

The Foreign Policy Project

What Future for Aid?

David Gordon, Catherine Gwin,
and Steven W. Sinding

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Barry M. Blechman is Chairman of the Henry L. Stimson Center, and the Center's President is Michael Krepon.

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Contents

About the Authors	iv
About the Foreign Policy Project	vi
Prevailing Myths and New Realities	4
Myth Number One: Aid Is No Longer Needed	4
Myth Number Two: Aid Doesn't Work	10
Myth Number Three: The Public Won't Support Aid	15
An International Assistance Strategy for the Future	20
Distinguishing Among Four Assistance Tasks	20
Realigning Bilateral and Multilateral Assistance	26
Reorienting U.S. Bilateral Development Assistance	28
Reorganizing U.S. International Assistance	29
About the ODC	37
About the Henry L. Stimson Center	38

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About the ODC

ODC is an international policy research institute based in Washington, D.C. that seeks to inform and improve the multilateral approaches and institutions—both global and regional—that will play increasingly important roles in the promotion of development and the management of related global problems.

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Generating commitment for international assistance and for policy and organizational reforms has always required presidential leadership. It is no different today. Congress, despite several efforts in the 1970s and 1980s, has never been able to articulate a coherent foreign aid reform even though nearly all reform efforts have originated there. Indeed, the last true reform occurred in 1961 when President Kennedy put forward the proposals that created USAID. The start of a new presidential term in January 1997 provides the occasion for the executive branch to put forward a new international assistance plan. If the president fails to do so, we are likely to see the further erosion of an essential tool of U.S. foreign policy at a time of great opportunity and challenge in world affairs.

v

U.S. development cooperation policies and on the International Monetary Fund, World Bank, and other international economic and development institutions. Her most recent publications include, among others, with Mayra Buvinic and Lisa Bates, *Investing in Women: Progress and Prospects for the World Bank* (ODC, 1996) and with Albert Fishlow, Stephan Haggard, Dani Rodrik, and Robert Wade, *Miracle or Design? Lessons from the East Asian Experience* (ODC, 1994).

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About the Foreign Policy Project

The Foreign Policy Project is designed to reassess the principles and purposes of U.S. foreign policy in the post-Cold War world. The project seeks to describe the emerging international environment as seen from a variety of perspectives, to assess America's stakes in that world, to examine the trade-offs among them, and to articulate a framework for analysis, debate, and policymaking. The project, which has funding from The Ford Foundation, hopes to generate ideas and analyses that will contribute to and re-energize an informed national debate on U.S. foreign policy and America's role in the post-Cold War era. The Project is co-chaired by Barry M. Blechman, Chairman of the Stimson Center, and Catherine Gwin, Senior Vice President of the Overseas Development Council (ODC) and co-directed by William J. Durch of the Stimson Center and David F. Gordon of ODC. Project research staff include Brian Curran, Todd Moss, and Jolie Wood.

The project has five main components:

Strategy Group. Meeting at regular intervals throughout the life of the project, the Strategy Group is the core component of the project. Composed of experts from disparate fields and backgrounds (in research, public policy, the media, and business), from different parts of the country, the group oversees the project's research

David Gordon, Catherine Gwin, and Steven Sinning 35

feared, will lead to the further denigration of long-term development concerns and global issues because the culture and incentives within the State Department are so wedded to addressing short-term political/strategic concerns. Secretary of State Christopher himself has expressed frustration that "the urgent often takes the place of the important."

But we believe that the twofold restructuring that we recommend would accomplish several things. Most important, it would bolster the policy capability and responsibility for development and global affairs within the core U.S. foreign policy apparatus, thereby helping to mainstream those issues of increasing salience in U.S. post-Cold War foreign affairs. It is hard to imagine these issues being successfully mainstreamed if they continue to be seen as "AID issues," largely divorced from senior policymakers' purview.

Relatedly, it would create a more unified, powerful, policy voice within the Executive Branch, a step that is essential for making and defending the case for future international affairs funding. It would also facilitate (though not wholly solve) the long-elusive challenge of better coordination of U.S. assistance efforts across the panoply of bilateral and multilateral channels available to us. Finally, it would reflect within our continuing bilateral development aid effort the many lessons learned over recent decades that are important to getting results and thereby contributing to sustained support.

the Fund's administration of its program goals.

- Finally, consistent with the need to more fully integrate development and global affairs into U.S. post-Cold War foreign policy, the Fund would report to the Deputy Secretary/Under-Secretary for Development and Global Affairs, who would have primary responsibility for negotiating the Fund's broad policy direction and budget with Congress.

Reorganizing the bilateral development assistance program is not a new idea. Last year, Senate Foreign Relations Committee chairman Jesse Helms introduced legislation that would have incorporated USAID into the State Department and set up an independent International Development Foundation. In contrast to the approach we have outlined, the Helms initiative would have fragmented both the policymaking and operational functions of U.S. assistance activities into various units in the State Department. Far from highlighting the importance of development and global issues, the Helms proposals sought to diminish these themes within overall U.S. foreign policy. In that context, Helms' independent foundation would have been a marginalized entity, without any constituency within the State Department being invested in its efforts.

Some will argue that despite these differences, it is still dangerous to integrate international assistance policy and programs into the State Department. Integration, it is

program and will debate its results, aiming toward a restatement of U.S. foreign policy interests and objectives.

Regional Workshops are being held at sites in California, Texas, and Wisconsin to explore issues relevant to those areas and to incorporate local perspectives, interests, and expertise.

Washington Roundtable. This series provides an off-the-record forum for Washington area executive branch and congressional staff, think tanks, academics, and representative of private voluntary organizations to discuss important foreign policy-related issues. It also provides an opportunity for members of Washington's several foreign policy communities to share insights and create new networks of communication.

Research. Background papers are being prepared by Strategy Group members, project staff, and other experts to supplement existing literature on topics such as the use of force, technology and foreign policy, and the impact of the media on foreign policymaking. Some of the background papers will be published as a part of the FPP Occasional Paper Series. The project's final report will be released in early 1997.

Communications. The twin objectives of the project's communication efforts are catalytic and educational—catalytic, to stimulate debate on interests and foreign policy beyond the confines of the project itself, and educational, to increase the proportion of debates that are reasonably well-informed.

ment challenges jointly agreed on by congress and the executive branch. Issues should be chosen that are fundamentally important to the future well-being of people in developing countries, reflect U.S. core concerns and values, and build on particular U.S. strengths.

- Within a well-conceived and clearly articulated strategic framework, the Fund's grantmaking would focus on harnessing American expertise and leveraging institutional commitment to international development. It would both seek out and respond to proposals from a variety of eligible partners, including foreign governments, U.S. and indigenous NGOs or other private entities, and international programs. Those who seek funds would have to demonstrate efficient and transparent operating procedures as well as support from relevant national, provincial, or local stakeholders in the target country. Major emphasis in funding decisions would be given to capacity building, institution building, training, and knowledge creation or transfer.
- To encourage Fund effectiveness, transparency, and support, an advisory committee—composed of representatives of nongovernmental constituencies and expert communities—would monitor and advise on

Today, our bilateral assistance program is delivered in a proactive way by USAID, based on detailed strategic plans, a complex design and procurement process, and heavy operational oversight by USAID staff in the field. This mode of operation is outdated, given the communications revolution, the rise of important capacities and resources in non-governmental institutions, and the emerging consensus that government should be a facilitator rather than director or operator of programs and activities. The proposed semi-autonomous International Development Fund would reflect these changes and would operate in a substantially different manner from the current bilateral program. By implication, some substantive, operational, and administrative expertise that now exists in the agency would be reassigned to the State Department, and others would remain in the Fund. In making this recommendation, we draw on a proposal for a "Sustainable Development Foundation" made previously by ODC.¹²

- The main task of the Fund would be to administer the bilateral development cooperation component of U.S. international assistance funding, more as a catalytic agent than as an implementation agency as is the case with today's USAID.
- Operating as a grantmaking entity, it would focus on a limited set of achievable develop-

What Future for Aid?

American foreign aid has been adrift since the Cold War abruptly ended nearly eight years ago. No longer firmly anchored as a key tool of foreign policy aimed at containing communist expansion and combating Soviet influence, foreign assistance has lost its core political constituency and much of its support, both in the White House and on Capitol Hill. Yet, the United States has an array of foreign policy goals and international interests that argue as powerfully for assistance today as at the height of the Cold War.

In the course of "containing communism," the United States was engaged in ensuring its territorial security, improving the well-being of its people, and advancing its basic values; it did this, in part, by utilizing foreign aid to foster a politically and economically more stable and open world. In the post-Cold War era, the American people face no threat to their survival from an "enemy" major power. Nonetheless, active U.S. engagement in world affairs is still required to ensure the security and quality of life of current and future generations. International assistance—applied deliberately and creatively—remains an important instrument of that engagement for the purposes of consolidating the historic transitions from communism to democracy and from war to peace; responding to emergencies; addressing global problems for which international cooperation is essential; and

¹² John W. Sewell, Peter M. Storm, and contributors, "Challenges and Priorities in the 1990s: An Alternative U.S. International Affairs Budget, FY1993" (Washington, D.C.: Overseas Development Council, 1992).

promoting global stability and progress through reducing poverty and advancing democracy in poor countries.

It would be convenient if the necessary responses to present circumstances could be merged in a single organizing principle, as with “containment” in the Cold War era. But, at least into the foreseeable future, no single slogan is likely to capture the realities of the present day. Instead, we need to recognize the diversity of major U.S. foreign policy purposes in the post-Cold War era, the pursuit of which *alters rather than eliminates* the need for international assistance funding.

U.S. foreign aid levels are, however, on a steep decline. The Organisation for Economic Co-operation and Development reports that the United States, having led the world in aid contributions through 1990, has now fallen behind Japan, France, and Germany. Opinion polls consistently reveal that the American public sees foreign aid as one of the largest items in the federal budget and thinks the United States bears a disproportionate share of the international aid burden. In fact, foreign aid spending is less than one percent of the budget, and we now lag considerably behind other donors in terms of aid as a percentage of national wealth. These trends reflect not only the rigors of deficit reduction but also the loss of an agreed rationale for foreign engagement. They call, therefore, for a broad, bipartisan dialogue on the future of U.S. international assistance.

The collapse of support for foreign aid is partly a function of dramatic changes in the world. For a post-Cold

This individual would be the Executive Branch’s principal spokesperson on U.S. development and global issues policies. Supported by a staff of substantive professionals, he/she would be responsible for assisting the Secretary of State in preparing and defending the international assistance budgets for the four program areas. Primary responsibility for State Department input into U.S. policy toward the MDBs would be shifted from the Economic and Business Affairs Bureau into the Development and Global Affairs area to ensure a more coordinated approach to bilateral and multilateral aid. Responsibility for U.N. social and economic funds and programs would also be moved from the Under-Secretary for Political Affairs into this broad portfolio.

In addition, the Development and Global Affairs area would be responsible for programming emergency, transition, and global issues assistance; accordingly, it would decide through which channels to program aid—bilateral, multilateral, or nongovernmental. Essential to this reform would be the buildup of analytic and programming capabilities about development, global problem solving, transition, and emergency assistance issues within State—a department not known for its interest or expertise on these issues.

- 2) *Convert the bilateral development assistance program into a semi-autonomous International Development Fund, which would operate in a different mode from US AID.*

The structure that we propose is designed to reflect organizationally the reality that promoting development, engaging global problems, facilitating transitions, and addressing emergency needs are central to the operation of U.S. foreign policy as we face the new century. Stemming from this, the Secretary of State, the principal spokesperson for U.S. foreign policy, must become the voice on these issues for both policy and resource mobilization. It is essential that the President recognize the importance of these issues and appoint a foreign policy team who understands the need for a strong and long-term American commitment to development and global problem solving. Indeed, presidential commitment to an aid reform agenda is absolutely essential; we do not believe that the proposals which follow can be successfully enacted or implemented without sustained White House leadership and support.

To ensure that our long-term bilateral activities can be as effective and efficient as possible, the structure is also designed to take into account the lessons of development experience and the changing role of government in the modern world. These two considerations lead us to recommend the following two changes.

- 1) *Bring together, within the core of the Department of State, the policy and oversight responsibilities for the four international assistance program areas, to be directed by a Deputy Secretary or an Under-Secretary for Development and Global Affairs.*

War moment, optimism dominated thinking about U.S. engagement in the world, but this was quickly replaced by a more pessimistic mood. One expression of this pessimism has been the confluence of thinking among traditional foreign aid opponents, budget deficit hawks, and "hard-headed" foreign policy thinkers, all challenging the notion that foreign aid serves U.S. interests, either because it isn't needed, is misdirected, or doesn't work. There were moves in the 104th Congress to phase out all U.S. development aid and withdraw support from key international development institutions, and such efforts may be repeated when the new Congress convenes in January 1997.

The foreign aid machinery constructed to wage the Cold War is not best suited to address the new environment. But what is called for is not the end to aid; nor is it the continued nibbling away of USAID's capacity to undertake its mandate, which will make aid failure a self-fulfilling prophecy. Rather, we need a much more substantial revision of our assistance policies and practices in ways that would once again connect them with our central foreign policy purposes and better integrate them into our foreign policy process.

In this article we examine three prevailing myths about U.S. international assistance: that it isn't needed; that it doesn't work; and that the public won't support it. We then lay out the new case for foreign assistance as a tool of U.S. foreign policy and suggest a major institutional restructuring, suited to a foreign policy that will take us into the new century. The central feature of this revision is

to integrate international assistance programs more centrally into U.S. foreign policy at the levels of rationale, process, and organization. During the Cold War, proponents of development assistance programs sought to insulate them from the day-to-day political pressures of foreign policy concerns. Today we need to go in exactly the opposite direction. The separation of aid from the main foreign policy apparatus no longer “insulates” but rather marginalizes and trivializes aid.

Prevailing Myths and New Realities

Myth Number One: Aid is No Longer Needed

This myth has two subthemes. The first is that after the Cold War there is no longer a foreign policy role for foreign aid. According to this view, since aid’s main purpose was the “buying” of support for anti-communist allies, eliminating most aid is an appropriate “peace dividend” from the end of the Cold War. This argument has a kernel of truth. Some types of aid have become passé, and some longtime recipients are no longer attractive. This new reality has already led to steep reductions in Economic Support Funds, the “walking around money” programmed for explicitly political ends during the Cold War. There have also been appropriate cuts in assistance to such prior “allies” as Zaire and Pakistan.

The second subtheme is that the increase in trade and international capital flows has made aid irrelevant to development. The argument here is that if donors stopped

development and who have expressed a strong interest in effectively cooperating with the United States. It should also be concentrated in a limited number of issue areas where the United States has a comparative advantage and where there is strong public and congressional support. Examples of such issues include population/family planning and child survival/maternal health, agricultural research, promoting institutions of “civil society,” and microenterprise development. In these selected areas, our bilateral aid should emphasize innovative and pioneering activities, the transfer of technology, and capacity building.

Our aid instruments need to become much more flexible and “user-friendly.” The existing procedures and regulations require that more attention be paid to bureaucratic requirements than to addressing the purposes for which the aid is being provided. Our bilateral program needs to highlight the demonstrable importance of ownership, partnership, and attention to implementation in making aid more effective.

Reorganizing U.S. International Assistance

Regrettably, most “aid reform” discussions of the last few years have gone right to the issue of bureaucratic reorganization, putting the organizational cart before the policy horse. However, once one sorts out the policy purposes and programs that are needed, it is hard to avoid the problem of organization and the clear need for substantial restructuring, lest our international assistance efforts face a future of “death by a thousand cuts.”

Reorienting U.S. Bilateral Development Assistance

In addition to realigning the balance of bilateral and multilateral assistance, there is a critical need to reorient our remaining bilateral development assistance efforts. Consistent with changes in the international political and economic environment, this reorientation needs to address anew the questions of to whom and how best to provide development aid. For many of the large regional powers, the "pivotal states," bilateral development aid is not an issue because they have rapidly increasing access to international private capital and growing national wealth. In engaging these countries, the United States needs to use such tools as trade agreements, investment promotion schemes, technical cooperation, and cooperation through the international financial institutions such as the International Monetary Fund and the MDBs.

Bilateral development aid remains important where there is need (in the absence of adequate access to private capital and markets), the potential for effective results based on recipient commitment and performance, and both U.S. interest and comparative advantage in the provision of assistance. This means, in our view, that bilateral development aid should become more selective and flexible.

Bilateral development aid should focus on a limited number of poor countries who demonstrate a commitment to use aid effectively to achieve sustainable, broad-based

giving aid to poor countries that do not now receive private capital, then these countries would have no alternative but to implement policies that would quickly lead to growth in private investment. Again, there is some validity to this point. In 1995, private capital flows to developing countries through both direct investment and capital markets totaled \$193 billion.¹ Today, public resource flows, which as recently as the late 1980s had provided three-quarters of the external financing for development, make up less than one-quarter of such flows. As a result, a growing number of countries no longer need traditional forms of development aid. Their progress is now substantially dependent on their continued economic and political reform at home and deeper integration into global trade and financial markets. This change has also already led to significant reductions in the number of countries that receive concessional aid from the United States or from the major international development institutions. Prominent examples of recent USAID "graduates" are Chile, Costa Rica, Thailand, and even the African country of Botswana.

However, this picture is incomplete. While we have seen the collapse of the communist bloc, we have not ended all conflicts or threats of conflicts that pose dangers for American security and prosperity. While we have witnessed remarkable progress in many parts of the world, massive poverty and instability remains in countries to which private capital does not now flow. And while we have seen the fruits of our efforts to create a more open and

¹ International Monetary Fund, *International Capital Markets: Developments, Prospects, and Key Policy Issues* (Washington, DC: IMF, Sept 1996), 5.

prosperous world economy, we also see a wide array of global problems made more prevalent, in part, by the very global integration that we have sought to foster.

Under the circumstances, we must redesign and restructure our international assistance efforts to meet the contemporary foreign policy purposes for which assistance is still an important tool. Today, there are four such purposes:

- 1) *Supporting the historic transitions of our time that, if successful, will unalterably change the international environment in ways favorable to American territorial security, material well-being, and core values.*

The end of the Cold War created two major sets of new aid claimants: the countries in transition from communism to market-based, democratic societies in Eastern Europe and the former Soviet Union; and the increased number of countries engaged in the transition from conflict to coexistence in the Middle East. In addition, there is and will inevitably continue to be need for short-term transition support for other "hot spots," such as Bosnia, Haiti, and South Africa, that for various reasons command special policy salience.

- 2) *Responding to the panoply of emergencies that humanitarian impulses cannot ignore and helping resolve violent conflicts where prospects allow.*

sometimes difficult and painful economic reforms that are essential for long-term economic development. They alone among donor agencies command the resources necessary for large-scale development investments; and at the same time, they are the leading storehouse of technical advice and information on what works and what doesn't in development cooperation. Through their private investment wings such as the International Finance Corporation and their guarantee facilities, the MDBs are also in a singularly strong position to help catalyze private flows to developing countries. Finally, multilateral institutions have a comparative advantage over bilateral efforts in building consensus and establishing norms important to the address of global issues.

The multilateral development institutions are not without their problems, as many studies have pointed out. But the leading role that the United States has played, as the largest contributor to these institutions, has given us powerful influence on the policies and operations of these institutions. A *sine qua non* of increased emphasis on multilateral channels of assistance is the continued reform of their own operations. The pursuit of such reform has been and will continue to be significantly enhanced by constructive engagement and leadership on the part of the United States.

efforts needs to be adjusted. In 1996, only slightly more than 10 percent of U.S. aid resources went to multilateral agencies. In the future, this proportion should increase, especially in the areas of development cooperation and global problem solving.

There, of course, remains a valuable role for bilateral assistance. In comparison to multilateral aid, bilateral assistance is generally better able to mobilize a rapid response to unanticipated situations, tends to be more conducive to innovation, operates on a smaller scale and more easily with nongovernmental organizations (NGOs), can best mobilize and apply the unique reserves of American know-how, and is especially needed in those situations of high foreign policy concern.

Nonetheless, there are several reasons for putting more reliance on multilateral approaches. Most importantly, active participation in multilateral organizations offers the best way to organize the burden-sharing important to maintaining public support for aid and to leverage limited U.S. international assistance resources on behalf of our objectives. Especially now that the United States provides only about one-seventh of the total volume of foreign aid, the impact of U.S. aid will be maximized to the degree that it can leverage and influence the policies and activities of other key players. The United States has much to offer as a leader among the major shareholders of the MDBs, but only if it continues as a significant contributor.

Multilateral institutions, especially the MDBs, are better placed than bilateral donors to support the sorts of

There remains a deep font of public support, as well as unmatched capacity within public and private American institutions, to respond to natural disasters. Newer and more challenging are the "complex emergencies," which involve a combination of civil conflict and human suffering and which are extremely costly, both in terms of financial resources and ever growing numbers of refugees and displaced persons. A substantial number of weak or failed states have exploded into complex emergency situations, often after the withdrawal of superpower involvement in their affairs. As Joseph Nye has written, "While generally less threatening to U.S. interests than global or regional balance of power conflicts, communal conflicts are the most likely kind of post-Cold War conflict and have thus far proved the most frequent."²

Some of these conflicts risk spreading into neighboring states, while others risk escalation to more intense violence, use of sophisticated weapons, and harsh attacks on civilian populations.

3) *Advancing global problem solving on issues of mutual concern.*

In a world no longer dominated by major power conflict, we can clearly see an array of serious global problems—some new, others unattended to in the past—that no nation can handle on its own and that call for

2 Joseph Nye, "Conflicts After the Cold War," *Washington Quarterly* 19, no. 1 (Winter 1996): 19.

new forms of international cooperation. As Secretary of State Warren Christopher commented during his recent trip to Africa, "It has come home to me that trans-national issues will be the focus in the next century." Among the most important are global environmental degradation, international drug trafficking, and the spread of infectious diseases. These problems directly affect our quality of life at home and can only be addressed through effective cooperation with developing countries. Absent aid, we would be totally dependent upon persuasion and treaty negotiations for tackling these problems, even in poor countries that may want to respond but lack the financial and technical wherewithal to do so.

4) *Encouraging the spread of democracy and reduction of poverty in the poorer countries of the world in ways that apply the development lessons of the recent past and take account of new international circumstances.*

In the late 1950s, Walt Rostow articulated the rationale linking development in Third World countries to U.S. interests in the Cold War. Rostow posited that foreign assistance could "inoculate" countries against the "disease" of communism by propelling them into the "stage of self-sustained growth."³ But the Rostow theorem was never really implemented. Aid was basically used to support strategically important regimes regardless of whether the recipient government was following effective

Global Problem Solving. Development is an important underpinning to the successful handling of many common global problems whose manifestations in developing countries have their roots in persistent poverty. In addition, the benefits to developing countries of following broad-based and environmentally sustainable development strategies are now widely recognized. For these reasons, development cooperation efforts themselves promote more effective global problem solving.

But, in addressing specific global problems, it is the features of the specific issue that should drive how and where we direct resources. The United States is now engaged in diplomatic negotiations and other international activities on topics such as global warming and deforestation, illegal drug-trafficking, international crime, and the spread of infectious diseases. Resources (both financial and technical) need to be behind cooperative efforts in these areas. How those resources are programmed ought to be the responsibility of those in charge of handling the specific issues; and where those resources are targeted should depend on how best to address the issue, rather than being subsumed under country development strategies with different core purposes, as is now generally the case.

Realigning Bilateral and Multilateral Assistance

For all four of these international tasks, the United States will need to use both bilateral and multilateral approaches. But the existing balance in favor of bilateral

³ W. W. Rostow, *The Stages of Economic Growth: A Non-Communist Manifesto* (Cambridge: Cambridge University Press, 1960).

private investment and economic growth in both countries. The same outcome is possible in Israel and even Egypt. As a general matter, exit/downsizing strategies ought to be built into transitional assistance efforts in virtually all cases.

Emergency and Post-Conflict Operations.

Emergency relief has long been and will continue to be a major claim on U.S. international assistance funds. In recent years, however, disaster relief situations have been overshadowed by “complex emergencies,” usually involving violent and protracted communal conflict and resultant refugee problems. Although successful development can help avoid complex emergencies and is the long-term solution for countries emerging from conflict situations, traditional development cooperation cannot address either specific conflict prevention needs or immediate post-conflict reconstruction requirements.

While there is a role for both relief and development in the immediate post-conflict period, there is a unique set of priority tasks that require quite distinct forms of external assistance, including such things as landmine clearance, demobilization and reintegration of soldiers, and police reform and restructuring. Indeed, a consensus has emerged that reestablishment of civilian security is the condition precedent for post-conflict rebuilding. In addition, there are political reconciliation and economic recovery tasks that differ in important ways from the more familiar development efforts. Therefore new and flexible ways of operating both bilaterally and multilaterally have to be devised for the provision of post-conflict assistance.

development policies or used aid resources efficiently. Today, it is development itself, not the buying of allies, that serves our contemporary foreign policy goals and interests. Democracy and development provide the underpinnings for regional peace, a climate of cooperation in coping with common problems, and mutually beneficial economic interactions—all important interests of the United States.

The U.S. economic stake in the developing countries is illustrated by contrasting the global recession of the early 1980s with the global recession of the early 1990s. In the earlier period, contraction in the industrialized countries quickly infected the developing world. Between 1981 and 1983, U.S. exports to developing countries dropped by \$20 billion, causing the loss of thousands of additional jobs.⁴

In the early 1990s, while the industrialized countries went into recession, growth was maintained in the developing world (especially Asia), enabling an export-led recovery in the United States that substantially shortened and weakened the impact of the recession. Indeed, the “Clinton recovery”—creating seven million new jobs in recent years—might not have occurred without rapid growth in the developing world that enabled U.S. exports to these areas to grow by 84 percent between

⁴ IMF, *Direction of Trade Statistics Yearbook* (Washington, DC: IMF, 1987), 404.

1988 and 1994, more than twice the rate of growth in trade with Europe.⁵

For many of the agricultural states of the American heartland, virtually the entire increase in grain sales in recent years has been increased exports to developing countries. Many of today's emerging markets were yesterday's major aid recipients. The remaining low-income countries represent huge potential markets for the further expansion of U.S. trade and investment.

Myth Number Two: Aid Doesn't Work

With the end of the Cold War, long-standing critiques of development aid, coming from both the right and the left but sharing a skepticism toward the efficacy of government, have gained political strength. On the left, the view is widely held that aid has failed, that poverty is expanding, that the gap between the rich and the poor is growing, and that whatever gains have been made have been more than matched by the erosion of living conditions, democratic rights, and the environment. The right also believes that aid is a failure, but for quite different reasons. From this perspective, aid is the international equivalent of welfare, a misguided anti-market mechanism through which socialist and/or corrupt Third World leaders

assistance, diplomatic involvement, and timebound, quick-disbursing aid will continue to be important in crucial stages of transition.

The case of aid to Egypt and Israel demonstrates both the diplomatic value and the difficulties of this kind of support. There is no doubt that the assistance packages generated in the aftermath of the Camp David Accords were crucial as a sign of the commitment of the United States to Israel and Egypt and for keeping the prospects for a broader regional peace on the agenda. But the aid package has taken on a life of its own whose contemporary impact is less positive. There is now a disjunction between the existing Middle East aid package, which focuses so heavily on Egypt and Israel, and the needs of an expanded peace process. Moreover, the fact that these transfers have taken the form of quasi-entitlements has encouraged waste and discouraged policy reform efforts.

Taking a lesson from the past, it is time to develop a new Middle East program that includes a multiyear downsizing strategy for economic aid (military aid would be maintained) to both Egypt and Israel, similar to the successful aid phase-out strategies that were applied in the 1960s to Taiwan and South Korea. Such a strategy would include a timetable for phasing down aid, combined with a package of measures (such as debt restructuring) and a policy reform agenda that would take account of any negative financial effects of the aid phase-down. The aid endgame in Taiwan and South Korea, which did not exclude these countries from substantial borrowing from the international financial institutions, led to a burst of

⁵ IMF, *Direction of Trade Statistics Yearbook* (Washington, DC: IMF, 1995), 436.

Suffice it to say here, that this assistance is, by definition, focused on long-term processes of change; that bilateral and multilateral development aid programs have different comparative advantages; and that the bilateral aid efforts that continue to elicit support (from Congress and the public at large) are those focused on improving the lives of poor people in poor countries. These efforts require, for the most part, assistance programs and operational procedures different from the other relatively newer assistance tasks necessitated by our post-Cold War goals.

Transition Support. Situations requiring this category of assistance have high foreign policy saliency, involve important political as well economic transformations, and thus attract broad and intensive U.S. bilateral involvement, if only over a relatively short period of time. As noted above, there are two principal "transition" situations that fit this characterization: 1) the great transformations under way in Eastern Europe and the former Soviet Union; and 2) the transition to peace and regional security in the Middle East.

Although the full process of "transition" in these situations is not itself short term, in their early phases such situations tend to require major foreign policy attention and special kinds of quick-disbursing assistance that reflect the particular circumstances of the country and our relationship with it. Over time, the bulk of the financial resources needed in many of the transition cases will have to come from the international financial institutions, which can leverage financing and bring influence to bear on policy reforms where needed. Nonetheless, U.S.

maintain control over their countries and avoid the realities of the international market place.

Proponents of both these views point to large recipients of U.S. aid, especially in Africa, who have by any definition been development disasters. Examples of such countries include Liberia, Somalia, Sudan, and Zaire. It is cases such as these that give popular credence to Senator Jesse Helms' sound-bite about most aid being squandered down "foreign rat-holes."

It should be noted, however, that the use of worst-case examples both distorts the actual record of aid and creates an unwarranted climate of hostility toward aid as an instrument of foreign policy. Oliver Wendell Holmes once said that "great cases . . . make bad law." In the same way, great stories about aid failure make bad policy. The record of aid is diverse, including spectacular successes and massive failures, and many more cases that yielded some positive results, but where substantially better results might have been possible.

Specific achievements of aid in enhancing the quality of life in poor countries are impressive. Even in countries where the overall economic growth record is not strong, aid has been crucially important in providing the resources that have relieved hunger and led to the tremendous improvements in social conditions in virtually all areas of the globe.

- The dramatic fall in infant and child mortality, which has led life expectancy in develop-

ing countries to rise from 41 to 62 years, was substantially supported by the efforts of UNICEF and donors such as USAID. In the 1980s alone, a major aid effort led to 1.4 billion people in developing countries gaining access to clean water.⁶

- Aid has played a crucial role in sponsoring research, education, and immunization programs that have led to the effective control of smallpox, polio, diphtheria, and measles, while introducing simple and effective ways to combat diarrhea and river blindness, saving millions of lives.
- Donor support, led by USAID, in expanding access to family planning has brought about a dramatic fall in fertility rates in developing countries and substantial progress in stabilizing world population growth.⁷ Contraceptive use has risen from 10 to 55 percent, and the total fertility rate has fallen from six to less than three children per woman.

⁶ Organisation for Economic Development and Co-operation, *Shaping the 21st Century: The Contribution of Development Co-operation* (Paris: OECD, May 1996), 7.

⁷ Robert Cassen and Lisa M. Bates, *Population Policy: A New Consensus*, Policy Essay No. 12 (Washington, D.C.: Overseas Development Council, 1994).

and domestic political terms. Thus, in the cases of Egypt, the Philippines, and Pakistan, where aid funding had been primarily motivated by strategic aims, the United States overstretching its bilateral efforts to apply conditionality in pursuit of economic policy reform targets. Moreover, we have tended to run assistance efforts of varying kinds (such as recent efforts to provide support for the transitions in Eastern Europe and efforts to consolidate fragile peace agreements in countries such as Cambodia and Bosnia) through a single aid bureaucracy with personnel and operational guidelines designed primarily for a single purpose—support of long-gestating development investments. More generally, the blurring of programs has been a major source of public confusion and constituency skepticism about foreign aid, leading to disappointment and floundering of political support.

Consistent with today's foreign policy challenges, there are four different international assistance tasks, each requiring its particular mix of economic, technical, and diplomatic resources and operational procedures. Keeping these four tasks separate, especially in budgetary terms, would avoid some of the effectiveness problems of the past as well as encourage explicit trade-offs and choices about U.S. engagement abroad.

Development Cooperation. Though not a new purpose, changes in the world of development mean that the who, what, and how of development assistance can and should be altered significantly. How to reorient this category of international assistance accordingly is addressed below as a central feature of aid's reconstruction.

An International Assistance Strategy for the Future

Against this background, what are the contours of a future international assistance funding strategy that would effectively take account of current realities? In our view, there are four key elements: 1) clear differentiation among the types of international assistance programs needed, to be reflected in separate budgets and operational structures; 2) realignment of bilateral and multilateral assistance to achieve a greater reliance on the leverage achieved through multilateral institutions; 3) reorientation of U.S. bilateral development assistance; and 4) reorganization of the U.S. international assistance program. A brief description of each of these proposed changes follows.

Distinguishing Among Four Assistance Tasks

To achieve the foreign policy purposes laid out earlier and to obtain the necessary level of support (from the policymaking community and key relevant constituencies as well as the public at large), international assistance funding must in the years ahead become more sharply focused on a clear set of objectives. This means that both the overall international assistance budget and operational procedures should distinguish clearly among the different purposes being pursued.

In the past, we have too often blurred or conflated diverse aims, with negative effects in both foreign policy

- Aid has been crucial to facilitating the “green revolution,” i.e., the development of new crop varieties, extension practices, and irrigation programs. As a result of the combination of population and green revolution efforts, food production and consumption are increasing 20 percent faster than population growth in the developing world.⁸

In contrast to these successes, however, aid “rat-holes” do exist. They have been the result of a specific confluence of aid being given for security/political purposes to governments with venal politics and economic policies that suppressed markets and the private sector. But the end of the Cold War has basically ended this former rationale for giving aid, and the alternatives to market-based economic policies have lost credibility in both recipient and donor countries. As a result, the aid rat-holes are fewer and farther between. Take Africa, the location of the most egregious aid failures. In the 1980s, much U.S. aid was wasted in Mobutu’s Zaire, Sergeant Doe’s Liberia, and Siad Barre’s Somalia. Today, U.S. aid resources are directed to African countries that are going through the difficult processes of dual transition to democracy and market economies—countries such as Ethiopia, Ghana, Mali, South Africa, and Uganda.

⁸ U.N. Development Programme, *Human Development Report 1996* (New York: Oxford University Press, 1996), 20.

More difficult to identify is aid's impact on economic growth, since it is impossible to isolate aid's role from an array of other factors. Analytic studies have failed to specifically "attribute" economic growth to foreign aid spending.⁹ It has often been difficult to use foreign aid effectively to pursue multiple goals. In particular, there are cases where aid given for security purposes has had the side-effect of impeding economic reform. Thus, our Middle East aid program, while successful in its primary security purpose, has been less successful in developmental terms. In other cases, the willingness of foreign aid donors (generally not the United States) to support misguided policy regimes, such as Tanzania's efforts to promote rural socialism, has led to large expenditures with only limited development impact.

In spite of the negative aspects of aid, there are good reasons to believe that development aid can become more effective in the future. The biggest drags on aid effectiveness have been the following: first, the mixing of security and development rationales; second, the lack of a policy environment conducive to development in the recipient country; and third, the inadequate implementation capacity and lack of a sense of ownership among the recipients of aid programs.

one-half of all spending reductions. Under current congressional projections, the international affairs budget, of which two-thirds is foreign aid, will be further cut by close to one-third in real terms by 2002.

In this budgetary context, foreign aid suffers even more than domestic programs. Within the general non-defense discretionary category, the bulk of spending is in programs of health research, environmental protection, transportation, education, veterans' benefits, and prisons—areas that were generally spared from the deficit cutting knives even in the most aggressive period of the 104th Congress. Foreign aid spending suffers from the general antagonism toward government spending without the counterweight of a domestic constituency and thus finds itself particularly vulnerable.

Changing this reality will depend less on changing public opinion than on the joint exercise of executive and congressional leadership in articulating today's foreign policy purposes, defining aid's role in their pursuit, and designing programs that both reflect changed circumstances and address public concerns about effectiveness and burden-sharing. If these issues are successfully addressed, the polling data strongly suggest that public opinion regarding foreign aid is more malleable and acquiescent than is commonly claimed.

9 For example, see Nicolas van de Walle and Timothy Johnston, *Improving Aid to Africa*, Policy Essay No. 21 (Washington, D.C.: Overseas Development Council, 1996); and Cassen and Associates, *Does Aid Work?* (Oxford: Oxford University Press, 1986).

toward both bilateral aid and the multilateral development banks (MDBs).

But while the loss of constituency support is part of the political problem facing aid, it is not its core. Most important to foreign aid is its loss of salience and credibility within the foreign policy establishment in the aftermath of the Cold War. Both President Clinton's 1992 election campaign and the Republican congressional victory in 1994 reinforced the view that international engagement is at cross-purposes with efforts to solve pressing domestic problems—a view that is especially widespread among newer members of Congress from both parties.

The most important reflection of this problem is the changed position of international affairs spending in the budgeting process. In the 1987 and 1990 rounds of deficit reduction efforts, the foreign policy leadership convinced presidents Reagan and Bush of the necessity of placing “fire walls” around international spending, because they realized the vulnerability of such spending if placed in direct competition with domestic programs. In 1995, there was no similar effort to generate such protection.

As a result, foreign aid is caught between the triple pressures of expanding entitlement spending, deficit reduction efforts, and opposition to higher taxes. For the purposes of budget deficit reduction, both the Clinton White House and the Republican Congress have included foreign aid in the “non-defense discretionary spending” category, the 17 percent of the federal budget that under the 1996 deficit reduction agreement will absorb nearly

With the end of the Cold War, the tensions between security and development rationales, while not eliminated, are substantially reduced. Forty years of experience in development, along with the demise of the Eastern bloc, has generated considerable consensus about the necessary underpinnings of successful development. The core elements of such a strategy include maintaining macroeconomic stability and market-friendly economic policies, integration into the world economy, investment in human capital, good governance, and sustainable environmental practices. Finally, there have been substantial improvements in the human and institutional capacities within poor countries, as well as a growing recognition of the importance of implementation and ownership in the provision of aid. In combination, these trends provide the context in which development aid can be made substantially more effective than it has been in the past.

Myth Number Three: The Public Won't Support Aid

When public opinion polls ask which government programs should be cut, foreign aid is always at or near the top of the list. Because of this, many assume that the crisis in foreign aid is largely due to its lack of public support. Yet there are reasons to believe that public opinion is not at the heart of aid's political problem. Foreign aid's unpopularity is not new, and public opinion concerning aid has been generally stable. President Reagan substantially increased aid in the early and mid-1980s despite public opinion. Furthermore, the sentiment in favor of cutting aid

is rooted in a widespread misperception about the size of the aid budget. A University of Maryland poll showed that the public believes the United States spends 15 percent of the federal budget on foreign aid, while a *Washington Post* poll found that the public believes that more is spent on foreign aid than on Medicare.¹⁰ The reality, however, is that the one percent of the budget spent on foreign aid is less than one-twentieth of what is spent on Medicare.

A spate of recent surveys of public opinion on foreign policy and foreign aid has consistently shown that the public will support foreign aid if three primary concerns are met. First, the public must perceive that the burden of international assistance is broadly shared and that the United States does not spend more than its fair share. Pollsters I. M. Destler and Steven Kull of the University of Maryland argue that there is an emerging consensus among the American public that rejects isolationism, supports the United States carrying its “fair share” of the international problem-solving burden, and supports modest foreign aid spending.¹¹ The public does not believe that the United States should take the lead in addressing every international problem, but does believe that the United States should be engaged in global problem solving.

¹⁰ *The Washington Post*, 29 January 1996.

¹¹ Steven Kull and I. M. Destler, “An Emerging Consensus: A Study of American Public Attitudes on America’s Role in the World” (College Park, MD: The Center for International and Security Studies, University of Maryland, July 1996).

Second, the public must feel that aid is being utilized to assist those in need. While preoccupation with domestic social and economic issues has to some degree diminished Americans’ altruistic impulses, recent survey research reaffirms the strong “moral imperative” that underlies Americans’ willingness to help others in need. Recent congressional debates on foreign aid, even after the 1994 election, display the broad national consensus on poverty alleviation. Even so, many potential supporters of aid remain skeptical of the foreign aid program because during the Cold War aid was justified to the public in humanitarian terms, but it was often used to support strategic allies who were dictators or autocrats.

Third, the public must be persuaded that aid is effective. There is a very broad concern about wasting tax dollars on ineffective programs. And the public is increasingly skeptical about government programs, in general especially those that do not directly affect them.

In this regard, more important to aid’s political problem than general public opinion is the ambivalence shown by the groups who should be aid’s biggest supporters—the organized constituencies who favor an active U.S. role in international population efforts, global poverty reduction, and addressing environmental degradation around the world. These groups are critical of U.S. aid’s melding of diverse purposes. They also criticize the operations of both bilateral and multilateral aid programs as overly complicated and bureaucratic. The lack of wholehearted support from these constituencies has been a significant source of congressional skepticism