

CAN THE PRIVATIZATION OF FOREIGN AID ENHANCE ACCOUNTABILITY?

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To give away money is an easy matter and in any man's power. "But to decide to whom to give it, and how large a sum, and when, and for what purpose, and how, is neither in every man's power, nor an easy matter."

— Aristotle¹

ABSTRACT

This paper examines the promise of greater impact and accountability of private foreign aid. We examine the status of accountability in foreign aid from governments and how the emergence of private foreign aid is resulting in new thinking about accountability in foreign aid. The paper discusses how technology-enabled marketplaces can improve accountability in foreign aid through rating service providers, remote monitoring, and especially through enhanced beneficiary feedback mechanisms. We conclude by arguing that private aid should be seen as a complement and not a substitute for governments, and we contend that private aid can "crowd-in" and induce local governments to provide better services via a demonstration effect, a competition effect, and an "intrinsic pressure" approach that empowers beneficiaries to exercise a greater voice.

I. INTRODUCTION

Private aid and its subset—private foreign aid—are increasingly playing a major role, both within and across countries. The nonprofit sector in the United States alone had "\$1.6 trillion in revenue" in 2004-05.² Total private aid from donors in the U.S. is in the order of \$300 billion per year.³ Of this total, 75 percent is from individual donations, about 13 percent from foundations, 7 percent from bequests, and 5 percent from corporations. Though most of this private aid in the

1. ARISTOTLE, *THE NICOMACHEAN ETHICS* 47 (Robert Williams trans., Longman's, Green & Co. 2d ed. 1876). Quoted in *GIVING WELL: THE ETHICS OF PHILANTHROPY* (Patricia Illingworth, Thomas Pogge & Leif Wenar eds., forthcoming 2010).

2. The Nonprofit Career Guide, *Fact Sheet: Nonprofit Size and Scope*, http://www.nonprofitcareerguide.org/fact_sheet-scope.php (last visited Apr. 15, 2010).

3. GIVINGUSA FOUNDATION, *GIVING USA 2009* (2009).

aggregate goes toward domestic causes, almost \$37 billion goes overseas,⁴ which is the same order of magnitude as official aid flows from the U.S. (Table 1). Individual international development NGOs, even excluding those that are not large private foundations, can command substantial resources, with revenues and expenditures running into hundreds of millions of dollars (Table 2).

TABLE 1. US ECONOMIC ENGAGEMENT WITH DEVELOPING COUNTRIES, 2007

	USD Billions	% of Total
US Official Development Assistance	\$21.8	9%
US Private Philanthropy	\$36.9	16%
Foundations	\$3.3	9%
Corporations	\$6.8	18%
Private and Voluntary organizations	\$10.8	29%
Volunteerism	\$3.5	9%
Universities and colleges	\$3.9	11%
Religious Organizations	\$8.6	23%
US Remittances	\$ 79.0	34%
US Private Capital Flows	\$ 97.5	41%
US Total Economic Engagement	\$235.2	100%

TABLE 2. EXPENDITURES AND REVENUES FOR SELECTED NONGOVERNMENTAL ORGANIZATIONS (FY 2006)

NGO	Expenditure (\$ millions)	Share of total revenue (%)	
		U.S. Gov't	Private
Feed the Children	675	0%	100%
World Vision	946	26%	74%
Food for the Poor	855	3%	97%
American Red Cross	4,978	5%	95%

Source: USAID Volag report, 2008

The moral imperative for those better off to help improve the lives of the world's poorest faces tremendous ethical and practical challenges. Philanthropic organizations and their resources are inevitably drawn into power and patronage net-

4. CTR. FOR GLOBAL PROSPERITY, HUDSON INST., THE INDEX OF GLOBAL PROSPERITY AND REMITTANCES 16 (2009) available at <https://www.hudson.org/files/documents/Index%20of%20Global%20Philanthropy%20and%20Remittances%202009.pdf> (hereinafter CTR. FOR GLOBAL PROSPERITY).

works of a country's politics, which itself raises ethical quandaries.⁵ Increasing accountability is good in principle, but it does not by itself ensure better poverty outcomes. It may just amplify the complexities of development efforts.⁶

Questions of accountability begin at the conceptual stage. Is it better for international aid NGOs to focus on high-priority causes with greater chances of poor performance or to focus on lower-priority projects and do them well? Who should determine the priority of different causes—should it be governments, aid agencies, or the beneficiaries themselves? Is it “morally defensible” for an NGO merely to protect some impoverished populations from harm, even if a larger number of worse-off people could be protected elsewhere at the same cost? Should large NGOs divide their efforts “fairly” among developing countries, or should they focus on those places where they can do the most good? When, if ever, is it acceptable for NGOs to compete for limited funding?⁷

This paper argues that the emergence of new private aid mechanisms offers the potential to increase accountability through better flows of information and preference revelation among stakeholders. New technologies, combined with competitive pressures, make it possible for private aid platforms to adopt better accountability mechanisms faster than official agencies and traditional private aid intermediaries. If the new private aid mechanisms band together to form a common feedback mechanism, there will be greater pressure on official agencies to submit to the same mechanisms. In general, the adoption of these new accountability mechanisms is likely to have a positive effect, especially with respect to beneficiary empowerment. Nonetheless, these mechanisms are not a panacea, and their impact will depend on specific social, political, and economic contexts. Their adoption is also likely to bring

5. See Alex de Waal, *Ethics in Translation: Principles and Power in the Philanthropic Encounter*, in *GIVING WELL: THE ETHICS OF PHILANTHROPY*, *supra* note 1.

6. See Lief Wenar, *Accountability in International Development Aid*, 20 *ETHICS & INT'L AFF.* 1, 7 (2006) (arguing that accountability can be expensive, create distrust, impose formalities, and be dangerous to efforts to empower the poor).

7. Thomas Pogge, *How International NGOs Should Act*, in *GIVING WELL: THE ETHICS OF PHILANTHROPY*, *supra* note 1.

into sharper relief a number of deeper conceptual, philosophical, and ethical questions.

This paper proceeds as follows: we first address why accountability matters for foreign aid and how debates and policies on this issue have evolved in recent years. We then examine the implications of the emergence of private foreign aid for the existing framework of accountability in aid. Subsequently, we discuss the role of new technologies that are being leveraged by the private sector to improve accountability in foreign aid through rating service providers, remote monitoring, and especially through enhanced beneficiary feedback mechanisms. We finally conclude by arguing that private aid should be seen as a complement and not a substitute for governments. Private aid can “crowd-in” and induce local governments to provide better services via a demonstration effect, a competition effect, and an “intrinsic pressure” approach that empowers beneficiaries to exercise a greater voice.

II. ISSUES OF ACCOUNTABILITY IN FOREIGN AID

Accountability involves an assessment of the adequacy of performance and the carrying out of a corrective action in case of performance failure. It requires holders of power—those with resources, whether material (money) or symbolic (authority figures)—to “give an account” of the use of those resources and, where necessary, to offer “corrective action.”⁸ The paradox of accountability is that, while power flows upwards, the accountability that we ideally want for development aid is at least partially downwards—from the powerful to the less powerful.

Effective accountability derives from a process whereby information about the desirability, quality, or impact of an activity shapes the behavior of decision makers.⁹ The strength of accountability is a function of three factors: motivation, information, and authority.¹⁰

8. U.N. DEV. FUND FOR WOMEN [UNIFEM], *PROGRESS OF THE WORLD'S WOMEN 2008: WHO ANSWERS TO WOMEN? GENDER AND ACCOUNTABILITY 2* (2008).

9. The authors thank Mari Kuraishi and April Harding for key insights in this section of the paper.

10. This framework is based on a discussion with April Harding and William Savedoff and is based on their work that is not yet published.

For accountability to be effectively exercised, all three factors must be present and are usefully analyzed in the context of a principal-agent problem.¹¹ Both the “principal” and the “agent” must have the following: an intrinsic desire or incentive to take remedial action (motivation); adequate and accurate information on which to base their actions; and the implicit or explicit power (authority) to effect the desired outcome through their actions.

Accountability is often invoked in the context of assigning responsibility (and hence, sanctions) when something goes wrong. For example, if a levee bursts, accountability is sought by locating responsibility among those who designed, constructed, or maintained that levee. But accountability can be more effective when it is used to shape behavior *ex ante* and during project implementation rather than *ex post*. This means finding out what is working and what is not, and responding accordingly. In this way, accountability can be a powerful incentive for real-time or near real-time learning, rather than simply a sanctioning mechanism.

The following analysis of the accountability chain demonstrates the complexity of issues surrounding foreign-aid donors. Broadly speaking, a principal delegates authority and resources to one or more intermediaries which in turn hire and delegate to one or more service providers. The overall goal is to deliver improved welfare for beneficiaries, so the principals receive information about the actual impact and take action if the impact is not as intended. This means that there is a flow of delegation as well as a flow of information with the accountability chain following the chain of delegation.¹²

11. Principal-agent dynamics arise when the “principal”—a person (organization) who wants something done—hires an “agent”—another person (organization)—to carry out the work. Problems arise because of asymmetric information and interests among the parties. Typically the principal wants to bring about an outcome, while the agent is primarily concerned with getting paid and/or avoiding sanction. For a fuller description see generally Joseph E. Stiglitz, *Principal and Agent*, in 6 NEW PALGRAVE DICTIONARY OF ECON. 637-643 (2d ed. 2008).

12. Note that this is a stylized description of the accountability chain, which can include many additional links. In some frameworks, for example, the ultimate principals could be taxpayers, with the government itself being an intermediary. For foundations, in theory the public interest is the “principal” but in practice the principal, tends to be either the original funder (if alive) or the board of trustees, with management being an intermediary.

Diagram: Flow of delegation:

Principal (Funder) → Intermediary(-ies) → Service Provider(s)

In this chain, the principal (generally the funder) can be a foundation, an individual donor, or a government (which is funded by taxpayers). The intermediary is an agent of the funder, while the service providers are agents of the intermediary. The intermediary may be an official aid agency, a developing country government, or a nonprofit. Sometimes intermediaries, especially recipient governments and nonprofits, act directly as service providers, but often they subcontract the work to others. In the traditional model, a funder would seek to hold an intermediary accountable for outcomes to beneficiaries. If the outcomes for beneficiaries were not satisfactory, the funder would take corrective action through sanctions or other action against the intermediary. The intermediary, in turn, would hold the service provider(s) accountable in the same way.

One shortcoming of this chain is that information often flows primarily from one link of the chain to the adjacent link on either side:

Diagram: Flow of information:

Principal (Funder) ← Intermediary(-ies) ← Service Provider(s)

The adjacent link can either keep the information private or modify the information before releasing it to other links in the chain. This information tends to come slowly, as part of periodic reporting cycles rather than in real time. As a result, it is often too late to act on information about impact on beneficiaries because the relevant activities are completed or too far advanced to be effectively modified. In addition, the information received is likely to be at best incomplete and biased. Lant Pritchett has written eloquently on the disincentives for passing accurate information up the chain.¹³ To avoid sanctions, intermediaries and service providers have a strong in-

13. See, e.g., Lant Pritchett, *It Pays to Be Ignorant: A Simple Political Economy of Rigorous Program Evaluation*, in *REINVENTING FOREIGN AID* 124 (William Easterly ed., 2008) (arguing that advocates may be better off choosing ignorance over public knowledge of true program efficacy).

centive to modify information to make beneficiary outcomes appear more positive than they actually are.

What is conspicuously missing from this picture? The beneficiaries. For a variety of reasons, including the cost of communications, long distances, language, and attitudes, the preferences of beneficiaries and their reactions to aid projects have often been inferred by aid agencies rather than observed or solicited directly. To be fair, central to the charter of agencies such as the World Bank is that it will work through local governments, which are assumed to effectively aggregate the preferences of their citizens. Beginning in the 1990s, official agencies made increased efforts to interact directly with the intended beneficiaries,¹⁴ but this interaction has not become a core part of how they operate.

Although there has been significant progress in beneficiary ownership of foreign-aid programs,¹⁵ the typical official aid project remains a largely top-down undertaking. At its most extreme, a project is designed in Washington or London following economic analyses by experts hired by the aid agency. Increasingly, host governments are playing a greater role in this process, but aid agencies continue to drive the agenda for the most part.¹⁶ The host government then takes the money and hires the service provider with close aid agency supervision. Often the agency itself hires the service provider directly. During implementation, the feedback loop is largely confined within the trinity of the aid agency, the host government, and the service provider. Sometimes there are refinements to project designs based on these feedback loops, but few projects are flexible enough to allow for major design changes. Once projects are underway, there is occasionally a

14. See, e.g., DEEPA NARAYAN ET AL., VOICES OF THE POOR: CAN ANYONE HEAR US? 15 (2000) (noting that the World Bank developed the Participatory Poverty Assessment, which included significant input from the world's poor themselves).

15. In particular, the World Bank's Poverty Reduction Strategy Paper process requires governments to consult a wide variety of stakeholders. See, e.g., World Bank, What Are PRSPs?, <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY/EXTPRS/0,,contentMDK:22283891~pagePK:210058~piPK:210062~theSitePK:384201,00.html> (last visited May 10, 2010). This was a major leap forward conceptually, even though the implementation of this approach often has been superficial or flawed.

16. See Pritchett, *supra* note 13.

protest against an official aid project by villagers or a protest by an advocacy group on behalf of beneficiaries that comes to the attention of the funders.¹⁷ But these are the exception rather than the rule.

During the 1990s, the IMF and the World Bank responded to external criticisms of their top-down programs by creating Poverty Reduction Strategy Papers (PRSPs), which mandated *ex ante* consultations with civil society groups about project priorities. However, the quality of this process and the representativeness of the civil society groups involved has been found to be inconsistent.¹⁸ With a few exceptions, direct input from beneficiaries is not solicited.

Beneficiary feedback is, of course, not a panacea. The difficulties with multiple and possibly conflicting objectives among funders and intermediaries has been extensively discussed elsewhere.¹⁹ While some progress can be made through aligning objectives, clarifying roles, and disentangling funding from service provision, conflicts will remain. For this reason, accountability will continue to be mediated through a variety of democratic or bureaucratic mechanisms. However, there is significant scope to improve (a) the information flowing into these accountability mechanisms and (b) the free availability of that information to all links in the chain.

Given this scope for improvement, the issue of accountability in foreign aid began to gather steam in the 1990s. In

17. See, e.g., WORLD BANK INDEPENDENT EVALUATION GROUP, RECENT EXPERIENCE WITH INVOLUNTARY RESETTLEMENT: INDONESIA – KEDUNG OMBO (1998), available at <http://lnweb90.worldbank.org/oed/oeddoclib.nsf/DocUNIDViewForJavaSearch/6C34C30D2054817D852567F5005D6224> (citing “mountains of angry letters” in opposition to World Bank programs in Indonesia).

18. For a review of the entire PRSP experience, see WORLD BANK INDEPENDENT EVALUATION GROUP, THE POVERTY REDUCTION STRATEGY INITIATIVE: AN INDEPENDENT EVALUATION OF THE WORLD BANK’S SUPPORT THROUGH 2003 6 (2004), available at [http://lnweb90.worldbank.org/oed/oeddoclib.nsf/24cc3bb1f94ae11c85256808006a0046/6b5669f816a60aaf85256ec1006346ac/\\$FILE/PRSP_Evaluation.pdf](http://lnweb90.worldbank.org/oed/oeddoclib.nsf/24cc3bb1f94ae11c85256808006a0046/6b5669f816a60aaf85256ec1006346ac/$FILE/PRSP_Evaluation.pdf) (discussing common external criticisms of PRSP initiatives).

19. See, e.g., Owen Barder, *Beyond Planning: Markets and Networks for Better Aid* 8 (Cent. for Global Dev., Working Paper No. 185, 2009), available at <http://www.cgdev.org/content/publications/detail/1422971/> (citing diverse additional objectives that organizations have besides poverty reduction).

international development debates, there have been long standing debates about the influence and impact of the IMF and the World Bank on developing countries, raising questions about their accountability.²⁰ Who are they accountable to? Rich country governments that control these institutions as a result of their dominant shareholding? Recipient country governments who are the sovereign borrowers and accountable for repaying these loans? Or the impoverished people, who are the ostensible beneficiaries and *raison d'être* for these institutions in the first place? And what are they accountable for?

III. MEASURING ACCOUNTABILITY

Concerns over the effectiveness of publicly funded aid led to calls for greater accountability in international development aid, beginning with international financial institutions and gradually encompassing bilateral international development agencies. NGOs, who had lead the charge on the weak accountability of these organizations, began facing questions on their own legitimacy and accountability. As a trenchant critique in the Economist put it, NGOs “may claim to be acting in the interests of the people—but then so do the objects of their criticism, governments and the despised international institutions. In the West, governments and their agencies are, in the end, accountable to voters. Who holds the activists accountable?”²¹

In principle, the funding allocation decisions of NGOs could either be driven by recipient needs or the NGOs' own organizational self-interest (defined broadly), or some mix of the two. An analysis of forty leading U.S.-based transnational NGOs lends some support to the former view: the country allocations of these NGOs were in congruence with objective development needs.²² However, just because funds appear to go

20. See Ngaire Woods, *Holding International Institutions to Account*, 17 ETHICS & INT'L AFF. 69 (2003) (citing regular protests advocating for greater accountability during IMF meetings).

21. *Angry and Effective*, THE ECONOMIST, Sept. 23, 2000, at 85.

22. See Tim Büthe, Solomon Major & André de Mello e Souza, *The Politics of Private Development Aid: Serving Recipient Needs or Donor Interests?* 16 (2009), http://www.duke.edu/~buthe/downloads/BMdMeS_PrivateAid_Nov09.pdf (describing characteristics of donor countries).

to poor countries does not necessarily imply that funds go to poor people: studies in Bangladesh and Uganda have found that NGOs do not locate in the neediest communities.²³ Perhaps even more importantly, there is no clear evidence that private foreign aid programs achieve their intended goals. An OECD survey found little reliable evidence on the impact of NGO development projects and programs. Only rarely do publicly available program evaluations from NGOs contain rigorous statistical analysis or report negative outcomes.²⁴ As another study points out, “the paucity of clear, objective evaluations should not be particularly surprising. It is in neither the interests of the NGOs nor the official donor agency (complicit as a funder) to publicize less-than-stellar results.”²⁵

Studies on the accountability of private philanthropy have focused on performance metrics and mechanisms to improve accountability. Table 3 summarizes some of the metrics used to measure performance in non-profits. The key mechanisms are (a) reports and disclosure statements, (b) performance assessments and evaluations, (c) participation, (d) self-regulation, and (e) social audits.²⁶ Each mechanism can be evaluated along three dimensions: upward-downward, internal-external, and functional-strategic. Many studies have commented that accountability measures in NGOs prioritize the needs of the donor over those of the other stakeholders.²⁷ For

23. See Anna Fruttero & Varun Gauri, *The Strategic Choices of NGOs: Location Decisions in Bangladesh*, 41 J. DEV. STUD. 759, 761 (2005) (discussing the common practice of NGOs locating themselves in major cities within Bangladesh); Abigail Barr, Marcel Fafchamps, & Trudy Owens, *The Governance of Non-Governmental Organizations in Uganda*, 33 WORLD DEV. 657, 673 (2005) (citing studies that NGOs are not often located in the poorest areas of the poorest countries).

24. See Organisation for Economic Co-operation and Development, *Searching for Impact and Methods: NGO Evaluation Synthesis Study* (1997), available at <http://www.valt.helsinki.fi/ids/ngo/> (stating that very few rigorous studies examine improvements in the lives and livelihoods of the beneficiaries).

25. Eric D. Werker & Faisal Z. Ahmed, *What Do Nongovernmental Organizations Do?*, 22 J. OF ECON. PERSP. 73, 87 (2008) (citing ROGER C. RIDDELL ET AL., NON-GOVERNMENTAL ORGANIZATIONS AND RURAL POVERTY ALLEVIATION (1995)).

26. Alnoor Ebrahim, *Accountability in Practice: Mechanisms for NGOs*, 31 WORLD DEV. 813, 815 (2003).

27. See Lisa Jordan, *Mechanisms for NGO Accountability* 7 (Global Pub. Pol’y Inst., Research Paper No. 3, 2005) available at <http://www.gppi.net/filead>

TABLE 3. ACCOUNTABILITY METRICS USED BY
VARIOUS NONPROFITS

Name of Organization	Approach Used	Description
Acumen Fund	BACO Ratio (Best Available Charitable Option)	Quantifies an investment's social impact and compares it to the universe of existing charitable options for that explicit social issue
Center for High Impact Philanthropy at the University of Pennsylvania	Cost per impact	Assesses the "good" of a philanthropic investment in terms of its relevant components: social impact (as measured by objective, predetermined criteria) and cost
Robin Hood Foundation, New York City	Benefit-Cost ratios	A monetization approach that converts impact into dollars by measuring aggregate benefit to poor people (measured in part by the projected boost in future earnings)
REDF, San Francisco (now also used by the New Economics Foundation, UK)	Social Return on Investment (SROI)	Identifies direct, demonstrable cost savings and revenue contributions associated with an individual's employment in a social purpose enterprise
McKinsey and Co.	McKinsey Capacity Assessment Grid	A tool designed to help nonprofit organizations assess their organizational capacity
Humanitarian Accountability Partnership (HAP)	HAP Standard in Humanitarian Accountability and Quality Management	Certification requires that an agency demonstrate that it meets the six benchmarks and nineteen requirements in the HAP Standard; includes documentation, transparency and monitoring, and evaluation reports
The Sphere Project	Sphere Humanitarian Charter and Minimum Standards in Disaster Response	The handbook outlines eight minimum standards and "key indicators" to show whether the standard has been attained
Foreign Aid Ratings LLC	Foreign Aid Certification and Social Value Ratings	Extensive evaluation of organizations on five criteria: transparency, social impact, financials, institutional development, and DME*
One World Trust	Proprietary Index for ranking organizations	The index is based on criteria such as transparency and participation
Millennium Challenge Corporation (US Govt)	Candidate Country Scorecard	Evaluates policy performance of countries on three broad policy categories: Ruling Justly, Investing in People, and Encouraging Economic Freedom

* DME: Design, Monitoring, and Evaluation

example, the accountability tools of reports and disclosure statements reflect “upward” accountability to oversight agencies, are “externally” induced by legal and tax requirements, and are “functional” in the sense that they are directed toward short-term outcomes. On the other hand, community participation is an accountability process that reflects “downward” accountability through the involvement and inherent feedback of beneficiaries, is “internally” induced insofar as it is a choice on the part of the NGO to involve the community, and can be considered “strategic” in the sense that it seeks long-term legitimacy of the NGO in the eyes of beneficiaries and funders.

Within this framework, Ebrahim argues that accountability in practice has emphasized “upward” and “external” accountability to donors while “downward” and “internal” mechanisms remain comparatively underdeveloped. Moreover, NGOs and funders have focused primarily on short-term “functional” accountability responses at the expense of longer-term “strategic” processes necessary for lasting social and political change.²⁸ However, this is one of many trends that is likely to change with new technologies that enable community feedback. These trends are examined later in Section V.

Despite the increased emphasis on data-driven accountability processes, this continues to be rare in the NGO sector. As one critique points out, even though “evaluation is commonly espoused as a tenet of good NGO work, the collective body of industry evaluations reveals very little about their actual impact.”²⁹ Indeed, an analysis of foreign funding of democracy-building NGOs in Eastern Europe found that international NGOs may have created domestic offshoots that were well-funded but weak in grassroots support.³⁰ Some have even argued that “as media-savvy organizations hungry for publicity, NGOs are often ill suited to dealing with long-term issues.”³¹ Many transnational NGOs do not have strong democratic

min/gppi/Jordan_Lisa_05022005.pdf (stating that it is more often donors who request greater accountability from NGOs than other stakeholders).

28. See Ebrahim, *supra* note 26, at 815 (distinguishing between functional accountability and strategic accountability).

29. Werker & Ahmed, *supra* note 25, at 87.

30. See *id.* at 86 (citing critical literature of democracy-building NGOs in Eastern Europe).

31. Vivien Collingwood, *Non-governmental Organisations, Power and Legitimacy in International Society*, 32 REV. INT’L STUD. 439. 450 (2006) (citing COM-

processes, public accountability, or levels of representativeness, and therefore do not frame their accountability in these terms. Instead, they frame their accountability with reference to specific values and causes such as refugees, human rights, and human trafficking.³²

IV. THE EMERGENCE AND IMPLICATIONS OF PRIVATE FOREIGN AID

In the current and foreseeable economic climate, foreign aid as it is traditionally defined—government funded and implemented—is unlikely to grow in significant way, not only because of resource limitations but also because of a widespread belief that it is ineffective.³³ Critics argue that, because of the conflicting motivations of government-funded foreign aid, the development aspects are shortchanged, and hence its impact on the poor is rather limited.

In contrast, privately funded foreign aid has been growing in recent years.³⁴ Indeed, the role of private actors in foreign aid programs has been longstanding. Government funded aid programs have subcontracted their aid management and implementation functions to private contractors and NGOs, and religious charities such as Catholic Relief Services and Lutheran World Relief have been providing aid since World War II. What is different now, however, is the growth of secular forms of privately funded and implemented cross-border philanthropy. According to one estimate, more than 60 percent of the nearly \$27 billion budget of international development NGOs in 2005 came from private sources.³⁵

PASSION AND CALCULATION: THE BUSINESS OF PRIVATE FOREIGN AID (David Sogge, Kee Biekart & John Saxby eds., 1996)).

32. See generally Anton Vedder, 'Non-State Actors' Interference in the International Debate on Moral Issues – Legitimacy and Accountability, in *THE WTO AND CONCERNS REGARDING ANIMALS AND NATURE* (Anton Vedder ed., 2003) (discussing the problems that arise from the multitude of potentially conflicting moral causes).

33. See generally WILLIAM EASTERLY, *THE WHITE MAN'S BURDEN: WHY THE WEST'S EFFORTS TO AID THE REST HAVE DONE SO MUCH ILL AND SO LITTLE GOOD* (2006) (arguing that Western aid to the developing world is ineffective at best and harmful at worst).

34. See *CTR. FOR GLOBAL PROSPERITY*, *supra* note 4, at 18 (showing a dramatic growth in privately funded foreign aid, in absolute terms and in relation to other forms of foreign aid).

35. Büthe, *supra* note 22, at 1.

One strand of the privatization of foreign aid has been the emergence of what has been termed “supraphilanthropy,” in which large private foundations intervene in aid and development to achieve very specific goals. This new agenda incorporates elements of “new public management” that involve applying management concepts originating in the for-profit sector, such as utilizing quantifiable metrics to assess outcomes.³⁶

Even the venerable Gates Foundation, the quintessential supraphilanthropic organization, has been criticized for its lack of transparency and weak governance, and for prioritizing funding on diseases that are not necessarily the greatest burden, investing in diseases instead of health systems, focusing too heavily on technology, and having a funding bias toward organizations from the U.S. and U.K.³⁷ Moreover, it has been accused of pandering to Bill Gates’ shifting priorities of what is important in the world of development and health. This should not be surprising. All foundations shift their priorities in line with the changing interests and views of their funders. However, since the Gates Foundation receives public subsidies in the form of tax exemptions, these limitations have led critics such as David McCoy to argue that “there should also be an expectation that the foundation is subject to some public scrutiny.”³⁸

In another example of the legitimacy of an NGO being called into question, Timothy Ogden, the editor-in-chief of the online journal *Philanthropy Action*, recently criticized Kiva, stating that the organization is trying “to make the illusion of person-to-person contact much more believable. The problem is that they are no more connecting donors to people than the child sponsorship organizations of the past did.”³⁹ Until bet-

36. Paul Stubbs, *International Non-State Actors and Social Development Policy*, 3 GLOBAL SOC. POL’Y 319, 338 (2003).

37. See David McCoy, Gayatri Kembhavi, Jinesh Patel & Akish Luintel, *The Bill & Melinda Gates Foundation’s Grant-Making Programme for Global Health*, 373 LANCET 1645, 1648 (2009) (citing statistics that show most funding for universities go to U.S. and U.K. institutions).

38. *Id.* at 1652.

39. Stephanie Strom, *Confusion on Where Money Lent via Kiva Goes*, N.Y. TIMES, Nov. 9, 2009, at B6. But see Raj M. Desai & Homi Kharas, *Do Philanthropic Citizens Behave Like Governments? Internet-Based Platforms and the Diffusion of International Private Aid* 3 (Brookings Inst., Working Paper No. 12, 2009) (claiming that “internet-based aid offers a more direct connection between giver and recipient”).

ter accountability mechanisms are instituted, the legitimacy of development NGOs will be increasingly questioned.

Much of the debate on accountability has centered on motivation (incentives) and authority (clarifying roles and power). Enhancing motivation and authority can increase the *exercise* of accountability. But good accountability also requires good *information*, and this is where private aid⁴⁰ offers exciting possibilities. Private aid—especially from newer and smaller funders—is likely to drive innovations in information for two reasons. First, private funders will have to generate their own information because the traditional sources of information⁴¹ on aid activities are often unavailable to them. Second, private funders often make decisions using different types of information than the data supposedly used by official agencies and governments. As we will see, new technologies and approaches in private aid are creating new feedback mechanisms that could hopefully migrate to official funders as well.

In the marketplace, competition (choice) is one way to achieve accountability. For instance, in the business world, it takes an average of fifty-eight ideas to successfully launch one product.⁴² And once a successful product is introduced, it is periodically updated to respond to customer feedback. The companies that are most effective at experimenting with new ideas and updating their products succeed more often against their competitors. Companies that fail to develop rapid-cycle experimentation and design refinement decline or go out of business, paving the way for new, innovative companies to enter the market.⁴³

40. We use the term private aid to include philanthropy from individuals, foundations, and corporations.

41. Such sources include formal databases and evaluation reports by official agencies such as the UN and World Bank, the tacit information inherent in long experience in the field by older foundations, and the network of social connections that larger and older funders can draw on for information about potential project designs or grantees.

42. Albert L. Page, *Assessing New Product Development Practices and Performance: Establishing Crucial Norms* 10 J. PROD. INNOVATION & MGMT. 273, 284 (1993).

43. For an index of the Fortune 500 companies among the top ten in 1990 until the end of the decade, see *Fortune 500*, FORTUNE, available at <http://money.cnn.com/magazines/fortune/fortune500/2010/index.html> (last visited June 15, 2010). Open competition meant that successful new-

No such dynamic exists in the official aid sector, where exit and entry are rare. Until recently, new entrants into the private aid sector were also infrequent, but this has changed over the past decade with an influx of money from new philanthropists and the emergence of new private aid platforms based on new technology tools. These new tools generate richer information with shorter time cycles, thus improving the quality and timeliness of feedback about what works and what does not.⁴⁴

Even though the larger foundations increasingly emphasize measurement and data,⁴⁵ surveys consistently show that among individual donors the primary motivation for giving decisions is word-of-mouth.⁴⁶ The recommendations and opinions of friends, trusted people, and trusted intermediaries are the main drivers of allocation decisions.⁴⁷ Trusted people may include experts in the field or, in the church context, missionaries who spend most of their time in the field. Trusted intermediaries include large nonprofits, whose recommenda-

comers displaced the rest. Authors' analysis based on data published in *Fortune Magazine*.

44. An example is the Institute for Health Metrics and Evaluation (IHME) at the University of Washington, created in July 2007 "to improve the health of the world's populations by providing the best information on population health." Institute for Health Metrics and Evaluation, <http://www.healthmetricsandevaluation.org/who/vision.html> (last visited May 7, 2010). In addition to offering comprehensive time-series data on global health spending, it aims to provide in-depth analysis of the performance of these projects. Given that private philanthropic giving—which represents almost a third of all health aid—was not being systematically monitored, the IHME's efforts are an important step toward greater accountability in foreign aid directed toward health.

45. See Claire Cain Miller, *A New Tool for Venture Philanthropists*, N.Y. TIMES, Sept. 25, 2008, available at <http://bits.blogs.nytimes.com/2008/09/25/a-new-tool-for-venture-philanthropists> (citing tools to assess grantees and set benchmarks for measuring social impact).

46. See KATYA ANDRESEN, ROBIN HOOD MARKETING: STEALING CORPORATE SAVVY TO SELL JUST CAUSES 145 (2006) (discussing reasons for individuals to give feedback and opinions).

47. See CTR. ON PHILANTHROPY AT IND. UNIV., 2008 STUDY OF HIGH NET WORTH PHILANTHROPY: ISSUES DRIVING CHARITABLE ACTIVITIES AMONG AFFLUENT HOUSEHOLDS 62 (2008) (citing statistics that high-net-worth households were more likely to consult with accountants and attorneys when making charitable decisions, and increasingly more likely to consult with peers or peer networks).

tions and opinions are included in solicitations and newsletters.

Recent reports suggest that individuals are not the only players that depend upon informal processes in making allocation decisions. For example, the Gates Foundation has been criticized for distributing grants “through an informal system of personal networks and relationships rather than by a more transparent process based on independent and technical peer review.”⁴⁸ It could be argued that a private foundation or donor is entitled to its own agenda and funding mechanisms. After all, normative beliefs inform all individual giving decisions to some degree. However, the question of accountability becomes more germane when the very size of the private donor (such as the Gates Foundation) gives it unrivaled influence in shaping and defining the foreign aid agenda.⁴⁹

V. TECHNOLOGY ENABLED MARKETPLACES IN PRIVATE AID

The good news is that technological advances have made possible new mechanisms for ensuring accountability in giving. However, these new mechanisms are only just beginning to emerge. While there are no silver bullets, this paper argues that these mechanisms have the potential to significantly advance the effective exercise of accountability in foreign aid.

It seems that the trend for increased private giving is here to stay. In addition to large foundations such as the Bill & Melinda Gates Foundation, new “marketplaces” for aid and microfinancing, such as GlobalGiving and Kiva,⁵⁰ are making it far easier for regular people to conduct what Nicholas Kristoff calls “do-it-yourself foreign aid.”⁵¹ This trend allows private donors to direct their funds to specific uses in the developing world and then to track their impact. Initiatives such as the Acumen Fund are using venture capital approaches to invest in companies overseas whose missions are to improve lives. Overall, the buzz of entrepreneurs, business techniques, ven-

48. McCoy, *supra* note 37, at 1650.

49. *See id.* at 1651 (discussing the shaping of policies on core health systems issues).

50. *See generally* GlobalGiving, <http://www.globalgiving.org> (last visited May 7, 2010); Kiva, <http://www.kiva.org> (last visited May 7, 2010).

51. Nicholas D. Kristof & Sheryl WuDunn, *Do-It-Yourself Foreign Aid*, N.Y. TIMES MAG., Aug. 23, 2009, at MM38.

ture capital models of social investing, promising startups, and funding models conditional on performance has created a strong belief that private foreign aid is much more creative, effective, and accountable. But how valid is this belief?

New private aid actors are piloting technology that holds the potential to radically change the way that information flows and accountability are exercised. This technology increasingly makes it possible for principals to (a) observe beneficiary outcomes much more directly and quickly and/or (b) hear directly from beneficiaries regarding their own satisfaction with the outcomes.

A. Case Study: GlobalGiving

GlobalGiving is a prime example of a private aid marketplace made possible by the internet and other technologies. Based on referrals and internal due diligence, GlobalGiving selects community-based organizations in over seventy countries to list projects on its site. Donors browse these projects, see the impact that different levels of funding can have, and then make donations to specific projects in amounts ranging from \$10 to \$200,000. Project leaders must make quarterly progress reports, which are posted on the site and emailed to donors. Donors and website visitors are then able to comment on project updates. To date, more than 110,000 individual donors, along with many private companies and foundations, have provided \$30 million in funding to 2,800 projects. Data on the mix of projects funded through GlobalGiving can be found in Table 4.

Private aid can create strong accountability pressure through its method of project selection by leveraging networks of relationships. When combined with new technology platforms, these networks can create strong *ex ante* pressures for quality and can also (at least theoretically) create incentives to support success during implementation. Thus, GlobalGiving depends heavily on formal and informal networks to validate the quality of organizations that are permitted to list projects on the marketplace. In the early stages, nearly all organizations listing projects on GlobalGiving had to be formally sponsored by a reputed international field-based organization with which GlobalGiving had a legal agreement. The sponsoring organizations would refer community-based organizations with

TABLE 4. GLOBALGIVING PROJECT DATA

	frequency	percent (of total 2,563)	percent that have closed	average \$ goal
education	759	29.6	27.3	\$63,737
health	461	18.0	35.6	90,899
economic development	385	15.0	35.8	78,810
gender issues	196	7.7	35.7	59,781
environment	188	7.3	26.6	77,299
children	176	6.9	38.6	60,965
human rights	141	5.5	36.9	70,120
disaster relief	54	2.1	29.6	85,454
climate	52	2.0	26.9	60,291
technology	49	1.9	38.8	144,373
finance	32	1.3	43.8	122,755
democracy	31	1.2	29.0	108,284
sports	25	1.0	24.0	89,563
animals	13	0.5	7.7	63,091
humanitarian	1	0.1	100.0	6,000

Number of one-time donors: 64,591

Number of one-time donors to a specific project (perhaps donated again to other projects): 88,523

which they had worked in the past and in whom they had confidence in terms of leadership and project quality. Since the names of these sponsoring organizations appeared publicly on the home pages of the projects they sponsored on GlobalGiving, the sponsoring organizations had an incentive to preserve their reputations by referring high-quality organizations—and also by keeping an eye on the projects during implementation.

Often, donors on GlobalGiving will decide to support a small community-based project organization because they recognize and trust its sponsor. Once listed on GlobalGiving, project organizations begin building a track record on the site that donors can see. This track record enables the small project organization to build a reputation of its own, and it creates a self-reinforcing incentive for performance. As the GlobalGiving marketplace grows, even donors who are not transacting through the marketplace are beginning to check out organizations' track record on GlobalGiving.

B. *Greater public awareness and fundraising ability*

New social media outlets are emerging as an alternative forum for fundraising and enhancing interest in the work of

nonprofit organizations. There are many variations on the basic theme of connecting with individuals with charities through social media. These include applications on Facebook, Twitter feeds, blogging, virtual fundraising events, and expanded online presence on popular sites like YouTube. Facebook alone, with its Causes application, has allowed at least 25 million users to express their support for at least one cause.⁵² Twitter, the other social media giant, has had success both online and offline by allowing charities to solicit donations and organize real fundraising events called Twestivals to further engage their supporters. Twitter's biggest Twestival fundraising success story is raising over \$250,000 for "charity: water," a nonprofit organization that has had considerable success with leveraging social media.⁵³

With Twitter followers and Facebook friends acting as currency in the world of social media, there have been several innovative attempts to use the vast online networks of the major online influencers. The actor Hugh Jackman recently announced that he would give \$100,000 to a charity whose supporter could convince him of its worth in the span of a "tweet," which is 140 characters, or about twenty words.⁵⁴ While this may seem outlandish, it is in some ways the compressed version of what any philanthropist does when she chooses to make a donation. Pepsi recently decided to forgo advertising on the Super Bowl, and instead give away \$20 million to social projects selected by popular voting on its website.⁵⁵

52. See Kim Hart & Megan Greenwell, *To Nonprofits Seeking Cash, Facebook App Isn't so Green*, WASH. POST, Apr. 22, 2009, at C1 (citing data showing that more than 25 million Facebook users have signed on as supporters of at least one cause).

53. See Amanda Rose, *Twestival Raises over \$250k and Counting*, MASHABLE, Feb. 18, 2009, <http://www.mashable.com/2009/02/18/twestival-results/> (reporting on result of first Twestival on raising funds for charity); see also Twestival, *Frequently Asked Questions*, <http://twestival.com/faq/> (stating that the first Global Twestival raised more than \$250,000 through online donations) (last visited Apr. 11, 2010).

54. Bonnie Malkin, *Hugh Jackman Makes \$100,000 Charity Pledge on Twitter*, DAILY TELEGRAPH (LONDON), Apr. 15, 2009, available at <http://www.telegraph.co.uk/technology/twitter/5156504/Hugh-Jackman-makes-10000-charity-pledge-on-Twitter.html>.

55. See generally Refresh Everything, <http://www.refresheverything.com> (last visited May 7, 2010).

At one level, the social media phenomenon is not that different from older initiatives for fundraising, such as charity marathons, auctions, “ladies-who-lunch” luncheons, and volunteers on the street. It merely harnesses newer, more viable technologies while continuing to speak to people’s interests. What is distinct, however, is the vast network of supporters garnered by the nonprofit organization or cause. It is the supporter networking capabilities of these new technologies that stand to have the greatest impact on the accountability and effectiveness of development and aid organizations.

Committed supporters who broadcast their support for the cause *du jour* to their networks of friends are giving more than money or time. As Randi Zuckerberg of Facebook puts it, these supporters are giving their reputations to the charity, which, in turn, can make them feel more invested in the process.⁵⁶ Although for many users, the very ease of connecting with nonprofit organizations through social media allows them to get away without engaging deeply with the issues at hand (a trend pejoratively termed “slacktivism”), these networks are so large that, even if a small percentage monitors what happens to the funds, the level of scrutiny—and consequent effects on accountability—will be unprecedented.

Other technologies, such as “text-to-give” by cell phone, have also attracted attention lately. It was reported that the American Red Cross raised \$10 million in less than four days through this channel after the earthquake in Haiti.⁵⁷

VI. THREE NEW MECHANISMS FOR GREATER ACCOUNTABILITY

It is probably too early to really gauge the success of private aid arising from social media users and its contributions to enhancing accountability. But we can examine the channels through which increased accountability is likely to occur. They fall into three broad categories: ratings of intermediaries and service providers, remote monitoring, and community feedback. Although the first two of these categories hold significant promise and are discussed briefly below, this article will focus more on community feedback, since such feedback

56. Brad Stone, *Clicking for a Cause*, N.Y. TIMES, Nov. 11, 2009 at F10.

57. Karin Zeitvogel, *Mobile Relief: Americans Text Aid to Haiti*, AGENCE FRANCE PRESSE, Jan.15, 2010, available at <http://www.google.com/hostednews/afp/article/ALeqM5hsJuKebFn2J1dGz3FRlZnZC95RSg>.

contains information on *ex ante* preferences as well as judgments about outcomes, and, in the authors' view, raises the most profound questions about accountability and the democratization of the aid process.

Groups such as those discussed below have begun to rate intermediaries and service providers on a range of input, output, and occasionally outcome measures for the organization as a whole. Remote monitoring refers to the ability of the principal to directly observe the impact of a project through methods such as satellite images. Google Earth⁵⁸ and related services discussed below are making it possible for principals to corroborate information on impact provided by intermediaries, especially for projects that result in physical impacts or outputs.

Community feedback refers to the collection of information directly from beneficiaries and other stakeholders (including funders and experts not working for the principal or intermediaries). This information can be collected *ex ante* ("What kind of project do you think has the highest priority for the community?") or *ex post* ("How well did that project work?"). It can even be collected during implementation ("How well is the project going? Does it need modification?").

While in principle these are distinct accountability channels, the rise of new online marketplace mechanisms promises to unite these new strands of information flows. Examples of these mechanisms include GlobalGiving, GiveIndia, DonorsChoose, Help Argentina, Kiva,⁵⁹ and many others around the world.⁶⁰ In each case, they enable new service providers to list projects that can be selected and supported by any funder in the world. These marketplaces are by their nature focused on the type of information that help funders make good decisions, and they are constantly experimenting with new features.

58. See generally Google Earth, <http://www.earth.google.com> (last visited May 7, 2010).

59. See generally Give India, <http://www.giveindia.org> (last visited May 7, 2010); Donors Choose, <http://www.donorschoose.org> (last visited May 7, 2010); Help Argentina, <http://www.helpargentina.org> (last visited May 7, 2010); Kiva, www.kiva.org (last visited May 7, 2010).

60. See, e.g., BetterPlace, <http://www.betterplace.org> (last visited May 7, 2010).

A. *Ratings of service providers*

Several groups in the U.S. have already begun to provide information about independent ratings of nonprofit service providers. This approach is akin to Consumer Reports' rating of service reliability of different brands and helps the principal determine whether funding an organization is likely to result in a positive impact. Competition among these groups is resulting in innovations that improve quality and relevance of the ratings over time. These organizations include Guidestar,⁶¹ which makes available broad financial and legal information about many U.S. nonprofits, Charity Navigator,⁶² which provides ratings of one to four stars for a select group of nonprofits, and GiveWell,⁶³ which provides in-depth analysis of certain programs and initiatives. Philanthropedia⁶⁴ ranks nonprofits based on an aggregation of reviews by nonprofit professionals.

These efforts are relevant to accountability in foreign aid for two reasons. First, all of these platforms offer funders independent information about U.S. intermediaries and service providers—something that is not available to the foreign aid sector. The official aid agencies and even large nonprofits have effectively muffled outside pressure for better accountability by creating costly in-house evaluation mechanisms that tend to operate with different methodologies and whose findings are often carefully framed before release.⁶⁵

Second, the rating agencies themselves have been forced to innovate by competition and by market signals related to what principals care about. For example, Charity Navigator used to rank nonprofits largely based on overhead costs. However, after many users and competitors in the marketplace

61. *See generally* Guidestar, <http://www2.guidestar.org> (last visited May 7, 2010).

62. *See generally* Charity Navigator, <http://www.charitynavigator.org> (last visited May 7, 2010).

63. *See generally* Give Well, <http://www.givewell.org> (last visited May 7, 2010).

64. *See generally* My Philanthropedia, <http://www.myphilanthropedia.org> (last visited May 7, 2010).

65. *See* Pritchett, *supra* note 13, at 140 (arguing that organizations engage in strategic ignorance and will generate enough evaluation to allow for effective intervention and maintain the persuadability of key stakeholders, but not so much evaluation that necessary support is lost).

noted that overhead costs were a very poor proxy for effectiveness, Charity Navigator was forced to change its methodology. This move was applauded by its competitors, who believe that the change helps advance the popular conception of accountability and enables the different organizations to focus on more relevant indicators.⁶⁶

B. *Remote monitoring*

The rapid decline in the cost of audio and video recording devices, the ability to transmit the information over the internet, and the availability of such free or low-cost tools such as Google Earth enable funders to get much more raw data about what is actually happening on the ground and to make sense of that data by using annotation and sharing features in tools such as Google Maps.⁶⁷ These new information sources help funders reduce the principal-agent problems inherent in funding activities through service providers, since funders are now able, in some cases, to directly observe the impact of the activities they are funding. A recent example of this is a tool called FORMA (Forestry Monitoring for Action), developed by the Center for Global Development and the government of Denmark.⁶⁸ It uses satellite imagery to produce monthly maps of deforestation down to a very small scale. Another example is the use of satellite images by the World Agroforestry Centre in Nairobi, Kenya to promote better use of fertilizer in African agriculture projects.⁶⁹ These tools tend to be most effective in monitoring the impact of physical outputs rather than projects involving personal interactions. Recently, the availability of cheap cameras (and camera phones) has allowed for monitor-

66. See Philanthropy Action, *The Worst (and Best) Way to Pick a Charity This Year 2* (2009), http://www.philanthropyaction.com/documents/Worst_Way_to_Pick_A_Charity_Dec_1_2009.pdf (discussing changes to Charity Navigator's system, which will now focus more heavily on the charity's effectiveness and transparency).

67. See generally Google Maps, <http://maps.google.com> (last visited May 7, 2010).

68. See generally Ctr. for Global Dev., *Forest Monitoring For Action*, http://www.cgdev.org/section/initiatives/_active/forestmonitoringforactionforma (last visited Apr. 10, 2010).

69. See *Agriculture and Satellites: Harvest Moon*, THE ECONOMIST, Nov. 7, 2009, at 75 (explaining how prescriptions for growing crops can be obtained quickly and less expensively by measuring electromagnetic radiation reflected from farmland via orbiting satellites).

ing personal interactions. In India, an experiment to reduce teacher absenteeism provided teachers with a camera with a tamper-proof date and time function, along with instructions to have one of the children photograph the teacher with other students at the beginning and end of the school day. The time and date stamp on the photographs were used to track teacher attendance which was then linked to her/his salary. The result was an immediate decline in teacher absenteeism and, over time, positive child learning outcomes.⁷⁰

C. *Community feedback*⁷¹

The popularity of community feedback on sites ranging from commercial sites like eBay⁷² and Amazon⁷³ to pure ratings sites like TripAdvisor⁷⁴ and Yelp⁷⁵ has led to the adoption of similar mechanisms on sites related to private aid. Even before the advent of online feedback mechanisms, the Kecamatan Development Project in Indonesia pioneered a system of providing transparent information to villagers about local aid projects and their costs, and solicited feedback from the villagers themselves.⁷⁶ This transformed the accountability chain in this program.

About five years ago, GlobalGiving began to encourage donor feedback on progress updates posted by community service providers. Many other online marketplaces now do the

70. See Esther Duflo & Rema Hanna, *Monitoring Works: Getting Teachers to Come to School* 29 (2006), <http://poverty-action.org/sites/default/files/MonitoringWorks.DufloHanna.2006.pdf> (citing opportunity costs of decreased teacher absenteeism).

71. The authors thank Marc Maxson for input and ideas on this section of the paper.

72. See generally eBay, <http://www.ebay.com> (last visited May 7, 2010).

73. See generally Amazon, <http://www.amazon.com> (last visited May 7, 2010).

74. See generally Trip Advisor, <http://www.tripadvisor.com> (last visited May 7, 2010).

75. See generally Yelp, <http://www.yelp.com> (last visited May 7, 2010).

76. See Scott Guggenheim, *Crises and Contradictions: Understanding the Origins of a Community Development Project in Indonesia*, in *THE SEARCH FOR EMPOWERMENT: SOCIAL CAPITAL AS IDEA AND PRACTICE AT THE WORLD BANK* 111, 112 (Anthony J. Bebbington, Michael Woolcock, Scott Guggenheim & Elizabeth A. Olson eds., 2006) (arguing that the Kecamatan Development Project, funded by the World Bank, supports development plans made and approved by communities).

same. The GlobalGiving website has permitted comments by donors, beneficiaries, and intermediaries themselves for several years, and in 2009 it piloted and structured initiative to solicit beneficiary feedback, with encouraging results in Kenya.⁷⁷

A new startup called Great Non-Profits⁷⁸ is collaborating with Guidestar and GlobalGiving to promote community feedback more broadly. An organization called Keystone⁷⁹ is trying to standardize the customer satisfaction question for participating nonprofits. They provide a free web survey that automatically compares one organization's results with the average of peers in the sector. While collecting and interpreting this type of feedback poses certain challenges,⁸⁰ its availability is nonetheless a major innovation in the sector.⁸¹

The next step is to integrate these three strands of information flows and make them available to principals (funders), intermediaries, service providers, and beneficiaries themselves. The FORMA system described above is a great step in this direction, since it makes available satellite imagery and then allows users to upload photos and provide comments about each plot of land to either dispute the findings or help explain why

77. See generally Marc Maxson & Joshua Goldstein, *Technology-Aided "Real-Time" Feedback Loops In International Philanthropy* (Oxford University International Social Innovation Research Conference 2009), http://www.globalgiving.org/pfil/1713/TechnologyAided_RealTime_Feedback_Loops_in_International_Philanthropy.doc (presenting the story of a community-based organization in western Kenya that was supported by GlobalGiving, which acted as a facilitator, delivering information to individuals and placing the funding decisions in the hands of the donors).

78. See generally Great Non-Profits, <http://www.greatnonprofits.org> (last visited May 7, 2010).

79. See generally Keystone Accountability, <http://www.keystoneaccountability.org> (last visited May 7, 2010).

80. For example, in the Kenya pilot, beneficiaries had to be convinced there would be no retribution by the intermediary if they provided negative comments. Maxson & Goldstein, *supra* note 78 at 9. There are also issues, discussed later in this paper, relating to the representativeness of feedback received and how to aggregate it across societal groups.

81. For other examples, including cases in Malawi and Gaza, see Christine Martin, Mobile Active, *Put up a Billboard and Ask the Community: Using Mobile Tech for Program Monitoring and Evaluation* (2009), <http://mobileactive.org/put-billboard-and-ask-community-using-mobile-tech-program-monitoring-and-evaluation> (demonstrating the exponentially faster rate of data storage and analysis under SMS systems).

the deforestation is happening. The initial reception of the FORMA mechanism has been positive, but the tool is too new to assess its impact.

As organizations, particularly aid and philanthropy marketplace platforms, begin to integrate this new information, it will be important to (a) understand what types of information actually matter to the principals, intermediaries, and beneficiaries and (b) present the information in a way that is digestible and actually influences behavior. The online marketplaces have all found that too much information—even relevant information—can lead to decision paralysis among funders.⁸² It is likely that different principals, intermediaries, and beneficiaries will require different approaches to information aggregation. Yet there may be a compelling reason (discussed below) to have a common basic platform that allows comparability across different agencies, sectors, and initiatives.

VII. NEW ROLES FOR THE PUBLIC THROUGH COMMUNITY AND BENEFICIARY FEEDBACK

Of these three new information channels, community feedback holds particular promise in increasing accountability. Traditional accountability chains rely mostly on formal, periodic evaluations by experts. Such evaluations are both expensive and easily gamed. Because service providers are generally able to prepare well in advance, evaluators see things only in the most favorable light.⁸³ There is often an inherent conflict of interest, since the evaluators work for the service provider (the agent) rather than the funder (the principal). The agent often has the opportunity and incentive to massage the findings before release to the principal. By contrast, community feedback enables the principal to hear directly from the beneficiaries about the effect of the intervention. Such information directly from beneficiaries can inform a modification of an ongoing initiative.

82. This difficulty has been described to the authors in personal communications from managers of the online marketplaces. See generally BARRY SCHWARTZ, *THE PARADOX OF CHOICE: WHY MORE IS LESS* (2003) (discussing the confusion that can result from an overload of information).

83. Authors' personal experience, based on twenty-five years in the foreign aid industry.

A. *How Community Feedback Can Improve Accountability in Aid*

The traditional aid cycle relies heavily on experts (working for either the principal or the agent) to diagnose a community's needs and design a program intended to address those needs. By contrast, a community feedback mechanism can be used *ex ante* to hear directly from the beneficiaries (and others with a knowledge of the local context) (a) what they feel their greatest needs are and (b) what solutions would be most appropriate.

While community feedback provides highly valuable sources of information for the accountability process, interpreting the feedback is not always simple. The boundaries and membership of a community are not always self-evident. This is particularly the case in societies that are socially heterogeneous, as evident in studies that suggest a negative link between the quality of public goods provision and social heterogeneity.⁸⁴ This implies that the inferences drawn from community feedback will depend in part on the community's characteristics and the representativeness of the people giving feedback.

The smaller the size of the community, the more homogeneous will be the community's preferences. Since private aid projects tend to cover smaller communities, community feedback is likely to be a reasonable "truth revelation" device. By contrast, government aid programs are much larger and cover much larger groups of people who may or may not form "communities." Consequently, they will necessarily need to go beyond community feedback in order to evaluate project performance. Additionally, the smaller the size of the project, the smaller the incentives in gaming feedback mechanisms.⁸⁵ Private aid projects are generally smaller. Consequently the incentives for gaming such mechanisms are also less, and the shorter chains of delegation make them easier to monitor.

84. See Abhijit Banerjee, Lakshmi Iyer & Rohini Somanathan, *History, Social Divisions, and Public Goods in Rural India*, 3 J. EUR. ECON. ASS'N 639, 643 (2005) (citing empirical data on factors caused by caste and religious fragmentation).

85. See, e.g., David Pogue, *Carbonite Stacks the Deck on Amazon*, N.Y. TIMES, Jan. 27, 2009, available at <http://pogue.blogs.nytimes.com/2009/01/27/carbonite-stacks-the-deck-on-amazon> (citing an example of a company using its own employees to post positive feedback on that company's products on Amazon.com).

One must, of course, recognize intrinsic limitations to the quality of information that may be obtained from any feedback mechanisms. The most obvious limitation stems from selection mechanisms, i.e. selection effects of who actually gives the feedback. Callers-in to talk radio programs or letters to the editor can either be more motivated or more kooky. Large numbers address this in a sort of statistical averaging, but large numbers come with their own caveats. Democratic majorities could indeed reflect the broad will of a community or (at least in some cases) simply reflect the tyranny of the majority. In the abstract, community feedback should reflect the “wisdom of crowds”; it could, however, occasionally reflect the “madness of mobs” and a “herd mentality.” Another caveat is that more information is not alone a guarantee of better accountability. Financial markets are flooded with information, yet the recent financial crisis demonstrates that, if risk and reward are so large and so asymmetric, competition and availability of information is no match for skewed incentives. However, these conditions are very unlikely in the case of private aid—the private pecuniary rewards are simply not that large.

Online marketplaces such as GlobalGiving and Donors Choose require intermediaries to report back on progress at the end of a project and/or periodically throughout the year.⁸⁶ These reports are both sent to donors and posted online for anyone to see. The public nature of these reports is a major step forward because it provides an additional disincentive for intermediaries (“agents”) to post wrong or misleading information. Posting misleading information is much more risky when beneficiaries or others can scrutinize the validity of claims.⁸⁷ To some extent, this feature follows the trend of the official aid sector, which has been posting more and more reports online. It is certainly the case that initially poor benefi-

86. Both of these platforms were launched around 2002, and have required increasing information from intermediaries over time. Teachers using DonorsChoose must send donors a package of information describing the outcome of the project, often with notes from students included. See generally DonorsChoose, How It Works, http://www.donorschoose.org/about/how_it_works.html. Project leaders using GlobalGiving must report quarterly, since projects tend to have a longer duration.

87. See Guggenheim, *supra* note 77, at 129 (stating that one charity’s posting of financial information in public was “a sharp departure” from past practices).

ciaries are unlikely to access these reports. But other agents of civil society will do so on their behalf. This is a dynamic process that can unfold over time, as beneficiaries gradually begin to exercise agency over projects purportedly for their benefit.

However, in most cases, there are still significant transaction costs for third parties to flag misinformation even when it is in the public domain. For example, it is often difficult to know who to call or who can take remedial action.⁸⁸ That is why the next step in the process—community feedback—has such high marginal returns. Community feedback allows people to comment directly on publicly available reports via the web, e-mail, or other means and, significantly, to make those comments public. The community can include beneficiaries, experts with knowledge of the project but who are not directly involved, or simply visitors to the project. Because the reports and comments are publically available they can radically increase not only the information available, but also the pressure to take action.

B. *The Special Potential of Beneficiary Feedback*

Community feedback can come from other development experts—or any concerned person or organization—outside the traditional foreign aid system. Beneficiary feedback is a subset of community feedback, and it deserves special attention. Though in some sense funders are the “principals” in the accountability process, some would argue that beneficiaries should have the final say in what development projects are funded and how they are assessed.⁸⁹ There is a strong normative case for this view: those whose lives are affected the most by a project should surely have an important voice in that project. Though there are well-known issues related to aggregation of choice and externalities,⁹⁰ it is difficult to argue with

88. According to its website, one reason that the Bank Information Center was created was to help its civil society members influence the World Bank, and it has often served as a focal point for complaints from third parties. See *generally* Bank Information Center, <http://www.bicusa.org> (last visited Apr. 10, 2010).

89. See DAVID ELLERMAN, *HELPING PEOPLE HELP THEMSELVES: FROM THE WORLD BANK TO AN ALTERNATIVE PHILOSOPHY OF DEVELOPMENT ASSISTANCE* 249 (2005) (citing several approaches to schemes of giving).

90. On the difficulties of aggregating individual preferences into consistent collective choices and the possibilities offered by participatory democ-

the proposition that the views of beneficiaries on the impact of a project should have serious weight. All other agents in the accountability chain should in some sense be accountable to the beneficiaries.

Rapidly spreading new technologies, particularly mobile phones and SMS-to-web interfaces like Twitter, now allow villagers to report continuously in real time on project progress.⁹¹ Mobile phones in particular are now so ubiquitous that even very poor communities have reasonable access.⁹² This means that the beneficiaries can ultimately guide implementers. In the future, these technology-aided feedback loops can enable clients to guide practitioners throughout implementation and drive donors during the funding process. They also open the possibility of soliciting the views of beneficiaries even before a project.⁹³ This promises to break the monopoly of experts and intermediaries in deciding what people need most. Beneficiaries could be canvassed about both the type of project that is highest priority for them. Once a type of project is selected, then beneficiary input into the design could be solicited.

The importance of community involvement and feedback for accountability systems is not a panacea, and it must be accompanied by other sources of information and feedback. An analysis of corruption in infrastructure projects in Indonesia found that government audits appear to do a better job than community monitoring in reducing missing expenditures, as measured by discrepancies between official project costs and

racy, see Benjamin Radcliff & Ed Wingenbach, *Preference Aggregation, Functional Pathologies, and Democracy: A Social Choice Defense of Participatory Democracy* 62 J. POL. 977, 977 (2000) (advocating for the democratic method as the best means of aggregating individual preferences).

91. Twitter also allowed people to report developments in real time in the 2009 protests in Iran, thereby preventing the official news agencies and other controlled channels from monopolizing the picture of what was happening. See, e.g., Lev Grossman, *Iran Protests: Twitter, the Medium of the Movement*, TIME, Jun. 17, 2009, at 9 (discussing strengths and weaknesses of the use of Twitter).

92. Even in a relatively poor country such as India, there are more than two cell phones per household.

93. See Dennis Whittle, GlobalGiving, *Accountability in Decentralized Aid Systems*, Presentation at New York University (Feb. 6, 2009), available at <http://www.nyu.edu/fas/institute/dri/DennisWhittle.pdf> (discussing potential avenues for involvement of beneficiaries in planning stages).

an independent engineer's estimates of costs.⁹⁴ Increasing grassroots participation in monitoring had little average impact. In some cases, grassroots participation reduced missing expenditures only in situations with limited free-rider problems and limited elite capture. The results of that study suggest that traditional top-down monitoring can indeed play an important role in reducing corruption, even in a highly corrupt environment. In India, a flagship government program on universal primary education has sought to organize both locally elected leaders and parents of children enrolled in public schools into committees. The program gives these groups powers over both resource allocation and monitoring and management of school performance. In addition, the program provides information, trains community members in a new testing tool, and organizes volunteers to hold remedial reading camps for illiterate children. However, an impact evaluation found no impact on community involvement in public schools and no impact on teacher effort or learning outcomes in those schools.⁹⁵

It is likely, however, that feedback itself is a "learned" process. One should not expect long-disempowered communities to become strongly engaged, especially if hard experience has taught them that promises made by outside agencies are rarely kept. There are also well-known challenges with aggregating choice, which suggests that doing so is not a panacea. Nonetheless, new media technologies, by providing real-time feedback, can become much more empowering to beneficiaries.⁹⁶ This empowerment can have dynamic effects over time, gradually improving their capacity for "social agency," i.e. their ability and willingness to participate. In any case, these types of mechanisms offer at least the possibility of obtaining beneficiary input. With time, it will become difficult to argue against

94. Benjamin A. Olken, *Monitoring Corruption: Evidence from a Field Experiment in Indonesia*, 115 J. POL. ECON. 200 (2007) (citing statistics gathered from over 600 Indonesian village road projects).

95. See Abhijit Banerjee et al., *Pitfalls of Participatory Programs: Evidence from a Randomized Evaluation in Education in India 2* (Nat'l Bureau of Econ. Research, Working Paper No. 14311, 2008), available at <http://www.nber.org/papers/w14311> (presenting data from three different interventions).

96. See generally Maxson & Goldstein, *supra* note 78 (discussing the feedback loop that resulted from a project in Kenya).

the idea that beneficiary input should become the norm, with intermediaries having to justify each time they do not solicit it.

Ex ante beneficiary input and community feedback during implementation emphasize our point that an important objective of better accountability mechanisms should be to improve project design from inception, beginning with a better understanding of the communities' own sense of their needs. Input should come not only from beneficiaries but also other interested parties, enabling implementers to refine their approach as the project progresses. Accountability mechanisms can speed learning much faster than the current approaches, which feature a multi-year project cycle followed by a formal evaluation.

C. *What it Will Take for Community Feedback to be Adopted*

The radically public nature of community feedback would reduce the ability of official aid agencies and other intermediaries to modify reports or obfuscate problems. No detailed scientific studies have been done on this topic yet. But it seems reasonable to assume that, if project officers at official agencies and professionals working for intermediaries logged on to the web each morning to see what the community was saying about their projects, this would likely change behaviors. Because of the incentives described by Pritchett,⁹⁷ we can anticipate that, while official agencies will not openly reject this idea, they will be reluctant to adopt community feedback in this transparent way and will raise a host of theoretical objections to the quality and relevance of the feedback as a reason to proceed cautiously.

By contrast, the deployment of community feedback features, already in their infancy in private online marketplaces,⁹⁸ will surely accelerate as the existing and new marketplaces jockey for competitive advantage. A key question for the impact of community feedback features will be whether the online marketplaces share one or two common feedback mecha-

97. See, e.g., Pritchett, *supra* note 13, at 124 (discussing the consequences of negative feedback).

98. See Gillian Wilson, GlobalGiving, *Updates from the Field – Environmental Conservation Builds Families, India*, <http://www.globalgiving.org/projects/environmental-conservation-builds-families-india/updates> (citing an example of community feedback features) (last visited May 7, 2010).

nisms or whether each adopts its own internal mechanism. Since the mechanism is essentially a network, its value grows exponentially with respect to network size. This means that a single network would have huge value, while fragmented networks would have much less value. Shared mechanisms would decrease the chance that the feedback could be controlled by the marketplace that collected them. Shared mechanisms would also reduce the up-front costs of creating the system by spreading them over several marketplaces.

The usefulness of community feedback based accountability chains will vary as per the following scenarios:

A: Where community input and feedback is the sole factor used in decision-making;

B: Where community feedback plays a significant but not exclusive role in decisions, which will ultimately be made either by an expert agency or by a government body that is to some extent democratically elected;

C: Where community feedback has little relevance, value, or use in the decision-making process.

Many of the online private aid marketplaces⁹⁹ are closer to the “A” end of the spectrum, at least in principle. The marketplace operators try to provide an information-rich environment and allow donors to make decisions based on information and priorities emerging at the community level. Some of the better traditional private aid providers fall into category B. They have developed mechanisms for listening to the communities but ultimately make the allocation decisions themselves. Most official agencies fall closer to the “C” end of the spectrum, operating on the assumption that community preferences are aggregated and expressed through government agencies. In most poor countries, the last assumption is particularly problematic, given their weak governance structures.

The emergence of new technologies and feedback mechanisms will increase pressure on all agencies to incorporate community feedback in some form. In particular, the official agencies will have to move closer to the middle (“B”) of this

99. In this paper, “online marketplaces” refer to internet sites that allow principals (funders) to learn about organizations and/or projects that are seeking funding, select one or more for funding, transfer the money to the organization, and then get updates from the organization or project team.

spectrum, but the speed and effectiveness of that shift will depend on whether feedback mechanisms are fragmented or shared across public and private aid agencies.

However, the increased availability of these new technologies does not guarantee their rapid adoption by traditional aid agencies. The incentives for avoiding accountability,¹⁰⁰ combined with the lack of entry and exit in the official aid field, mean that official agencies are unlikely to voluntarily embrace these new information flows. They are much more likely to be adopted in the flourishing private aid sector, where there is greater competition and a proliferation of new intermediaries and funders. Since the size of projects funded through these new private aid marketplaces is typically much smaller—usually less than \$100,000 and often in the \$1,000 to \$25,000 range—the cost of traditional evaluations, based on hiring external consultants, is prohibitive.¹⁰¹ This high cost, combined with competitive pressures in the private aid sector, has spurred new thinking about how to achieve accountability at much lower cost.

If the private marketplaces adopt one or two independent community feedback mechanisms or standards, it could conceivably create sufficient pressure for official agencies to participate in such a mechanism or standard. In this context, a “common mechanism” would be a single website, whereas a “common standard” would be a common set of questions, the results of which would be stored in a common database and would be accessible for display in different ways on different websites. A website called Ushahidi is an early attempt at aggregating information streams about development needs and news from various sources.¹⁰²

Given the incentive of any agent to avoid strict accountability, we would expect official agencies to avoid common standards and instead push for self-monitoring or the adoption of standards managed internally by the agency itself. If the goal

100. See Pritchett, *supra* note 13, at 124 (stating that there is no significant “bonus” to the intermediary for exceptional success, but serious sanctions for failure).

101. The cost of evaluating a typical World Bank project ranges from \$15,000 to well over \$100,000, depending on the intensity and scale of the evaluation and the project.

102. See generally Ushahidi, <http://haiti.ushahidi.com> (last visited May 7, 2010).

is to improve the effectiveness of foreign aid, however, the best outcome would be to rapidly adopt a unitary feedback network that is not controlled by the aid agencies. What if the new private aid marketplaces and related organizations agreed to adopt a single feedback mechanism (standard) and *also* began including data on official aid projects (even if those marketplaces did not provide intermediate funding to these projects)? Such collective action by the new players, even though it would be costly, would have significant external effects on the tens of billions of dollars in annual official development aid.

VIII. CONCLUSION: FOREIGN AID AS A COMPLEMENT, NOT A SUBSTITUTE, FOR GOVERNMENT

A perennial question about foreign aid, or indeed assistance of any kind, involves the extent to which foreign aid should complement or substitute the responsibilities of domestic governments. When should foreign aid complement, and when should it substitute for domestic government actions, thereby reducing the pressures on a government to do its job? Since most private aid comes at the local level, its effects on government incentives are more likely at the local level. Official aid, on the other hand, comes through government channels at the national level, raising the age-old question about the fungibility of foreign aid and whether, in effect, such aid finances the marginal project by easing the budget constraint.

There is no clear answer to these questions. In an ideal world, governments would shoulder all responsibilities of serving their people. But if wishes were horses, beggars would ride, and this argument might just be a case of the best being the enemy of the good. Is it moral to allow people to go unserved while waiting for the government to provide the service at a distant point in time? The moral dilemma is especially acute when people face dire circumstances. Is it morally defensible to tell private aid not to help the most vulnerable in order to put pressure on the government to try and achieve the (uncertain) future outcome of better public services?

A more fruitful approach is for private aid to do things in a way that induces the government to provide better service in the future. Private aid can do this via (1) a demonstration effect, assuming that the government will emulate good prac-

tices; (2) a competition effect, shaming the government into improving its practices by publicizing private aid's superior performance; and (3) the intrinsic pressure approach. If private aid demonstrates publicly that it listens to beneficiaries, then beneficiaries become empowered and over time will start demanding a greater voice in the political process. In turn, beneficiary pressure and media coverage make it increasingly difficult for the government to ignore the feedback of its own citizens.

One could well argue that, despite the virtues of the new private aid, overall resources are still modest given the scale and scope of the problems. At one level this is valid. However, the idea is for private aid to complement, rather than substitute, government efforts. Cultivating and nursing small projects injects multiple points of dynamism. The best functioning economies have an effective balance between large firms and small, as well as between top-down government programs and private producers. Historically, the aid sector has been dominated by large and top-down agencies. Balancing these with a vigorous injection of small, bottom-up initiatives and organizations will increase accountability of all actors (and the foreign aid regime in general) via the mechanisms outlined above.

An important analytical question is whether these small, bottom-up private-aid facilitated initiatives will result in better performance because of increased accountability or greater legitimacy. Performance itself is a form of accountability, and if the processes outlined in this paper result in greater legitimacy, which in turn might facilitate better performance, then we have a happy marriage of legitimacy and accountability. However, better performance based accountability does not inevitably follow from greater legitimacy. The question we need to ponder over is what happens if there is a trade-off between the two. In our search for greater accountability, are we really striving for more legitimacy, and, if so, how should we normatively judge this trade-off?