Book Review:

David Dollar and Lant Pritchett, *Assessing Aid: What Works, What Doesn't, and Why* (World Bank Research Report: Oxford University Press, 1998)

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Like any good book, *Assessing Aid* tells us something we already believe, and something we don't. In this recent, important work by David Dollar and Lant Pritchett, *Assessing Aid: What Works, What Doesn't, and Why,* the beliefs in question involve policy prescriptions for aid to developing countries—what to do, and where to do it. It is an intelligent review of the "state of the art" in development research and policy, and for this reason alone worth reading. To answer the questions posed in its title, the work focuses on the national economic policies of developing countries. But its title is somewhat disingenuous, for it implies that the book primarily analyzes the reasons for varying degrees of aid effectiveness. Although the authors provide this type of analysis, the work also attempts to deduce from various studies and research projects recommendations about how aid agencies should operate in the field, and in which countries. The argument shifts from a discussion of how aid money moves through an economy, to what features of recipient countries facilitate aid's success, what kinds of projects to implement in strong policy versus weak policy countries, and what makes a given project successful. Finally, the work concludes that because of institutional and policy differentials among host governments, spending money in some poor countries may not be justified. This last link, although well reasoned, may face criticism.

"Fungibility" is the argument's analytical key. This concept holds that aid dollars actually fund whatever the host government prioritizes, in the same ratio as government priorities. Because a rational government will reallocate all of its resources, including resources freed up by the presence of international aid projects, "earmarking" becomes in effect a bogus concept. "The safest assumption for donors is that they are, more or less, financing whatever the government chooses to do." A logical question, then, assuming aid money is fungible within a given economy, is Why not just give general budget support and save consultant travel expense and administration salaries? If the donor and recipient share intermediate development objectives, there ought not exist any objection to merely transferring money into the recipient's general fund.

The report starts to address this question by asserting that aid is not just money but good ideas as well. The report finishes by iterating the features of successful projects. Both lines of reasoning rely on the fungibility discussion, due to the strong possibility that some recipient country policies fall below the "good policy threshold." Since aid money will go wherever the host government spends its own money, pouring money into a poorly managed, weak institutional environment merely supports the government's unwise choices. In good policy environments, though, project benefits accrue. Thus, "Foreign aid in itself is neutral with respect to development, for its positive or negative effects depend on government policies." If we believe this, that aid is "neutral" and will not benefit many developing countries, a short step forces the triage conclusion, that donors simply should not allocate large amounts of monetary aid to certain countries.

Chapter One is titled "Money Matters—In a Good Policy Environment," and this statement is an essential theme of the book. The authors show that aid monies expended in a good policy environment do help raise GDP and alleviate poverty. "Good policies" are defined in terms of open trade, secure private property rights, the absence of corruption, respect for the rule of law, social safety nets, and sound macroeconomic and financial policies. These features already constitute the consensus view of what developing country governments ought to strive towards. "Effective institutions," however defined, help aid work, both in the implementation stage and in maintaining a project after the donor leaves. But even beyond the implementation and sustainability of a given project, the probability that the recipient government will wisely use the fungible money freed up by a given donation depends significantly on institutional quality. Hence the conclusion that donors should concentrate financial resources in good policy countries.

What about poor countries that lack the institutional strength and deserving policies? The authors claim that for these countries ideas transferred count more than dollars spent. If a country lacks knowledge and experience with strong institutions and the set of policies associated with GDP growth, it seems sensible to focus aid projects on transferring that knowledge. This realization relates to the question of what are "projects" and what are their true goals. "Capacity building" expresses the primary intended outcome of projects in weak policy environments. In weak policy environments, development projects must be innovative, and help reformers change the ideas, institutions and policies of the host country. A project should become "a bundle of activities that does not just build schools but, more important, helps to change how schools are run to provide high-quality education." In the same way that increased capacity spillovers contribute to the "crowding in" effect of aid in strong policy countries, increasing knowledge is the real value added for weak policy societies as a whole.

Effective projects and programs possess certain characteristics. First, from experience we know what does *not* work: big money, buying reform, and too much focus on individual projects. Also from experience, the authors identify four key themes related to success: finding a champion; forming a long-term vision of systemic change; supporting knowledge creation; and engaging civil society. Other advice for project planners includes ensuring that accountability, incentives, local involvement, participants' civil liberties, and "structured learning" opportunities are part of the project objective. The discussion starts to sound platitudinous when the authors also list such aspects of better project implementation as "form a view…use the view," and the injunction to focus on systemic change in whole sectors and countries and to keep the "big picture" in mind. Although these mantras probably help more than harm, repeating them here doesn't really add to global discourse.

Next, one is tempted to ask why we should allocate money to programs in states that are already beginning to prosper. If good policies correlate with development anyway, why should we spend *extra* money? The answer implicit in the "money matters" argument stated above is that aid multiplies the effect of good institutions. Furthermore, aid in a good policy environment “crowds in” other investment, because aid signals confidence in the economy, and because of the added benefits that accrue from effective projects. This is a positive Yes aid *should* be spent in certain countries. The authors take pains to say they are not advocating a reduction in aid spending, only a reallocation. If managers direct aid wisely to countries that will use it well, more people worldwide will rise from poverty.

Although some of the conclusions about project design are familiar to the point of seeming facile, the answer to the question of where to spend aid is surprising to the point of inciting resistance. Most reasonable observers intuit that aid money spent or activity performed in severely challenged socioeconomic and institutional environments will likely fail to yield positive results. But the conclusion that aid, then, should be spent only in countries which have proved they will use it wisely is harder to accept. Accepting that some aid should be sliced from some very poor countries will be a difficult leap for humanitarians, particularly recognizing the problem that the "better candidates" for aid are also more likely to develop on their own. Admitting that certain policies are more conducive to growth does not force one to agree that only the countries with those policies in place deserve monetary support. If the countries with the correct policies and institutional capability are going to develop in any case, shouldn't we focus our energy on the countries lacking those advantages? Dollar and Pritchett answer this question by distinguishing between idea aid and money aid, but I am not entirely convinced.

The authors present an excellent review and summary of compelling recent studies that relate policy with development, and of the features of aid programs that correlate with success. They lay solid groundwork for their conclusions, and cite a host of respected studies regarding the development impact of certain policy choices. On the main this isn't really “new” intellectual product so much as an emphatic and well-argued expression of what people in the development field already know. However, clear expression of a new paradigm is important—the allocation debate can now rest solidly on a collection of studies rationally tied into a convincing case. If this work elicits a response, that response must rise to a high standard of proof.