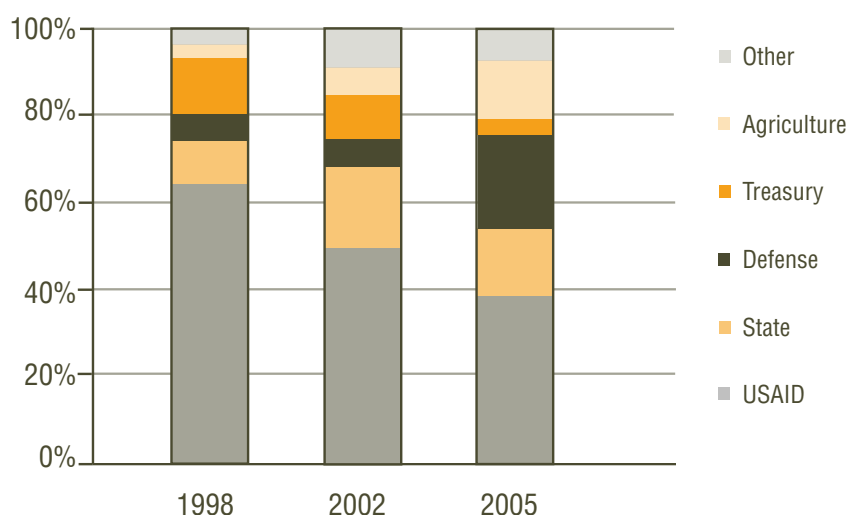


Reforming Foreign Aid

by Charles Uphaus

The Changing Management of U.S. Official Development Assistance



Source: OECD (2006), DAC Peer Review of the United States. Reprinted from InterAction, *The United States and the MDGs, 2007*.

Bread for the World Institute provides policy analysis on hunger and strategies to end it. The Institute educates its advocacy network, opinion leaders, policy makers and the public about hunger in the United States and abroad.

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Abstract

Sustainable progress against hunger and poverty should be a top priority of U.S. foreign assistance. Elevating development and fixing foreign aid are the most important things the United States can do to respond to the global hunger crisis.

Effective aid includes clear objectives, host-country “ownership,” accountability and flexibility, long-term commitments, integrated approaches, and adequate and reliable resources. In working toward a more effective development assistance program, nothing less than a comprehensive reauthorization of the Foreign Assistance Act is required, and this should include a cabinet-level department for global development.

The United States must provide leadership commensurate with its resources and values. Reforming foreign assistance would strengthen the U.S. reputation around the world, and beyond that, it would be part of a more sophisticated and realistic approach to national security.

Key Points

- Responding to the global hunger crisis, and preventing it from happening again, requires establishing long-term development goals, especially increasing agricultural productivity in poor countries.
- The capacity of the United States to plan and deliver effective foreign aid has diminished as U.S. security concerns around the world have overshadowed development priorities.
- The United States needs to elevate development as one of our national priorities and give it resources equal to the task.
- Effective U.S. development assistance would target resources toward enabling poor people around the world to provide for themselves and live free of debilitating malnutrition, illiteracy, and epidemic diseases.
- A cabinet-level department for global development should be part of a reauthorized foreign aid program, ensuring a development voice is heard at the highest level of foreign policy considerations.

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As a result of rising food prices, an additional one hundred million people around the world have fallen into poverty and are at risk of hunger. This tremendous setback serves as a stark reminder that despite substantial progress in recent years, developing countries, particularly the poorest, face significant challenges to reducing hunger and poverty.

The global hunger crisis also shows more plainly than ever that the world is deeply and irreversibly interconnected. Rich and poor countries, U.N. food agencies and international financial institutions, such as the World Bank, all must do what they can to respond. But so far, the global response has not been equal to the scale of the crisis.

Poor people are now making more difficult choices than ever: reducing the amount of food they consume; choosing less expensive, less nutritious foods; skipping meals; reducing spending on other important items such as health services or sending their children to school. The poorest of the poor are coping by shifting to one meal a day and by eating famine foods: roots, grass, mud cakes.

The United States and other rich countries can help. In fact, their leadership now is crucial. The United States has always been generous in its response to emergencies overseas, spearheading the very successful child survival interventions of the 1980s and continuing to provide lifesaving humanitar-

ian assistance, which is as important now as ever. But equally important in responding to the global food crisis, and preventing it from happening again, is assistance for long-term development goals, especially increasing agricultural productivity in poor countries.

Foreign Aid and Development

The global hunger crisis might have been averted by greater investment over the years in improving agricultural productivity in developing countries. Unfortunately, too much of the non-emergency aid the United States gives is driven not by what developing countries need, but by short-term U.S. political and economic objectives. Funding for these purposes is important from the U.S. perspective, but it can work against what is good for poor people in developing countries and undermine the effectiveness of U.S. development programs. To make development gains, like reducing infant mortality or increasing girls' educational achievement, a top priority must be reducing poverty and promoting long-term development.

Effective U.S. development assistance would target resources toward enabling poor people around the world to provide for their families free from the suffering caused by debilitating malnutrition, illiteracy, and epidemics of disease.



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Foreign aid is governed by the U.S. Foreign Assistance Act of 1961, signed into law by President John F. Kennedy. But the world has changed dramatically since 1961. The United States needs a flexible approach to development assistance that allows creative approaches to the complex realities on the ground. Dramatic spikes in food prices, escalating climate change, and a billion people still living on less than \$1 per day are among the “big problems” of 2008. The United States must update its policies so assistance programs will do the most good.

Improving foreign assistance would also improve the United States’ international reputation, and beyond that, it would be part of a more sophisticated and realistic approach to national security. Enabling people in poor countries to acquire the skills and opportunities to break the cycle of poverty is not only the right thing to do, but will serve the U.S. national interest by creating a more secure and stable world.

U.S. Prerogatives and Foreign Aid

U.S. assistance to Pakistan is a good example of how political and development goals can become conflated to the detriment of development. Pakistan is an important ally of the United States in the war on terror, receiving a generous share of total U.S. foreign aid. Non-military aid to Pakistan has totaled almost \$1.9 billion since 2001.¹

This recent increase in U.S. assistance since 2001 is consistent with the whole history of U.S. engagement with Pakistan. The early 1970s was a similar period because the Nixon administration needed Pakistan as an intermediary for its China opening and a counter to Soviet aid to India. When the geopolitical need passed, aid fell again. U.S. aid spiked in the 1980s as Pakistan served as the base for efforts to oust the Soviets from neighboring Afghanistan. When the Soviets left Afghanistan, U.S. aid plummeted. It dried up completely after Pakistan successfully tested a nuclear weapon in 1998. Now it’s back up. Although clearly a number of other factors prevented Pakistan from making sustained progress on development, one culprit is the “on again, off again” nature of U.S. assistance.

A comparison with Bangladesh, a much poorer country, makes the point very clearly. Both countries have enjoyed roughly similar rates of per capita economic growth (4.9 percent in Bangladesh vs. 4.1 percent in Pakistan during 2005-2006), but Pakistan’s infant mortality rate, 84 per thousand, is 60 percent higher.² Pakistan’s rate of child malnutrition remained constant from 1990-2006 while Bangladesh reduced its rate by almost one-third. Bangladesh has more girls than boys in school and a higher primary school completion rate.

Unlike in Pakistan, U.S. engagement in Bangladesh

has not been driven by political concerns. U.S. foreign assistance to Bangladesh has been based almost entirely on a development rationale—reducing hunger and poverty and ensuring adequate health care and family planning services. The United States has maintained a stable, consistent development assistance program in Bangladesh virtually since the country’s independence in 1971. Assistance over the past 10 years has averaged \$75 million annually and has never fallen below \$23 million.

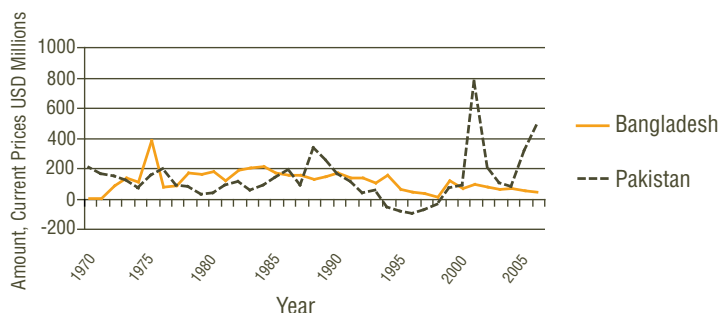
It is extremely difficult for aid programs to make progress on development challenges in the absence of a long-term commitment, something that has largely been absent in Pakistan. Given the history of dramatic increases and cuts in U.S. aid, all governed by political considerations, Pakistani policymakers and the public might well be justified in concluding that our “aid” is really more about us than them.

Perceptions and Realities

There are three main purposes of U.S. foreign aid: humanitarian, political and development. Humanitarian aid responds to both natural and man-made disasters (e.g. Pakistan earthquake response) and ongoing crises (e.g. food aid in Darfur). Aid for political purposes is determined primarily by U.S. political, economic, and national security interests (e.g. counter-narcotics, peace in the Middle East, the war on terror, and access to markets). Development assistance programs are designed to reduce poverty and encourage economic growth in low-income countries. They help meet the U.N. Millennium Development Goals, which include cutting hunger and extreme poverty in half.

When all three streams (humanitarian, political, and development) are lumped together as “foreign aid,” the distinctions between the goals and activities of the various programs are blurred. It is much harder to measure effectiveness, leading to the frequent criticism of foreign aid as ineffective and wasteful. But much of the aid was not, in fact, intended to

U.S. Aid Flows to Pakistan and Bangladesh (1970-2006)



Source: OECD Data. DAC ODA Total Net Disbursements by Donor Country. April 2008.

reduce poverty, hunger, or disease, even though it was usually evaluated according to whether it did so.³ The different categories of aid are not, of course, mutually exclusive. There are areas of overlap. The problem arises when the goals of assistance are not clearly stated and thus it's very hard to tell whether those goals have been met.

By and large, U.S. assistance has been highly effective—particularly where there are specific development objectives. Korea and Taiwan, formerly recipients of large amounts of foreign aid, are now economic powerhouses and also partners in global security. India has gone from chronic food deficits to food exports and sustained economic growth. Smallpox has been eradicated. Safe water and sanitation have been provided to millions. The challenge is to extend these achievements to the remaining “bottom billion” living in extreme poverty in the most effective way possible.

Despite all the successes, the current structure of U.S. foreign aid makes it more difficult to achieve long-term development goals. As Brookings Institution scholar Lael Brainard points out, there are roughly 50 “foreign assistance objectives” and 20 U.S. departments or agencies that provide aid (with many more fiefdoms within those organizations), resulting in an organizational chart of stunning complexity.⁴ Such fracturing makes it almost impossible to address the many development challenges in a sustained, integrated way.

In order to determine what the actual goals of U.S. development assistance should be, and assess objectively whether they are being met, it would be helpful to tie funding to specific international targets such as the indicators in the Millennium Development Goals, for example, reducing mortality of under-five-year-olds by two-thirds. Aid given for security or political reasons must have its own separate measures of effectiveness. We simply must be clear about where each type of aid is being used and specify valid ways to measure whether each is effective. The confounding of development and political goals, as in the case of Pakistan, undercuts our ability to achieve either.

A Time Line of Foreign Aid

As mentioned earlier, U.S. foreign aid in its current form dates back to the Foreign Assistance Act of 1961. The Kennedy Administration laid out national security and development objectives in this act and set up the U.S. Agency for International Development (USAID) as the principal executor of foreign aid. USAID was to bring together disparate programs from various agencies and departments,

with the U.S. State Department providing overall policy guidance. This structure and allocation of responsibilities remained largely intact through the end of the 1980s.

With the end of the Cold War came a new wave of assistance programs for Eastern Europe and the former Soviet Union, implemented largely by USAID but “coordinated” by the Department of State, which also provided resources to other departments and agencies. Once begun, this extension of development-related work to a proliferation of agencies continued through the current administration. Under the administration of George W. Bush, development assistance has increasingly been cast in a security mold, what is sometimes referred to as the “securitization” of foreign aid.⁵

What does the rise of securitization mean for development programs? The U.S. Department of Defense (DOD) has gone from managing 6 percent of U.S. development assistance in

Who Gets Foreign Aid?

The largest recipients of U.S. foreign aid tend to be those where U.S. political interests are centered. Elevating national security to the top of the priority list skews foreign aid in the direction of immediate crisis situations or to governments that support U.S. security priorities. Table 1 shows the top ten U.S. aid recipients in Fiscal Year (FY) 2007, along with their per capita income and U.S. aid per capita. One could certainly argue that Afghanistan, a desperately poor country, merits generous development assistance. But, in spite of its poverty, Afghanistan was “off the radar screen” for foreign assistance until it became a security interest in 2001. As shown in the chart, Iraq reconstruction is a high priority. Sudan makes the top ten primarily by virtue of the massive humanitarian program underway there, but also because it happens to sit atop large oil reserves. But the inclusion in the top ten aid recipients of relatively high-income countries chiefly reflects political (Jordan, Egypt) or counter-narcotics (Colombia) interests. Development and poverty reduction are not the main objectives.

Table 1: Top Ten U.S. Aid Recipients, FY 2007

	Total FY'07 Aid Allocation ⁹ (\$ thousand)	Aid Allocations per capita (\$)	GNP per capita
Iraq	1,926,800	68.80	1,000
Afghanistan	1,538,277	49.60	190
Sudan	497,125	13.40	2,160
Ethiopia	470,535	6.45	1,190
Colombia	469,858 ¹⁰	10.21	7,620
Egypt	455,000	6.00	4,690
Pakistan	411,362	2.60	2,500
Jordan	255,300	42.55	6,210
Tanzania	245,597	6.29	740
Zambia	234,265	19.50	1,000

2002 to roughly 25 percent in 2007. While much of this increase is for operations in Afghanistan and Iraq, there are indications that DOD is also moving to fill what it sees as a vacuum in terms of developmental activities in countries deemed to be fragile or at risk, taking on activities that have traditionally been the responsibility of USAID, such as building schools, clinics, water systems, and roads.⁶

Conversely, the State Department appears to be getting USAID more involved in security issues. As an indication of how entangled development and security have become, the Department of State/USAID Joint Strategic Plan FY 2007-12 defines Strategic Goal 1 as “Achieving Peace and Security,” and includes such strategic priorities as counterterrorism, weapons of mass destruction, security cooperation, conflict prevention, and transnational crime.⁷ All of these are important foreign policy objectives, but not what one would usually consider development. “Investing in People” and “Promoting Economic Growth and Prosperity,” the traditional goals of development, are listed as Strategic Goals 3 and 4.

Since September 11, 2001, the combined development and security aid budget has more than doubled, but the capacity of the United States to plan and deliver effective foreign aid has been diminishing. USAID, once the world’s most respected foreign aid agency, has lost one-third of its foreign service officers in the past 10 years. Secretary of Defense Robert Gates noted that there are more musicians in military bands than foreign service officers in the Department of State and USAID combined.⁸

U.S. Aid Effectiveness—The Case of Food Security

Foreign aid commitments are frequently expressed as dollars or a percentage of a country’s GDP. But aid effectiveness is equally important. Over the past 50 years, there has come to be widespread agreement on the characteristics of effective aid: clear objectives, host-country “ownership,” accountability and flexibility, long-term commitments, integrated approaches, and adequate and reliable resources. Unfortunately, U.S. aid programs too often lack some of these requirements. Efforts in the area of food security are a case in point.

Clear Objectives—*What are we trying to achieve?* Food security should be an overarching goal with responses ranging along a continuum. Instead, feeding hungry people, especially in times of humanitarian crisis, is viewed as a distinct goal that is accorded higher priority than making it possible for people to feed themselves. Emergency food aid and agricultural development programs have separate objectives, funding, management, and congressional oversight. It follows that they also have different political agendas and U.S. constituencies that support them. The net effect has been to starve longer-term agricultural development in favor of short-term

responses in the form of food aid. U.S. government funding for agricultural development has been cut over the preceding decades and reached its lowest level ever in FY 2007.

Host-Country Ownership—*Ensuring that development efforts are grounded in reality, and that aid-recipient countries and communities are committed to a shared vision:* Recipient countries generally welcome both food aid and agricultural development funds, but there is little indication that the allocation of overall food security resources is based on a collaborative determination of a country’s long-term food security interests. Indeed, countries’ interest in greater agricultural development support has been given short shrift by donors responding to other agendas. When given the opportunity to set their own priorities, as is the case with Millennium Challenge Account compacts, countries almost invariably place increased emphasis on agriculture and rural development.

Flexibility and Accountability—*Applying the right resources in the right way, and holding implementers responsible for results:* Both food aid and agricultural development resources are encumbered by numerous restrictions. Food aid, for example, must be delivered in-kind rather than in cash, procured in the United States, and shipped on U.S.-flagged vessels. During emergencies, when a speedy response is critical, the inefficiencies caused by these requirements become all too apparent. In-kind food aid can also make it difficult for local farmers to sell their crops by distorting prices in local markets, which in the long run slows local production and undermines the goal of sustainable food security. Agricultural development resources themselves are subject to earmarks and directives that often impede their effective use. Because of “Buy America” requirements, development funding often ends up being spent disproportionately on U.S. technical assistance.

Long-Term Commitment—*Development takes time:* A country’s food security is determined, in large measure, by its institutional and infrastructural capacity—the ability of educational institutions and research farms to train agricultural scientists, develop appropriate technologies and transfer them to farmers; and the availability of irrigation and transportation systems. All these capabilities must be complemented by policies that encourage investment in agricultural productivity. And this process requires patience and significant levels of investment, both of which have been in short supply in recent years.

An Integrated Approach—*Ensuring that programs don’t undercut or contradict each other:* The programs or actions of numerous agencies and cabinet departments can affect development. But if one doesn’t know—or doesn’t appreciate—what another is doing, it is entirely possible for policies and programs to work at cross-purposes. For example, U.S. agricultural and trade policies that restrict market access and subsidize production make it difficult for farmers in poor countries to

compete. The problem is not limited to agriculture; U.S. assistance in Bangladesh works to diversify the economy and expand exports. At the same time, the United States imposes duties on imports from Bangladesh that exceed the amount of assistance.

Adequate and Reliable Resources—*Interpreting resource requirements broadly*: It's an unfortunate fact that it's easier to obtain funding for food aid than for the long-term development that would reduce the need for food aid. The inadequacy of U.S. agricultural and rural development resources has already been described. The question of adequate resources, though, extends beyond program funds to include the human resources needed to plan and oversee development efforts. It is particularly unfortunate that there are fewer than half as many agricultural experts in USAID as there were ten years ago.

Principles for Restructuring U.S. Development Assistance

"Our foreign assistance system is broken," begins a report by a high-level commission, appropriately named the HELP Commission, appointed by President Bush and Congressional leaders to study all U.S. foreign assistance programs.¹¹ Other high-level groups¹² have reached similar, if less blunt, conclusions, and even the Secretary of Defense has stated publicly that reform is needed.¹³

A new consensus about the overall goals and objectives of foreign assistance is long overdue. In working toward a more effective development assistance program, Bread for the World supports a comprehensive reauthorization of foreign assistance that embodies the following general principles:

- Global development and global poverty reduction must be elevated as specific goals in U.S. foreign policy, distinguished from political, military and security goals, with distinct and secure funding.
- Poverty reduction should be the primary focus of U.S. development assistance, with substantially more poverty-focused funding provided to meet commitments made through global agreements like the Millennium Development Goals and G8 meetings.
- Development assistance should be undertaken in partnership with recipient countries in support of the development goals they determine in consultation with their civil society, focused on long-term goals with intermediate objectives.
- Civilian leadership in foreign assistance must be maintained and strengthened, with the Department of Defense limited to its operational strengths in logistics and stabilization.
- An effective, streamlined agency is required to direct all U.S. foreign assistance, consolidating the plethora

of foreign assistance programs currently spread across twelve cabinet departments and numerous agencies.

- Other U.S. policies (e.g. trade, investment, migration) need to be looked at in light of development assistance goals and objectives with the goal of minimizing inherent contradictions.
- U.S. development assistance should be more closely linked with other international donors to reduce the burdens on recipient governments as well as the costly duplication of programs.

Bread for the World recommends a cabinet-level department for global development, as part of a reauthorized foreign aid program, as the best means for addressing the foreign aid deficiencies noted above. A department that draws in most, if not all, of the foreign aid programs currently scattered throughout the bureaucracy would help produce a greater degree of policy and program consistency, and ensure that the development voice is heard at the highest level of foreign policy considerations.

A Model for a U.S. Department of Development

In 1997, the incoming Labor government in the United Kingdom (UK) established a new, cabinet-level Department for International Development (DFID), with responsibility for the UK aid budget and other aspects of UK development policy. DFID is the sole responsibility of a designated cabinet minister. By law, all UK development assistance must either further sustainable development or promote the welfare of people and contribute to the reduction of poverty.

The presence of DFID as a full member of the cabinet ensures that development issues are considered in the formulation of other policies—for example, trade policy. While development interests do not always take precedence, they are at least identified and taken into account.

The development/security nexus is addressed through consultative mechanisms. There are pooled funds for specific issues, such as a conflict prevention fund jointly controlled by Defense, the Foreign Office, and DFID. The system appears to be working; though challenges remain, DFID is generally regarded as the world's most effective development agency.

Elevating Development to be a Primary Goal of Foreign Assistance

We need to elevate development among our national priorities, placing it alongside defense and diplomacy. We need to refocus our foreign assistance on poverty reduction and give it resources equal to the task. We need to consolidate our development programs in one place with a clear mandate. If we do these things, U.S. tax dollars will be invested more effectively to help the people who need it the most.

The hunger crisis should also serve as a wake-up call for the United States to rethink development and foreign assistance. The United States must provide leadership commensurate with its resources and values. The challenges we face in the 21st century argue for a fresh approach. Elevating development and fixing foreign aid are the most important things we can do to respond to the global hunger crisis.



Rev. David Beckmann, President of Bread for the World, (right) meets with farmers in Buwana, Uganda.

Bread for the World is part of the Modernizing Foreign Assistance Network (MFAN), a coalition of international development experts working to modernize U.S. foreign assistance and elevate global development. For more information on MFAN and to read their *New Day, New Way: U.S. Foreign Assistance for the 21st Century* report, please visit www.modernizingforeignassistance.net.

Endnotes

- ¹ Excluding Pakistan earthquake response, which totaled roughly \$117 million.
- ² Birdsall, Malik and Vaishnav: *Poverty and the Social Sectors: The World Bank in Pakistan 1990-2003*; Center for Global Development, August, 2005.
- ³ These different categories of aid are not, of course, mutually exclusive. There are areas of overlap, e.g., road and school construction in the frontier regions of Pakistan, or urban infrastructure in Cairo. The problem arises when the different goals are not explicit, with appropriate indicators of effectiveness.
- ⁴ Brainard, Lael, in *Security by Other Means: Foreign assistance, Global Poverty, and American Leadership*; Brookings Institution, 2007, pp. 33-34.
- ⁵ *Smart Development: Why US Foreign Aid Demands Major Reform*; Oxfam America, 2008.
- ⁶ It should be noted that this is a role the Defense Department is assuming largely by default, in the absence of capacity on the part of USAID and the State Department to take on these responsibilities.
- ⁷ *Strategic Plan, FYs 2007 - 2012*; Department of State and USAID, 2007; http://www.usaid.gov/policy/coordination/stratplan_fy07-12.pdf
- ⁸ Gates, Robert: Landon Lecture, November 26, 2007: www.defenselink.mil/speeches/speech.aspx?speechid=1199
- ⁹ Doesn't include counter-narcotics, refugees and military training administered through State Dept.
- ¹⁰ Includes Andean Counter-drug program, much of which is for alternative livelihoods.
- ¹¹ *Beyond Assistance: The HELP (Helping to Enhance the Livelihood of People around the Globe) Commission Report on Foreign Assistance Reform*; Final report, December 2007.
- ¹² *CSIS Commission on Smart Power: A Smarter, More Secure America*, Center for Strategic and International Studies, 2007; *Embassies Grapple to Guide Foreign Aid: A Report to the Senate Committee on Foreign Relations*, Richard Lugar, Ranking Minority Member, November 2007.
- ¹³ Robert Gates, Landon Lecture, Kansas State University, November 26, 2007: www.defenselink.mil/speeches/speech.aspx?speechid=1199. generous share of total U.S. foreign aid. Non-military aid to Pakistan has totaled almost \$1.9 billion since 2001.



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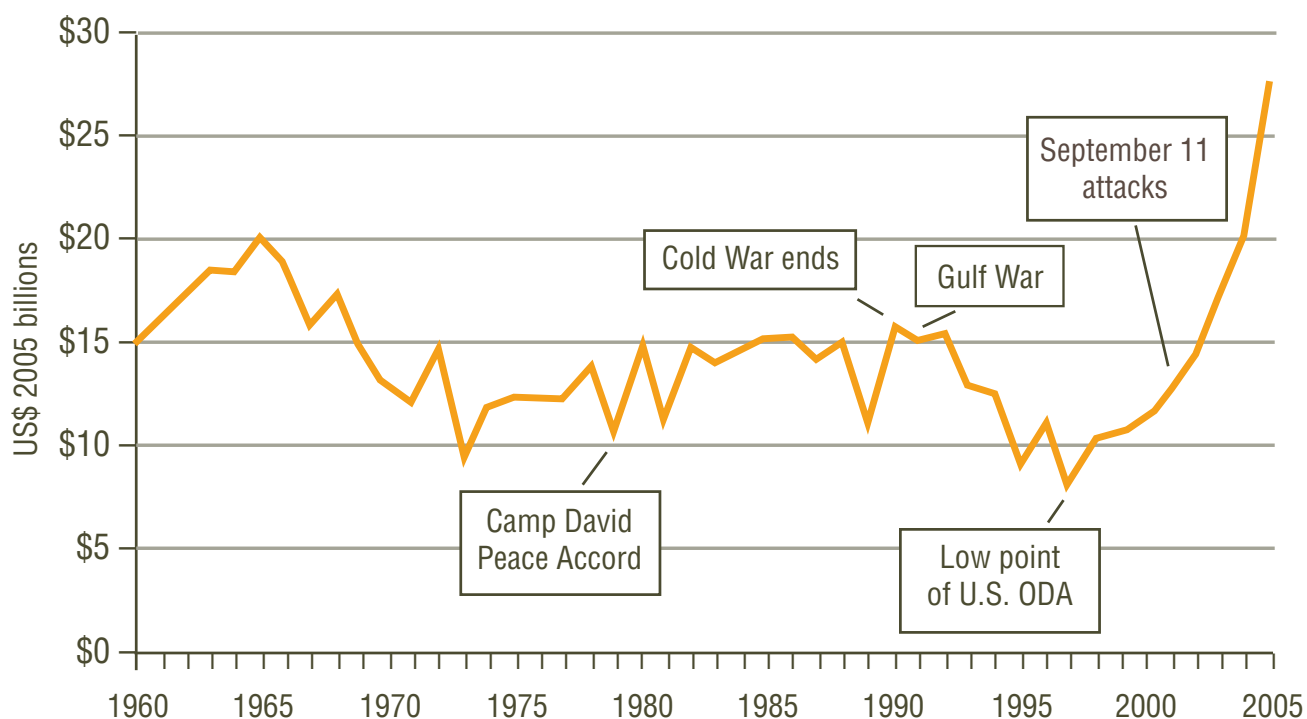
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U.S. Net Official Development Assistance, 1960-2005



Source: DAC Online. Reprinted from InterAction, *The United States and the MDGs*. 2007.