

AidMarket

TRANSFORMING THE AID ENVIRONMENT

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This report is about the aid environment.

It identifies the purpose of aid, which is to promote and secure basic human rights, to alleviate poverty and to reduce global inequality. It is important that the objectives of aid projects reflect the purpose of aid. However, the current aid system fails to efficiently accomplish the set objectives and it enables individual donor nations to dictate allocation in accordance with domestic preferences. This organization persists because the poor are not the real customers -- the rich-country politicians and voters are.

In an aid environment where national powers seek their own desired ends, aid is delivered without much oversight, without genuine interest in evaluating developmental impact, and with limited disclosure. The entrenched aid system has been manipulated to serve as a political tool. With respect to Donor governments that are using aid as a political tool to enforce change, there are two leading schools of thought.

The first disposition believes that impoverished nations are in a poverty trap and in need of much more aid as a means to invest and promote economic growth. The other believes that the governments of impoverished nations are incapable of helping themselves and that aid should only be provided under certain conditions that are enforced by the donor government. Although these two schools of thought share the objective of democratization, both approaches prove to have negative affect on the rules and development of democracy, as opposed to promote democratic ideals.

Aid assistance for the sake of development, whether it is for personal development or that of the nation's economy, can be channeled either through governments or through the private sector. With respect to resources that flow from governments, this report finds that aid is often used as a political tool and concluded that politicians who are representing the interests of donor nations ought not to have decision-making authority on the allocation of funds that are collected for the sake of universal human rights. This report also finds that resources that flow to governments are utilized less efficiently than resources that are channeled through the private sector and aid funds are more likely to break down democratic rules as opposed to promote democratization.

AidMarket promotes a transformation of the aid environment so as to emphasize the role of the private sector and address prevailing problems. The private sector has steadily been increasing its involvement in international development and assistance with positive results. Remittances -- the funds sent back by migrant workers, both legal and illegal, to the country they call home -- are also an effective form of assistance. The private sector has proven to work most effectively to promote economic growth, but still faces criticism for the lack of coordination, independent evaluation, and high transaction costs.

People must recognize that just like any other individual, the aid official has an incentive to seek personal gain and that an aid system that presents these officials with opportunities, time and time again, to act on behalf of themselves and not on behalf of the poor and unfree, must be restructured. The aid environment within which development agents operate must be transformed so as to limit inefficiency and corruption.

AidMarket is purposefully designed to address the most serious of problems identified within the aid environment. AidMarket will enhance the impact of aid on poverty reduction by promoting coordination, supporting independent evaluation, and transforming the financing of aid projects. AidMarket will incorporate the beneficial impact of person-to-person aid and facilitate Donor-Agent partnerships; cutting red tape for Agents and offering Donors a new way to help achieve the objectives prescribed by a global-community of free people in a transparent market so as to ensure accountability, as well as to improve both decision-making and aid effectiveness.

"To have a lasting impact, resources for development must increase and the increases must be sustained if we are to keep the promises that have been made to the world's poor and achieve the Millennium Development Goals"

—**Kemal Dervis**, head of the United Nations Development Programme said in statement (April 2007)

The Human Right to Development

"Overcoming poverty is not a gesture of charity. It is an act of justice. It is the protection of a fundamental Human Right, the right to dignity and a decent life. While poverty persists, there is no true freedom."

--Nelson Mandela, 2005

Although we live in an age of unprecedented prosperity and technological advances, the most basic social and economic rights are too often being violated on a massive scale. Blinded by personal prosperity, most citizens of developed nations are unaware of the daily suffering that exists globally. In one day:

- . 30,000 children die from easily preventable disease.
- . 100 million children see their right to a primary education denied.
- . 800 million people go to bed hungry each night.

The Doctrine of Human Rights is the convergence of all basic rights. It established the level of living standards beneath which no one should be allowed to sink. These rights are basic in that acquiring them is essential to the enjoyment of all additional rights—without them, there is no freedom.

"When a right is genuinely basic, any attempt to enjoy any other right by sacrificing the basic right would be quite literally self-defeating, cutting the ground from beneath itself."

—Henry Shue, Basic Rights (1996)

Freedom for all; this freedom entitled to all has to be clearly defined. In terms popularized by **Isaiah Berlin**, this is 'negative' liberty: freedom from removable constraints, so long as removing them does not itself constrain the liberty of others. Today, extreme poverty is the most widespread form of 'unfreedom' where people are denied the dignity of basic human rights. The United Nations was created in 1945 in the aftermath of the Second World War to promote international peace, security, economic development and social justice.

The purpose of aid is justified in the context of universal human rights. The Universal Declaration of Human Rights (1948) acknowledges that all humans have inalienable rights. These rights are indispensable to one's dignity and to the development of one's potential. We all possess potentialities which depend on the protection of basic rights as well as nurturing for development and actualization. Man is born into a world that is free to us by choice. One does not choose the environment or the culture within which one develops. The aid environment was established so as to promote basic human rights as a means to enable freedom for those who do not have a choice.

Globalization empowers multilateral organizations, in return, individual nations will have to relinquish some of their control over international affairs for the sake of a global-community. However, today, aid assistance and interventions are, to a large extent, controlled by individual nations. Being that politics is a fight for resources, the decision-making power possessed by individual nations within the aid environment has given politicians the opportunity to manipulate the language of universal human rights as a means to justify their pursuit of personal or domestic gain. Politicians that represent a single nation ought not to be able to dictate who receives aid or under what conditions.

An intrinsic difficulty: individual countries rarely have sufficient incentives to act to preserve these 'global commons,' since they can themselves only capture a small part of the reward for doing so, and those rewards will accrue only if others do the same.

—Timothy Garton Ash "FREE WORLD"

In an aid environment where national powers seek their own desired ends, aid is delivered without much oversight, without genuine interest in evaluating developmental impact, and with limited disclosure. The entrenched aid system has been manipulated to serve as a political tool. People must recognize that just like any other individual, the aid official has an incentive to seek personal gain and that an aid system that presents these officials with opportunities, time and time again, to act on behalf of themselves and not on behalf of the poor and unfree, must be restructured. The aid environment within which development agents operate must be transformed so as to limit inefficiency and corruption.

Act!onAid's report (2005) confirmed that "Increasingly, the international community is recognizing that people who die because they lack access to medicines or clean water are suffering a rights' violation as urgent as those dying through persecution, repression or war... But despite growing recognition of the importance of economic and social rights, the violation of these rights continues on a massive scale. Every day, 50,000 people die from poverty related and preventable diseases. Thirty thousand of them are children. One billion adults are unable to read and write, and 100 million children are outside school. Almost one quarter of people in poor countries lack access to clean water. This lack of basic rights in poor countries both stems from and reinforces highly unequal power – within and between countries – which marginalizes poor people's needs and priorities."

[ACTIONAID](#)

Aid as a Political Tool

In regards to personal development, one of the most challenging thresholds to overcome is the elevation of one's understanding beyond the egocentric to the embracing of a global-community. It is not unexpected that politicians, as much as others, act to preserve their status of power in the world. The more often people are presented with an opportunity to act on behalf of themselves at the cost of the collective, more often people will abide by egocentric reason and seek selfish ends. Therefore, the effort to secure and promote universal human rights should be controlled by representatives of the global-community, not individual nations. The purpose of aid is not to advance domestic policies or security.

There has been no shortage of international pledges to increase the quantity and quality of aid over the past three decades: the 0.7% of GNI aid target, recommended by **Lester Pearson** and adopted by the UN in 1970, was re-affirmed both in 1992 and 2002 by almost all donor countries. Yet as of 2005 only five donors – Denmark, Norway, Sweden, the Netherlands and Luxemburg -- reached that target. An **OECD** study had shown that if all donors respected their commitments, aid (in 2004 dollars) would rise from less than 80 billion dollars in 2004 to 130 billion dollars by 2010.

"political interest can only frustrate the social solutions devised by specialists with scientific tools adequate to their analysis. As individuals, high modernists might well hold democratic views about popular sovereignty... but such convictions are external to, and often at war with their high-modernist convictions."

—James C. Scott Yale professor of Political Science and Anthropology

For decades, critics of aid practices have stressed the need to place a greater emphasis on reducing poverty and inequality, *"increasing the focus... on the overarching objective of poverty reduction (World Bank 2001)."* It is not that most officials are adversaries of aid, unwilling to help the poor, instead this report finds that people are working in an environment that too often presents them with an opportunity to pursue egocentric personal objectives.

The way in which the United States perceives foreign aid is perhaps best understood in the way in which the country acts when they are the recipient nation. When other countries offered the United States \$854 million in cash and oil as foreign aid to help the areas devastated by Hurricane Katrina, they merely accepted 4.7% of the total offered, the rest went uncollected. There is no reason for not accepting the available resources, other than that aid is a political tool. The United States wanted to avoid the political influence aid has on the policies of the recipient nation.

Unfortunately international assistance has a bad reputation.

Foreign aid, as currently administered, is rarely effective and often counterproductive.

- Foreign aid is designed to serve the interests of donors, not recipients. Donor countries often provide aid based on their national security interests and geopolitical considerations, and often without regard to the level of poverty or the character of the recipient government;
- Donor countries like to channel aid through their own nationals, and international institutions prefer to send foreign experts rather than build domestic capacity. Recipients often lack the capacity to absorb aid. Because development projects are designed and implemented by outsiders, when the experts leave, little remains;
- Foreign aid is mainly intergovernmental, and recipient governments divert resources for their own purposes;
- Donors insist on retaining national control over the aid they provide, resulting in a lack of coordination;
- International assistance is a high-risk enterprise. Doing it well is harder than running an enterprise for profit, because no single measure of social benefit exists. Aid is administered by bureaucrats with much to lose, and little to gain, by taking risks.

Better ways must be found to finance and deliver international assistance in order to redress some of globalization's inequities.

—George Soros "Global Public Goods: The Missing Component"

*The purpose of aid is to promote and secure basic human rights, to alleviate poverty and to reduce global inequality. However, the current aid system fails to efficiently accomplish these set objectives and it enables individual donor nations to dictate allocation in accordance with domestic preferences. This organization persists because the poor are not the real customers -- the rich-country politicians and voters are.
The poor suffer on account of politics.*

*It is imperative to acknowledge that aid, for so many reasons, should not be a tool for politicians.
It must be apolitical on both ends of the spectrum.*

The next few pages will explore the aid environment's landscape in discussing the various forms of aid, the disbursement of it, and the measure of aid effectiveness.

Various Forms of Aid

We live in a world that is evermore influenced by globalization. We, as people of the free world, have a moral obligation to promote and protect the basic rights of our fellow humans. Once the global-community agrees to provide aid on the basis of Human Rights, the question arises: what type of aid do we provide?

The term 'aid' can be understood as any form of assistance. Given this loose interpretation, 'aid' may easily lend itself to misuse. Therefore, 'aid' has little or no value without an accompanying term to give it a definition. You may have heard of the following: international aid, foreign aid, overseas development assistance, multilateral aid, unilateral aid, or bilateral aid. However, you may find it easier to understand and remember the forms of aid if you categorize them into these three:

Benevolent Aid

- * **Private Donations**
- * **Person-to-Person Aid**

Assistance provided for apolitical Agents who address poverty reduction and aim to improve health services, education, and other social necessities.

SOCIAL

Humanitarian Aid

- * **Food Aid**
- * **Emergency Aid**

Rapid assistance given to people in immediate distress as means to relieve suffering. This is a short-term solution and does not address the cause for suffering.

HUMANITARIAN

Development Aid

- * **Project Aid**
- * **Programme Aid**
- * **Budget Support**
- * **Microfinancing**

The means to support long-term and sustainable development, institutional framework, services, and policy.

ECONOMIC

A **World Bank** study of aid evaluation in 2000 began with the confession, that 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 limited oversight, feedback, monitoring, independent evaluation, and accountability have resulted in a corrupt aid environment that feeds off of those who cannot voice their needs. These conditions and the lack of financial transparency are conducive to corrupt behavior by too many actors in the aid environment. One corrupt official is one too many.

In the 21st century, for the sake of national diplomatic strategy, the overall approach to foreign aid has been inextricably bound with a nation's domestic policy. For example, the US requires recipients of aid to spend majority of monetary aid received on products and services from American companies. A constraint on international aid to benefit domestic products lowers the value of aid because it restricts the recipients' choice of what products can be purchased and from whom. Aid that is tied to government agendas is not an effective way to reduce global poverty - it serves the donor more than the recipient. Today, the aim of powerful nations is to preserve the status that they have over international affairs. However, the more the world becomes interconnected, the more it will demand multilateral administration over international affairs, such as the aid environment.

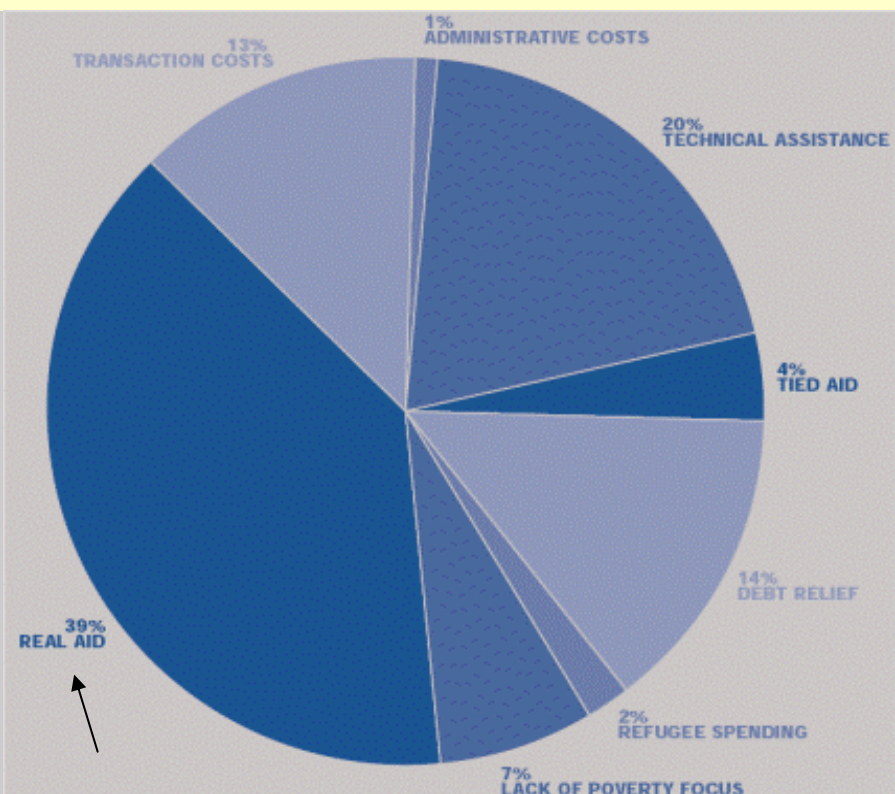
See below for the distinction ActionAid draws between 'real aid' and 'phantom aid'

ACT!ON AID

ActionAid's **"Real 0.7% Rankings"** as presented in their report **Real Aid (2005)**: aid donors fall far short of meeting the official international aid target of 0.7% of national income. ActionAid shows that when it comes to 'real' aid they are falling even further behind.

According to their analysis, more than 60% of aid flows are 'phantom'; that is they do not represent a real resource transfer to the recipient. For the worst performing G7 donors, the figure is as high as 89%.

Real aid stood at only US\$27 billion, or 0.1% of donor national income in 2003, with G7 donors at an average of only 0.07%. In other words, despite political grandstanding on the issue, G7 donors are only one tenth of the way towards meeting the 0.7% target.



Aid Disbursement

Actors

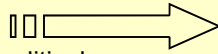
- * Private
- * NGOs
- * National Governments
- * Multilateral ORGs

Donors

- * National Governments
- * Multilateral ORGs
- * NGOs
- * Individuals

Agents

Benefactors



The intended beneficiaries of aid are the people who suffer from poverty- & emergency related suffering. Aid is for poverty reduction and to relieve suffering.

This report draws a distinction between apolitical actors and those that have formal political associations. A Donors disposition and objective can either be political or apolitical—and the same goes for Agents. A similar distinction is that of official and unofficial actors.

In respect to Donor governments, there have been attempts to 'impose good behavior' by recipient governments through the means of conditionalities. When the Donor is a politically associated official, then the particular conditionalities often favor the donor nation. Some Donors oppose the use of conditionalities and avoid stepping on the sovereignty of nations; they simply insist that governments 'choose to behave.' This particular approach has ignited a debate on stricter selectivity and the capability of recipient governments to effectively absorb and properly use donated funds. Given recent studies, this report contends that Donors should cut through the red tape and support apolitical Agents.

According to NYU professor **William Easterly**, "*the evidence suggests dropping the obsession with always working through the government.*" When aid funds are channeled through an official route and allocated by politicians, a smaller percentage of those funds reach the poor. The criteria for stricter selectivity standards are, for the most part, about the political policy environment in the recipient nation. There is a need to decrease the transaction, administration, and implementation cost of aid projects as a means to improve efficiency. Funds that are channeled through governments are utilized less efficiently and, as you can see on the right, there are examples of how politics can negatively affect aid effectiveness.

According to **Real Aid** (2005) "*Eighty-six cents in every dollar of American aid is phantom aid, largely because it is so heavily tied to the purchase of US goods and services, and because it is so badly targeted at poor countries.*" Too often, government officials have been accused of using foreign aid money for political gain rather than to help those in need. Their approach to international development is inextricably tied to a national diplomatic strategy to preserve, or gain more, international power and influence. Today, the environment within which they operate lacks transparency and methods that invoke the proper incentives, allowing rent-seeking and corrupt behavior to go unnoticed and unpunished.

Excerpts from William Easterly's White Man's Burden

Michael Kremer noted in an article in *The Journal of Economic Perspectives* in 2002: "for every person treated for a year with antiretroviral therapy, 25 to 110 Disability Adjusted Life Years could be saved through targeted AIDS prevention efforts or vaccination against easily preventable diseases."

A group of health experts wrote in the prestigious medical journal *The Lancet* in July 2003 about how 5.5 million child deaths could have been prevented in 2003, lamenting that "child survival has lost its focus." They blamed in part the "levels of attention and effort directed at preventing the small proportion of child deaths due to AIDS with a new, complex, and expensive intervention."

When the U.S. Congress passed Bush's \$15 billion AIDS program (known as the President's Emergency Plan for AIDS Relief, or PEPFAR) in May 2003, it placed a restriction that no more than 20% of the funds be spent on prevention, while 55% was allocated for treatment.

If money spent on treatment went instead to effective prevention, between 3 and 75 new HIV infections could be averted for every extra year of life given to an AIDS patient. Spending AIDS money on treatment rather than on prevention makes the AIDS crisis worse, not better.

For the same money spent giving one more year of life to an AIDS patient, you could give 75 to 1,500 years of additional life (say 15 extra years for each of 5 to 100 people) to the rest of the population through AIDS prevention.

A 2004 article in the *Journal of the American Medical Association*, while generally positive about treatment in developing countries, sounded some concerns:

"Finally, how will the tens of thousands of health care professionals required for global implementation of HIV care strategies be trained, motivated, supervised, resourced, and adequately reimbursed to ensure the level of care required for this complex disease? To scale up antiretroviral therapy for HIV without ensuring infrastructure, including trained practitioners, a safe and reliable drug delivery system, and simple but effective models of continuity of care, would be a disaster, leading to ineffective treatment and rapid development of resistance."

"More aid is urgently needed to reach the international development goals. But equally urgently, donors must undertake far-reaching reforms to ensure that aid quality is improved so as to make a fully effective contribution to the fight against poverty. While meeting the official 0.7% target is important, it is far more important that donors reach 'real 0.7%', a target that no OECD donor meets today. ActionAid believes that all donors must commit now to reaching the real 0.7% target as a matter of urgency – and by 2010 at the latest." — [ACT!ON AID](#)

Many political officials of third world nations have been receiving foreign aid under the guise of bettering their citizens' lives; however billions of dollars that have for decades been poured into corrupt governments are currently unaccounted for. This alone should teach the global-community to avoid channeling funds through unaccountable governments and to seek alternative approaches to aid disbursements. In the month of June 2007: 800 million dollars were reported missing in Iraq and more than a billion dollars in Pakistan (**CNN**).

"The solution is an essential reform of how we allocate foreign aid."

—**Esther Duflo**, professor of poverty alleviation and development economics at MIT, "Fund What Works" [Foreign Policy](#) May/June 2007

If the negative affects of political influence on aid does not encourage the global-community to transform the aid environment, then perhaps the positive affect of the private sector will. **Does Foreign Aid Help?** (2006) concluded that the "*larger the ratio Private-to-Private, the larger is the positive direct effect on economic growth.*" Their results "*also indicate that private flows may be a better instrument for development than foreign aid.*" Therefore, Donors should 'select' apolitical recipients for the sake of greater efficiency.

Aid Effectiveness

The effectiveness of aid, in its various forms, is poorly documented and largely misunderstood. The knowledge that exists regarding how to best provide aid assistance is very limited. This lack of understanding stems from the inability to properly evaluate aid's effectiveness and it is indicative of the aid system's incoherency and the overdue need for a transformation of the aid environment. The [Center for Global Development](#) has criticized the failure of donor aid initiatives to take monitoring and evaluation seriously as a recurrent weakness.

The measurement of effectiveness for any action depends on its objective. One could argue that if the objective of the aid system is to secure the advantage that one nation has over other nations, then aid could be perceived as effective because the system enables the use of aid as a political tool. However, the international community has established that based on the recognition of universal human rights the objective of the aid system is to secure and promote basic human rights.

Today, because of the limited knowledge of aid allocations, aid has been measured as a single variable within a larger context to determine the overall affect on the economy. The taken approach is to evaluate what effect the total sum of aid, as a variable fraction of the national budget may have had on a nation's overall economic growth (or performance). Not to measure how particular projects affected the local community. The taken approach fails to distinguish between the affects of aid and other factors that may affect economic growth and has rendered almost all studies on aid effectiveness inconclusive. The failure to reach a definitive conclusion indicates an inherent flaw in the aid environment. Therefore, considering the huge amount of funds involved, it is suspicious when decision-makers are unwilling to adapt alternative approaches that would help to improve aid's effectiveness. Some aid officials wish to avoid operating in economic transparency and deliberately fail to support independent evaluations that would disclose their actions to the public, it seems clear that they should not have a choice on this matter.

A study produced by the *Cato Institute* in 2006 "**Does Foreign Aid Help?**" explored various forms of how aid was delivered and found that "*the empirical evidence on the effectiveness of foreign aid is discouraging.*" The study concluded that "*increasing the responsibility of recipient countries (by providing loans instead of grants in a credible policy environment), reducing the cost of remittance to developing countries, and improving the coordination of donors seems to be reasonable goals to improve the effectiveness of foreign aid.*"

The authors of this study, **Djankov, Montalvo** and **Reynal-Querol**, argued that the higher the level of fragmentation of the donors to the results of their donation the lower the positive impact of aid on economic performance. For example, \$100 million from two donors would be more effective than the same amount would be if it came from fifty-two donors. However, they also found that funds flowing from private donors to private recipients, private donors to public recipients, and remittances (money sent back home to families by migrant workers) have a significant and positive effect on investment, without having any effect on government consumption (investment, much more so than consumption, positively effects the economic growth). They concluded that resources flowing to the private sector, together with monies that go directly to families, provide the best incentive mechanism for development. Accordingly, the more there are private actors the better the results, but the more there are donors per dollar, which translates to less efficient utilization of aid. This indicates that an effort to improve aid effectiveness should concentrate on fostering the role and coordination of the private sector.

In addition, to improve the effectiveness of aid at the individual level, it is important for those individuals who operate within the aid environment to have intimate knowledge of the particular community they are working in. It is important to collect feedback as a means to understand local values and interests. Without these factors, projects are more likely to become ineffective, as they will fail to resonate with the local community and positively affect future generations. On the right there is a list of five elements, compiled by the **CGAP**, that are not exhaustive, but key to improving aid effectiveness at the individual agency level.

If aid of any sort is to be effective, it has to make a difference to consumers. Just as in the developed world, the payment of taxes provides better public services for consumers. Redefining the modalities of aid is now more necessary than ever. It should not be so much about partnership with government but partnership with the people. Aid cannot be considered in isolation from trade, and the massive restrictive practices of the European Union, the Japanese and the United States, for example, should be tackled head-on. Developed countries became developed because they were able to innovate, get access to capital, and to move from subsistence economies to industrialized nations. The future market for aid should seek mechanisms that allow the private and nongovernmental organizations to thrive without greedy governments getting in the way.

—Tim Emmett CfBT—WB Discussion on the Future of Aid (2005)



1. **Strategic Clarity and Coherence:** The extent to which an agency-wide vision of microfinance exists and whether this vision and agency policies are in line with accepted good practice.
2. **Strong Staff Capacity:** Whether the microfinance focal unit has sufficient capacity and resources to provide skilled technical support to operational colleagues. Also, whether the overall level of technical capacity is adequate to ensure quality operations.
3. **Accountability for Results:** The level of knowledge of the microfinance portfolio (e.g., whether it is "visible" to the agency) and transparency on portfolio performance.
4. **Relevant Knowledge Management:** How well the agency learns from its own and others' experience through the creation, dissemination and use of practical, user-friendly knowledge.
5. **Appropriate Instruments:** Whether an agency has instruments that allow it to work directly with the private sector — a critical pre-condition for effectiveness in microfinance. The quality, range and flexibility of instruments are also crucial.

[The Consultative Group to Assist the Poor \(CGAP\)](#)

The way in which aid agencies advertise their effort is indicative of the misguided incentives and objectives: emphasizing input - the pool of money allocated - not the output - the outcome of particular interventions and projects. Politicians and aid bureaucrats speak of reacting to headlines, utopian ideals, and ambitious global-objectives as opposed to reacting to how the limited aid budget will accrue maximum benefits.

After mapping the landscape of the aid environment, this report finds that there is a need for an overhauling transformation of the approach to aid so as to limit opportunities for corrupt behavior to occur and positively complement the purpose of aid.

With respect to Donor governments using aid as a political tool to enforce change, there are two leading schools of thought. The first disposition believes that impoverished nations are in a poverty trap and in need of much more aid as a means to invest and promote economic growth. The other believes that the governments of impoverished nations are incapable of helping themselves and that aid should only be provided under certain conditions that are enforced by the donor government. Although these two schools of thought share the objective of democratization, both approaches prove to have negative affect on the rules and development of democracy, as opposed to promote democratic ideals.

The next two pages address the poverty trap and the principle of conditionality.

The Poverty Trap

The report, **Sachs et al** (2004), argues in favor of a massive increase (a Big Push) in foreign aid so that poor countries may escape from the "*poverty trap*". Simplified, the report contends that poor countries are poor because they are poor. A surge in aid funds will give poor countries resources to invest, thus enabling themselves to elevate from a state of chronic poverty. The study claims that this can be enforced through "*improved monitoring of budget processes and expenditures, perhaps with the help of local NGOs*." Once monitoring has been improved "*we should look for mechanisms that enforce public investment rather than consumption*." In short, **Sachs et al** maintains that those nations in need of assistance should be flooded with more funds, but only after improving Donor practices and the ability of recipient nations to absorb aid.

Other studies based on the same models that **Sachs et al** used to justify their findings regarding an existing poverty trap, found that the values of parameters used in the **Sachs** study were unreasonable, considering that the studies themselves contradict those conclusions. It is unfortunate that the Blair Report and the Millennium Project Report select research results to support the idea of a Poverty Trap. Perhaps the idea of a poverty trap may work better for fundraising, but the proposed solution—'a big push'—must not determine our approach to aid assistance.

"So we had the world's 25 most undemocratic government rulers (out of 199 countries the World Bank rated on democracy) get a sum of \$9 billion in foreign aid 2002. Similarly the 25 most corrupt countries got \$9.4 billion. The top 15 recipients of foreign aid in 2002, who each got more than \$1 billion each, have a median ranking as the worst fourth of all governments everywhere in 2002."

—**William Easterly** "White Man's Burden" (2006)

Djankov, Montalvo and Reynal-Querol (2006) provide empirical evidence that a sudden windfall of resources—in the form of foreign aid and rents from oil—damage the political institutions of recipient nations by reducing the checks and balances in democratic governments. There have been several studies that recorded the effects of 'too much aid'—which is the negative affects of the windfall from aid resources and referred to as the 'aid curse' because the affects reflected that of the natural resources curse. A nation's dependence on aid can be as damaging to democratic rules as the dependence on natural resources, such as oil.

Moreover, the total amount of funds contributed to international aid is meaningless, what matters are the results. The total amount should not necessarily be doubled, as has been suggested, instead the focus for improvement should be on the efficiency of the aid environment. To do that, the aid environment needs an overhauling transformation. The practiced methodology should prevent rent-seeking behavior, not enable it.

According to **William Easterly**, "The solution to this conundrum is that the identities of the poorest countries at the start of each period shown keeps changing. It doesn't help the poverty trap legend that 11 out of the 28 poorest countries in 1985 were not in the poorest 1/5th back in 1950... **If the identity of who is in the poverty trap keeps changing, then it must not be much of a trap.**"

He finds that "when we control both for initial poverty and for bad government, it is bad government that explains the slower growth"

POVERTY TRAP: (1985-2001 = 1.1% slower economic growth)
BAD GOVERNMENT: (1985-2001 = 1.3% slower economic growth)

We cannot statistically discern any effect of *initial poverty* on subsequent growth once we control for *bad government*. This is still true if we limit the definition of bad government to corruption alone.

The recent stagnation of the poorest countries appears to have more to do with awful government than with a poverty trap, contrary to the UN/J.SACHS hypothesis.

BAD GOVERNMENT

1. US, WB, IMF says that poor-country governments are awful and the West should get tough with the Bad Governments—force them to change in return for aid. Conditionalities, Poverty Reduction Strategy Papers, and egocentric incentives.
2. UN, Sachs et al, says that poor-country governments are not so bad and that countries should be free to determine their own development strategy.

However, it may be true that poor-country governments are bad, and just as true that attempts to change them have been fruitless. It leads us to the same conclusion as before: National governments, good or bad, should not act as direct Donors but manage oversight and support the private sector.

Sovereignty & Conditionality

Donor nations have ineffectively been trying to enforce 'good behavior' and prevent rent-seeking by providing aid and loans under certain conditions. The conditions for reform or other changes placed by donors are enforced from the top-down and often promote the interests of the donor nation. The fact is that there is an overwhelming need for funds in impoverished nations. The small amount of aid that is provided does not come close to sufficiently accomplishing the global objective. Because of this desperate need for aid assistance, recipient governments are often giving into imposed conditions that may not serve the best interests of the nation they represent.

However, after donor nations began forgiving the debt of recipient nations, the threat of repercussions if the conditions are not met has lost all credibility. The practice of negative-reinforcement only works when the appropriate authority asserts it. The methodology must change so that the practices positively-reinforce democratization and the enjoyment of basic human rights.

The effort to enforce good behavior also works against another principle: the *"greater national ownership of development programs"* (World Bank 2001). Studies have found that receiving aid reduces checks and balances on democratic governments. The practice of conditionality has also been criticized for taking up too much of the recipient's time, reducing the capacity of local politicians to focus on local people.

Christine Todd Whitman, a member of the board of directors at the Millennium Challenge Corp., recently wrote about "Making Foreign Aid Work", where she stated that American aid serves the nation's domestic interests. She also contended that when taking a look *"at the last 50 years of what has worked and hasn't worked in foreign aid, the U.S. government - through agencies such as the Millennium Challenge Corp. - is increasingly tying assistance to requirements of good governance, pluralism, the rule of law and civil liberties. This approach demands accountability and results."* She believes that enforcing outside top-down reforms (the complete opposite of democracy) is the best way to promote democracy and 'combat entrenched poverty'.

The unintended negative consequences of large reforms are much greater than with specialized projects. As opposed to enforcing large top-down reforms from outside, we at AidMarket believe that the best approach to promoting democratic ideals is through education and practice. By introducing utilitarian, egalitarian, and democratic principles in education, the seed will be planted for democratization, which necessarily depends on education. Donors, by supporting education-based initiatives, improving monitoring, creating a reliable feedback mechanism, and producing educational material of greater quality and availability, can approach aid assistance without infringing on a nation's sovereignty and promote bottom-up development from within the community.

Excerpts from "**The Future of Aid**"

by Tim Harford (IFC), Michael Klein (World Bank), and Klaus Tilmes (World Bank)

The common pool approach embodied high hopes (Kanbur and Sandler 1999), but difficulties quickly became apparent. The strategy was rooted in the conventional wisdom of the early 21st century: find a developing country with good policies and institutions, send aid, and stand back. It worked well for middle-income countries with mature institutions. But many other countries struggled to use the aid effectively. The trouble was that policies and institutions are changed by large flows of aid—which is exactly what washed over the handful of the poorest countries that met the standards set by donors. For such countries the aid flows had effects similar to those of the well-known "resource curse": manufacturing and agriculture were squeezed by appreciating exchange rates (Foster and Keith 2003). More important, democratic institutions were compromised in the rush for control of the new money (see Djankov, Montalvo, and Reynal-Querol 2004; and Knack 2000). Practitioners became disillusioned with the Multilateral Fund for Development, and some began to comment blackly that promising reformers had been drowned in the common pool.

— On conditionality, rather than reducing the number of conditions, donor harmonization has led to more donor money being linked to a largely unreformed set of World Bank and IMF conditions. Bilateral donors have also added their own policy demands to IFI programmes.

— Very limited progress has been made towards alignment with recipient planning, reporting and budgeting cycles, and still less towards using national systems. The DAC survey also revealed a gulf between donor and recipient perceptions of the extent to which country systems are being used, reflecting in part the fact that many country systems are identified, designed and implemented with donor funds in order to satisfy donor demands.

— No significant progress has been made in reducing transaction costs for recipients. In particular, there has been little progress towards genuinely harmonized missions or silent partnerships, both approaches that are likely to benefit recipients substantially.

— There was no evidence of progress on untying aid. Despite an OECD commitment to end tied aid to the least-developed countries, one fifth of aid to Heavily Indebted Poor Countries in Africa remains formally tied.

There is a growing consensus that **the impact of conditionality** on poor countries has often been negative. For example, see (DFID/FCO/HM Treasury, Partnerships for Poverty Reduction: rethinking conditionality, 2005)

William Easterly "White Man's Burden"

The Planners tie themselves up in rhetorical knots as they try to resolve the unresolvable contradiction between conditions and sovereignty. In 2001, the World Bank described the **Poverty Reduction Strategy Paper** as means to resolve the contradiction: "the PRSP... was a crucial step toward greater national ownership of development programs which is essential for increased effectiveness of external assistance."

So the poor-country governments, instead of being told what to do, are now trying to guess what the international agencies will approve their doing.

Western intervention in the government of the Rest, whether during colonization or decolonization, has been on the far side of unhelpful. The West should learn from its colonial history when it indulges neo-imperialist fantasies. They didn't work before and they won't work now.

Aid assistance for the sake of development, whether it is for personal development or that of the nation's economy, can be channeled either through governments or through the private sector. With respect to resources that flow from governments, this report finds that aid is often used as a political tool and concluded that politicians who are representing the interests of donor nations ought not to have decision-making authority on the allocation of funds that are collected for the sake of universal human rights. This report also finds that resources that flow to governments are utilized less efficiently than resources that are channeled through the private sector and aid funds are more likely to break down democratic rules as opposed to promote democratization.

The current aid environment is riddled with political corruption and costly bureaucracies. The way in which aid is disbursed hardly complements the purpose of aid. Many nations have promised to commit 0.7% of GNI to relieve suffering and secure the enjoyment of basic human rights. Few deliver, yet no one is able to hold them accountable for not living up to their commitments. Aid that is disbursed by national governments does, in most cases, not share the incentives for action with the global-community, leading to misguided objectives and uncoordinated developments .

The 0.7% commitment should be in the form of a multinational taxed-donation for multilateral agencies so that they can support economic development and provide oversight and emergency relief. Recipient governments should not act as Agents, but focus on institutional organization and on promoting Agents that work so hard to alleviate poverty through investment and benevolent aid. The aid environment must be structured in a manner that leaves minimum room for opportunities of corrupt behavior by those who participate in the global effort to reduce poverty to occur.

AidMarket promotes a transformation of the aid environment so as to emphasize the role of the private sector and address prevailing problems. The private sector has steadily been increasing its involvement in international development and assistance with positive results. Remittances – the funds sent back by migrant workers, both legal and illegal, to the country they call home — are also an effective form of assistance. The private sector has proven to work most effectively to promote economic growth, but still faces criticism for the lack of coordination, independent evaluation, and high transaction costs.

These next few pages will explore the private sector.

Microfinance for Investment

Djankov, Montalvo and Reynal-Querol (2006) found that constrained loans, rather than grants, are more likely to positively affect the economic growth of recipient countries. Since the loans have to be paid back in part or in full, the recipients are more likely to invest those funds in something that will yield return in profit. In doing so, they affect a nation's investment more so than consumption. Investment is more effective when success is measured in terms of economic growth. In regards to Development Aid, where the objective is to promote economic and institutional growth, loans are more effective than grants and the private sector more effective than governments. Therefore, empowering the private sector is the best way to promote economic development as well as to effectively reduce poverty and inequality.

However, not all aid should have the objective to promote investment. If so, it may raise the income of the top tier, but fail to address most of those living in poverty. Benevolent Aid must be in place to support and provide services that yield no return in profit. **George Soros**, a world-known philanthropist, has said that the "*disparity between our international financial and trade institutions and our international institutions serving social goals has made the development of global society lopsided. Trade and financial markets are good at generating wealth, but cannot address other social needs* (Global Public Goods: The Missing Component)."

"...IFIs, with their low-cost public money, should move away from the same regulated MFIs they have funded over the past several years and encourage them to develop their own links to domestic capital markets. This means focusing more on the next generation of strong institutions, offering seed capital and support for the development or transformation of this new crop of stars."

—**CGAP** "Access to All: Building Inclusive Financial Systems."

A **MicroRate** commissioned study of funding patterns confirmed that **IFIs** are not complementing private lenders, they are crowding them out of the most attractive parts of the **MFI** market. **IFIs** nearly doubled (88% increase) their direct funding to top-rated **MFIs** in 2005.

In the largest and most successful **MFIs**, **IFIs** are the dominant and growing foreign funding source. MIX2 data on over 160 **MFIs** confirm this trend. A number of the largest **MFIs** in the MIX database have received all of their foreign loans from **IFIs**. In some cases, private lenders wanted to provide funding to an **MFI**, but were unable to do so because they were unable to match terms offered by **IFIs**.

—**MicroRate** (2007)

International Financial Institutions (IFIs) are supposed to act as catalysts for investment, the IFI's must plow and seed less stable markets as a means to give those markets a chance to grow into a more profitable opportunity for private investors and stakeholders. The IFIs ought to support markets with higher risk on investments and leave the private sector to financing entrepreneurs in markets that are able to thrive on competition. The IFIs, given what they have to lose in comparison to private funds, have to be the greater risk-taker. Today, the IFIs are seeking more profit at the cost of opportunities for the private sector to invest in stable markets. The officials of capitalist nations should not be surprised to see capitalism work.

Recently the private sector was given a boost by the private organization **Kiva** which is providing a service that is simple in use and beneficial to entrepreneurs in need of financing. Kiva facilitates person-to-person microfinancing as a means to foster local ingenuity and promote economic growth. Kiva has exemplified an efficient way to provide development aid for specific proposals posted by people in impoverished nations who were able to attract funding for their project on the internet.



Kiva is an online service that connects lenders to small business borrowers in developing countries. **Kiva** partners with existing microfinance institutions. By choosing a business on **Kiva.org**, a lender can "sponsor a business" and help a few of the world's working poor stride towards economic independence. **Loans can be made instantly via PayPal, which does not charge for the service.** Throughout the course of the loan (usually 6-12 months), the lender can receive email journal updates from the business you've sponsored. As loans are repaid, you get your loan money back. Borrowers, screened by the local microfinance institution, can get small amounts of money relatively quickly. The website claims over US\$4 million in loans, with an excellent repayment scheduler.

Role Reversal (2007)

The rapid growth of foreign private lending to microfinance institutions (MFIs) in the last several years has led to a surprising reversal of roles between government-owned development institutions and private lenders. Development institutions (International Financial Institutions - "IFIs"¹) are concentrating their loans in the strongest MFIs, leaving private lenders to look for opportunities among smaller, riskier borrowers. Development institutions are "crowding" private lenders out of the best MFIs.

The rapid emergence of a large number of private lenders is one of the most encouraging aspects of microfinance. If all of those among the poor who can use credit productively are to be reached, then vast amounts of private funding will be needed in the future. IFIs, large as they are, cannot come close to meeting the future funding needs of MFIs. Only private capital can provide that kind of money. By forcing private lenders out of the most lucrative segment of microfinance, IFIs are hampering the development of the very institutions on which the sector will depend in the long run.

- * First make IFI funding transparent
- * Maximize commercial participation in innovative capital markets transactions; Seed the next generation of microfinance institutions
- * Help develop mechanisms to cover foreign exchange risk
- * Promote further private sector channels for microfinance and finance industry infrastructure

Why are development institutions concentrating on MFIs that can attract private lenders? The answer has to do with the nature of IFIs. Their official mission is to go where the private sector does not yet dare to tread; to assume risks that private capital would find unacceptable. Often, IFIs have adhered to these principles. However, in recent years the risk-based division of labor between IFIs and private capital has broken down.

Their best role is to strengthen the overall capacity and transparency of the industry, and to act as a catalyst for private capital that would not otherwise invest in microfinance.

Julie Abrams, Microfinance Analytics
Damian von Stauffenberg, MicroRate

Remittances

Remittances are the funds sent back by migrant workers, both legal and illegal, to the country they call home — which is an effective form of assistance. The study **"Does Foreign Aid Help?"** found that funds flowing from private donors to private recipients, private donors to public recipients, and remittances have a significant and positive effect on investment, without having any effect on government consumption

Legal workers (paying taxes), no matter whether they just migrated or not, should be able to donate funds to a charitable cause and take advantage of the provided (501c 3) tax benefits. A charitable cause may be justified in the context of Benevolent Aid. If the funds are to help people alleviate from the state of poverty, then the donation of those funds ought to have the same sort of tax benefits as do other 'charitable' donations.

In 2005, Americans donated more than \$95 billion to the developing world. That is almost four times what the U.S. government gives in foreign aid and many times more than what Europeans give in public and private donations, according to a study by the Hudson Institute (2007).

By far the largest figure in U.S. private donations came from remittances, money that immigrants send home. According to the Hudson study, U.S. immigrants sent home -- mostly to Latin America -- \$61.7 billion in remittances in 2005. In other words, two-thirds of U.S. private philanthropy overseas is in the form of remittances from legal and illegal immigrants.

"There is a whole new world of philanthropy out there, and it is being led by the United States," said **Carol Adelman**, director of the **Hudson Institute's Center for Global Prosperity**. *"It is the private sector where the action is, where the future is."*

Mrs. **Adelman** said the foreign-aid community is loath to include remittance figures, because it undermines the argument that more government foreign aid is needed. *"Some people say we should not include these figures, because that is just family members giving to family, but the studies clearly show that remittances reduce poverty,"*

"Regardless of the motive, remittances are reducing poverty, and it is a significant flow," she said... Remittances are probably the greatest poverty-reducing agent in the world today."

"We do not oppose government aid," the Hudson Institute's Mrs. Adelman said. *"I don't say that all government aid is a waste of money, just that certain forms don't work."*

—Tom Carter - April 29, 2007 [THE WASHINGTON TIMES](#)

To improve the monitoring and increase the value of remittances, the option to donate to a particular development project has to be presented. In the case of remittances, as long as the recipient family has proposed how to allocate the donated funds in a manner that identifies with benevolent aid.

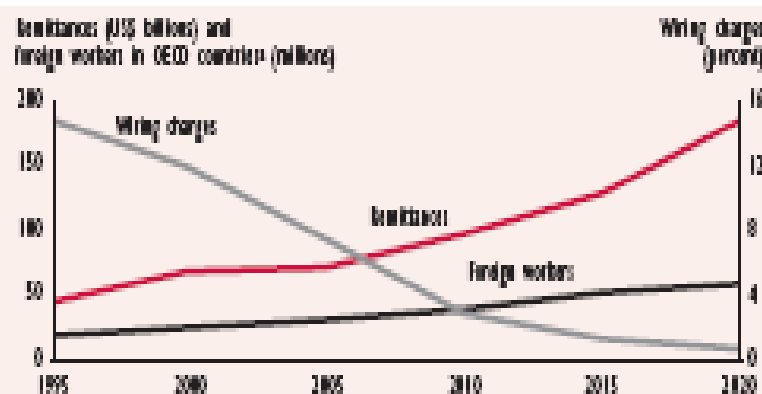
Reducing transaction costs for both donations and remittances increases the realized value of those funds. As opposed to setting conditions for top-down reforms, the World Bank (or other IFIs) should promote and provide the services needed to share wealth and minimize the cost of transactions. The private sector has begun to address the concern of high transaction costs—**PayPal** does not charge those who use Kiva as a way to microfinance entrepreneurs in an impoverished nation—with positive effect.

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Another way for migrant workers to have a positive and effective affect on the economic growth of their home nation is presented in: *Bilateral GuestWorker Agreements*, see excerpts from a paper by **Lant Pritchett** (CGDev) — see the Notes section.

It asserts that *"a 3 percent increase in rich country labor forces through legal, temporary labor, would result in a net annual gain of \$56 billion to current rich country residents, on top of the \$305 billion annual direct gain to migrant workers themselves and their families. And while labor mobility is not always seen as a development issue, it should be."*

Remittances: falling cost, growing volume



"The Future of Aid"

It was clear by 2005 "that remittances were going to be a critical competitor of official aid. They had been shown to be more stable (Ratha 2003) and a better prospect for boosting economic growth (Djankov, Montalvo, and Reynal-Querol 2004). These findings emphasized what should have been obvious: person-to-person transfers are likely to be well targeted and well spent." ...

"All these improvements spilled over into the burgeoning unofficial aid industry, which some term the 'undergrowth.' It gradually became clear that unofficial aid projects were delivering far higher returns than official ones. By 2020 that was provable beyond reasonable doubt. Internet platforms made it effortless for private donors to find worthy projects that were well governed, professionally managed, and fully certified."

—by Tim Harford (IFC), Michael Klein (World Bank), and Klaus Tilmes (World Bank)

The Coordination Problems

Those who oppose the empowering of the private sector in international development are likely to argue that because of inefficient coordination, an increase in the number of private donors might not proportionately result in an increase in performance/outcomes. The report: **"Does Foreign Aid Work? (2006)"** found that donor fragmentation is an important obstacle for aid to overcome to be more effective. When considering the way aid is disbursed and the institutional environment of recipient countries, they found that it was still an obstacle. *"Instead of working to establish comprehensive and consistent development objectives and policies, government officials are forced to focus on pleasing donors by approving projects that mirror the current development enthusiasm of each donor"* (Morss 1984: 465)."

DONOR COORDINATION

1949 - "a cooperative enterprise in which all nations work together through the United Nations and its specialized agencies." **Truman**

1982 - "Aid coordination... has been recognized as increasingly important..." **WB**

2001 - "[the donors need] to ensure better coordination and stronger partnership in... development cooperation." **WB**

AidMarket identifies three coordination problems: (1) Inter-departmental coordination for Donor nations; (2) Donor coordination with other Donors (and Agents) that operate within the same community/nation; and (3) Private Sectors' failure to coordinate with the government of the nation within which they operate. Collective responsibility and action in a poorly documented, monitored, and evaluated aid environment gives birth to these coordination problems. The failure to coordinate may also be rooted in an unavoidable contradiction between aid for the sake of basic human rights and aid for the sake of domestic gain. Contradicting incentives and objectives are doomed to result in an irresolvable coordination problem. The transformation that AidMarket promotes addresses these problems as such:

(1) Earlier in this report it was suggested that individual governments should not be directly involved in aid efforts, because of the negative affect it has on aid disbursements and aid effectiveness. However, if you wish to read about US' effort to address the lack of inter-departmental coordination, see the bottom of this section: **Transforming U.S. Foreign Aid**.

(2) This report proposes the establishment of a transparent aid market that will enable Donors to coordinate with other Donors more efficiently. In a knowledge sharing environment, the information obtained with improved monitoring can be enhanced with a simple appraisal system - which consists of ratings and scores and will be elaborated on at a different point in this report. AidMarket also envisions Google (or Galileo satellite-navigation—which needs a new purpose) being able to help improve the aid environment with geographical mapping of projects and initiatives. With updated satellite images of project locations, Google could help to improve monitoring, visibility and coordination within the aid environment. Google's database could be used to search other categories than a project's geographical location. With improved knowledge sharing and monitoring in a system that operated in economic transparency, we can achieve greater coordination and aid effectiveness.

(3) Governments, no longer trying to satisfy Donor conditions have more time to spend on building coherent policies and providing oversight for those who operate within their borders. AidMarket will enable the elected officials to coordinate on strategy and objectives, to clarify policies and particular needs so as to help direct Donors and development Agents in their effort to address the prevailing social problems. The governments will be better equipped to develop an efficient institutional framework as a means to support and promote the private sector, improve regulations as well as to provide oversight.

Although higher levels of Donor fragmentation lowers the positive impact of aid on economic performance, the flow of resources from private Donors has proven most effective. For coherent coordination, those who act within the aid environments must share incentives for action. By addressing the coordination problem and transforming the aid environment within which private Donors and Agents operate, we could improve the international effort and more effectively reduce global inequality and poverty.

"Transforming U.S. Foreign Aid"

Author: **Robert McMahon**, Deputy Editor (May 3, 2007) [Council on Foreign Relations](#)

A March 2007 GAO report found instances where seven agencies involved in education aid "missed opportunities to collaborate and maximize U.S. resources" because of a lack of coordination. Aid experts inside and outside the government had pointed to growing fragmentation in the way foreign assistance is administered.

Secretary of State **Condoleezza Rice** in early 2006 moved to reorganize the way foreign aid programs are coordinated and created a top State Department post of director of U.S. foreign assistance to improve coordination of aid strategy.

John W. Sewell, a senior scholar at the **Woodrow Wilson International Center for Scholars**, says the plan announced by **Rice** still lacks a strategic framework to guide foreign assistance activities. Sewell says the plan declines to mention the need to address poverty, and its mention of linkages to the Defense Department raises fear that foreign assistance will be further militarized.

Steven Radelet, a senior fellow at the **Center for Global Development**, says there is concern that the realignment brings independent USAID programs more directly under the control of the State Department, meaning that political criteria might play an even bigger role in aid distribution.

This report reaches the same conclusion as [ActionAid](#) did in 2005: “For aid to become truly effective in the fight against poverty there needs to be far-reaching reform of how it is planned and delivered.”

Today, the aid environment is ill-conceived to effectively accomplish the principles of freedom—to reduce inequality by securing and promoting basic human rights. The system is inefficient and lacks transparency, allowing for corrupt behavior to go unnoticed and unpunished. It is important that the UN and other international agencies that are funded with public money operate transparently, both in their finances and their hiring and promotion practices. The illegitimate use of public money cannot be tolerated. Objectives should be reflected in the rules that structure and define the behavior of those who operate within the aid environment. The incentives and pride in doing good work ought to reinforce each other. Today, they do not.

Matters of benevolent aid and international development are much too important to be handled by politicians because the purpose of aid is to accomplish a universal basic standard of living, not to preserve a nation’s hegemonic grip on the world. Thorsteinn, the creator of AidMarket, decries the centralized planning approach that structures the aid environment and has set out to develop a marketplace that will foster the role played by the private sector in international development.

The proposed solution is a transparent aid market where donations can be tracked and their utilization evaluated: an online platform where Donors and Agents connect with one another, creating a global network of direct involvement between philanthropists and projects.

Agents propose and attract funding for piecemeal aid projects. Donors allocate donations to particular projects and are able to visually monitor productivity as well as end results.

The incorporation of an appraisal system will improve (arguably establish) basic evaluation of development projects and install incentives that promote better performance. It will improve monitoring and make the most needed aid projects more visible, thereby ensure that the particular problem is more likely to be addressed.

AidMarket

AidMarket is purposefully designed to address the most serious of problems identified within the aid environment. **AidMarket** will enhance the impact of aid on poverty reduction by promoting coordination, supporting independent evaluation, and transforming the financing of aid projects. **AidMarket** will incorporate the beneficial impact of person-to-person aid and facilitate Donor-Agent partnerships; cutting red tape for Agents and offering Donors a new way to help achieve the objectives prescribed by a global-community of free people in a transparent market so as to ensure accountability, as well as to improve both decision-making and aid effectiveness.

"Even more important than finding a source of finance is to improve the delivery of international assistance. I propose creating a kind of market where programs compete for donors' funds. This is how it would work."

—George Soros "Global Public Goods: The Missing Component"

The Market is essentially the transparent bookkeeping of work orders and project proposals. The data generated will improve comparative analysis and weed out those organizations that take advantage of the impoverished by comparing the costs of administration and project implementation relative to total expenditures of projects, thereby encouraging better management and improving oversight. Google (or other ICT provider) will hopefully contribute to the database so as to improve monitoring and visibility, both of which are necessary for holding people accountable for their actions as well as to align development effort for greater collective coherency.

"Part of the solution is changing the rich-country political marketplace that aid agencies face. If Western governments and NGOs really want to make poor people's lives better, it will take some political courage to admit that doing everything is a fantasy. The rich-country public has to live with making poor people's lives better in a few concrete ways that aid agencies can actually achieve."

—William Easterly

The Poor are the intended beneficiaries of projects posted on AidMarket. The projects proposed must benefit the poor. The cost/benefit analysis should be intuitive and justified. In this business few words ought to be necessary to justify benevolent aid for the poor. The transparent market, complemented by an appraisal system, will make the most needed development projects more visible and limit the influence of political agendas on the global effort to reduce poverty.

AidMarket requires photographic evidence of the before, during, and after status. For larger projects the progress should be depicted with a series of photos and other forms of documentation like videos. The intent is to measure concrete evidence of productivity. In the scope of the whole project, the feedback from locals and other documentation of progress and the impact that project had on the community affected by change may seem like pennies, but AidMarket requires them. As these 'pennies' are collected over time they may yield worthy studies and rich knowledge that will benefit future developments.

"If development projects are transparent, productive, and efficiently run, I believe that they will enjoy broad support. If they are not, they are likely to fare poorly when placed in competition with domestic priorities or more tangible security-related expenditures."

—Richard G. Lugar,
US Senator and Chairman of the Senate Foreign Relations Committee

AidMarket will demonstrate that political demagoguery and the irrelevant total figures should not be used to encourage Donor contributions. Private Donors want to see their contribution put to good use; they want efficiency and positive results. AidMarket will disclose publicly all efforts and outcomes so to reward development Agents for reaching goals, not for setting them. In due time, AidMarket will establish a prestigious award for those Donors and Agents whose effort and achievements stand out. This award, in combination with individual accountability and improved monitoring, will increase the weight of pride in one's work and the incentives that encourages better performance. It would be appropriate if a multilateral agency contributed to the recognition of this 'prestigious award.'

"An investment in aid is an investment in building a better and safer world for all."

—Kemal Dervis, head of the United Nations Development Programme said in statement (April 2007)

Earlier, this report suggested that the World Bank or other IFIs ought to provide services needed to enable the global-community to share wealth across borders and cultures. The aforementioned Act!onAid report stated that in 2003 about 13% of the donated aid funds were used to pay for the transaction of those funds. AidMarket will charge a transaction fee of 2.5% to pay for all expenditures. However, as a way to maximize the utilization of donated funds, once the cost of operating AidMarket has been covered, the remaining surplus will be redirected into the Market to support education-based initiatives.

“The Development Committee recognizes the need to increase its focus on performance by ensuring that development results are reviewed through clear and measurable indicators.”

—Trevor Manuel, Minister of Finance, South Africa

AidMarket could increase the incentives for drug companies to invent new cures for diseases that affect the poor. A project proposed on the market could be a specific fund created to address a certain disease or a critical health situation within particular communities—a drug innovation project. By advancing market commitment wherein Donors have promised to purchase a set number of doses at a set price, the drug innovation projects would install an incentive that drug companies would respond to-\$\$\$\$.

AidMarket is better suited for small-scale projects and piecemeal improvements, but will also feature larger endeavors like the construction and/or maintenance of a health center or an education center (see Notes for an example). In the case of large-scale projects, Donors should have the opportunity to assume responsibility for those particular parts of the project that are essential to its completion and sustainability. Donors that commit to these necessary components, which may not have a fixed price or require annual funding for years to come, assume responsibility and can be held accountable for any shortcomings as well as rewarded for accomplishing improvements.

The Reality of Aid -- <http://www.realityofaid.org>

“At Stake: Focus on Ending Poverty (2006)”

Aid must be treated as a scarce and unique resource for promoting the rights of poor and vulnerable people, and not the foreign policy interests of donor countries...

The inclusion of military assistance into ODA, whatever its intended purpose in donor foreign policy, is opening the door even wider for donors to divert scarce aid resources away from poverty reduction...

The huge financing needs for poverty reduction and achieving the United Nations Millennium Development Goals requires aid be strengthened by clearly dedicating it to its stated purpose —ending poverty.

“Key Messages on *The Paris Declaration* (2007)”

Donor/government policy dialogue on national development plans, so central to the Paris Declaration, should be guided and informed by international human rights standards. The Paris Declaration’s commitment to “country ownership” relies on donor alignment with partner governments’ national development strategies...

Real “country ownership” is the result of strong participation of organizations representing citizens, and particularly women and marginalized groups, who are most affected by poverty, as well as effective parliamentary scrutiny, and is not a limited dialogue between donor officials and government officials. Efforts for poverty reduction must include the space for organized efforts of poor people and organizations to claim and promote their rights.

Both donors and country partner governments have largely endorsed international human rights standards elaborated in various United Nations Covenants. These oblige both donor and recipient governments to maximize their efforts to progressively realize citizens’ civil, political, economic, social and cultural rights, taking into account key principles of participation, non-discrimination and special attention to vulnerable groups. Alignment to this framework requires processes of donor engagement and government practice that prioritize accountability to citizens over accountability only to donor interests and priorities.

Mutual accountability requires transparent participation of citizens in assessing the success or failures of reform to produce poverty reduction results. Without greater democratic participation of developing countries in the IMF and the World Bank, and without a reduction of these institutions’ current influence on the policy choices available to developing country governments, donor “harmonization” of policy prescriptions in their engagement with recipient governments only accentuates the absence of democratic accountability of these governments to their citizens.

Governments can never be truly accountable to their citizens, and their parliaments, when policy prescriptions continue to be imposed, by donors, as conditions for both debt cancellation and aid. Both donor policy dialogue with government and harmonization of aid practices in program-based approaches have tended to accentuate the impact of donor conditions with numerous additional “benchmarks” that must be achieved for the release of aid monies. Within highly unequal aid relationships, the governments of the poorest countries are very vulnerable to such conditions. They face an international environment that permits few options to stray from development policy “consensus”, which is largely a donor consensus.

Actors

Become an I AM Donor and support I AM Agents throughout the world.

The "I" is assigned to both Donors and Agents so to increase their sense of individual accountability.
The "AM" stands for AidMarket.

The transparent bookkeeping of AidMarket permits **Donors** to support particular projects, to monitor productivity, as well as to visually observe the benefits of their direct involvement. **Donors** will be able to search AidMarket based on criteria, such as a project's location, rating and expenditures. Once **Donors** have found a worthy project they can contribute anywhere from a dollar to thousands of dollars. **Donors** are able to 'shop' for the means of their contribution and participate in benevolent aid projects. Since AidMarket requires photographic evidence as a means to improve monitoring and visibility, **Donors** are able to experience both the progress and outcome of particular developments through visual media.

Donors have the opportunity to participate infrequently and without future obligations, yet the ability to evaluate and allocate to particular projects will increase their involvement in the global effort to secure and promote basic human rights. In doing so, **Donors** will positively influence development policies and management to ensure that aid is used in productive ways and gets to those who need it the most.

AidMarket is a Donation Market for Donors

Donors may contribute funds without any future obligations, but will also have the opportunity to assume responsibility for particular parts of large-scale projects (to pay the teacher's salary, sponsor a single scholarship, cover the cost of facility maintenance, etc.) **Donors** will also have the opportunity to permanently fund certain operational or maintenance expenditures. To improve the outcomes of aid assistance, AidMarket relies on willing contributors and will hold them accountable for their actions, or lack thereof. In order to have a sustainable model for international aid and development, **Donors** must assume responsibility for the integral parts of any large-scale project.

I AM -- part of the solution. How are YOU involved?

Agents propose projects on the Market to attract funding from private donors. **Agents** will be required to give regular updates using visual media and other documentation to show progress. Anyone who is working to reduce poverty and secure the enjoyment of basic human rights may register as an **Agent** on AidMarket.

AidMarket is here to benefit and support purposeful endeavors. **Agents** can be Individuals- like *Dr. Paul Farmer*, Groups- like the *Development Executive Group*, NGOs- like *VideoVolunteers*, and For-Profit Companies- like *Sun Microsystems*. For all you **Agents** in the field, we welcome your input and constructive criticism. Please tell us how AidMarket can accommodate to your needs and working habits. How can we help you help others?

AidMarket is a Market for Aid for Agents

This person will be accountable for documenting productivity. This person must understand that our books are transparent and that the project requires monitoring and feedback. The contact person for a particular project must register as an **I AM Agent**. **I AM Agents** must expect to be criticized and/or glorified depending on their performance and project outcomes.

If the **Agent** is not an individual, then the project proposal must have a designated contact person. This person is accountable for the funds donated to that particular project.

It is good to have a noble goal in mind when contemplating the solution to any problem. However, if the problem is not your own, then the goal, based on your values and experience, is irrelevant, and the proposed solution thus unlikely to resonate. One must place personal goals in the background and understand the problem before attempting to provide a solution. **I AM Agents** can make poor people's lives better in the few concrete ways that can be realistically accomplished. Rather than having each agency responsible for everything, **Agents** should specialize more in solving particular problems.

AidMarket is a fundraising tool for **Agents** and their proposed aid projects. AidMarket offers comparative evaluation of **Agents** for both Donors and the beneficiaries of aid, who, with the introduction of AidMarket, are surely going to appreciate the improved proportion of 'real aid'

"If aid is to be effective, its distribution would have to be transparent and published on the Web...This would have to include the purpose of the project, in detail, and the name, address, post, and title of each official who receives any money, and what he/she is supposed to do with it."

-E. Somanathan, Indian Statistical Institute, Delhi

The Appraisal System

Transparent books and a categorization of particular projects will improve the monitoring of Agents and development efficiency. The progress being monitored will not be scaled with global objectives, but particular and localized. Monitoring of performance and outcomes is crucial if we want to hold Agents and Donors accountable. The transparent bookkeeping of AidMarket allows Donors to monitor the effect of their direct involvement. It gives Donors the opportunity to observe the benefits of their contribution, as opposed to seeing it drowned in the total sums of large agencies.

“Aid evaluation plays an essential role in the efforts to enhance the quality of development co-operation.”

—Development Assistance Committee,

Org for Economic Co-operation and Development, Principles for Evaluation of Development Assistance

Registered users are able to rate both projects and Agents—as long as they're not participating in the project. The independent rating of these projects and Agents will reflect a score, allowing the Market to harnesses the spirit of competition to positively affect those who are involved in the implementation of aid projects. The projects' score will be equal to the score Donors receive for participating in that particular project over the proportion of their contribution to the project's total expenditures.

AidMarket will provide an independent assessment of how effectively Agents are using Donor money to reduce poverty. AidMarket could publish an annual league table of Agents, just as Transparency International provides a ranking of countries on corruption, so that the public is informed of where their monies will be best spent. This simple appraisal system will bring the projects that are most needed to the surface and to our attention. Given the appraisal system, AidMarket will reward participants for reaching goals, not for setting them.

Today, Donors are either placing conditions on loans or flooding incapable governments with more resources than they are able to absorb. As opposed to individual officials or governments dictating actions, AidMarket will positively-reinforce the directive and function more like a free market, dictated by multiplicity in opinions and converging at the smallest denominator—basic human rights. This appraisal system will align the incentives for action within the aid environment with those of the free market as well as with democratic principles. It will bring the objective of aid back in line with the purpose of aid.

In addition, by utilizing the data generated by the appraisal system, the Market will provide access to a cast array of information, including digital libraries, real-world data for analysis, and connections to other people who provide information, feedback, and inspiration, all of which can enhance the learning of officials, teachers and students. Once there is an aid market in place, there will be, without a doubt, ways to improve the aid environment beyond what is suggested in this report.

“Success depends on knowing what works.”

—Bill Gates

It seems evident that education is at the core of development, so why isn't education more of a core element in development assistance? Why are the institutions of higher education not more directly involved in the effort to spread education around the globe? The database generated by the Market is a rich resource of information. To maximize the value of this resource the Market must foster a relationship with institutes of higher education. The relationship could be mutually beneficial and generate more knowledge than exists today on the multi-billion dollar industry that is the aid environment. In addition, this infusion of information and academics could help the aid community address some of the most critical flaws in existing aid. The following pages will suggest how this is possible.

Variables:

X= Total cost on Proposal

Tc= Transaction Cost = $X(.025)$

Px= Project Expenditures = $X + Tc$

Id= I AM Donor Contribution/**Px**

Ratings:

(I AMs cannot rate the projects they propose or donate to - one rating per account)

Pb= Project benevolence 'what' (benefit/costs analysis rating)

Ps= Project strategy 'how' (implementation costs, method, & effort)

Po= Project outcome rating (Once project is complete)

Ia = I AM Agent rating (Once the project is complete)

Scores: (Both Scores and Ratings should be searchable tags)

Project= $5(Ps + Pb)$ Max= 100

I AM Agent= $Pb + 5(Po + Ia)$ Max= 110

I AM Donor= $Id(\text{Project score} + \text{I AM Agent score})$ Max= 210

“Only with the democratization of political knowledge can we begin to build a free world.”

—Timothy Garton Ash *FREE WORLD* (2005)

UNDP's Capacity Assessment states that it is "a tool, not a solution. The Capacity Assessment requires a prior understanding of the political context within which capacity is deployed and a clear rationale for why certain capacities are desired in the future." Quite obviously the assessment depends on the understanding of local politics, institutions, and societal capacities as well as constant feedback from these particular communities. In fact, it seems to be the very grounds on which everything else depends, a sort of precondition; and yet the lack of feedback is one of the most critical flaws in today's aid environment.

The poor have no money or political voice to communicate their needs or to motivate others to meet those needs. Better feedback from the poor means better informed development initiatives and interventions, which translates to a higher success rate. Feedback guides democratic governments toward supplying services that the market cannot supply as well as toward providing institutions for the markets to work.

Lack of feedback is one of the most critical flaws in existing aid.

The World Bank did produce a Monitoring and Evaluation Operations Manual, prepared jointly by UNAIDS and the World Bank. The manual sensibly warns that "the more complex an M&E system, the more likely it is to fail." It then spends 52 pages laying out its extremely complex M&E system.

Because the poverty outcomes in the Rest depend on many factors besides the bureaucracy, the aid agency's contribution in the field is invisible... This invisibility of individual aid agency efforts and outcomes is a the core of the problem.

—**William Easterly** "White Man's Burden" (2006)

Ideally, it would be relatively easy for locals to propose particular piecemeal projects and developments. Locals should be able to express themselves and be heard. However, the feedback that we analyze should not all be from voluntary submission of information. The most valuable information could be collected by the means of interactive educational material. Simple games, questionnaires, or the freedom to create and express one's opinion has the potential to yield a tremendous amount of quality information from the bottom. Simple choices made by a child that experiences interactive education can yield information about local values, interests, traditions, rules, etc; understanding of which is the very precondition for any future development.

If the Market were to service a large-scale project (such as the education center example presented in the Notes), then it could be a resource for real world data from real world problems. This information could be systematically employed in teacher training programs. The students and professors of these programs could analyze the data and employ it in the practical creation of educational material. It helps educators connect particular values and interest to relative educational material as well as to the instruction of that material. AidMarket considers an education center of this sort to be a rich resource that is widely beneficial and unlikely to ever deplete.

When education centers are available, AidMarket suggests that the mechanisms for monitoring, research, and feedback be integrated with the local curriculum. Any information collected will be more relevant if locals work to obtain that information from other locals. For the data obtained, there will be a need for independent scientific evaluations of particular interventions. It is part of the broader effort of knowledge sharing -- a database from which development Agents can learn. Any resulting and relevant academic research and evaluation should be readily available to all.

These resources should serve as the basis for creation of educational material tailor-made to address local needs and values. By utilizing the resources in this manner, the system also installs a positive incentive for those students and professors who wish to see their work published and applied. With the help of translators, the quality educational material that will be produced could then be shared on the internet.

WHAT AMERICANS THINK

- 91% of Americans think improving basic education is an effective way of helping nations overcome poverty.
- 84% of Americans agree that increasing foreign assistance to countries that invest in better health care and better schools is a good idea.
- Of all the reasons to give development assistance, Americans rank child survival programs (including prenatal care, immunizations, and nutrition), education and training for people in poor countries, and programs that focus on helping women and girls as three of the top four most compelling reasons.

Peter D. Hart Research Associates, March 2002,
on behalf of CARE International; Program on International Policy Attitudes, Americans on Foreign Aid and World Hunger:
A Study of U.S. Public Attitudes, February 2001.

The information generated by the Market is a form of resource. The information available to those who monitor agents and projects could, and should, be used for academic purposes. The data offers many potential research hypotheses and could be used as subject matter for classroom instruction. The Market must build on this resource as a means to incorporate academics more thoroughly in the monitoring and evaluation of development. Academics could do public service by applying their academic techniques to evaluate the projects, programs, and approaches undertaken by Agents in the field. AidMarket will establish a relationship with institutes of higher education as a means to employ academic researchers in a more fruitful role so that they may serve as the unofficial independent evaluators.

In recent years, the quantity of education has gone up, but the quality remains low. This incoherency has made the available resources less efficient at the cost of leaving aside necessary components of the whole. This is where poor feedback, invisibility, and collective responsibility is to blame. People mean well, but the aid environment is ill-conceived and in need of a transformation.

For example, World Bank researchers **Deon Filmer** and **Lant Pritchett** estimate that the return on spending on instructional materials in education is up to fourteen times higher than the return on spending on physical facilities, yet donors continue to favor 'more observable' projects over 'less observable' educational material. The effort to provide universal education lacks coherency and greater emphasis in the global strategy.

- **Improved Health:** With education, people are better prepared to prevent disease and to use health services effectively. For example, young people who have completed primary education are less than half as likely to contract HIV as those with little or no schooling. Educated mothers have healthier children.
- **Higher wages and economic growth:** In many poor countries, with each additional year of schooling, people earn 10% higher wages. These earnings, in turn, contribute to national economic growth. No country has ever achieved continuous and rapid growth without reaching an adult literacy rate of at least 40%.
- **Democracy and political stability:** Education supports the growth of civil society, democracy, and political stability, allowing people to learn about their rights and acquire the skills and knowledge necessary to exercise them.

www.cgdev.org/section/rwpw/

Again, the academic community must bridge higher levels of education with aid efforts around the world to improve the results of development initiatives. Students who go to teachers' training have to learn how to develop educational material as well as how to instruct those students who are learning from that material. While learning how to teach, these to-be-teachers and their professors generate a rich source of material. If we were to employ the real-world data accumulated by the Market in the analysis and education of teachers, then the by-product of those studies, generated year after year, becomes an applicable resource for international aid and development.

Many of the underdeveloped communities will have access to the technology that brings incredible potential to educate, but that same technology can also have the sole purpose to entertain. It is important that we focus our effort on developing quality educational material and make it available to those who may not have quality educators. Let's not forget that children often are, and should be, capable of learning independently. **Thor, the creator of AidMarket and an educational consultant for upublic, has argued that improving the availability and quality of educational material is the single most important effort needed today.**

A final weakness of the reform effort to date is the absence of a mechanism to monitor and evaluate the impact of U.S. foreign aid under the new framework. As colleagues at the Center for Global Development have documented, failure to take monitoring and evaluation seriously is a recurrent weakness of donor aid initiatives. This failing is particularly common within the U.S. government, which often measures inputs and outputs rather than impacts or outcomes. To maintain Congressional and public support for foreign assistance, the Bush administration and its successors will need to show concrete results from the use of taxpayer dollars.

"The missing puzzle piece in learning about what kinds of social interventions can succeed is impact evaluations, studies that document whether particular programs are actually responsible for improvements in social outcomes relative to what would have happened without them. An "evaluation gap" has emerged because governments, official donors, and other funders do not demand or produce enough impact evaluations and because those that are conducted are often methodologically flawed."

"Poor quality evaluations are misleading. No responsible physician would consider prescribing medications without properly evaluating their impact or potential side effects. Yet in social development programs, where large sums of money are spent to modify population behaviors, change economic livelihoods, and potentially alter cultures or family structure, no such standard has been adopted. While it is widely recognized that withholding programs that are known to be beneficial would be unethical, the implicit corollary—that programs of unknown impact should not be widely replicated without proper evaluation—is frequently dismissed."

—**When Will We Ever Learn?**

Improving Lives through Impact Evaluation Report of the Evaluation Gap Working Group (2006)

The Numbers

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According to **Real Aid** (2005) "*Eighty-six cents in every dollar of American aid is phantom aid, largely because it is so heavily tied to the purchase of US goods and services, and because it is so badly targeted at poor countries.*" —> AidMarket will take merely 2.5% as transaction fee as a means to cover all expenses of operation. AidMarket will not place conditions on donated funds for the recipient to adhere to. Today, for every **billion** spent on aid by the government, about **140 million** dollars is legitimately spent on effort of poverty reduction. With AidMarket, for every **billion** spent on projects, about **970 million** dollars will be utilized in poverty-reduction related projects.

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In the month of June 2007 (while writing this report): **800 million** dollars were reported missing in Iraq and more than a **billion** dollars in Pakistan (**CNN**).

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"So we had the world's 25 most undemocratic government rulers (out of 199 countries the World Bank rated on democracy) get a sum of \$9 billion in foreign aid 2002. Similarly the 25 most corrupt countries got \$9.4 billion. The top 15 recipients of foreign aid in 2002, who each got more than \$1 billion each, have a median ranking as the worst fourth of all governments everywhere in 2002 — **William Easterly** White Man's Burden (2006)."

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Tom Carter - April 29, 2007 [THE WASHINGTON TIMES](#)

In 2005, Americans donated more than **\$95 billion** to the developing world. That is almost four times what the U.S. government gives in foreign aid and many times more than what Europeans give in public and private donations, according to a study by the Hudson Institute (2007).

By far the largest figure in U.S. private donations came from remittances, money that immigrants send home. According to the Hudson study, U.S. immigrants sent home -- mostly to Latin America -- **\$61.7 billion** in remittances in 2005. In other words, two-thirds of U.S. private philanthropy overseas is in the form of remittances from legal and illegal immigrants.

*"There is a whole new world of philanthropy out there, and it is being led by the United States," said **Carol Adelman**, director of the **Hudson Institute's Center for Global Prosperity**. "It is the private sector where the action is, where the future is." **"Where the future is!"***

Mrs. **Adelman** said the foreign-aid community is loath to include remittance figures, because it undermines the argument that more government foreign aid is needed. *"Some people say we should not include these figures, because that is just family members giving to family, but the studies clearly show that remittances reduce poverty,"*

"Regardless of the motive, remittances are reducing poverty, and it is a significant flow," she said... Remittances are probably the greatest poverty-reducing agent in the world today."

"We do not oppose government aid," the Hudson Institute's Mrs. Adelman said. "I don't say that all government aid is a waste of money, just that certain forms don't work."

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"The Future of Aid (2006)" by *Tim Harford (IFC)*, *Michael Klein (World Bank)*, and *Klaus Tilmes (World Bank)* predicts that total Remittances in the year 2020 will be around **\$200 billion** — yet no one is providing the 'particular project allocation option' which AidMarket will present and enable legal migrant workers to take advantage of the 501 c3 tax benefits, thereby increase the realized value of remittances. AidMarket only charges 2.5% transaction fee which will be preferred to the competition, which is expected to charge around 4% in the year 2010 (**The Future of Aid**).

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The Private Market as of 2005

Private Donations = \$95 billion

Remittances = \$61.7 billion

Future Market:

The market share of the private sector is proportionately increasing relative to government aid.

In 2020 remittances are expected to be = \$200 billion

Large-scale Projects:

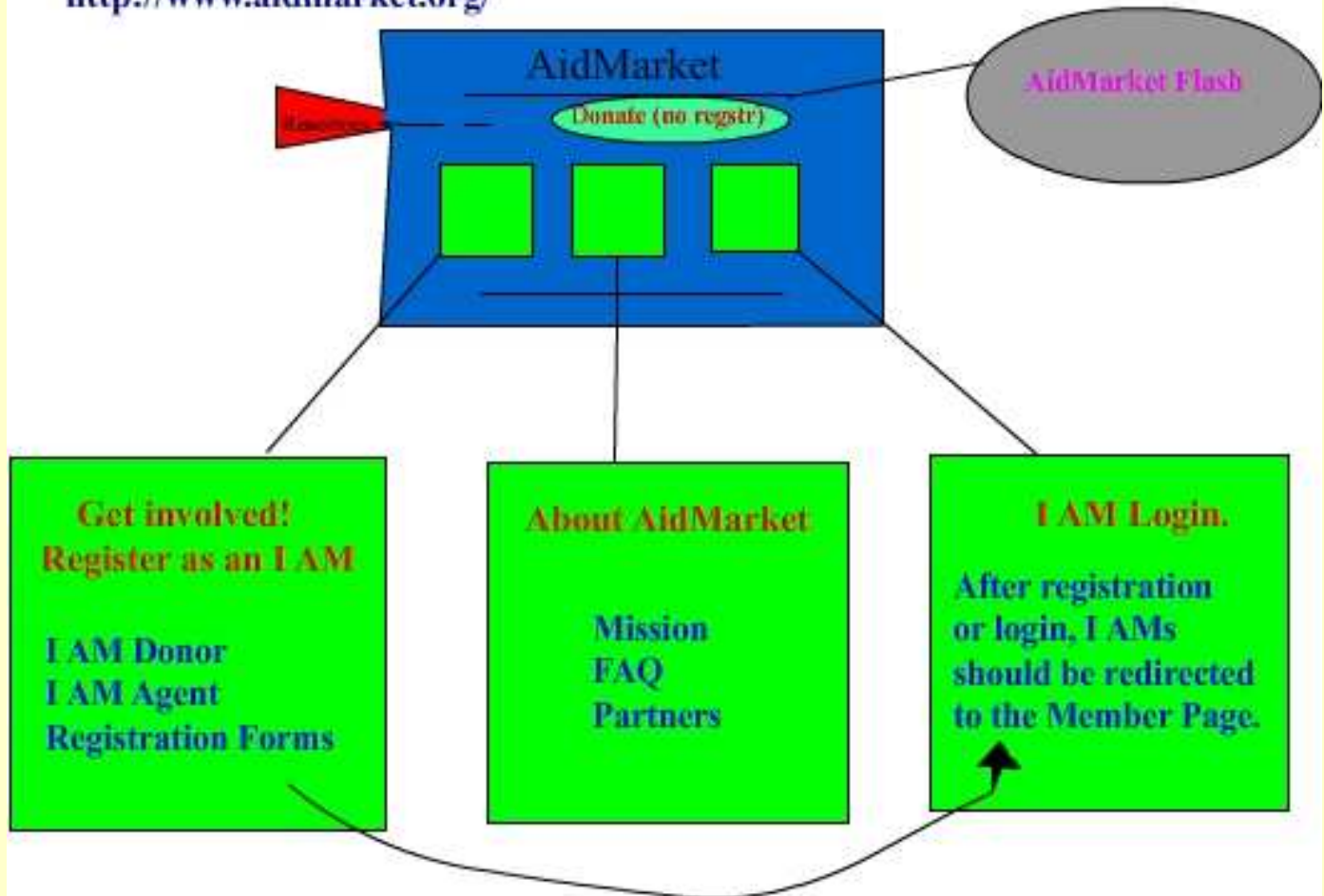
Donors may contribute funds and/or assume a certain responsibility (to pay the teacher's salary, sponsor a single scholarship, cover the cost of facility maintenance, etc.) Donors also have the opportunity to permanently fund certain operational or maintenance expenditures. To improve the outcomes of aid assistance, AidMarket relies on willing contributors and will hold them accountable for their actions, or lack thereof. In order to have a sustainable model for international aid and development, Donors must assume responsibility for the integral parts of any large-scale project.

Take the integral parts (and their potential providers) of an Education Center for example:

- Teachers
- Other Employees
- Supplies and Maintenance
- Facility
- Educational Material (everything except digital education material)
- Educational Tools (hardware and software)
- Food (Education for food incentive has proven to be a very cost-effective project)
- Electricity/Power (Power Companies)
- Water (Jay-Z)
- Connectivity (AMD 50x15)
- Medical Supplies / Health Care Information and Instructional Material
- Datacenter (Sun Microsystems)
- Translator (for the educational material made available to all Education Centers)
- Lead Partners / The Board (Four year commitment)
 - Manage grant funds on behalf of the school
 - Accounting and funding allocation
 - Work with schools in budget development
 - Participate in school planning and implementation
 - Share in the accountability of school outcomes
 - To seek and allocate scholarships
- Matching grants to local students who risk whatever they've got to start a new business

William Easterly's service credits or 'development vouchers' will encourage entry by infrastructure providers, consultants, and many other private (apolitical) Agents. The scheme suggests an alternative approach to the disbursement of funds. It will make it harder for recipient countries to spend donated funds unwisely or corruptly, because the vouchers are redeemable only with recognized agencies and firms. This would be an improvement of current practices, but it requires the participation and cooperation of most, if not all, Agents in the field. Moreover, the suggested methodology requires a better monitoring and evaluation system—it requires the improvement of other facets in international development to help improve the efficacy of the utilization of donated funds. The scheme is better suited for large-scale, than it is for small-scale projects — opposite to AidMarket.

<http://www.aidmarket.org/>



The I AM Member Page

Home | Browse Market | My Projects | My Blog | Forums | Invite | My Account | Logout

Median Rating (rating others)
Median Rate
Score
Stats - compare with others

AidMarket Flash

Flash 'reader' like the stock market, listing new proposals, new I AMs, and news about AidMarket in other media.

Top Rated & Score Flash

Flash info on the top rated and scores. Also Flash graphs and stats of as much as possible...

Proposal Submission Form

The expenditures should be described in detail as possible.
The * tags should be searchable when browsing the market:

- * I AM Agent (s)
- * Project # (auto generated)
- * Location(x4) | Continent, country, region, community
- Description (more detailed description with keywords) *Keywords
- Duration
- Recipient benefactor
- * Cost and Expenses
- * Project Category/Type
- Cost/Benefit Analysis (which I AM Donors are able to evaluate and rate)
- * The avg Rating of projects' cost/benefit analysis
- Pictures - before, during, and after (accept videos as well)
- * implementation cost/total cost
- * Organization or School affiliation?
- Following project completion, are there future responsibilities?
- What other development initiatives are within your community?
- Heifetz's practical suggestions framing the situation questionnaire...
- Proposal forum for discussion
- Links to similar topics and proposals... interconnect projects and agents

AidMarket is here to serve the poor. Small-scale proposals should not require too much description or detail, but we need pictures...

The submission form should make it very easy, almost automatic, to translate the information to fit our posted-proposals formatting. The template must help to make projects more visible yet keep the it fairly simple to remain user-friendly

Posted Proposals

Project #	Proposal information and project details		I AM Agent(s)
	Expenditures as detailed on proposal.....	\$\$\$	Donate
	Items or parts of proposal.....	\$\$\$	Donate
	Items or parts of work order.....	\$\$\$	Donate
<div>Pictures</div> <div>the more stats and info, the better...</div>			

Bilateral GuestWorker Agreements:

A win-win solution for rich countries and poor people in the developing world

Lant Pritchett (march 2007) CGDev

Increasing the cross-border movement of unskilled workers and their families holds potentially huge gains for the developing and developed world. If rich countries were to permit a mere 3 percent increase in the size of their labor force by easing restrictions on labor mobility, the benefits to citizens of poor countries would be \$305 billion a year—almost twice the combined annual benefits of full trade liberalization (\$86 billion); foreign aid (\$70 billion) and debt relief (about \$3 billion in annual debt service savings).¹ --- Other estimates, which make different assumptions about rich-country labor markets, find benefits of \$156 billion for a pain of \$7 billion to permanent residents of rich countries.

But the issue is highly contentious. Despite irresistible forces creating pressure for increased labor mobility, immovable ideas in rich countries have largely prevented it. The irresistible forces include demographics (especially aging populations in the rich world and the need for young, tax-paying workers to keep the economy running and support retiree pensions) and the widening income gap between rich and poor countries. The immovable ideas are the anti-immigration sentiments of a large segment of rich country voters, who have legitimate concerns about the impact of low-skill migrant workers on public services, possible security risks, implications for existing low-income workers, and potential cultural impacts. The solution is to adopt labor policies that are as beneficial as possible to poor people in developing countries, but still politically acceptable to rich country voters. An innovative solution would be temporary legal work programs negotiated bilaterally, wherein rich countries take responsibility for certifying labor shortages in specific industries and labor-sending countries take responsibility for ensuring that temporary workers actually return home.

Both rich and poor countries benefit when rich economies admit low-skilled workers. In Hong Kong and Singapore, for example, foreigners working as housekeepers and nannies account for 7 percent of the labor force (compared to only 0.3 percent in the U.S.) These temporary household workers make it possible for more highly skilled women to work outside the home, raising national income by between 1.3 and 3.3 percent, and increasing tax revenues from the additional employment.

Globally, because of such benefits, a 3 percent increase in rich country labor forces through legal, temporary labor would result in a net annual gain of \$56 billion to current rich country residents, on top of the \$305 billion annual direct gain to migrant workers themselves and their families. And while labor mobility is not always seen as a development issue, it should be. With huge differentials incomes for equally productive people simply because of where they live; with international and internal migration offering individuals one of the few nearly sure-fire ways to escape poverty, with migrant remittances from rich to poor countries exceeding foreign aid; and with rich countries designing immigration policies to selectively attract the poor world's most talented and motivated people—with all this it is obvious that international migration and global labor mobility truly are “development” issues. Given the tremendous gains to be had from greater labor mobility—gains that far outweigh the risks—the international community should work to find a development-friendly and politically feasible solution. Because the main forces blocking increased labor mobility are ideas, the most important agenda is to create new ideas—proposals that create development-friendly policies toward migration and create sustained pressure for the adoption of these proposals.

From the Council on Foreign Relations (“Transforming U.S. Foreign Aid” & “Foreign Aid Angst”):

The annual Foreign Operations Appropriations Bill, seen as the most reliable way of assessing how much the United States spends on foreign assistance, was \$20.7 billion for fiscal year 2006, the last year for which completed allocations can be measured. President Bush has asked for about \$25 billion for fiscal year 2008.

In light of this, do you see a sensible reason for building a useless wall along 1/3 of the Mexican border and pay for it \$60billion??

The irony was lost on few that Tobias was previously charged with overseeing policy against prostitution and sex trafficking.

The most recent case involves the abrupt departure of the country's first director of foreign assistance. Randall L. Tobias not only headed up foreign aid but was a deputy secretary of state and former head of the government's emergency relief plan for AIDS relief (PEPFAR).

At the very least, writes CFR Senior Fellow Laurie Garrett, it should highlight that “designing foreign policy to stamp out sexual activity among consenting adults is a fool's errand.” She urges more acknowledgment by U.S. policymakers of what works in preventing diseases like AIDS—condoms, clean needles, and sex education (*LAT*).

The Tobias case overlaps with a still unresolved controversy involving World Bank President Paul Wolfowitz, a former Bush administration deputy defense secretary accused of conflict-of-interest abuses. Ironies are present here as well. The anti-corruption program he has championed since joining the bank is in danger of swiftly lose credibility.

Aid, Policies and Growth: Revisiting the Evidence

Author: Craig Burnside and David Dollar

Source: Policy Research Working Paper 3251. World Bank, Washington, D.C., March 2004

The authors in this paper state that the impact of aid depends on the quality of state institutions and policies. They also argue that when these institutions are strongest, the correlation between aid and growth is most robust and that corrupt institutions and weak policies limit the impact of financial assistance for development. This argument is based on empirical data from the 1990s. (PDF, 331 KB).

Increasing Selectivity of Foreign Aid

Author: David Dollar and Victoria Levin

Source: Policy Research Working Paper 3299. World Bank, Washington, D.C., May 2004

The authors examine the allocation of foreign aid by 41 bilateral and multilateral donors, compiling two indices of "policy selectivity" and "poverty selectivity" – the degree to which aid is aimed at countries with good policies, and to countries that are poor, respectively. They find that multilateral and bilateral aid agencies that are policy focused are usually also poverty focused. The data shows that, from 1984 to 1989, aid was generally allocated indiscriminately with respect to institutions and policies. However, ten years later, a more direct relationship has developed. (PDF, 333 KB)

Foreign Aid and Private Sector Development

Author: Carol Lancaster et al. Source: Brown University's Watson Institute for International Studies, Providence, May 2006

This book calls for better reporting on the use of hundreds of millions of U.S. foreign aid dollars spent to build up the private sector in developing countries. It examines the Bush Administration's three primary tools for strengthening small and medium-sized enterprises (SMEs) in the developing world: enterprise funds, equity funds, and management consulting from non-governmental organizations (NGOs). The authors argue that enterprise funds have demonstrated the greatest success of the three tools, and the need for better reporting is most acute in the use of equity funds and NGO assistance.

Incentives for Harmonization and Alignment in Aid Agencies

Author: Paulo De Renzio

Source: Overseas Development Institute (ODI), London, Nov 2004

This paper assesses the importance of incentive systems to aid agencies in their efforts to meet the commitments made in the Rome Declaration on Harmonization. It specifically looks at individual and collective behavior in aid agencies, and addresses whether these work for or against the adoption of harmonized practices and cooperation based on donor coordination and country ownership. The author concludes that despite high-level policy initiatives aimed at harmonization, lower-level staffers do not have the incentives to cooperate. The findings are based on case studies of six members of the Development Assistance Committee Task Force on Harmonization and Alignment. (PDF, 251 KB)

Are Public Development Institutions Crowding Out Private Investment in Microfinance?

Julie Abrams, Damian von Stauffenberg / MicroRate 2007.

This paper suggests that the rapid growth of foreign private lending to microfinance institutions (MFIs) in the last several years has led to a surprising reversal of roles between government-owned development institutions and private lenders. Development institutions (International Financial Institutions - IFIs) are concentrating their loans in the strongest MFIs, leaving private lenders to look for opportunities among smaller, riskier borrowers. A MicroRate commissioned study of funding patterns confirmed that IFIs are not complementing private lenders; they are crowding them out of the most attractive parts of the MFI market.

New Data, New Doubts: A Comment on Burnside and Dollar's "Aid, Policies, and Growth"

Author: William Easterly, Ross Levine, David Roodman

Source: Working Paper 9846. National Bureau for Economic Research (NBER), Cambridge, July 2003

Commenting on Burnside and Dollar's influential cross-country analysis, "[Aid, Policies and Growth](#)," the authors extend the original data set from 1970–93 to 1970–97, and fill in missing data for the original period 1970–93. The authors find that the original conclusions are not robust when including the additional data. (PDF, 1.16MB)

Does Foreign Aid Help?

Author: Simeon Djankov, Jose G. Montalvo, Marta Reynal-Querol

Source: Cato Journal 26 (1): pp.1-28, Winter 2006

This paper argues that foreign aid has a negative impact on the democratic stance of developing countries, and on economic growth by reducing investment and increasing government consumption. Thus, the authors disagree with Jeffrey Sachs, who calls for a massive increase in foreign aid to Africa. To improve the effectiveness of foreign aid, they suggest increasing the responsibility of recipient countries (by providing loans instead of grants in a credible policy environment), reducing the cost of remittances to developing countries, and improving the coordination of donors. (PDF, 197KB)

The Future of Development Financing: Challenges and Strategic Choices

Author: Francisco Sagasti, Keith Bezanson, Fernando Prada

Source: Institute of Development Studies, Sussex, October 2004

This is an executive summary of a book that describes forces affecting the aid industry, and presents scenarios for the future. The article highlights the changing nature of the aid industry due to unprecedented global prosperity, the time-specific Millennium Development Goals (MDGs), and the terrorist attacks of September 11, 2001. The [full book](#) is also available online. (PDF, 132 KB).

Aid and Growth: What Does the Cross-Country Evidence Really Show?

Author: Raghuram G. Rajan and Arvind Subramanian

Source: IMF Working Paper 05-127, International Monetary Fund, Washington, June 2005 (PDF, 618KB)

This IMF working paper examines the impact of aid on growth. In contrast with earlier assessments that claim aid is beneficial for growth, the authors find no robust evidence linking the two. Additionally, the authors challenge the Burnside and Dollar claim, widely embraced by the World Bank and other aid agencies in recent years, that aid works best in good policy environments. The authors draw attention to the need to reconfigure current aid modalities in order for aid to be an effective tool for poverty alleviation.

Donor Fragmentation and Bureaucratic Quality in Aid Recipients

Author: Steven Knack and Aminur Rahman

Source: Policy Research Working Paper 3186. World Bank, Washington, D.C., January 2004 (PDF, 281 KB)

This paper addresses the impact of donor fragmentation on the quality of government bureaucracy in aid-receiving countries. The authors find that the number of administrators hired to manage donor-funded projects declines as the donor's share of other projects in the country increases, and as the donor's concern for the success of other donors' projects increases. The authors argue that greater donor competition would lead to lower bureaucratic quality among recipient countries.

Leveraging Efforts on Remittances and Financial Intermediation

Manuel Orozco and Rachel Fedewa / INTAL 2006

Recent policy recommendations have stressed the importance of linking remittances to financial intermediation as a strategy to harness the development impact of such earnings. This paper attempts to identify emergent trends in the remittance and finance world that potentially point to a deepening connection between remittances and development vis-à-vis financial intermediation. It is a case study analysis of nine financial institutions, and focusing on three basic indicators: institutional ability to provide remittance transfers to its clients and community, to offer low cost remittance services, and to complement transfer services with other financial services.