

Foreign Aid: What should we do?

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Mesdames et messieurs, c'est vraiment pour moi un grand plaisir de vous adresser la parole aujourd'hui. À plus d'un titre, d'ailleurs, car l'Institut économique de Montréal m'a ainsi donné l'occasion de résumer près de quarante années de ma vie professionnelle au service du travail humanitaire et du développement international. Je remercie donc de tout coeur l'Institut d'avoir organisé cet évènement.

[Ladies and gentlemen, it is a great pleasure to speak to you today. In many respects, the Montreal Economic Institute has afforded me the opportunity to do a summing up of almost 40 years spent in humanitarian and development work. I thank them for organizing the event.]

Four years ago, I did a similar exercise at the Institute for Research in Public Policy. My speech was called "Whistling in the Dark" and afterwards, a woman from the audience came up to me and asked, "Dr. Watson, are you alright?" At first I did not understand what she was getting at. Then I realized that my speech was so bleak that she believed I was having a nervous breakdown!

I want to assure you from the start that such is not the case. I do believe that we are living in a rapidly changing and much more dangerous world. Yet, I have an extraordinary family and in many respects they are an anchor that allows me to look at the current situation without pulling punches in articulating what I am seeing.

Et ce que je vois, c'est un monde en perte d'équilibre, un monde qui change si rapidement que les institutions que nous utilisons pour régler les nouveaux problèmes ne sont pas elles-mêmes suffisamment transformées pour pouvoir régler ces problèmes efficacement. Aussi n'est-il pas surprenant que leurs résultats soient pervers et qu'elles produisent des effets diamétralement opposés à ceux que nous attendions.

[And what I am seeing is a world that has gone out of balance and is changing so fast that the institutions we are using to address new problems have not been transformed sufficiently to deal with them. As a result, they are producing perverse outcomes that are having the opposite effect from that which we had expected.]

When I look at the start of my travels in the late 1960's, I realize that what we had expected through foreign aid was a Marshall Plan for the Third World: an effort that would allow developing countries to reach economic take-off the way post-war Europe and Japan had. This may seem hopelessly idealistic from the perspective of 2007, but don't forget that this was an era of massive de-colonization. I have been lucky enough to live through the first few years of independence of these countries and let me tell you, it would be difficult to exaggerate the euphoria and energy that is released – all things seem possible.

Aujourd'hui, en 2008, nous vivons le naufrage de ces rêves.

[Now in 2008, we are living in the wreckage of these dreams.] Collectively, we in the West have spent \$ 2.3 trillion in Official Development Assistance (ODA) over the years. Yet, the persistence of massive grinding poverty is a feature of our times.

If it had been just the continuation of poverty in distant parts of the world, most of us might not have noticed. But there was a new malignant element in the mix. As we moved into the post-Cold War period, I began to recognize that things were fundamentally different. From the time of its foundation in 1945 to the end of the Cold War, CARE lost a handful of people in the course of carrying out its humanitarian work. After 1990, we lost hundreds of staff – mainly host country nationals left behind in the chaos accompanying the implosion of the local state. I think for the general public, however, the realization that something was amiss did not occur until 9/11.

In any case, there now exists a crisis in confidence about the whole enterprise built around Official Development Assistance. One can see it in the plethora of books appearing on the subject: Jeffery Sachs' *The End of Poverty – Economic Possibilities of Our Time*; William Easterly's *The White Man's Burden – Why the West's efforts to aid the rest have done so much ill and so little good*; and Paul Collier's *The Bottom Billion – why poor countries are failing and what can be done about it?*, to mention three of the most influential.

From the outset, it is important to keep the criticism of Official Development Assistance in perspective. There certainly have been successes: The Asian Tigers, particularly India and China, have taken off or appear to be in the process of doing so. This has greatly reduced grinding poverty in these regions. Also, new approaches have been developed. Using techniques perfected in Bangladesh by the Grameen Bank and BRAC, a micro-credit revolution has spread worldwide. It is now so readily accepted that credit can be profitably extended to those without collateral that regular banks all over the world are adding micro credit to their portfolio of services.

But despite these successes, in sub-Saharan Africa and other pockets of the world, we see stagnation and lack of progress. In some places, we are seeing the development of a local 'Dark Ages' with formal economic activity and local governance collapsing.

Today, I want to tell you about what I have seen happening over the years to the institution that we have established to deal with Third World Poverty – CIDA (the Canadian International Development Agency). Then I want to describe a new and promising approach that CARE Canada has been experimenting with over the past five years – Making Markets Work for the Poor. Finally, I want to speak of the Afghanistan situation and to explain why I think we are making a hash of it despite our best intentions.

CIDA

CIDA has changed significantly in response to the crisis of confidence over ODA. Its current mantra, 'strengthening aid effectiveness,' sees the failure of foreign aid as being related to two fundamental mistakes: First, a lack of co-ordination between donors on best practices and joint projects. Secondly, the bypassing and undercutting of local governments by the funding of too many small projects, often implemented by non-governmental organizations (NGO's) and outside consultants rather than the national government.

The remedy prescribed by 'strengthening aid effectiveness' is greater donor co-ordination and local government ownership. This is to be accompanied by funding only those projects identified as fitting in with 'PRSP's' and 'SWAPS (sector wide approaches)'. These are planning exercises carried out by the national governments with expert consultants provided by the multilaterals or donors. Instead of discrete CIDA-funded projects, CIDA is now likely to share the funding with other donors of overall national programs which it views as important. This strategy basically identifies poor governance and corruption as the main reason for lack of progress on the development front and seeks to remedy this by providing foreign experts to the local government and channelling funds through that same government.

Whatever one thinks of this new approach, I believe that two of its elements are indisputable. First, at the senior level in CIDA at least, there is almost a devout

commitment to it. Secondly, it represents a massive increase in the role of bureaucrats in the administration of ODA. This is not just a Canadian phenomenon.

Mais c'est en partie ce que je veux souligner : les fonctionnaires canadiens de l'Aide officielle au développement passent de plus en plus de temps dans des réunions multilatérales de donateurs et allouent de plus en plus de ressources canadiennes à des projets financés par plusieurs donateurs et réalisés par les gouvernements des pays en développement. [But that is partially my point. Canadian ODA civil servants spend more of their time participating in multi-donor meetings and allocating Canadian resources to multi-donor funded projects implemented by developing country governments than ever before.] We are told that this sitting around the table with other players is the most effective way of projecting Canada's presence in the world. Nor is it simply a matter affecting civil servants. Canadian NGO's too, are mobilized and are spending an enormous amount of time to help prepare the Canadian position at these multi-donor meetings. They are funded by CIDA to do so. Having accepted the basic premise of 'strengthening aid effectiveness', NGOs are being marginalized at the same time that they think they are being invited to the centre of the action.

The central problem with current ODA policy is that it is suffering from the same sort of delusions that existed in 'rationally' centrally-planned economies. The irony is that having shown the shortcomings of the central planning model in its Cold War struggle with the Eastern Bloc, the West has now come close to adopting this approach in its ODA strategy.

William Easterly has characterized this negative trend as the triumph of 'planners' over 'searchers' in the world of aid. As he puts it:

"A Planner thinks he already knows the answers: he thinks of poverty as a technological engineering problem that his answers will solve. A Searcher admits he doesn't know the answers in advance; he believes that poverty is a complicated tangle of political, social, historical, institutional, and technological factors. A Searcher hopes to find answers to individual problems only by trial and

error experimentation. A Planner believes outsiders know enough to impose solutions. A Searcher believes only insiders have enough knowledge to find solutions, and that most solutions must be homegrown.”¹

As a result of this shift towards planners, we are now in the midst of implementing a bigger plan than has ever been attempted before: the United Nations Millennium Project with its thousands of interventions and hundreds of discrete measurable goals. Undoubtedly, we will be assured that this big plan is working – just as the central planners proved for years that their way of managing an economy was more rational and therefore more efficient, when the reality was just the opposite. Easterly puts the shortcomings of the current approach succinctly: “Setting goals may be good for motivation, but it is counterproductive for implementation. The free market operates without fixed specific goals, only general goals (e.g., businessmen making profits, consumers achieving satisfaction).”²

You may well ask that if this approach is destined to perpetrate the failure of aid work, why is CIDA so intent on pursuing it? To understand this, you have to be aware of what CIDA is most afraid of in terms of potential sources of criticism. It is not its partners (whom it funds) nor the various umbrella or policy groups (whom it also funds) nor Senate Committees nor ‘meddlesome’ politicians (who come and go) nor DFAIT (of which it is surprisingly independent). *Non, la personne que L’ACDI craint plus que toute autre, c’est le vérificateur ou la Vérificatrice générale du Canada. [It is the Auditor General.]*

With every Auditor General’s report on aid, CIDA has put in place new mechanisms and procedures to ensure that deficiencies noted never occur again. As a result of this, over the years new red tape has been added to the old and the whole system has begun to grind to a halt. *L’ACDI fait preuve d’une extrême aversion au risque. Or cela est très problématique, car l’ACDI a le mandat de s’attaquer à la*

¹ Easterly, William. *The White Man’s Burden*. The Penguin Press, 2006. p. 6

² Ibid. p. 12

pauvreté des pays du tiers-monde et le règlement de ce problème exige justement des méthodes à haut risque. [The agency has become extremely risk averse. The problem with this is that the area CIDA is supposed to be addressing – Third World Poverty – requires a high risk approach.]

‘Strengthening aid effectiveness’ allows CIDA to hide a number of its problems. By following other donors and doing things jointly, CIDA can avoid the criticism of Canadian partners, politicians, and the public by convincing itself that it is steering Canadian ODA in a more professional manner than these parties with their vested interests and parochial Canadianism can understand. Channelling money in larger tranches to multiple donor-funded projects puts much of it beyond the Auditor General’s scope of responsibility. Channelling money through UN agencies means accepting UN audits; but these are often not made public. While the audit reports do go to the governing councils of the UN agency where Canada may be represented, the representative is almost certainly going to part of the Planner fraternity that has no interest in publicizing how far off track things have gone. It is a case of the old truism: “By making everyone accountable, no one is accountable.”

CARE Canada

At CARE Canada we dealt with the crisis of confidence over ODA by moving in a different direction and in a bottom-up approach rather than top-down fashion. Our traditional approach was to spend endless time at the village or shanty town level discussing problems with poor people and addressing how we might best help. We would then undertake a traditional development project funded by donor money, owned by the community in the sense of being talked through, and of a three- to five-year duration. A successful project would raise family income some 15%-20% over the term of the contract. This might sound like a significant increase but since the people we were working with started at an average annual income of \$300, this level of increase was hardly allowing them to break out of poverty. We were becoming experts at helping the poor become slightly less poor.

This was the era of globalization and unlike many other NGOs, we at CARE believed that the case for overall benefit as a result of trade liberalization was a solid one. However, we were not seeing these benefits appear in the everyday lives of the poor people we worked with. So we tried a different approach. Instead of endless discussions with the subsistence farmers, we started out by going to the local export companies; we asked them why they did not source the products they were exporting from poor farmers (most of these exporters supplied their buyers through privately owned commercial farms). Although most companies told us to get lost, some took the time to explain their business to us.

We then had our technical people design a production scheme that would generate produce of the type, quality, and quantity that exporters wanted. I won't go into the myriad details of false starts, progress and set-backs that accompanied this process. Suffice it to say that we were discovering, from the bottom-up, the principles of social enterprise. By this I mean the establishment of pro-poor business that have a double bottom line: first they have to be commercially viable and secondly they must have a significant impact on the income and/or job opportunities of the poor.

I will let one case speak for all to indicate what social enterprise can do. Mutulu is a former subsistence farmer who used to make \$300 annually by selling his labour and whatever he had left over from his subsistence production. Now he sells high-value Asian vegetables – karilla, baby corn, and okra – vegetables which he rarely or never eats, into the U.K. market. His vegetables are on supermarket shelves in London the next day after harvest. Since he entered the program, Mutulu has seen his income rise by a factor of ten. But the impact on the local economy of the project is far greater. This is because Mutulu spends most of his extra income on locally available goods and services: a family health plan at the local clinic, contractors to build a separate house for ageing parents, a better school (with higher fees) for his children, and consumer goods like clothes and a radio.

This is what we have termed “Making Markets Work for the Poor” and I believe that it has the potential for changing the ODA paradigm. But a word about politics first; the left, and that includes the majority of people working in the aid world, are more open to the statist approach of ‘strengthening aid effectiveness’. I cannot stress too much that they, too, need to look more carefully at the potential for using market mechanisms to facilitate the reduction of poverty. But there are lessons for the right as well. As Paul Collier puts it:

“The right needs to move on from the notion of aid as part of the problem—as welfare payments to scroungers and crooks. It has to disabuse itself of the belief that growth is something that is always there for the taking, if only societies would get themselves together. It has to face up to the fact that these countries are stuck, that competing with China and India is going to be difficult.”³

Let us see what this means by going back to Mutulu. Mutulu is most proud, not of his tools and crops, but of his new ledger with which he tracks the cost of inputs per crop and the price that he gets at harvest. He is right to be proud, for this ledger is the key to his entry to the export market. That is because to export to Europe he must retain records to show that he is meeting hundreds of pages of standards set by the European Union. Mutulu’s ledger is the starting point for the (oft-dreaded) system of the labels on fruit and vegetables which we buy at the supermarket. It takes significant ongoing technical assistance and training to meet those complex standards.

Secondly, Mutulu is still a small producer who has had to destroy crops grown in his previous attempts at commercialization because the exporter reneged on his promise to buy. For the exporter to be interested, he needs larger scale, standardized production. This is where CARE comes in. CARE signs a supply contract with the exporter and fulfills it by giving guaranteed forward orders to hundreds of farmers. In other words, existing markets operating as they have in the past would not allow Mutulu to take advantage of globalization in the way that he has.

³ Collier, Paul. The Bottom Billion. Oxford University Press, 2007. p. 191

En aidant à amalgamer la production de plusieurs petits agriculteurs afin de pouvoir remplir les commandes de grand volume des exportateurs, CARE a aidé un grand nombre de familles à briser le mur de la pauvreté, tous risques compris.

[By helping to amalgamate the production of many small farmers in order to meet large export orders, CARE has helped numerous families to smash through the poverty barrier, risks and all.]

I said that this form of social enterprise has the potential of breaking the current development paradigm. When you think of it at its most basic level and using 2005 figures, our aid program currently takes a little less than 2 cents out of every federal tax dollar (which adds up to \$2.6 billion) and gives it to about 1600 civil servants in Ottawa (a significant portion of this staff is committed to communications) to allocate to high risk, high social impact poverty alleviation programs in the Third World. In Canada as a rule, if we want to draw resources into a high risk, high social impact area, we do not set up a government ministry and give it a share of tax dollars to 'get on with it'. We set up a financial instrument which mitigates the risk and draws in private capital to be applied to the area.

If we did this with a portion of our overseas poverty alleviation efforts, I have no doubt that the allocation of these resources as done by a private-public investment committee at our end and the allocation of increased revenues in local markets at the end of the line by people like Mutulu would be done more effectively and with better results than is currently the case with our current suppressive, statist approach. In short, we need a new financial instrument to unleash the business potential of the very poor both in Canada and abroad. We need to establish a market for competing social enterprise funds.

Afghanistan

I want to close by saying a few words on Afghanistan. I am always hesitant to do so because my sympathies are with the soldiers who are dying carrying out Canada's

commitment. They are in an impossible situation and caught in an organizational culture that is counterproductive to what we would like to see achieved.

Afghanistan is a classic example of the “New Wars.” The old wars were wars between organized nation states or coalitions of nation states seeking to pursue their national interests. Battles and victory or defeat are central to the old wars as is the total mobilization of national economies.

The New Wars protagonists are non-state actors such as Al-Quaida and the Taliban who have little or no interest in running a nation state. They reject the personal identification of citizenship with territory that was the keystone to the formation of the modern nation state. For these non-state actors, the primary personal identity is an older one of tribe, clan, religion, and so on. These New Wars are funded by a black-market commodity or commodities which are off the radar screen of the formal economy but may bring in more revenue and provide more jobs than local government programs – Afghanistan’s opium is a good example. The point of the New Wars is not victory; it is the maintenance of an atmosphere of fear and uncertainty which will allow this wartime political economy to continue to flourish with its chief benefits being captured by non-state actors. Their key concern is that the war and their income continue.

Our high cost, high-tech, self-contained militaries with their doctrines of force protection are designed to fight a short, sharp, symmetrical war in Northern Europe. These militaries are so much more powerful than their opponents that the only way to fight them is to perfect your camouflage so you will not be targeted. The insurgents have accomplished this in Afghanistan by looking exactly like the locals (who they often are). In such a war, it is impossible for the stronger party to avoid causing a high number of civilian deaths. This is why, with every passing month of insecurity and coalition collateral damage, more people will find credence in the Taliban’s assertion that these are foreign Christian troops bent on occupying Muslim lands. With every passing month of insecurity, people remember less the brutality of the Taliban itself than the relative security of Taliban times. *Bref, plus nous prolongeons notre mission en*

Afghanistan avec nos alliés militaires occidentaux, plus nous risquons de nous trouver au milieu d'une reprise de la guerre civile entre l'Alliance du Nord et les talibans qui a connu une trêve après les attaques du 11 septembre 2001. [In short, the longer we stay in Afghanistan with Western militaries, the more likely we are to find ourselves caught in the middle of the civil war between the Northern Alliance and the Taliban that was interrupted in the aftermath of 9/11.]

I believe our strategy of reconstructing states is doomed to failure. There are a number of reasons for this. First, independent nation states with staying power come out of a very messy process of internal conflict that is allowed to run its course over a long period. The only successful nation state building projects which involved a significant role for outsiders occurred under conditions of definitive military defeat such as occurred after WWII.

The period of 1945-1990 was a very atypical one in human history in that subsidies from one side or the other of two superpowers were used to maintain a local client state, even in those contexts where such a state were not sustainable. We are now going back to a much more 'normal' period where large parts of the world will be stateless regions. We should learn to live with this situation by developing new approaches and sometimes new institutions. The truth is we need an army that can abandon the 'force protection' doctrine and, instead, deploy in small numbers – speaking the local language and blending in. We need diplomats that can find ways of talking to non-state actors like the Taliban and Al-Quaeda. And we need a specialized agency that can address poverty in high risk and creative ways instead of engaging in the impossible task of building a modern state where such an institution is clearly not sustainable over the long term.

Bref, nous avons besoin d'une agence dont la spécialité serait justement de travailler dans les états en faillite et dans les régions sans état.

Je vais donc répéter ce que j'ai dit au début de ce discours. Ce que je vois, c'est un monde en perte d'équilibre, un monde qui change si rapidement que les institutions que nous utilisons pour régler les nouveaux problèmes ne sont pas elles-mêmes suffisamment transformées pour pouvoir régler ces problèmes efficacement. Aussi n'est-il pas surprenant que leurs résultats soient pervers et qu'elles produisent des effets diamétralement opposés à ceux que nous attendions. [In short, we need an agency specialized in work in stateless regions.

I will reiterate what I said at the beginning of this speech. I am seeing a world that has gone out of balance and is changing so fast that the institutions we are using to address new problems have not been transformed sufficiently to deal with them. As a result, they are producing perverse outcomes that are having the opposite effect from that which we had expected.]

I cannot stress the importance of the institutional changes needed, starting right here at home. To improve our delivery and effectiveness of foreign aid to the areas that need it the most, the two needs I see as the most urgent are:

- 1) We need to develop a system for competing social enterprise funds; and
- 2) We need to start fresh with an agency specialized in work in stateless regions.

I believe that these two institutional changes will help get us out of this mire we are in and put us on the road to addressing these challenging times we face – now and into the future. We have the brainpower, resources, and, I believe, the will to do this. *Alors, allons y!*

Merci.