he mere mention of a “cartel” usually strikes fear in the hearts and wallets of consumers and regulators around the globe. Though the term normally evokes images of greedy oil producers or murderous drug lords, a new, more well-intentioned cartel has emerged on the global scene. Its members are the world’s leading foreign aid organizations, which constitute a near monopoly relative to the powerless poor.

This state of affairs helps explain why the global foreign aid bureaucracy has run amok in recent years. Consider the steps that beleaguered government officials in low-income countries must take to receive foreign aid. Among other things, they must prepare a participatory Poverty Reduction Strategy Paper (PRSP)—a detailed plan for uplifting the destitute that the World Bank and International Monetary Fund (IMF) require before granting debt forgiveness and new loans. This document in turn must adhere to the World Bank’s Comprehensive Development Framework, a 14-point checklist covering everything from lumber policy to labor practices. And the list goes on: Policymakers seeking aid dollars must also prepare a Financial Information Management System report, a Report on Observance of Standards and Codes, a Medium Term Expenditure Framework, and a Debt Sustainability Analysis for the Enhanced Heavily Indebted Poor Countries Initiative. Each document can run to hundreds of pages and consume months of preparation time. For example, Niger’s recently completed PRSP is 187 pages long, took 15 months to prepare, and sets out spending for a 2002–05 poverty reduction plan with such detailed line items as $17,600 a year on “sensitizing population to traffic circulation.”

Meanwhile, the U.N. International Conference on Financing for Development held in Monterrey, Mexico, in March 2002 produced a document—the Monterrey Consensus—that has a welcome emphasis on partnership between rich donor and poor recipient nations. But it’s somewhat challenging for poor countries to carry out the 73 actions that the document recommends, including such ambitions as establishing democracy, equality between boys and girls, and peace on Earth.

Visitors to the World Bank Web site will find 31 major development topics listed there, each with multiple subtopics. For example, browsers can explore 13 subcategories under “Social Development,” including indigenous peoples, resettlement, and culture in sustainable development. This last item in turn includes the music industry in Africa, the preservation of cultural artifacts, a seven-point framework for action, and—well, you get the idea.

It’s not that aid bureaucrats are bad; in fact, many smart, hardworking, dedicated professionals toil away in the world’s top aid agencies. But the perverse incentives they face explain the organizations’ obtuse behavior. The international aid bureaucracy will never work properly under the conditions that make it operate like a cartel—the cartel of good intentions.

**The Cartel of Good Intentions**

The world’s richest governments have pledged to boost poor nations’ abilities. Because in the way bureaucracy out of touch with sound economics, business to the forces of market

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**ALL TOGETHER NOW**

Cartels thrive when customers have little opportunity to complain or to find alternative suppliers. In its heyday during the 1970s, for example, the Organization of the Petroleum Exporting Countries (OPEC) could dictate severe terms to customers; it was only when more non-OPEC oil exporters emerged that the cartel’s power weakened. In the foreign aid business, customers (i.e., poor citizens in developing countries) have few chances to express their needs, yet they cannot exit the system. Meanwhile, rich nations paying the aid bills are clueless about what those customers want. Non-
The Cartel of Good Intentions

The Aid Cartel’s Golden Oldies

Many of the “new” themes that the international aid agencies emphasize today have actually been around for several decades.

Donor Coordination

<table>
<thead>
<tr>
<th>Foreign aid</th>
<th>should be a cooperative enterprise in which all nations work together through the United Nations and its specialized agencies. (U.S. President Harry Truman, 1949)</th>
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</thead>
<tbody>
<tr>
<td>Aid coordination</td>
<td>has been recognized as increasingly important. (World Bank, 1981)</td>
</tr>
<tr>
<td>We should improve coherence through better coordination of efforts amongst international institutions and agencies, the donor community, the private sector, and civil society. (World Bank President James Wolfensohn, 2002)</td>
<td></td>
</tr>
</tbody>
</table>

Aid Selectivity

| Objective No. 1: To apply stricter standards of selectivity in aid in developing countries. (President John F. Kennedy, 1963) |
| The relief of poverty depends both on aid and on the policies of the recipient countries. (Cancer Development Committee Task Force, 1985) |
| The [International Development Association] should increase its selectivity by directing more assistance to borrowers with sound policy environments. (International Development Association, 2001) |

Focus on Poverty

| The aid community must place far greater emphasis on policies and projects which will begin to attack the problems of absolute poverty. (World Bank President Robert McNamara, 1973) |
| The Deputies encouraged an even stronger emphasis on poverty reduction in the International Development Association’s programs. (Former World Bank Managing Director Ernest Stern, 1990) |
| The Poverty Reduction Strategy Paper aims at increasing the focus of assistance on the overarching objective of poverty reduction. (International Development Association, 2001) |

African Reforms

| 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. (World Bank, 2002) |

Sources: William Easterly, The Cartel of Good Intentions: Bureaucracy vs. Markets in Foreign Aid (Washington: Center for Global Development, 2002); James Wolfensohn, Note from the President of the World Bank (April 12, 2002)

The customers: From left to right, a boy picks through a junkyard in Haiti; a pregnant 13-year-old girl cradles her 2-year-old brother outside of a school in Monterrey, Mexico; and a child stands in littered water in a riverside slum in Ho Chi Minh City, Vietnam.

Donor Coordination

By forming a united front and duplicating efforts, the aid cartel is also able to diffuse blame among its various members when economic conditions in recipient countries don’t improve according to plan. Should observers blame the IMF for fiscal austerity that restricts funding for worthy programs, or should they fault the World Bank for failing to preserve high-return areas from public expenditure cuts? Are the IMF and World Bank too tough or too lax in enforcing conditions? Or are the regional development banks too inflexible (or too lenient) in their conditions for aid? Should bilateral aid agencies be criticized for succumbing to national and commercial interests, or should multilateral agencies be condemned for applying a “one size fits all” reform program to all countries? Like squabbling children, aid organizations find safety in numbers. Take Argentina. From 1980 to 2001, the Argentine government received 33 structural adjustment loans from the IMF and World Bank, all under the watchful eye of the U.S. Treasury. Ultimately, then, is Argentina’s ongoing implosion the fault of the World Bank, the IMF, or the Treasury Department? The buck stops nowhere in the world of development assistance. Each party can point fingers at the others, and bewildered observers don’t know whom to blame—making each agency less accountable.
By forming a united front and duplicating efforts, the foreign aid community is able to diffuse blame among its members when economic conditions in poor countries fail to improve.

A FRAMEWORK FOR FAILURE

To the extent that anyone monitors the performance of global aid agencies, it is the politicians and the public in rich nations. Aid agencies therefore strive to produce outputs (projects, loans, etc.) that these audiences can easily observe, even if such outputs provide low economic returns for recipient nations. Conversely, aid bureaucrats don’t try as hard to produce less visible, high-return outputs. This emphasis on visibility results in shiny showcase projects, countless international meetings and summits, glossy reports for public consumption, and the proliferation of “frameworks” and strategy papers. Few are concerned about whether the showcase projects endure beyond the ribbon-cutting ceremony or if all those meetings, frameworks, and strategies produce anything of value.

This quest for visibility explains why donors like to finance new, high-profile capital investment projects yet seem reluctant to fund and operate projects with poverty defined as an annual income below $365. To this end, the World Bank’s 2002 aid accounting estimates that an extra $1 billion in overseas development assistance would lift more than 284,000 people out of poverty. (This claim has appeared prominently in the press and has been repeated in other government reports on aid effectiveness.) It has also been pointed out that a $1 billion increase in aid would lift more than 294,000 people out of poverty. The problem with this logic is that the $1 billion increase in aid is itself an artificial number selected by aid agencies, not a result of an increase in aid spending.

Aid agencies always claim that their main goal is to reduce the number of poor people in the world, with poverty defined as an annual income below $365. To this end, the World Bank’s 2002 aid accounting estimates that an extra $1 billion in overseas development assistance would lift more than 284,000 people out of poverty. (This claim has appeared prominently in the press and has been repeated in other government reports on aid effectiveness.) It has also been pointed out that a $1 billion increase in aid would lift more than 294,000 people out of poverty. The problem with this logic is that the $1 billion increase in aid is itself an artificial number selected by aid agencies, not a result of an increase in aid spending.

The framework covers clean government, property rights, finance, social safety nets, education, health, water, the environment, the spoken word and the arts, roads, cities, the countryside, microcredit, tax policy, and motherhood. (Somehow, macroeconomic policy was omitted.) Perhaps this framework explains why the World Bank says management has simultaneously “refocused and broadened the development agenda.” Yet even Wolfensohn seems relatively restrained compared with the framework being readied for the forthcoming U.N. World Summit on Sustainable Development in Johannesburg in late August 2002, where 185 “action recommendations”—covering everything from efficient use of cow dung to harmonized labeling of chemicals—await unsuspecting delegates.

Of course, the Millennium Development Goals (MDGs) are the real 800-pound gorilla of foreign aid frameworks. The representatives of planet

<table>
<thead>
<tr>
<th>Year</th>
<th>Aid as percent of GDP</th>
<th>GDP growth per capita</th>
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</thead>
<tbody>
<tr>
<td>1970</td>
<td>0.5</td>
<td>1.0</td>
</tr>
<tr>
<td>1975</td>
<td>0.5</td>
<td>1.5</td>
</tr>
<tr>
<td>1980</td>
<td>1.0</td>
<td>2.0</td>
</tr>
<tr>
<td>1985</td>
<td>1.5</td>
<td>2.5</td>
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<tr>
<td>1990</td>
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<td>3.0</td>
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<tr>
<td>1995</td>
<td>2.5</td>
<td>3.5</td>
</tr>
<tr>
<td>2000</td>
<td>3.0</td>
<td>4.0</td>
</tr>
</tbody>
</table>

*The data for each year represent the average per capita GDP growth rate and the average rate of aid as a percentage of GDP over the previous 10 years.

Source: World Development Indicators (Washington, World Bank, 2001); calculations by author
also stipulates that increasing aid is undoubtedly “a primary function of targets set by the international donor community such as the [Millennium] Development Goals.” Thus increased aid becomes self-perpetuating—both cause and effect.

FOREIGN AID AND ABET

Pity the poor aid bureaucracy that must maintain support for foreign assistance while bad news is breaking out everywhere. Aid agencies have thus perfected the art of smoothing over unpleasant realities with diplomatic language. A war is deemed a “conflict-related reallocation of resources.” Countries run by homicidal warlords like those in Liberia or Somalia are “low-income countries under stress.” Nations where presidents loot the treasury experience “governance issues.” The meaning of other aid community jargon, like “investment climate,” remains elusive. The investment climate will be stormy in the morning, gradually clearing in the afternoon with scattered expropriations.

Another typical spin-control technique is to answer any criticism by acknowledging that, “Indeed, we aid agencies used to make that mistake, but now we have corrected it.” This defense is hard to refute, since it is much more difficult to evaluate the present than the past. (One only hopes that the sinner has now found true religion from the knowledge of many previous conversions.) Recent conversions typically include improved coordination among donors, a special focus on poverty alleviation, and renewed economic reform efforts in African countries. And among the most popular concepts the aid community has recently discovered is “selectivity”—the principle that aid will only work in countries with good economic policies and efficient, squeaky-clean institutions. The moment of aid donors’ conversion typically coincides with the end of the Cold War, but in truth, selectivity (and other “new” ideas) has been a recurrent aid theme for the last 40 years. The product: From left to right, a crew of foresters plants trees in Costa Rica, a cholera-stricken child receives treatment in a refugee camp in the Democratic Republic of the Congo, and workers in Pakistan load international food aid near the Afghan border.

Earth agreed on these goals at yet another U.N. conference in September 2000. The MDGs call for the simultaneous achievement of multiple targets by 2015, involving poverty, hunger, infant and maternal mortality, primary education, clean water, contraceptive use, HIV/AIDS, gender equality, the environment, and an ill-defined “partnership for development” (see sidebar on opposite page). These are all worthy causes, of course, yet would the real development customers necessarily choose to spend their scarce resources to attain these particular objectives under this particular timetable? Economic principles dictate that greater effort should be devoted to goals with low costs and high benefits, and less effort to goals where the costs are prohibitive relative to the benefits. But the “do everything” approach of MDGs suggests that the aid bureaucracy feels above such trade-offs. As a result, government officials in recipient countries and the foreign aid agency’s own front-line workers gradually go insane trying to keep up with proliferating objectives—each of which is deemed Priority Number One.

A 2002 World Bank technical study found that a doubling of aid flows is required for the world to meet the U.N. goals. The logic is somewhat circular, however, since a World Bank guidebook

**“Do Everything” Development**

In September 2000, representatives of 189 countries met at the U.N. Millennium General Assembly in New York and adopted the Millennium Declaration concerning peace, security, and development issues. The Millennium Development Goals (MDGs), listed below, emerged from this gathering. Since then, virtually all the leading aid institutions have endorsed the MDGs, including the World Bank, International Monetary Fund, Organisation for Economic Co-operation and Development, and the Inter-American Development Bank.

**Goal 1: Eradicate extreme poverty and hunger**

- Halve, between 1990 and 2015, the proportion of people whose income is less than $1 a day, Halve, between 1990 and 2015, the under-five mortality rate.

**Goal 2: Achieve universal primary education**

- Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.

**Goal 3: Promote gender equality and empower women**

- Eliminate gender disparity in primary and secondary education preferably by 2005 and in all levels of education no later than 2015.

**Goal 4: Reduce child mortality**

- Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate.

**Goal 5: Improve maternal health**

- Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.

**Goal 6: Combat HIV/AIDS, malaria, and other diseases**

- Have halted by 2015 and begun to reverse the spread of HIV/AIDS. Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases.

**Goal 7: Ensure environmental sustainability**

- Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources.

**Goal 8: Develop a global partnership for development**

- Develop further an open, rule-based, predictable, non-discriminatory trading and financial system.... Address the special needs of the least developed countries.... Address the special needs of small island developing states.... Deal comprehensively with the debt problems of developing countries.... In cooperation with developing countries, develop and implement strategies for decent and productive work for youth, for a more equitable international trading and financial system, for the full and efficient participation of women, for a significant and sustained acceleration of resource mobilization from all sources, for a global partnership.
Dismantling the Cartel

How can the cartel of good intentions be reformed so that foreign aid might actually reach and benefit the world’s poor? Clearly, a good dose of humility is in order, considering all the bright ideas that have failed in the past. Moreover, those of us in the aid industry should not be so arrogant to think we are the main determinants of whether low-income countries develop—poor nations must accomplish that mainly on their own.

Still, if aid is to have some positive effect, the aid community cannot remain stuck in the same old bureaucratic rut. Perhaps using market mechanisms for foreign aid is a better approach. While bureaucratic cartels supply too many goods for which there is little demand and too few goods for which there is much demand, markets are about matching supply and demand. Cartels are all about “coordination,” whereas markets are about the decentralized matching of customers and suppliers.

One option is to break the link between aid money and the obligatory use of a particular agency’s bureaucracy. Private market agencies could put part of their resources into a common pool devoted to helping countries with acceptably pro-development governments. Governments would compete for the “pro-development” seal of approval, but donors should compete, too. Recipient nations could take the funds and work with any agency they choose. This scenario would minimize duplication and foster competition among aid agencies.

Another market-oriented step would be for the common pool to issue vouchers to poor individuals or communities, who could exchange them for development services at any aid agency—NGOs, donor agencies, or governmental agencies. These service providers would in turn redeem the vouchers for cash out of the common pool. Aid agencies would be forced to compete to attract aid vouchers (and thus money) for their budgets. The vouchers could also trade in a secondary market; what their price is below par would reflect the inefficiency of this aid scheme and would require remedial action. Most important, vouchers would provide real market power to the impoverished customers to express their true needs and desires.

Intermediaries such as a new Washington-based company called Development Space could help assemble the vouchers into blocks and identify aid suppliers; the intermediaries could even compete with each other to attract funding and find projects that satisfy the customers, much as venture capital firms do. (Development Space is a private Web-based company established last year by former World Bank staff members—kind of an eBay for foreign aid.) Aid agencies could establish their own intermediate units to add to the competition. An information bank could facilitate transparency and communication, posting news on projects searching for funding, donors searching for projects, and the reputation of various intermediaries. Bureaucratic cartels probably last longer than private cartels, but they need not last forever. President George W. Bush’s proposed Millennium Challenge Account (under which, to use Bush’s words, “countries that live by these three broad standards—ruling justly, investing in their people, and encouraging economic freedom—will receive more aid from America”) and the accompanying increase in U.S. aid dollars will challenge the IMF and World Bank’s near monopopoly over reform-related lending. Development Space may be the first of many market-oriented endeavors to compete with aid agencies, but private philanthropists such as Bill Gates and George Soros have entered the industry as well. NGOs and independent academic economists are also more aggressively entering the market for advice on aid to poor countries. Globalization protesters are well informed in all areas, but they seem largely on target when it comes to the failure of international financial institutions to foment “adjustment with growth” in many poor countries.

Now that rich countries again seem interested in foreign aid, pressure is growing to reform a global aid bureaucracy that is increasingly out of touch with good economic policies. The high-income countries that finance aid and that genuinely want aid to reach the poor should subject the cartel of good intentions to the bracing wind of competition, markets, and accountability to the customers. Donors and recipients alike should not put up with $3,521 in aid to reduce the poverty head count by one, 185-point development frameworks, or an alphabet soup of bureaucratic fads. The poor deserve better.

Antiglobalization protesters are largely on target when it comes to the failure of international financial institutions to foment adjustment with growth in many poor countries.

Want to Know More?


Foreign Policy has a long history of covering economic development and foreign aid, including Samuel Huntington’s “Foreign Aid: For What and for Whom” (Winter 1970–71), appearing in FP’s inaugural issue. Also see “Development: The End of Trickle Down?” (Fall 1973) by James Grant, “The Third World: Public Debt, Private Profit” (Spring 1978) by Albert Fishlow, et al., “Funding Aid” (Summer 1988) by David R. Obey and Carol Lancaster, and “The IMF: A Cure or a Curse?” (Summer 1998) by Devesh Kapur. More recent FP coverage includes Ricardo Hausmann’s “Monterrey Consensus” (Fall 1999), appearing in Foreign Policy. In 2001, Lant Pritchett and Michael Woolcock assessed the problems of bureaucracy in economic development in “Solutions When the Solution Is the Problem: Arraying the Disarray in Development” (Washington: Center for Global Development, 2002).


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