

T O R E N L E W I S

The Other Principal Agent Problem

Introduction

Scholars and of international organization have often sought to unravel the underlying principal-agent problem of development aid – how can aid organizations, as principals, stimulate the preferred outcome among poor country clients, as agents [2]? Also

effectiveness and evaluates the merit of this thinking through four case studies of aid organizations with differing donor-client relationships. In particular, this analysis compares the efficacy of two “top-down” multilateral aid agencies to two cooperative “self-help” non-governmental organizations (NGOs) in assisting impoverished clients in developing nations.

“The state and society have extensive roles in strengthening and safeguarding human capabilities. This is a supporting role, rather than one of ready-made delivery.” [1]

- Amartya Sen

of concern has been how aid organizations act as agents of politicians and, by proxy, the voting public in donor countries [3]. This arrangement, concerned primarily with enforcement on the part of donors and compliance on the part of aid recipients, ignores the interests of the most important actor in the process of international development – the poor themselves. The conventional set-up thus presents a different principal-agent problem: rich country aid donors are not accountable to their clients, and few incentives exist to promote and enforce policies that reflect the preferences of poor country recipients. Rearranging the donor-client relationship – by viewing development institutions as agents and the poor as principals – would place much needed accountability on donors for the assignments with which they are tasked and services they claim to provide. More importantly, such reorganization would allow for mandates and feedback from aid recipients themselves which, under current conditions, do not exist. This paper examines how development theorists and practitioners use principal-agent theory to analyze aid ef-

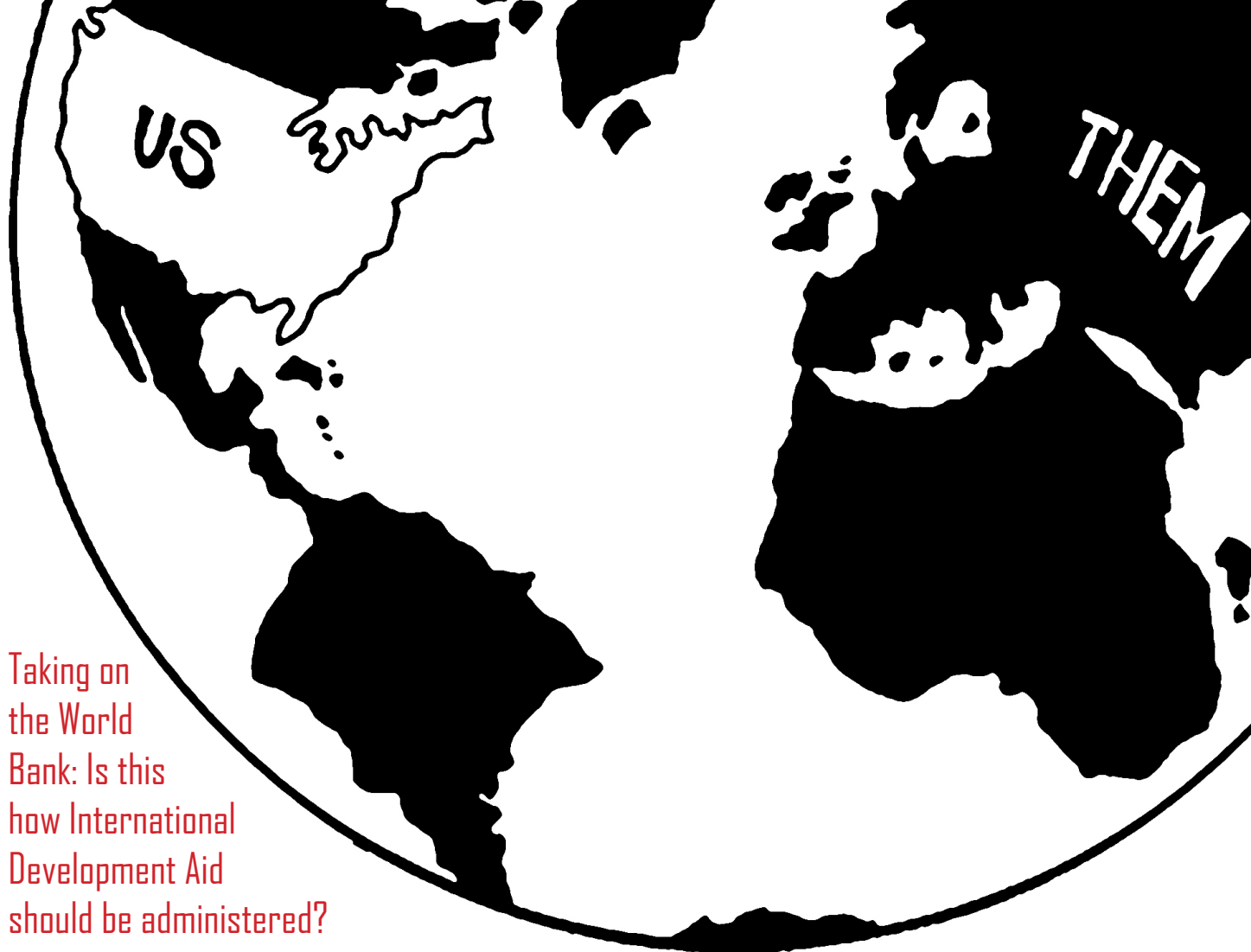
Principal-Agent Theory: Origins and Applications

In general, principal-agent (P-A) theory is concerned with “Delegation [...] a conditional grant of authority from a principal to an agent that empowers the latter to act on behalf of the former” [4]. Most often, the P-A model aims to identify the “acts of principals in granting conditional authority [to agents],” and seeks to aid the “[design of] institutions to control possible opportunism by agents” [4]. Principals do conditionally grant authority to agents but this arrangement nonetheless gives rise to challenges to principals’ authority: agency slack occurs when agents behave in a way objectionable to the principal by devoting less energy than desired to the principal’s designated objectives (shirking) or by shifting policy away from the principal’s preferred direction (slippage) [4].

Ultimately, Gary Miller observes that these central suppositions yield two major consequences. First, because principals endeavor to diminish moral hazardous effects, they (as previously noted) employ



Toren Lewis is a junior at Georgetown University’s School of Foreign Service majoring in International Politics/Trans-State Actors with a certificate in International Development. As co-founder of the Georgetown Journal of International Development, his academic interests include human development, social entrepreneurship and social business. Toren also has work experience in Foreign Policy, National Security, and political analysis. Currently, he works at the Georgetown Center for Peace and Security Studies where he assists faculty and staff with information technology-management. His career interests include community development, poverty-relief, and management consulting, though in another life he would most likely be a poet, traveler, and chef.



Taking on the World Bank: Is this how International Development Aid should be administered?

backward induction in an attempt to preemptively curb agency slack. Thus, principals necessarily transfer all risk to the risk-averse agents – the pressure to perform rests solely on agents, not principals. Secondly, under such a regime agents (like risk-bearing salesmen of a given firm) will demand high compensation for their risk-taking, creating an “efficiency trade-off” – incentives are likely to cut into the principals’ gains (analogous to the firm’s profits) in order to induce the desired outcomes among risk-bearing agents [5].

P-A Theory & Political Science

Downs and Rock (1994) effectively apply this scheme in an analysis of the relationship between the American electorate as the principal and the chief executive (i.e. president) as the agent [5]. In their examination, the public – whose policy preferences differ from the president’s – has leverage over the president in that they can remove him from office, but can only imperfectly monitor his actions. In fact, as P-A theory generally stipulates, the public can only monitor the executive’s actions after the fact – they can only reflect upon past executive action given simi-

lar or different contractual stipulations. Due to this situation of asymmetric information, voters must rely on backward induction and craft compromise deals with their chief elected representatives to indirectly achieve their policy goals [5]. Voters dissatisfied with the an administration’s decision to invade a certain country, for instance, could only retroactively punish the executive by not voting for him/her or his/her party during the next election.

P-A Theory & International Organization

A comparable line of thinking can apply to international cooperation, describing why national governments delegate to international organizations (IOs) and how states attempt to control IO behavior. In particular, delegation to IOs is one of three ways in which states can choose to cooperate (or not to cooperate) – the other two ways being unilateral action, in which IOs are not agents of policy implementation, and “standard” international cooperation, in which states mutually adjust policies through national legislation and binding multinational treaties or other informal agreements [4]. While delega-

tion to IOs would inherently expose states to certain risks (as previously noted), it also brings along certain benefits that “standard” cooperation, much less unilateralism, do not provide. These benefits include the perks of delegating to an IO that serve as: “a specialized agent with the expertise, time, political ability, or resources to perform a task”; a “coordinating agent,” who will more readily pursue socially optimal outcomes and avoid the problems of defection or free-riding when public goods are involved;¹ an “agenda-setting agent,” who can bring about consensus among states while such accord may have been costly or improbable otherwise; an “arbitrating agent,” who resolves disputes between its principals (nations) – the International Court of Justice resembles this model; an “enforcing agent,” who lends credibility to the principal’s political goal which it serves – Hawkins et al cite the relatively fiscally conservative European Central Bank as a good example of this sort of agent; a “policy-biased agent,” who can “lock-in,” or institutionalize certain political interests – just as the United Nations Security Council, as an agent of France, Great Britain, China, and the USSR (now Russia) codified their preferences by securing them permanent membership [4].

Delegation and Development Aid

For the very reasons just mentioned, states tend to delegate at least a portion of their development aid activities to IOs like the World Bank. Principally, governments tend to give aid multilaterally because of the ability of international aid agencies to act as both coordinating agents and enforcing agents: multilateral aid organizations can more coherently monitor recipient behavior than could multiple national agencies and also act in a more credible, apolitical manner than their bilateral counterparts [3]. These two conditions thus illustrate the first principal-agent problem of international development aid—donor country voters (as principals) fear that their government’s (as the agent) foreign aid policies will differ from their preferences. Delegation to IOs solves this problem: “by using the international organization[s] to send aid, the government issues a credible signal to voters about the use of foreign

aid. This signal leaves all actors better off,” as voters can rest assured that their tax dollars are helping the poor and donor country politicians can effectively demonstrate that they are fulfilling voters’ wishes – performance which in turn ensures their reelection [3].

The second principal-agent problem of international development aid, and the focus of the following case studies, is analogous to “the canonic example of [...] an employer (principal) hiring a worker (agent) with asymmetric information: the employer is unable to identify how much work output is due to work effort and how much is due to good or bad luck” [6]. In this model, the donor (principal) cannot efficiently monitor the aid recipient’s (agent) behavior and induce desired outcomes [6]. In order to avoid such agency slack, donors use backward induction and have increasingly turned toward performance-based aid allocation – donors expect aid recipients to comply with their policy goals, or else risk not receiving further development assistance.

Delegation and The World Bank

Before examining the second principal-agent problem of development aid in the context of World Bank assistance policies in practice, some brief organizational background is in order. The World Bank is a multilateral group of five affiliated development institutions headquartered in Washington, DC: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID). Most references to the “World Bank,” however, really imply the IBRD – which “aims to reduce poverty in middle-income and creditworthy poorer countries by promoting sustainable development through loans, guarantees, risk management products, and analytical and advisory services” – and IDA, whose purpose is “to reduce poverty by providing interest-free loans and grants for programs that boost economic growth, reduce inequalities and improve people’s living conditions” [7]. Together, the IBRD and IDA are responsible for investing in poverty reduction programs that poor countries cannot finance themselves, the difference between the two being that the IDA only loans to the poorest of poor nations, while the IBRD lends to middle-income countries [8]. The Bank’s shares² are owned by its 185 member nations, who

1 For example, the World Labor Organization – as a coordinating agent of the global community of states – might more aggressively pursue socially optimal policy goals as far as labor standards are concerned than would national governments on their own. In the absence of such an actor, states may choose to benefit from the creation of new standards without participating in their creation (free-riding) or may simply not work toward better labor standards (defection).

2 All subsequent references to the World Bank or Bank connote

each appoint a Governor (generally the country's finance minister). While the Governors are responsible for deciding how the Bank distributes its income and admitting or suspending members, oversight of the Bank's daily strategic operations lies with a 24-member Board of Executive Directors stationed in Washington, DC. 5 of the Board's Executive Directors are appointees from France, Germany, Japan, the U.K., and the U.S. – the member countries with

the largest shares of the bank. The remaining members elect 19 Executive Directors to represent them on the Board. Recently, China and Saudi Arabia have gained enough shares for individual representation, too [7]. The Bank's President, – nominated for a five-year renewable term by the Bank's largest shareholder (the U.S.) – two Managing Directors, over 20 Vice Presidents, and further operational units including country directors and managers oversee World Bank operations at a staff level [7]. By definition, World Bank's clients must only be the governments of nation states – the Bank is expressly

the IBRD and IDA.

Organization of the World Bank

Multilateral Group of 5 Affiliated Development Institutions
Headquartered in Washington, DC

1. International Bank for Reconstruction and Development (IBRD)
- Loans to middle-income countries
2. International Development Association (IDA)
- Loans to the poorest of poor nations

() Most References to the World Bank Imply IBRD or IDA*

3. International Finance Corporation (IFC)
4. Multilateral Investment Guarantee Agency (MIGA)
5. International Centre for Settlement of Investment Disputes (ICSID)

Daily Strategic Operations Run by 24-Member Board
- France, Germany, Japan, UK, US, China, Saudi Arabia each appoint One
- Other 178 Members Elect the Remaining 17 Members

By definition, the World Bank's clients must only be the governments of nation states.

Toren Lewis

prohibited from dealing with either private clients or public ones other than governments [8]. At the World Bank, then “aid effectiveness is [...] looked at from the point of view of performance in the recipient country: are programme objectives achieved in a sustainable manner, have policy reforms been implemented, and do they produce results in terms of economic growth and poverty reduction” [9]?

Sticks and Yardsticks

Accordingly, the standard P-A analysis on the subject describes the World Bank’s organizational predicament as being characterized by the arche-

conditionality relationship [...] and there is also a consensus [...] that the ultimate factor that makes aid ineffective to induce policy reform is the inability of the donor to strongly commit to enforcing conditions” [10]. In essence, a customary P-A interpretation would seem to suggest that the chief problem behind World Bank aid efficiency concerns rests in the Bank’s limited ability to enforce its own policy parameters in recipient countries. Indeed confirming this belief, “the Bank has moved strongly in the direction of programmatic lending and streamlining conditions, which has contributed to greater ownership” [10].

“[t]he interaction between the Bank and Burkina Faso is one of a Western-controlled, self-enforcing institution and a corrupt President. Whatever progress the Bank reports can therefore never genuinely reflect the preferences of, or be accountable to, the aid recipients themselves.”

typical principal-agent dilemma of “ownership failure,” in which the donor and recipient have divergent policy preferences [10]. The Bank (principal), whose altruistic preferences are assumed to differ from those of its clients (agents), must rely on conditionality to ensure the implementation of its desired development policies in recipient countries [10]. In other words, the World Bank promises loans on the basis of donor policy-compliance – if recipients do not align their policies with Bank recommendations, they are not likely to receive aid. Because of asymmetric information – a situation in which only the aid recipient knows the true costs of implementing the Bank’s preferred policy – the only way for the Bank to achieve its (presumably socially preferable) goals and avoid shirking or slippage on the part of clients is to enforce the contract governing their relationship. In practical terms, theorists have envisaged such enforcement in two ways with relation to the World Bank: the Bank can use “yardstick competition to compare aid recipients side-by-side and only compensate those governments who implement the desired policies, or it can rely upon its iterated reputation as an “enforcer” to communicate to recipient countries that it will simply wait until its client begins to visibly comply with Bank policies until aid is dispersed (the so-called “stick” aspect of “carrot-and-stick” incentives – reinforcement through negative incentives) [10]. Overall, “it is now widely accepted that the principal-agent is the best theoretical vehicle to operationalize the traditional

Case Study: World Bank “Success” in Burkina Faso

One such case of programmatic lending has been Burkina Faso. A country of more than 13 million citizens, Burkina Faso has is one of the world’s poorest countries, ranking 174th out of 177 countries in the 2006 United Nations Human Development Index. Average per capita income in Burkina Faso is \$400 (2005) [11]. According to the World Bank, the country “has enjoyed political stability since 1987 [...] including a shift toward more market-oriented policies and re-engagement with the international community” [11]. Over the past decade, the country has, in the Bank’s words, “established a good track record on economic performance,” as Burkina Faso has pursued social reforms and economic structural adjustment in accordance with the World Bank [11]. In 2000 Burkina Faso prepared a full Poverty Reduction Strategy Paper (PRSP)³, which few other developing countries have done themselves [11]. To support its implementation, the Bank has upped IDA resource allocation through traditional investment

3 PSRP: “a country-led, country-written document that provides the basis for assistance from the World Bank and the International Monetary Fund, as well as debt relief [...] A Poverty Reduction Strategy Paper describes a country’s macroeconomic, structural, and social policies and programs to promote growth. It summarizes the country’s objectives, policies, and measures for poverty reduction. A Poverty Reduction Strategy Paper should be country-driven, comprehensive in scope, partnership-oriented, and participatory.”

loans and programmatic lending – lending connected to concrete benchmarks tied to the country's budget and policy cycle “through budget support and community-driven development” [11]. IDA has also been helping to align the country's PRSP with donors, providing budgetary support and financing education and water supply programs. The Bank asserts that this policy of “strong donor harmonization,” has helped make aid flows more predictable, and fostered the use of country resources [11].

The World Bank recently approved the Country Assistance Strategy (CAS) for 2006-2009, which demonstrates how IDA, together with the government of Burkina Faso, will support the “the pillars of the national poverty reduction strategy with analytic work, technical advice, on-going operations and new financing [...it seeks] to contribute to “accelerated and shared growth, improved access to social services, increased employment and income opportunities [...for poor Burkinabe, and] better governance with greater decentralization” [11]. Bank officials recently talked about the CAS with members of the Burkina government, and concluded that performance toward the CAS has been positive overall [11].

The Other Principal-Agent Problem

While the fact that Burkina Faso effectively completed a participatory PRSP – planned by government as well as members of civil society – is certainly worth noting, “A PSRP is no substitute for democracy [...as] it is unclear how [...bureaucrats] could redistribute power from those who had it to those who did not” [12]. As William Easterly notes, while the World Bank and IMF applauded Burkina Faso's completion of the PRSP, the country has not had a change of ruler since 1987, and its current leader was among the top five most corrupt officials in 2001 – not to mention that he has backed heinous warlords in Angola, Liberia, and Sierra Leone [12]. In fact, Burkinabe President Compaore came to power through a coup himself, and used violence to suppress political opponents in 1989 [13]. Further, the benefits of structural adjustment, particularly in the realm of privatization, have been mixed – only certain members of the population have been able to take advantage of this transition [13]. Thus, the interaction between the Bank and Burkina Faso is one of a Western-controlled, self-enforcing institution and a corrupt President. Whatever progress the Bank reports can therefore never genuinely reflect the preferences of, or be accountable to, the aid recipients themselves.

THE FACTS: BURKINA FASO

GEOGRAPHY: A landlocked country in the arid Sahel region south of the Sahara, its area is 273,600 sq km. The country used to be called Upper Volta, taking its name from the three rivers which water the plains -- the black, red and white Volta. In 1984, then-president Thomas Sankara changed the name to Burkina Faso or “Land of Upright Men”.

POPULATION: 13.6 million.

ETHNICITY: The Mossis make up over half of the population. There are also Fulani herders and Tamejek, Bellah and Djula minorities.

RELIGION: Islam 50 percent, traditional African religions 40 percent, Christianity (mostly Catholicism) 10 percent.

LANGUAGE: French (official); 71 languages from the Sudanic family are spoken by 90 percent of the population (most common are Mossi, Bobo, Bissa and Gurma).

ECONOMY: Burkina Faso was ranked 174th out of 177 countries in the 2006 U.N. Human Development Index. Almost half of its people live on less than \$1 a day. Life expectancy is not quite 48 years. Many of its population are subsistence farmers, with severe food shortages and drought not uncommon. Burkina Faso is sub-Saharan Africa's top cotton producer, after overtaking Benin and Mali.

SOME HISTORY: Burkina Faso became a separate colony under French rule in 1919, acquiring its present borders in 1947. There have been five military coups since independence in 1960.

Compaore seized power in a 1987 coup but has widespread popular support. However, neighbouring Ivory Coast has accused him of backing rebels holding the north of the country and he has been named in U.N. reports for supporting insurgents during Sierra Leone's civil war.

The central problem behind the World Bank's approach to development assistance lies in its conception of this donor-client relationship. The approval process for a World Bank Poverty Reduction Strategy Paper approved requires a slue of further internal processes: "preparation of Country Assistance Strategy (CAS), a pre-appraisal mission, an appraisal mission, negotiations, and board approval, all in accordance with the Comprehensive Development Framework (CDF), Operational Directive (OD) 8.60,"...to be brief – the list continues far beyond what was just mentioned [12].

In the case of assistance for the Burkinabe, the Bank emphatically stresses participation on the part of aid recipients, but its "chosen vehicle for bottom-up participation is a detailed central government plan [...] the PRSP" [12]. Because aid recipients do not pay for the services they receive, nor do they elect the aid bureaucrats who serve them, decisions take place among donors and their political constituencies [9]. The fact "that recipients do not always appreciate the products and services donors deliver, or that recipients' response is not what donors expect," is no surprise – shirking and slippage are not problems which need to be addressed to fix the principal-agent framework used to analyze aid donors and recipients. Instead, they can more accurately be viewed as symptoms of a dysfunctional relationship, one in which the "feedback loop" between client and service provider is broken [9].

The other principal-agent problem of international development aid – the fact that rich country politicians (as principals) cannot fully monitor aid agencies (as agents) – presents yet another dilemma less often discussed in the principal-agent literature. Since politicians in wealthy nations act as principals and aid bureaucrats act as their agents, foreign aid ultimately (though indirectly) depends on the preferences of voters in developed nations, and aid recipients in developing nations remain unrepresented once again [9]. The fact that the post of World Bank President is unofficially reserved for an American is perhaps the most obvious manifestation of this predicament [14].

Case Study: Grameen Bank in Bangladesh

Former advisor to the World Bank Chief Economist David Ellerman, too, views depictions of donor countries as principals and recipient nations as agents as a "tellingly mistaken characterization of the relationship," as other social services providers like doctors, therapists, teachers and lawyers are normally agents, while the patients and clients are

THE FACTS: BANGLADESH

GEOGRAPHY: Bangladesh is a country in South Asia its area is 147,570 sq km. It is bordered by India on all sides except for a small border with Burma to the far southeast and by the Bay of Bengal to the south. Together with the Indian state of West Bengal, it makes up the ethno-linguistic region of Bengal. The name Bangladesh means "Country of Bengal" in the official Bengali language.

POPULATION: 140 million.

RELIGION: Islam 87 percent, Hindu 11 percent, 0.6 percent, Buddhist Christian 0.3 percent and 1.1 percent ethnic minorities.

LANGUAGE: Bengali is the state language.

ECONOMY: Bangladesh is one of the world's poorest nations, with half its population living on less than one dollar a day. Gross domestic product in 2005/06 (July-June) was \$65 billion and per capita income \$482. The agriculture sector accounts for 21 percent of GDP and employs over 60 percent of the workforce. The economy has grown by an average 6 percent over the past three years.

SOME HISTORY: Bangladesh was Part of British India until the end of colonial rule in 1947, when the land emerged as East Pakistan. Bangladesh won independence after a nine-month guerrilla war by Bengali nationalists in 1971.

Political instability and corruption has undermined the democracy of Bangladesh in recent years, with the election scheduled for 22 January of 2007 postponed indefinitely. Fakhruddin Ahmed, with the backing of the army, declared emergency law on 11 January 2007 and currently heads a 'caretaker' government, while the heads of two Bangladesh's largest political parties, BNP and Awami League (who ruled the country for the last 15 years), have been imprisoned.

principals [2]. Ellerman uses five themes to construct a framework of “autonomy-compatible assistance to a certain set of ‘doers;” which serves as an excellent basis from which to analyze the relationship of aid recipients (as principals) and donors (as agents) [2]. Ellerman emphasizes that 1) “help must start from the present situation of the doers – not from a “blank slate,” 2) “helpers must see the situation through the eyes of the doers—not just through their own eyes,” 3) “help cannot be imposed upon the doers—as that directly violates their autonomy,” 4) “nor can doers receive help as a benevolent gift—as that creates dependency,” and 5) “doers must be “in the driver’s seat”—which is the basic idea of autonomous self-direction” [2]. With aid recipients

it became its own bank, which now lends half a billion dollars per year (loans average under \$200) to four-and-a-half million borrowers – and does so while maintaining a 99% repayment record [15].

Grameen Bank’s organizational structure reflects its, to use Ellerman’s language, “doer in the driver’s seat” approach. While Grameen operates in an international non-governmental organization that operates in 43 countries throughout South-, East, and Southeast Asia, North and Sub-Saharan Africa, the United States, Latin America and the Caribbean, and the Middle East, its workings in Bangladesh highlight the progressive nature of its overall governance structure [18]. A Bangladeshi government ordinance stipulates that the national organization’s

“[G]rameen is concerned with very fundamental, tangible, and importantly – measurable ends which closely resemble the realistic needs and wants of their impoverished clients. [...] Unlike the World Bank, Grameen Bank operates as a coordinating agent and specializing agent, using its expertise and institutional capacity to facilitate self-help through microfinance [...]”

in charge of development assistance, the problems of preference heterogeneity and the accountability deficit no longer exist. This rearrangement of the P-A model allows the poor (as principals) to clearly communicate their needs and desired policies to assistors (donors, as agents), and assistors can then be held accountable according to how they perform at achieving the clients’ desired results –much like how businesses must constantly adapt their operations to accommodate their customers [12].

Grameen Bank (Grameen means “village” in Bangala) of Bangladesh exemplifies all of Ellerman’s principles in theory and practice. Then a professor of rural economics at the University of Chittagong during the 1970s, Mohammad Yunus witnessed the dire poverty around him and decided to “launch an action research project to examine the possibility of designing a credit delivery system to provide banking services targeted at the rural poor” [15]. Yunus began from the present local circumstances, lending small amounts of money to several poor people without collateral [16]. He then realized that his microloans provided borrowers, especially women, access to credit which could fund entrepreneurial activities or cover other expenses [17]. Eventually, demand grew and Yunus offered himself as a guarantor in order to gain money from a local bank, but his village lending program became so popular that

board of governors – which leads bank policy and serves as the liaison between Grameen, the Bangladeshi Ministry of Finance, and other parts of government – be comprised of a chairperson, managing director, and a nine-member council composed of five government members and four borrower-shareholder representatives [19]. As the bank grew during the 1980s, management power became more concentrated at lower levels through branch offices and zonal offices. Bank activity focuses on empowering women, and most of its members are in fact female – women in the developing world often suffer discriminatory treatment in the “rural credit market” [1]. Borrowers are asked to organize into groups of five to build solidarity and group responsibility. These groups of five then form centers at the village level, which administrate day to day transactional duties [1].

Grameen’s borrowers also “become the shareholders of the bank and own the bank” [1]. Members each purchase one share worth \$2.50, which gives them a stake in Grameen ownership as well as representation on the board of directors – “over time, both proportion of members’ share in total capital and the representation have increased” [1]. Lastly, Grameen’s tactics for poverty reduction are closely aligned with the preferences of development assistance recipients. The organizations states that:

A member is considered to have moved out of poverty if her family fulfills the following criteria:

1. The family lives in a house worth at least [\$360] or a house with a tin roof, and each member of the family is able to sleep on bed instead of on the floor.
2. Family members drink pure water of tube-wells, boiled water or water purified by using alum, arsenic-free, purifying tablets or pitcher filters.
3. All children in the family over six years of age are all going to school or finished primary school.
4. Minimum weekly loan installment of the borrower is [ca \$2.88] or more.
5. Family uses sanitary latrine.
6. Family members have adequate clothing for every day use, warm clothing for winter, such as shawls, sweaters, blankets, etc, and mosquito-nets to protect themselves from mosquitoes.
7. Family has sources of additional income, such as vegetable garden, fruit-bearing trees, etc, so that they are able to fall back on these sources of income when they need additional money.
8. The borrower maintains an average annual balance of [ca. \$72] in her savings accounts.
9. Family experiences no difficulty in having three square meals a day throughout the year, i. e. no member of the family goes hungry any time of the year.
10. Family can take care of the health. If any member of the family falls ill, family can afford to take all necessary steps to seek adequate healthcare. [20]

As the list above makes clear, Grameen is concerned with very fundamental, tangible, and importantly – measurable ends which closely resemble the realistic needs and wants of their impoverished clients. Indeed, their concerns are their clients concerns, who in fact literally have a stake in the organization, both financially and politically. Unlike the World Bank, Grameen Bank operates as a coordinating agent and specializing agent, using its expertise and institutional capacity to facilitate self-help through micro-finance among rural women in particular (who, in this relationship, act as principals).

The Determining Variable: Size or Approach?

But is it truly counterproductive to view development agencies as principals and their clients as agents? Or would a smaller principal-agent chain solve the aforementioned ownership problems by allowing donors and recipients to align preferences [9]? The next two case studies survey two smaller

organizations – the Inter-American Development Bank (IADB or IDB), a regional multilateral development organization, and the Self-Employed Women's Association (SEWA) stationed in Gujarat, India – and the comparative effectiveness of their water projects on poverty reduction.

Case Study: “Water Support” from the IADB

The Inter-American Development Bank is one of four Regional Development Banks, the others being the African Development Bank, the Asian Development Bank, and the European Bank for Reconstruction and Development. All four multilateral development banks provide “financial support and professional advice for economic and social development activities in developing nations,” and resemble the World Bank in structure and mission [7]. 47 member nations cooperatively own the IDB, whose leadership consists of a Board of Governors, a Board of Executive Directors, and a President (traditionally a Latin American) – under whom a Vice President (traditionally a US Citizen) and other managerial staff direct the IDB's operations [21]. 50% of the IDB's shares are reserved for the 26 borrower nations, while 30% belong to the United States and Europe, Israel, and Japan hold fewer shares [21]. Like the World Bank, IDB staff also prepares Country Strategies, which correspond with the particular country's election cycle, describing the Bank's plans for the country in coming years in a technocratic, top-down basis [21]. Unlike the World Bank, however, the IDB may lend funds directly to business and civil society organizations [21].

The IDB states that it “vigorously support[s] water supply and sanitation projects [including...] infrastructure, modernizations, planning, watershed management, and urban drainage” [21]. The Bank further asserts that its “investment in watershed management [...] contributed to promoting bottom-up decision making, decentralization, and governance” [21]. The IDB has been active in instructional reform, modernization of water supply and sanitation, and advancing the related Millennium Development Goals. Its primary involvements and investment, however, has been in water supply and sanitation [21].

In its review of water support activities from 1991-2005, IDB gives examples of its activities. Specifically, IDB discusses how it financed national sewerage measures in Argentina (which began in 1991 and 1997, respectively) intended to “grant credit to provincial and municipal water and sanitation utilities,” with the objective of “the institutional

strengthening of these utilities to make them financially self-sufficient and improve their operating capability” [21]. In its case study of the program, IDB noted that its loans are “granted solely for projects to upgrade operations, to rehabilitate existing systems, and in special cases, to boost and expand existing services,” and pointed out that the program also was in line with Argentinean steps to privatize its provincial and federal public enterprises while reducing its deficit [21].

A review of IDB’s stated water activities finds that they were intensive in economic structural adjustment (privatization) and technical improvement, but did not bear a particular focus on poverty dimensions of development, nor country participation. Indeed, IDB itself states that less than 20% of its water projects are “poverty-targeted” [21]. A humanitarian watchdog NGO highlights major criticism the Inter-American Development Bank receives for its focus on structural adjustment and for directly funding private companies for development initiatives. It cites instances in which the IDB funded corporate irresponsibility and social damages ensued: in Buenos Aires, Argentina, where the IDB-funded Aguas Argentinas failed to provide improved and expanded services in 1997; in El Alto, Bolivia, where Aguas del Illimani angered citizens by excluding 200,000 poor people from its service range, and the IDB continued to fund the company; in Guayaquil, Ecuador, where a the IBD loaned money to a subsidiary of Bechtel, which, according to the local press, only treated 5% of the sewage for which it was responsible and a health crisis ensued [22].

Overall, IDB water efforts seem to heavily emphasize delegation of technical adjustments. Despite being smaller than the World Bank, the IDB demonstrates that a mere shortening of the current principal-agent chain is not sufficient to achieve poverty-reducing development aid. As the IDB’s Country Program Evaluation for Argentina – pro-

duced by the IDB’s Office of Evaluation and Oversight – noted, IDB project design should take more of a long-term view (not just electoral cycles), and focus on local achievements (starting from where the doers are) while concentrating more on building the capacity, and not merely the institutional design, of public service providing agencies [21].

Case Study: SEWA Water Activities

Comparatively, The Self-Employed Women’s Association (SEWA) headquartered in Ahmedabad Gujarat, India, takes a different approach toward water policy. A trade union registered in 1972, SEWA is an organization of impoverished women who work in the informal economy. In India, such workers constitute 93% of the labor force, but nonetheless lack the social and political support to break free from poverty [23]. SEWA offers banking, child care, legal, and other services to which its members would usually not have access [23].

One example of SEWA’s involvement in water projects is its “Water as a Regenerative Input” program. This initiative combines the power of contemporary and traditional water-harnessing programs to ensure water availability in villages through monthly visits by SEWA organizers, who travel to one of the eight nearby villages each month. These activities augment the government’s Watershed Development Program, as SEWA representatives deliver and collect information to rural citizens – particularly in drought-stricken areas of Gujarat – based on their local needs: “would the village be better served by recharging wells, or should they strive to construct a check dam or new village pond” [24]. Similarly, these presenters and information-gatherers regularly write reports and brief Gujarati government officials on the “decisions and demands of village water committees” [24]. The routine is simple, but effective:



Mohammad Yunus visits students at a Grameen Bank Center.
(Photo: grameen-info.org)

each time SEWA representatives present in meetings with villagers of all cultural, gender and other backgrounds, they inform the community about the resources available to them, after which the community members collectively decide on a course of action [24].

The key element of SEWA's interaction with its community members is that ordinary community members comprise the organization itself. The union's governance consists of two tiers – members of each trade proportionally elect representatives to both the Trade Council and Trade Committee, two parallel bodies. The Committees discuss common issues related to their respective trades. The Trade Council elects an Executive Committee, which also proportionally reflects its membership [23].

“Does this mean that Western assistance aside from propping up local initiatives is always completely useless? [...] Perhaps not, but when Western aid agencies team together with local communities and governments instead of imposing projects upon them, they tend to be more reflective of recipient preferences.”

Similar to Grameen Bank, SEWA serves as an agent to its clients (principals) who also participate in the formation of development goals and objectives. SEWA women, as Ellerman suggests, are “in the driver's seat,” and dynamically alter the organizations policy objectives according to their own participation and needs [2]. Slippage and shirking are relatively irrelevant, and instead, the women (as principals) look to SEWA to act as an agenda-setting agent – which brings about consensus among women who would otherwise not have been connected – and as a coordinating agent – one that solves the problem of collective action for these previously unorganized workers by giving them a formal voice and representing their common interest. While multilateral development institutions attempt to help impoverished people through technical assistance and conditional loans, “the providing agencies abilities to deliver [...] resources often fail as a result of their top-down structure” [24]. “Instead of the traditional top-down system, [SEWA] seek[s] to empower the poor women so that the system is oriented from the bottom up” [24].

Helping People Help Themselves

Indeed, India has become somewhat of a poster child for development, and yet many of its most effective development initiatives have come from

within – though the World Bank largely credits itself for India's economic explosion, India received only about a penny per person per day in Bank funding during the time in which the World Bank allegedly facilitated this happening [12].

Examples of such “homegrown development efforts” include India's National Institute of Information Technology (NIIT), a private vocational school begun by two local entrepreneurs [12]. Before India became famous for its part in the Information Technology industry, NIIT “played a key role in bringing computer awareness to young Indians” [25]. Today, NIIT partners with Indian state governments to provide 2000 public schools with computer education. Another case in point is Kerala's Family Prosperity Program, in which local administrators work to

identify the health and education needs among poor women, and help them to design their own plans to overcome their problems by offering the women technical training and business development assistance [26]. Similarly, in Mumbai, millionaire developer Mukesh Mehta is leading a program to develop the largest slum in Asia, Dharavi, by building better housing through public-private partnerships and providing vocational training and improved equipment to the low-skilled workers of Dharavi [26].

Conclusion

Does this mean that Western assistance aside from propping up local initiatives is always completely useless? Certainly not every Western assistance project has been Orwellian and ineffectual. Perhaps not, but when Western aid agencies team together with local communities and governments instead of imposing projects upon them, they tend to be more reflective of recipient preferences. The United States Agency for International Development (USAID), for example, has lately achieved innovative accomplishments in India, too, including: helping to create an alliance of Indian and American corporate and NGO groups “to address [...] issues related to the quality of education for children [...] by drawing on the best of their individual programs [...] and initiating a series of regional policy workshops;”

Cooperating with police in Rajasthan to create six new legal aid centers in the area; and initiating the creation of a gender advocacy office in Delhi which will allow “an alliance of women’s groups to access parliament and the executive branch” [27]. These specific USAID activities in India represent progress in that they are Indian projects with United States help.

Thus, this paper has argued for aid assistance in which development agencies (as agents) serve aid recipients (as principals) through “autonomy-compatible assistance,” which “cannot be reduced to a checklist or engineering plan to be enforced by well-designed carrots and sticks” [2]. Rearranging the principal-agent relationship – by making aid recipients principals and donors agents – would force aid agencies to “act as social entrepreneurs, trying to offer innovative services that would prove attractive to the poor” [12]. This is not to say that the World Bank and regional development banks should be disbanded, but instead suggests that they should employ democratic means by which to provide their services, such as allowing the poor themselves to vote on projects [12]. Allowing the poor to voice their preferences, as Downs and Rock suggest using P-A analysis, would make aid organizations accountable to them and responsible for producing desired results [5]. And lastly, if aid agencies acknowledged that local initiatives drove development and focused only on tangible goals aligned with donor preferences and need, they would be free from the traditional P-A problem of development aid – there would be no impossible goals to enforce and monitor [5].

[1] Sen, Amartya. *Development as Freedom*. (New York: Alfred A. Knopf, 1999), 201.

[2] Ellerman, David. “Helping People Help Themselves: Toward a Theory of Autonomy-Compatible Self-Help.” August 2001. <http://www.eldis.org/fulltext/ellerman.pdf>.

[3] Milner, Helen V. “Why Multilateralism? Foreign Aid and Domestic Principal-Agent Problems.”

[4] Hawkins, Darrel et al. “States, International Organizations, and Principal-Agent Theory.”

[5] Miller, Gary J. “The Political Evolution of Principal-Agent Models.” *Annual Review of Political Science*, Volume 8, 2005. <http://arjournals.annualreviews.org/doi/pdf/10.1146/annurev.polisci.8.082103.104840?cookieSet=1>.

[6] Bourguignon, François and Mark Sundberg. “Aid Effectiveness – Opening the Black Box.” http://www.aeaweb.org/annual_mtg_papers/2007/0106_1430_2001.pdf.

[7] The World Bank Group. www.worldbank.org

[8] Ritzen, Jozef. *A Chance for the World Bank*. (London: Anthem Press, 2005).

[9] Martin, Bertin. “Aid Agencies and Aid Effectiveness.” *The World Bank Institute*. March 2004. <http://www1.worldbank.org/devoutreach/march04/article.asp?id=240>.

[10] “Review of World Bank Conditionality: The Theory and Practice of Conditionality, A Literature Review.” *Development Economics*, World Bank. 6 July, 2005. [http://siteresources.worldbank.org/PROJECTS/Resources/40940-1114615847489/conditional-](http://siteresources.worldbank.org/PROJECTS/Resources/40940-1114615847489/conditional-ityliteraturereview07-21.pdf)

[ityliteraturereview07-21.pdf](http://siteresources.worldbank.org/PROJECTS/Resources/40940-1114615847489/conditional-ityliteraturereview07-21.pdf). 19.

[11] “Country Brief: Burkina Faso.” The World Bank Group. <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/BURKINAFASOEXTN/menuPK:343886~pagePK:141132~piPK:141107~theSitePK:343876,00.html>. March 2007.

[12] Easterly, William. *The White Man’s Burden*. (New York: Penguin Press, 2006), 144.

[13] “Country Profile: Burkina Faso.” *Economist Intelligence Unit*. 11 May 2006. http://0-db.eiu.com.library.lausys.georgetown.edu/index.asp?layout=displayIssueArticle&issue_id=40487989&article_id=110487996.

[14] Im with Wolfowitz.” Monbiot, George. *The Guardian*, 5 April, 2005. <http://www.guardian.co.uk/Columnists/Column/0,5673,1452438,00.html>.

[15] “Grameen Bank History.” Grameen Bank. 18 September, 2002. <http://www.grameen-info.org/bank/hist.html>. Accessed 10 April 2007.

[16] “Social Business Entrepreneurs are the Solution.” Yunus, Mohammad. 20 August, 2005. <http://www.grameen-info.org/bank/social-businessentrepreneurs.htm>.

[17] Yunus, Mohammad. Lecture at Georgetown University, 14 March 2007. <http://explore.georgetown.edu/news/?ID=23179>.

[18] “Where We Work.” Grameen Foundation. http://www.grameenfoundation.org/where_we_work/.

[19] “An experiment in sustainable human development: The Grameen Bank of Bangladesh.” Hossain, Ishtiaq. *Journal of Third World Studies*, Spring 1998. http://findarticles.com/p/articles/mi_qa3821/is_199804/ai_n8793974/print.

[20] “Ten Indicators to Assess Poverty Level.” Yunus, Mohammad. Grameen Bank August, 2006. <http://www.grameen-info.org/bank/tenindicators.htm>. Accessed April 2007.

[21] The Inter-American Development Bank. <http://www.iadb.org/>

[22] “Going Thirsty: Water Privatization Failures in Latin America and the Inter-American Development Bank.” *Foodandwaterwatch.org*. <http://www.foodandwaterwatch.org/water/bank-watch/IDB/GoingThirsty.pdf>.

[23] “About us.” Self-Employed Women’s Association. <http://www.sewa.org/aboutus/index.asp>.

[24] Crowell, Daniel. “The SEWA movement and rural development: the Banakskantha and Kutch experience.” (New Delhi: Sage Publications India Pvt Ltd, 2003),

[25] “NIIT: Schools.” National Institute of Information Technology. <http://www.niit.com/Schools/>. Accessed 8 May, 2007.

[26] “India’s Poverty: Help the Poor Help Themselves.” Hughes, Kirsty. *The International Herald Tribune*, 9 May, 2005. <http://www.ihrt.com/articles/2005/05/08/opinion/edhughes.php>. Accessed 8 May, 2007.

[27] “USAID: India – Our Work.” United States Agency for International Development. http://www.usaid.gov/in/our_work/strategy/strategy8.htm. Accessed 8 May, 2007. Word Net, Princeton University. <http://wordnet.princeton.edu/perl/webwn?s=moral%20hazard>. 12 April, 2007.

February, 2004. <http://www.wcfia.harvard.edu/seminars/pe-group/milner.pdf>. 5.

“Water Support from the Inter-American Development Bank Group 1990-2005.” The Inter-American Development Bank, December 2006. www.iadb.org/sds/publication/publication_4538_e.htm.

“SEWA – Services.” Self Employed Women’s Association. <http://www.sewa.org/services/index.asp>.

“Grameen Bank History.” [Grameen-info.org](http://www.grameen-info.org).

“Management’s Consolidated Comments on OVE’s Country Program Evaluation: Argentina 1990-2002. Inter-American Development Bank.

<http://enet.iadb.org/idbdocswebsiteservices/idbdocsinternet/IADB-PublicDoc.aspx?docnum=385246>.