

Aid Recipients Might Have the Best Ideas About Allocation

By Steven Pearlstein

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Great news! Aid to poor African countries will be doubled to \$50 billion a year.

This may make all of us in rich countries feel better about ourselves. The real question, however, is whether it will make people in Africa better off. Up to now, the history hasn't been particularly encouraging.

The customary way we dole out most aid money is through government-sponsored organizations like USAID or the World Bank, staffed by experts

who are supposed to have learned over the years what works and what doesn't work. But as former World Bank economist William Easterly argues, the flaw in this "bureaucratic, supply-push approach" is that it gets very little timely feedback from its customers -- the poor people in Africa, in this case. As a result, not only are a lot of the wrong projects funded, but even potentially good projects miss the mid-course corrections that markets provide.

Dennis Whittle and Mari Kuraishi aim to change all that, in effect by bringing the magic of eBay, the power of intuition and the "wisdom of crowds" to the world of development aid.

Their base of operations is GlobalGiving, a company they set up three years ago to use the Internet to connect small donors with worthy international aid projects. So far, they've raised more than \$1.5 million from about 2,000 donors to finance all or part of about 400 small-scale projects. They've already built, ripped up and rebuilt a consumer-friendly Web site. And they've developed partnerships with dozens of nonprofit organizations around

LIVE DISCUSSION

Washington Post business columnist Steven Pearlstein was online to discuss a recent column that examined doctor-owned specialty hospitals.

[Transcript](#)

the world that vet all projects.

In the process, however, GlobalGiving has stumbled upon an open, market-driven, "demand-pull" model for allocating aid to poor countries that challenges the reigning expert-driven approach now used to allocate most public and private aid.

Consider this experiment GlobalGiving conducted last year:

On its Web site, GlobalGiving provided brief descriptions of 112 development projects, asking site visitors to rank them on a scale of 1 to 10. About 50,000 individuals generated 200,000 evaluations. Simultaneously, a much smaller group of several hundred aid experts was asked to perform the same task. Of the 12 projects chosen by the experts, nine were also chosen by popular vote.

Part two of the experiment involved allocating \$100,000 in prize money among the 12 finalists. Hundreds of wealthy donors at a conference in Palo Alto, Calif., were given five-minute presentations on each project and asked to immediately divide the pot. At the same time, a jury of nine of them was told to spend several hours reaching consensus on how best to allocate the money -- a proxy for the committee-driven process by which most grants are now made. Again, the choices made by the more deliberative jury were strikingly similar to the collective, seat-of-the-pants choices made by the larger group.

These results will sound familiar to anyone who has read recent best-sellers by New Yorker writers Malcolm Gladwell ("Blink") and James Surowiecki ("The Wisdom of Crowds"), which have wonderful examples of how quick decisions by large numbers of laymen based on limited information turn out to be as good, if not better, than more deliberate decisions by experts.

The results also raise an important policy question: Why should we rely on what Easterly once called "the cartel of good intentions" -- an expensive, cumbersome, expert-driven bureaucracy -- to dole out \$50 billion a year when

cheaper, faster competitive mechanisms might do just as well or better?

After all, if your high-paid mutual fund manager can't consistently beat the market, you'd be crazy not to move into an S&P 500 index fund. Why not use a similar benchmark to evaluate the effectiveness of "expert" aid bureaucracies?

In fact, under prodding by the market-oriented Bush administration, both the World Bank and USAID are beginning to do just that. At the moment, however, those experimental programs operate at the margins of these agencies, posing little threat to the bureaucracies and their way of doing business.

But one can imagine getting to the point in the not-too-distant future when governments might decide to allocate a hefty portion of their aid not through direct grants, but by matching each dollar of private donation made to a wide range of approved projects. And in countries where rampant government corruption has repeatedly foiled aid efforts, is there any reason not to embrace Easterly's "crazy" idea of doling out aid in the form of vouchers given directly to all residents, who are free to "invest" them in whatever community-based agencies or projects they think will do them the most good?

It took Bono and other rockers to push poverty to the top of the global agenda. Now it falls to Whittle, Kuraishi, Easterly and other "rock stars" of economic development to help us make sure all that aid money does some good.