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# Searching for Innovation in Foreign Assistance

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REVIEW OF WILLIAM EASTERLY

## *Reinventing Foreign Aid*

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In November 2008, when leaders of the G-20 met in Washington to address the global financial crisis, they issued a statement recognizing that “dynamism, innovation, and entrepreneurship . . . are essential for economic growth, employment, and poverty reduction.”<sup>1</sup> Innovation—the ability to foster new ideas and make them economically viable—is central to economic policy discourse in the developed world.

If the aim of foreign assistance is to create sustainable prosperity, why is innovation largely ignored by the aid community? *Reinventing Foreign Aid*, edited by William Easterly, is at its best when it is addressing this issue. Easterly, a New York University economist and a leading public intellectual in the field of development, has long been skeptical of foreign aid’s contribution to economic development and poverty alleviation. For nearly a decade, he has been at odds with Jeffrey Sachs, a Columbia University economist and major proponent of the Millennium Development Goals (MDGs), who argues that an increase in foreign aid can end poverty in our time.

According to Sachs, “the specific technologies for achieving the [Millennium Development] Goals are known.”<sup>2</sup> Alternatively, Easterly argues, the failure of aid has been the failure of grand plans: development solutions that work for all countries at all times. In *Reinventing Foreign Aid*, Easterly takes this familiar argument to new rhetorical heights, comparing Sachs and his ilk of planners to Marxists, for whom “all countries are

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destined to attain the goal of development, meaning industrialization and a high mass standard of living, not to mention peace and democracy.”<sup>3</sup> While Easterly, as Amartya Sen quipped, is too busy “looking for an aphorism so crushing that it will leave his targets grasping for breath,” he is quite right to argue that the foreign aid community must break out of its command economy policy framework and recognize that aid should enable local communities to develop and scale their own solutions.<sup>4</sup>

While often unacknowledged by aid planners, entrepreneurs throughout the developing world are thriving. One exciting example is provided by the legions of African “Digerati”: technologists, engineers, and entrepreneurs working to create mobile phone and Internet solutions that help address the specific needs of Africans. Kenya is the birthplace of mPesa, a wildly successful mobile money transferring service; Manobi, a Senegalese company, has enabled farmers to request prices and make trades via text message; and a Ghanaian company mPedigree, allows doctors to use SMS to authenticate drugs. In the same way food aid threatens profits for local farmers, a wide range of aid programs disincentivize local entrepreneurs from developing their own sustainable solutions.

Several authors in *Reinventing Foreign Aid*, a volume that brings together twenty practitioners and academics to address a wide range of topics, put forth visions of foreign assistance that support, rather than inhibit, innovation and entrepreneurship. In “Competing with Central Planning: Marketplaces for International Aid,” Dennis Whittle and Mari Kuraishi argue that aid institutions must leverage networks to embrace good ideas that come from anywhere. Whittle and Kuraishi are the co-founders of GlobalGiving.org, a self-proclaimed “market for goodness” and online space that links reputable projects in the developing world with donors in the developed world.

While stopping short of presenting an aid reform agenda, this chapter presents three useful principles for thinking about public aid agencies as a marketplace: interest (why individuals and institutions engage in overseas projects), aggregation (many actors engaged in similar processes), and agglomeration (the coordination of many individual choices). Whittle and Kuraishi believe the development community should take its cue from programs like the World Bank’s Development Marketplace, an experimental forum that encouraged World Bank staff to rapidly distribute small grants to nontraditional projects while sidestepping the organization’s rigorous review process.

From these principles, it is easy to imagine other aid agencies developing forums for collecting new ideas. Diaspora committees that leverage

business leaders' unique knowledge of their home countries, discretionary funds reserved for in-country staff to support projects they find promising, as well as wikis, blogs, and other technological tools that help staff share expertise and best practices—all of these measures would help public aid agencies stimulate innovation. The metaphor of evolutionary economics, which argues that growth is complex and impossible to predict with traditional economic models focusing solely on labor and capital, has been prominent in business literature for several years. Whittle and Kuraishi bring this powerful idea into the development discourse, perhaps for the first time.

Michael Kramer, a Harvard economist, in his chapter “Making Vaccines Pay,” argues that pull programs are another way to incentivize new solutions. Unlike with “push” programs, which fund research, Kramer observes that “with pull programs, the public pays only if a successful product is developed.”<sup>5</sup> Pull programs would be particularly useful in the pharmaceutical sector, where drug companies have limited profit incentive to develop vaccines for illnesses that primarily affect people in developing countries. Pull programs might correct this market failure by providing a government-funded monetary reward for any company that develops medicine for specific “developing world diseases.” This approach is advantageous for patients (who may receive life-saving care), drug companies (that can develop profitable new markets), and taxpayers (who pay only if a successful drug is developed).

Collecting good ideas, however, is only half the battle. Monetizing and scaling these ideas to achieve economic and social goals provides a distinct, if equally formidable, challenge. In his chapter “Placing Enterprise and Business Thinking at the Heart of the War on Poverty,” Kurt Hoffman, director of the Shell Foundation, advances the notion that the private sector can help aid agencies lower the cost structure for production, monetisation, and scaling of good ideas.

Hoffman presents several promising ideas for revamping the aid establishment with business principles. He suggests bringing more people with business experience into the development sector and engaging the private sector in the aid supply chain. Hoffman also recommends that the aid community focus on investment instead of giving, but that regardless of the form of aid, “the principal bottom-line return [aid agencies] should be after is measurable growth in the pro-poor enterprise sector.”<sup>6</sup>

In July 2008, before the economic crisis blanketed the political feasibility of speaking about foreign assistance, Barack Obama, in an address in Washington, supported the Sachs approach:

I know development assistance is not the most popular program, but as President, I will make the case to the American people that it can be our best investment in increasing the common security of the entire world. That was true with the Marshall Plan, and that must be true today.

That's why I'll double our foreign assistance to \$50 billion by 2012, and use it to support a stable future in failing states, and sustainable growth in Africa; to halve global poverty and to roll back disease.<sup>7</sup>

Easterly, predictably, was unimpressed. Following Obama's remarks, he noted that every aid proposal since the 1960s has announced an ambitious goal, evoked the Marshall Plan, promised to exactly double aid, and ignored uninspiring results of previous plans with these same elements.<sup>8</sup> To fix foreign aid, the new administration must go beyond this ineffective status quo. *Reinventing Foreign Aid* is an excellent place to start. ■

#### ENDNOTES

- 1 "Statement From G-20 Summit," *The New York Times*, November 16, 2008, Washington, <[http://www.nytimes.com/2008/11/16/washington/summit-text.html?\\_r=1](http://www.nytimes.com/2008/11/16/washington/summit-text.html?_r=1)> (accessed December 1, 2008).
- 2 William Easterly, ed., *Reinventing Foreign Aid* (Cambridge: MIT Press, 2008), 4.
- 3 Ibid.
- 4 Amartya Sen, "The Man Without a Plan," *Foreign Affairs* (March/April 2006), <<http://www.foreignaffairs.org/previews/6185/20060301fareviewessay85214/amartya-sen/the-man-without-a-plan.html>> (accessed December 1, 2008).
- 5 Michael Kramer, "Making Vaccines Pay," in Easterly, ed., *Reinventing Foreign Aid* (Cambridge: MIT Press, 2008), 419.
- 6 Kurt Hoffman, "Placing Enterprise and Business Thinking at the Heart of the War on Poverty," in Easterly, ed., *Reinventing Foreign Aid* (Cambridge: MIT Press, 2008), 489.
- 7 Barack Obama, "A New Strategy for a New World" (Washington, D.C., July 15, 2008), <<http://my.barackobama.com/page/community/post/amandascott/gGxkFr>> (accessed December 1, 2008)..
- 8 Chris Blattman, "Easterly on Obama," *Chris Blattman's Blog*, July 18, 2008, <<http://chrisblattman.blogspot.com/2008/07/easterly-on-obama.html>> (accessed December 1, 2008).