

Magazine

Saving the World, Startup-Style

On Money

By ADAM DAVIDSON NOV. 17, 2015

In 2010, not long after the earthquake hit Haiti, I was about an hour north of Port-au-Prince, standing under a mango tree. Its owner, a woman named Jelen, was telling me that she had two daughters but could afford to send only one to school. She knew this meant the other would be poor, like her, for the rest of her life. She said she was choosing the younger one because she was smarter. She then pointed at her mango tree. It was huge, bigger than a family home, and grew hundreds of mangoes each year. She knew that those mangoes could sell for several dollars each in America, but there was no easy way to get them there. So she sold most of them down the road at a local market for pennies. If she could find a good way to get those mangoes down the highway to the capital and then on a ship to America, she was confident that she could make enough money to send both her girls to school.

I remember feeling almost giddy as she told me this story. Jelen was about to get her wish. I knew that the American government, working with one of Haiti's leading mango exporters, was funding a project to help everyday Haitians like her ship their mangoes to America.

Five years later, farmers like Jelen are still waiting. I hadn't heard wrong: The United States Agency for International Development (U.S.A.I.D.) did

indeed promise to fund such an effort. The idea was part of its mission to improve the supply chain of poor farmers by helping them prepare their food for sale long distances away. But just before sheds and a well were constructed, someone in Washington shifted U.S.A.I.D.'s primary goals in Haiti, and the project was canceled.

The story of Jelen and her mangoes is the story of the failure of American and world aid to help poor people in other countries. The United States government spends about \$30 billion a year toward this end, while the rest of the world's governments spend an additional \$100 billion combined. Since World War II, that adds up to trillions spent on foreign aid. But global development agencies, like U.S.A.I.D. and the World Bank, have had trouble figuring out whether the money they spend actually makes poor people better off. For decades, grand theories were developed in rich countries about how to alleviate poverty, and huge amounts of money were spent, with stunningly little regard for their actual impact. There was the big-push model, the dual-sector model, the critical minimum effort, the Fei-Ranis surplus-labor model, capital accumulation, capacity building and, widely adopted and then thoroughly repudiated, the Washington Consensus. Each theory promised an elegant, compelling solution to world poverty. Each has fallen short, in many cases making poor people worse off.

During the past decade, there has been a quiet revolution in the way many scholars and advocates think about aid. We can call it the post-theory approach. The idea is that rich countries shouldn't see themselves as responsible for coming up with theories about how poor countries can become richer. Rather, the rich countries allow the poor ones to determine what they think needs to happen — more girls in school, more vaccination, better access to global markets for farmers — and then pay money to whoever comes up with an actual solution. There are many versions of this approach. Under one idea, cash-on-delivery aid, donors would set aside some amount and then pay, say, \$10 for every child who gets a vaccine shot. Governments, nonprofits and

private-sector companies can compete on who can do this best. Development-impact bonds are another new idea. Private investors put their money at risk to achieve certain outcomes, like a lower H.I.V.-infection rate or cleaner water, and are paid back only if the projects they fund actually achieve their goals. The idea is that government money is spent only when an outcome is achieved, improving lives for the poor while saving taxpayers wasted expenses.

But most governments and large aid organizations are still doling out billions of dollars based on insufficient data. One of U.S.A.I.D.'s most prominent metrics seems like a relic from the 1950s. Called Dollars to Results, it simply counts how much money has been spent toward various goals: \$7.2 million to help Cambodia improve its environment; \$6.6 million to help Bangladeshi children go to school. There is minimal information about what actually matters, like whether Cambodia's environment is measurably better or if Bangladesh's children know more. And of course, when goals fall out of favor — like how to best manage a supply chain in Haiti — worthy projects can be scuttled in an instant.

I have no idea if, even given continuous support, Jelen's mangoes would ever be commercially successful on the global market. But studying the broader economy, I do know that this is no way to find out. For a good chunk of the 20th century, much of American business worked the way U.S.A.I.D. often does. Someone at headquarters would lay out a three-year or a five-year plan, and then the minions would fall in line. But that model was discarded long ago. Business schools and corporate executives now talk about learning organizations, adaptive leadership, continuous improvement and lean start-ups, i.e., companies that are designed to respond constantly to markers of success or failure. They set up systems to pour resources into those projects that are working and away from those that aren't.

By contemporary management standards, even the new data-driven efforts at philanthropy feel a little bit hidebound. Whatever you think of Silicon Valley, the venture-capital philosophy of investing can be an extremely

useful model for philanthropy in its confident embrace of risk. In V.C.-backed fields, new ideas start out with minimal funding and, as they prove themselves, attract greater and greater sums. An individual or institution can kick in a so-called angel investment, of \$50,000 or maybe up to \$2 million, with the knowledge that most will not be home runs. The ideas that prove themselves in the market move to larger rounds, funded by folks whose appetite for risk is somewhat smaller but who are prepared to give more, say from \$2 million to \$10 million; they expect perhaps six out of every 10 investments to succeed. And so on. At each stage, the ideas need to be less risky, more proven. And the ideas are shaped themselves by this process as they are continually tested against reality to see which ones work and which don't.

Alex Thier, head of policy at U.S.A.I.D., told me the agency has begun to experiment with such programs through its Global Development Lab. Moreover, he said, the agency is now making it a priority that poor recipient countries should play a much bigger role in deciding how aid money is spent. A vast majority of American and world aid, however, is still delivered according to wildly outdated models. It often seems designed to help American foreign-policy goals as much as the poor, disproportionately going to geopolitically important countries — Afghanistan, Iraq, Jordan, Pakistan. Also, there is a powerful political system supporting the ways aid is allocated. For example, lobbyists for American farmers and shipowners have kept in place an absurd law that requires much of the emergency food aid sent to crisis-racked countries to come from American farms and be carried by American ships.

There's still some hope for farmers like Jelen to export their mangoes to America. The United States government now has a global program called Feed the Future, but many local farmers are still waiting to see if their mangoes will qualify. All told, they've spent less time expanding their businesses than they have navigating the bureaucracy of the American government.

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