if I'm not.

The most ardent supporter of aid has to acknowledge that in some situations more money is not the answer. Progress can be constrained by poor policies, lack of capacity, inadequate leadership, institutional weakness, and corruption. If the problem is institutional, more aid could be pouring money down the proverbial rat-hole.

That's why western countries accompany aid with a rash of conditions, policy advisers, milestones and procedures, ostensibly to assure ourselves that the money is well spent. Ironically these measures exacerbate institutional weaknesses in low-capacity environments, and impose huge overheads on both donor and recipient, and so have the unintended effect of making aid less, rather than more, effective.

**“*the debate about aid effectiveness is, quite literally, a matter of life and death*“**

So how can we tell whether and when more money is the answer, or if that's just pushing on a string? And how do we decide what conditions to attach and expertise to offer?

Aid professionals will always argue for bigger aid budgets, just as they will always tell you that aid should be accompanied by the advice of an army of aid professionals. It is strange that in all the diverse situations across the world, the development set always recommends the same combination of money and expertise. The uniformity of the prescription says more about the common interests of donors than about the diverse needs of developing countries.

The Center for Global Development, a think-tank in Washington DC, has an ingenious proposal which might cut through this dilemma. They call it Cash on Delivery, and they've just published a new book explaining how it could work in the case of education. Under Cash on Delivery, donors would commit themselves in advance to paying a developing country a particular amount for a specific measure of progress. In education, for example, donors could promise to pay $200 for each additional child who completes primary school and takes a standardized competency test. The developing country would decide for itself how to use the money to get results:

whether to use public or private providers, whether to make conditional cash transfers or invest the money in infrastructure, curriculum reform or teacher training. Perhaps de-worming tablets or free school lunches might be the best way to get kids learning. And if countries want technical advice, they can ask for it.

If the idea works in pilots, it could lead to a paradigm shift in aid. Instead of providing money and international experts in advance, donors would make a cash-on-delivery promise for children who learn in primary school. They would put up the money to end unnecessary deaths of infants and pregnant mothers. They would pledge the money needed for everyone to have clean water. Donors would make a legally binding commitment to pay when there is progress on agreed outcome indicators, validated by reputable international audit firms paid by the donors. The commitments could be open-ended, so that developing countries are not deterred by lack of money from making all the progress they can.

Cash on Delivery would be a good deal for developing countries: it would remove the unpredictability of aid given by capricious donors, and the hassle that accompanies it. Their achievements would be limited only by their capacity and aspirations. It would be a good deal for donors too, because they would be able to show the results that their aid has achieved, avoid wasting aid where it is doing no good, and perhaps improve incentives. It could open the way to a democratization of aid giving – individual citizens would be able to "purchase" specific outputs, for example through online or workplace giving.

There are a lot of implementation questions to think through in more detail; they are discussed in the book and proposed approaches need to be tested in pilots. A workable scheme must avoid creating perverse incentives by linking to the wrong outcomes, create genuinely binding commitments on the part of donors, and produce audited results on which everyone can rely.

Perhaps the biggest challenge is moving from paying aid in advance to paying in arrears. Once up and running, the proponents argue, Cash on Delivery would create a virtuous circle of rising services, resulting in increased aid linked to those results, which developing countries could invest in more services for the future. But how would this virtuous circle get started if developing countries only get the money after the services have been delivered? This is an important but surmountable problem: some one-off assistance would clearly be needed to prime the pump. It could be provided through conventional up-front aid as usual, perhaps accompanied by an investment from philanthropists looking for a one-off catalytic intervention. More adventurously, the promise of payment on results opens the way for developing countries to borrow money, perhaps at concessional rates, against the future revenues that they would receive through Cash on Delivery. These revenues would be more predictable and immediate than the intangible long-term gains from social sector spending against which developing countries currently have to borrow.

Aid skeptics: you have nothing to lose. If you are right that money is not the constraint, then the only cost of this promise is the ink and paper on which it is written. Unless developing countries make demonstrable, independently-audited progress, no additional aid will be given as a result of this pledge. But if aid enthusiasts are right that - in some countries at least - more money with fewer strings attached would make all the difference, then we will end up paying a very modest price for real progress towards the Millennium Goals. For a couple of hundred dollars per child, we would transform the life chances of a child who today is denied an education because her country lacks the money. We would save the life of a child who will not live to see her fifth birthday because of an easily preventable disease. Mothers would not risk their lives to give life to others, and women would not have to walk for hours to fetch clean water.

Some aid skeptics worry that foreign assistance given in the conventional way could prop up ineffectual and unaccountable governments, extending the life of governments that deserve to fall. A promise of Cash on Delivery might remove this possible effect. A government that did not deliver would have to explain its failures to its own citizens. Governments could no longer hide behind the excuse that they were too poor, or that donor demands were too onerous. Cash on Delivery would make it clear to everyone where the fault lay: so it could actually help, rather than hinder, the accountability of ineffectual governments.

Cash on Delivery would have the additional benefit of promoting the collection of independent, reliable data about social outcomes in developing countries, replacing the hugely expensive costs that donors incur today to amass information about inputs, milestones, audits and processes.

Aid enthusiasts also have nothing to lose from this promise. We believe that developing countries would make faster progress towards the Millennium Goals if they could get access to more money. A commitment to Cash on Delivery would mean that no country with a decent program to deliver services would fail through lack of resources. Linking rising aid budgets directly to results is our best hope of keeping the faucets open in difficult fiscal circumstances. It would genuinely open policy space for developing countries to decide among their priorities and to decide how to achieve them, including to decide for themselves the balance of public and private provision.

So who is right, the aid skeptic or the enthusiast? As is often the case, the truth lies somewhere in between. Aid skeptics are right to question whether more money is the answer to faster progress in some countries, and indeed to wonder if aid might sometimes get in the way of reform. Aid enthusiasts are also right: in many situations more money is needed, preferably without all the strings and other inconveniences. But together we face a common problem; it is hard to know what is needed in each circumstance, and we have institutional biases that prevent us from making good judgments. Cash on Delivery may be a way to solve this problem. Like water finding its own natural level, aid can flow to the countries and sectors where it will be used most effectively, without being wasted in places where extra money is not what is needed.

So come on, make my day. Let's try it.