

REDESIGNING

FOREIGN

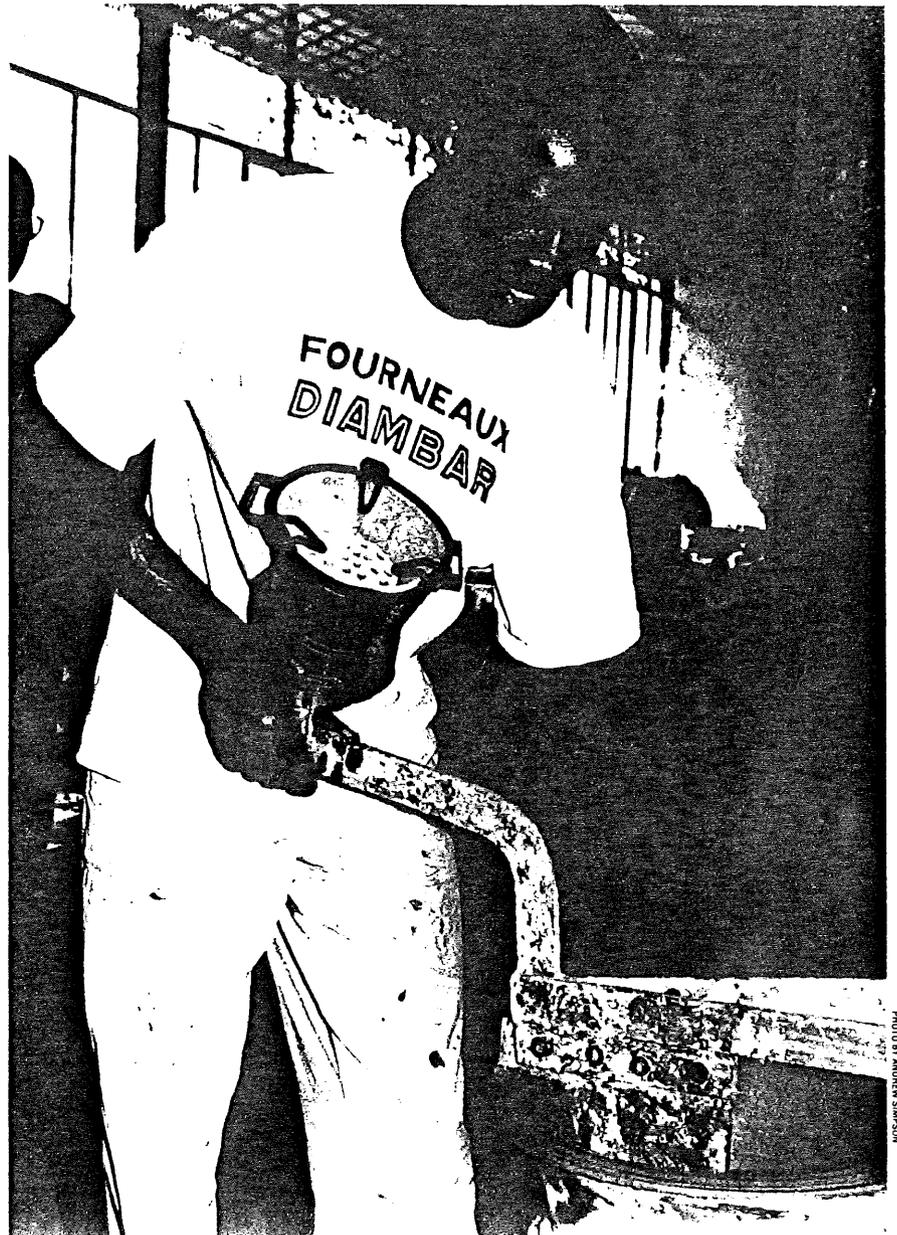
AID

SENEGAL: Under the technology transfer project a worker makes a ceramic lining for an improved charcoal stove.

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Faced with dramatic changes in the world and declining support for foreign aid at home, the U.S. Agency for International Development (USAID) has been subjected to a time-worn remedy—reorganization. This is a bit like performing cosmetic surgery on a patient in cardiac arrest—appearances are improved without changing the prognosis. Without fundamental changes to make it relevant to the international challenges of the 1990s and responsive to the concerns of Americans, the U.S. bilateral aid program could end up not just leaner—it could end up dead. Sound alarmist? Consider that by the beginning of next year:

- The United States will have a new administration with a mandate to focus on domestic issues (regardless of which party wins).
- A new Congress will be in place with at least 100 new members, with several leading supporters of U.S. foreign assistance retired.





INDONESIA: On the floor of the Jakarta Stock Exchange, a USAID Foreign Service national gets a briefing on the day's activities. USAID supports economic development through technical assistance to the exchange.

- The budget summit agreement will be at an end, and both Congress and the administration will be free to raid the international affairs budget to fund domestic programs.

U.S. international interests have been transformed in recent years, due both to changes in the world and the increasing urgency of domestic problems. The entire U.S. international affairs budget must therefore be rethought if it is to survive. Marginal changes are no longer adequate. Instead, the very conceptual base of the U.S. international affairs budget needs to be recast into programs that reflect the new global interests of the United States in the post-Cold War world.

Helping ourselves, helping others

In the past decade, the preoccupation with confronting communism abroad was paralleled by a neglect of problems here at home. Americans are now demanding that domestic problems be given priority. Yet the traditional dichotomy between "domestic" and "international" issues is an anachronism. Global action is needed to address successfully domestic concerns as well as to advance long-term U.S. international interests in building a better world and promoting fundamental American values.

Despite the current opposition to "foreign aid," U.S. interests in development and the developing world in particular are greater than at any time in American history. These interests can be organized into three broad policy clusters: promoting U.S. competitiveness in order to expand exports and create jobs; confronting pressing international political, social, and environmental challenges; and promoting American ideals and values.

A U.S. foreign policy built around U.S. interests and American values could gain the support of the electorate. Political leaders need to articulate these new interests to the public, however, and make tough choices to end outdated programs and reorder U.S. budgetary priorities.

The Overseas Development Council's second annual "Alternative Budget" for international affairs, *Challenges and Priorities in the 1990s*, lays out a proposal for a comprehensive overhaul of the U.S. international affairs budget and programs. The Alternative Budget identifies \$25.3 billion in savings over a five-year period—achieved by cutting foreign military financing, base rights payments, and broadcasts to Eastern Europe—and shows how these savings can then be

used to promote America's international interests.

A reordered international affairs budget that reflects U.S. interests in the 1990s should be recast into four categories appropriate to today's realities:

- promoting growth in an open world economy through trade liberalization, increased export credits, and debt relief;
- facilitating conflict resolution through diplomatic efforts, and increased funding for post-conflict reconstruction, UN peacekeeping, and refugee assistance;
- expanding multilateral cooperation for economic development by approving the International Monetary Fund (IMF) quota increase, fully funding existing commitments to the World Bank and the regional development banks, and increasing U.S. support for the International Development Association (IDA); and
- transforming bilateral cooperation to promote sustainable development through the creation of a Sustainable Development Fund (SDF).

No programs in the budget are more in need of change, however, than those designed to promote international development.

Bringing aid up-to-date

The United States needs a bilateral assistance program, but one designed for the 1990s, not the 1960s. The Foreign Assistance Act has not been revised since 1973 and U.S. aid is still mainly channeled to middle-income countries that were strategic allies in the Cold War. Saddled with a multitude of objectives and no focus, USAID is no longer adequate to the challenges ahead. It has been battered by a proliferation of mandates and a tug-of-war between

Congress and the administration and hamstrung by bureaucracy.

The aid "business" itself has changed since USAID's birth in the throes of the Cold War. In the 1960s, the United States provided more than 60 percent of worldwide development assistance; today, it supplies only 21 percent. Japan has emerged as the second largest donor, and there are many more aid providers—public and private, multilateral and bilateral—with greater capability than USAID in a number of sectors. Rather than continuing to take on new regions (such as Eastern Europe), and new sectors (such as democratization), development funds should go directly to organizations best qualified to carry out specific programs.

The United States urgently needs to rethink the way it goes about bilateral development assistance if its programs are to be relevant to the 21st century. It must focus on achievable development goals that are consistent with U.S. interests, capabilities, and values, and that would be supported by the American public. Leadership and focus are essential, but not enough. To respond to these changes and challenges, the United States needs a new entity to carry the U.S. development cooperation program into the next century.

The Sustainable Development Fund (SDF) would replace USAID as the primary source of U.S. bilateral development assistance. It would be a "wholesaler" of development resources, competitively allocating funds to a wide variety of public and private actors, based on their ability to address an identifiable number of development objectives jointly agreed upon by the president and Congress. Unlike USAID, the SDF would *not* be an operating agency.

After an initial transition period, most U.S. bilateral assistance would flow through the SDF. The SDF would use its resources strategically to help set global agendas and to leverage support from others. The president and Congress would agree on a number of specific development objectives, and the SDF would be freed from the cumbersome earmarks that hamper USAID. An oversight committee composed of members of Congress, the executive branch, and the private and non-profit sector, as well as an independent evaluations unit, would insure accountability for taxpayer funds. Both to monitor projects and gather proposals, the SDF would assign a small number of highly qualified individuals to U.S. embassies, mainly in the low-income countries.

USAID could compete for

SDF funds but would no longer monopolize U.S. bilateral development assistance. Its continued existence would depend on its ability to compete.

The SDF will be characterized by competition, focus, accountability, and responsiveness:

- *It will be a competitive "wholesaler" of development assistance resources.* The SDF will be a source of funding for global cooperation rather than an operational agency. It will introduce an element of badly needed competition into U.S. bilateral development programs, channeling resources through U.S. government agencies, multilateral institutions, and private voluntary organizations in this country and abroad, universities, and cooperatives, among others. No single operating agency, including USAID, will have exclusive rights to SDF resources. This will allow the SDF to cooperate with a range of institutions within the United States and in developing countries.
- *It will be responsive to developing countries' own perceptions of their priorities and needs.* Those who bid for SDF funds will be required to demonstrate the active support of relevant national, provincial, and/or local governments and nongovernmental organizations in the countries in question.
- *It will focus on a limited set of high-priority achievable development challenges, jointly agreed upon by Congress and the president.* Issues should be chosen because they are fundamentally important to the future well-being of developing countries, address a number of interrelated problems, reflect long-term American interests and values, build on particular U.S. strengths, and hold promise of measurable results in a defined



BANGLADESH: Health workers inoculate a child at an urban clinic. USAID's Munciple Immunization Program helps fulfill health needs in the urban areas.

period of time. Once Congress and the president agree on priorities, SDF grants will be confined to these subjects until the list is revised by further legislation. Congressional appropriations will be allocated to these priority areas, leaving the SDF substantial discretion in implementing programs.

- *It will be fully accountable to Congress.* Ongoing assessment by SDF personnel of what is accomplished with the fund's grants will be an integral element of the operation. In addition, however, a separate and independent evaluation unit, analogous to the World Bank's Operations Evaluation Department, will undertake in-depth evaluations of SDF projects and programs. These evaluations will be available to members of Congress and relevant committees.¹

Getting SDF off the ground

The Sustainable Development Fund is a long-term initiative whose scale, organization, and doctrine should be developed incrementally over a period of approximately five years. The specific organization of the SDF should be determined as part of the implementing legislation, but the following measures could contribute to its effectiveness:

- *The SDF should not be subordinated to any single existing line department or agency, including the Department of State or Treasury.* The State Department, with its focus on short-term political goals, has neither the interest nor the capacity to evaluate or conduct the U.S. bilateral aid program. The SDF will work only if it has the strong backing and attention of the president and Congress. The head of the fund must be a dynamic, highly respected leader, appointed by the president and subject to Senate confirmation. In addition to managing the SDF, the appointee will chair an advisory committee, consisting of him or herself and the secretaries of State, Treasury, Agriculture, and Commerce or their senior deputies. It will need a small but strong staff; attracting an able staff will not be difficult if the SDF has the kind of leadership, centrality, and budgetary clout proposed. The staff will define programs based on its own analysis and proposals and input from a wide variety of official and private developing country sources.
- *The SDF should be endowed with no-year or multi-year funding.* To enable the fund to conduct its operations and planning on a long-range basis, and to allow it to enter into multi-year contracts with operating agencies, the SDF should be provided with multi-year funding. A considerable portion of SDF assistance should be untied to maximize the effective use of resources.
- *The SDF should maintain effective relations with the*

private sector, including nonprofit and for-profit organizations in the United States and abroad. In part, this can be achieved by inviting private organizations to compete for SDF funding. The SDF should also establish an eminent advisory council. The membership should come from the relevant private sectors and from research institutions and private foundations. Individuals could also be drawn from multilateral agencies and developing countries. The advisory council should have an important role in the design and conduct of SDF operations.

Where the market leaves off

Trade is more important than aid to the well-being of the developing world; to promote development, the United States must work with developing countries to create policies and agreements that will promote mutually beneficial economic growth. Bilateral assistance, however, should be concentrated on those challenges least likely to be addressed by markets. The SDF must therefore focus explicitly on the interlinked problems of poverty, population, environment, and human development—each of central importance to the United States and the developing countries, and each unlikely to be solved by markets alone.

For example, the SDF could support the establishment of a global network of disease surveillance centers in the developing world to interdict new health threats—such as AIDS—and prevent global epidemics. It could also support expanded efforts to control population, increase global food production, and establish innovative and replicable programs to protect the environment while alleviating extreme poverty. Such initiatives are doable, cost-effective, in the U.S. interest, and capable of generating public support.

Funding for the Sustainable Development Fund must be large enough for it to have an impact on the development challenges selected and be considered a "player" in determining U.S. and international development priorities. It will take some time for the SDF to define its priorities, to translate them into programs, and to choose private contractors or public agencies to implement them. In the meantime, the SDF must have sufficient funding to enable it to plan for an expanding program and to launch multi-year initiatives. The Alternative Budget includes funds to launch the SDF with \$2 billion in 1993, increasing gradually to \$5 billion in 1997.

U.S. bilateral assistance has reached a defining moment in its history. The United States still needs an effective bilateral aid program, but to survive and flourish, it must be transformed to better promote U.S. interests and values and make use of scarce resources. The status quo—reorganized or not—will result in declining budgets, declining support, and possibly, eventual demise.

The choice is simple. Either move boldly forward or be left behind. For the sake of the United States, and of the developing world, we must choose the former. ■

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¹The SDF should not be confused with the existing International Development Cooperation Agency (IDCA). IDCA was established in the late 1970s at congressional initiative as an independent agency to coordinate all U.S. assistance programs, bilateral and multilateral, and to advise the president and the secretary of state on "... all trade, science and technology, and other matters affecting the developing nations." It was therefore to reflect the reality that development policy should extend far beyond aid programs. IDCA, however, was never enthusiastically implemented by either the Carter or Reagan administration and now exists in name only.