Multilateral Development Banks: Promoting Effectiveness and Fighting Corruption

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"Accountability for multilateral development banks"

UK Chancellor of the Exchequer Gordon Brown recently 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. 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.

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. It's a tragedy that so much well-meaning compassion did not bring these results for needy people.

The two key elements necessary to make aid work, and the absence of which has been fatal to aid's effectiveness in the past, are FEEDBACK and ACCOUNTABILITY. The needs of the rich get met through feedback and accountability. 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 elected representatives that "these public services are bad" and the politician tries to fix the problem.

Of course, feedback only works if somebody listens. 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. Elected representatives take responsibility for the quality of public services. If something goes wrong, they pay politically, perhaps by losing office. If it succeeds, they get the political rewards.

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, such as the current very fashionable campaign to achieve the UN Millennium Development Goals. 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:

> 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."

The World Bank recently changed the name of its Operations Evaluation Department to Independent Evaluation Group, although it is unclear how a name change addresses the problem of achieving true independence. This evaluation unit still remains 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 reports.

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. 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.

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 Utopian Dreams about ending world poverty, such as the UN Millennium Development Goals embraced by the World Bank hold nobody accountable. 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?