

The world's foremost award devoted to development cooperation

The Development Research Institute wins the Frontiers of Knowledge Award in Development Cooperation for scientifically identifying the failures of large-scale international cooperation

- This center linked to New York University has monitored the conduct of national aid agencies and found that there is no direct link between plowing in more funds and on-the-ground effectiveness
- It challenges the conventional wisdom with regard to foreign aid, by questioning the effectiveness of microfinance, for example, or finding good things to say about the “brain drain”
- The breadth of disciplines addressed and their monetary amount - a total of 3.2 million euros - place the BBVA Foundation Frontiers Awards among the world's foremost award schemes. Each category carries a cash prize of 400,000 euros.

January 29, 2010.- The BBVA Foundation Frontiers of Knowledge Award in the Development Cooperation category goes in this second edition to the Development Research Institute, DRI, at New York University, for “its contribution to the analysis of foreign aid provision, and its challenge to the conventional wisdom in development assistance”, in the words of the jury's citation.

This U.S. institute, founded in 2003, is devoted to research on the economic development and growth of poor countries and to advising aid agencies how to improve their performance.

The DRI has brought a fresh approach to aid and development research, helping ensure that the economic aid rich countries provide to the developing world is better utilized. Its results question certain mainstream assumptions in development cooperation, like the idea that more generosity on the part of rich donor countries will have an automatic pay-off in poor country development.

“At a time when richer countries are being called on to increase aid expenditure, DRI has made it its mission to ensure that these resources are not wasted and that policy advice is

effective”, concluded the jury in its resolution, which also singled out DRI’s determination to hold development assistance organizations and national aid agencies accountable to scientific scrutiny. As part of this effort, the DRI released its own aid agency ranking in 2008 elaborated on the basis of transparency and efficiency indicators.

The DRI is co-led by two economics professors at New York University, William Easterly (1957, Morgan Town, West Virginia, USA) and Yaw Nyarko (1960, Accra, Ghana). Easterly holds a Ph.D. in economics from the Massachusetts Institute of Technology and is an expert in the political economy of development and the study of the effectiveness of foreign aid. He has worked in most areas of the developing world, especially Africa, Latin America and Russia. Yaw Nyarko, one of the most highly ranked African academic economists in the world, is Associate Editor of the *Journal of Economic Theory* and has acted as a consultant to organizations like the World Bank and the United Nations.

OVERTURNING STEREOTYPES ABOUT THE BRAIN DRAIN AND MICROFINANCE

Unlike other organizations in the development research field, the DRI not only quantifies the effectiveness of large-scale humanitarian campaigns but also puts forward solutions to improve the way donations are managed. One of the first conclusions of their research is that decisions about the allocation of relief funds cannot be left to foreign governments or multilateral organizations. Instead they need to take close account of the social, cultural and economic peculiarities of the receiving communities in determining how and where they can best be spent.

“Development really happens when people figure out the solution to their own problems” were among Easterly’s first words on hearing of the award. And this, precisely, is where the big development plans promoted by the rich world and major multilateral organizations (the United Nations and World Bank among them) are falling down, according to DRI researchers.

Microcredits are a case in point: “they may work very well in some regions and not so well in others. But when they will certainly not work is if they are parceled into some big plan”. The reason, says DRI’s research, is their failure to properly address the local circumstances of each country or region.

One of DRI’s studies analyzes 346 of the world’s leading microfinance institutions and nearly 18 million active borrowers. The data show remarkable successes in maintaining high rates of loan repayment. However they also suggest that profit-maximizing investors would have limited interest in most of the institutions that are focusing on the poorest customers and women. Those institutions, as a group, charge their customers the highest fees in the sample but also face particularly high transaction costs, in part due to small transaction sizes.

The received wisdom also takes a knock when they turn their research attention to the “brain drain”. Easterly explains it thus: “the so-called brain drain can be a good thing for poor countries, because the workers who emigrate acquire new skills abroad and come back to their countries with new knowledge about technology, new business relationships and access to finance, among other positive consequences”.

Regarding the real effectiveness of humanitarian relief, the DRI has repeatedly criticized the lack of information and feedback between donors and beneficiaries. This is part of the

thinking behind its Aid Watch initiative, a digital platform where researchers, policy-makers, commentators and aid practitioners can debate developments and exchange experiences.

The efficiency failings of large-scale campaigns are summed up in Easterly's closing reflection: "This is the tragedy. That the West has spent 2.3 trillion dollars on foreign aid over the last five decades and still has not managed to get twelve-cent medicines to children to prevent half of all malaria deaths. The West spent 2.3 trillion dollars and still had not managed to get four-dollar bed nets to poor families."

THE WORLD'S LEADING AWARDS IN DEVELOPMENT COOPERATION

The Frontiers of Knowledge Awards honor world-class research and artistic creation. The breadth of disciplines addressed and their monetary amount, an annual 3.2 million euros, place them among the foremost international award families. However their uniqueness lies in their close alignment with the scientific, technological, social and economic challenges of the present century. In this respect, they are the first to reserve dedicated categories for Climate Change; Development Cooperation; Information and Communication Technologies, and Ecology and Conservation Biology, alongside the awards going to outstanding contributions in Economics, Finance and Management; Basic Sciences; Biomedicine, and Contemporary Music.

The Development Cooperation award granted to the Development Research Institute finds its way in the inaugural 2008 edition to the **Abdul Latif Jameel Poverty Action Lab (J-PAL)**, at Massachusetts Institute of Technology (MIT) for applying scientific methods to assess the on-the-ground effectiveness of development assistance funding.

The jury in this second edition was chaired by **Alejandro Portes**, Professor of Sociology at Princeton University (United States), with **José García Montalvo**, Professor of Economics and Director of the Department of Economics and Business at Pompeu Fabra University (Barcelona, Spain) acting as secretary. Remaining members were **Norman Loayza**, Lead Economist in the Development Research Group of the World Bank (Washington, United States); **Jonathan Morduch**, Professor of Public Policy and Economics at New York University (United States); **Francesco Caselli**, Professor of Economics at the London School of Economics and Political Sciences, and **Francisco Pérez**, Research Director of the Valencian Economic Research Institute (Spain).

WINNERS IN OTHER AWARD CATEGORIES

The Development Cooperation category is the sixth to be decided in this edition of the BBVA Foundation Frontiers of Knowledge Awards. It follows on from the awards in Climate Change (granted to German physicist and mathematician **Klaus Hasselmann** for demonstrating that recent global warming trends are attributable to human activities), Information and Communication Technologies (engineer and mathematician **Thomas Kailath** for a mathematical development enabling the production of increasingly small size chips), Basic Sciences (shared by physicists **Richard N. Zare** and **Michael E. Fisher** for

rendering visible individual molecules and describing their collective behavior), Biomedicine (**Robert J. Lefkowitz** for discovering the receptors targeted by most of today's drugs) and Ecology and Conservation Biology (**Peter B. Reich** of the University of Minnesota (United States) for "radically improving our understanding of and ability to predict terrestrial ecosystem responses to global environmental change, including climate change (...) and biodiversity loss", in the words of the award citation.

The next award to be decided is Contemporary Music whose winner will be announced on February 5.

The BBVA Foundation supports knowledge generation, scientific research and the promotion of culture, relaying the results of its work to society at large. This effort materializes in research projects; human capital investment; and specialization courses, grants and awards. Among the BBVA Foundation's preferred areas of activity are basic sciences, biomedicine, ecology and conservation biology, the social sciences and literary and musical creation.

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