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RECOMMENDATIONS FOR REFORMING FOREIGN AID

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The Rural Development Institute is an independent, non-profit operating foundation working on international development issues including the issues of poverty, hunger and development in the less-developed countries. The focus is particularly on the problems of the rural sector, where, in most countries, the bulk of the population lives. A persisting concern of the authors, who are at the University of Washington School of Law in Seattle and who also serve as President and Executive Director of the Institute, has been the quality and effectiveness of foreign aid in addressing these issues. The authors conduct an annual report-card evaluation to assess the probable effectiveness of the bilateral U.S. foreign aid program in addressing the needs of the poor majority as mandated by Congress in the Foreign Assistance Act. Such report-card assessments draw in part on fieldwork by one or both of the authors in a number of the aid-receiving countries, including India, Bangladesh, Pakistan, Egypt, the Philippines, Indonesia, Costa Rica, El Salvador, Nicaragua, the Dominican Republic, and Portugal. The present report draws, in part, on conclusions from prior assessments.

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President Clinton and the new Congress are undertaking efforts to review and reshape the U.S. bilateral foreign aid program. This report is intended to provide input to that process. The report is based on 25 years of observing and evaluating the Agency for International Development, following -- and sometimes participating in -- the evolution of U.S. foreign aid legislation, and learning out in the field how foreign aid can benefit (and not benefit) development in other countries.

This report summarizes our most important recommendations for reforming foreign aid. Many of these recommendations are present in other RDI publications, some repeat what other observers have recommended, but others are new and stated here for the first time. Our central recommendation and emphasis is that foreign aid should be primarily concerned with the twin goals of poverty-alleviation and broad-based sustainable development. These twin goals are rightly identified with humanitarian interests, but their achievement will also serve the economic and strategic interests of the United States.

This brief report has two sections. First, it will discuss why foreign aid should be primarily concerned with poverty alleviation and broad-based sustainable development. Second, it will recommend some basic changes needed to transform the current bilateral foreign aid program into one primarily concerned with these twin goals.

The first step in setting a new course for U.S. foreign aid is to establish clear and manageable goals for the program. The current aid program was constructed in a global and political context much different from today. The overriding objective of foreign aid, though unstated in the aid legislation, has been to contain and combat communism. Under this overriding objective were overly numerous stated goals, frequently associated with hard-lobbying interests, and often working at cross-purposes. With the demise of communism in much of the world, the foreign aid program needs new direction and goals. The twin goals that will serve interests both here and in recipient countries are poverty-alleviation and broad-based, sustainable growth.

Poverty alleviation has always been one goal of the U.S. foreign aid program. But this worthy goal too often has been overshadowed by numerous other objectives, many of which exist to serve short-term economic or political interests. In practice, these short-term economic and political interests not only overshadow, but often conflict with poverty-alleviation objectives. Detailed evaluations of American bilateral economic aid programs that we published last year indicate that the U.S. uses only one of three foreign aid dollars (excluding the special program for Israel) in ways likely to help the poor in recipient countries.¹

Economic growth in recipient countries has also been a goal of the U.S. foreign

¹See Prosterman and Hanstad, *Does Foreign Aid Benefit the Poor?*, RDI Monographs on Foreign Aid and Development #10 (May 1992); Prosterman and Hanstad, *Egyptian Development and U.S. Aid: A 25-Year Perspective*, RDI Monographs on Foreign Aid and Development #9 (March 1992).

adequate attention paid to who within the country is benefiting from the growth, whether the growth is sustainable in the long-term, and the effect of a particular pattern of growth on the environment.

Poverty alleviation and broad-based, sustainable growth are mutually reinforcing goals. Poverty-alleviation investments in primary health care, basic education, labor-intensive job generation, and family planning in a poor country contribute greatly to the prospects for long-term economic growth. Economic growth, in turn, can provide resources for poverty-alleviation efforts. However, economic growth policies which "mine" and destroy the environment often have their most deleterious effects for the poor. The poor not only suffer disproportionately from environmental damage caused by the better off, they have become a major cause of ecological degradation themselves. Pushed to marginal lands by population growth and inequitable land ownership patterns, they raze plots in rain forests, plow steep slopes, and overgraze fragile rangeland.² Economic deprivation and environmental degradation have thus come to reinforce one another.³

These twin goals of poverty alleviation and broad-based sustainable growth are rightly identified with humanitarian and environmental interests, but their achievement will also serve the economic and strategic interests of the United States. U.S. interest in

²These problems are exacerbated when these poor farmers do not own the land they farm, and thus have little incentive to use sustainable farming practices.

³See Alan B. Durning, "Poverty and the Environment: Reversing the Downward Spiral", *Worldwatch* Paper 92 (Nov. 1989).

in the developing world, where, by the year 2000, four out of five consumers will reside. But poor people make poor markets, and incomes are unlikely to increase if people remain unhealthy, uneducated, and without jobs or income-producing assets.

Foreign aid which benefits the poor and promotes broad-based, sustainable development will also contribute to global security and stability. Poverty, hunger, disease, ignorance, and environmental degradation respect no international boundaries. Improving opportunities for the poor in less developed countries so they can participate in economic progress and in their own governance will reduce their willingness to engage in armed struggle internally and across borders. It will help to avoid economic refugee problems. Widely distributed economic wellbeing is, moreover, vital to the survival of struggling democracies.

Sustainability, broadly construed, is an essential element. Assisting poor countries in designing and implementing environmentally-sensitive economic policies helps us all. We all are becoming increasingly aware that everyone has an interest in preserving natural resources and avoiding pollution throughout the world. We all suffer from the disappearance of rain forests in the tropics, the loss of plant and animal species, and changes in rainfall patterns. We all will suffer from increasing releases of carbon dioxide and of gases that react with the ozone layer, and from any future war fought by unstable societies with nuclear arsenals.

A redesigned foreign aid program that concentrates on the twin goals of poverty alleviation and broad-based, sustainable development should not require additional

they can come from elsewhere in present aid undertakings: first in foreign military financing, and second in Economic Support Fund resources.

What is Needed To Achieve Poverty-Alleviation and Sustainable Growth?

The Agency for International Development need not be scrapped in order to successfully reform foreign aid, and it certainly should not be folded into the State Department as some have suggested. This would only further politicize aid resources and decrease the likelihood of targeting the aid on the poor. While AID does have serious problems, it also has achieved significant successes in some areas -- successes which can be built on. The following specific recommendations aim to build on AID's successes and would effectively contribute toward achieving the twin goals of poverty-alleviation and broad-based, sustainable development.

1. *Significantly increase the amount of Development Assistance resources relative to Economic Support Fund resources.* Development Assistance funds are typically much more targeted on the poor than Economic Support Fund resources, which are given for political or strategic reasons (though spent on economic development projects).⁴ In our report card evaluations of the U.S. foreign aid program, we have

⁴Development Assistance (DA) and the Economic Support Fund (ESF) have been the two principal types of U.S. bilateral foreign economic assistance. DA funds are to be allocated and used strictly for developmental purposes. ESF resources are foreign

poor than ESF resources.⁵ Shifting resources from the ESF account to the DA account would significantly increase the likelihood that those resources would be used to benefit the poor.

2. *Direct more of the foreign aid spent on education to basic education; more of the foreign aid spent on health care to child survival and other low-cost primary health-care interventions; and more of the foreign aid spent on private sector activities to small- and micro-enterprise credit programs.* Foreign aid to poor countries should be directed to activities which will provide the most benefits to the most people, and which will set the stage for broad-based, sustainable growth. This means spending education dollars for primary education programs, not on providing degrees for a few students in U.S. universities (at costs of up to \$100,000 per student). This means spending health dollars on inexpensive child survival and other primary health care interventions, and not on more expensive forms of curative care...And this means assisting the private sector by assisting tens of thousands of innovative, employment-generating small- and micro-enterprises, instead of concentrating the resources on a handful of larger firms.

economic aid resources which are allocated to countries with "special economic, political or security conditions" involving U.S. national interests in amounts which "could not be justified solely under the development assistance portion of the foreign aid program" (Foreign Assistance Act, sec. 531(a)).

⁵See supra, Prosterman and Hanstad, *Does Foreign Aid Benefit the Poor?*

aid resources on successful anti-poverty and environmental programs, and to create competition among development agencies in designing and implementing such programs, Congress should create a new Fund for Sustainable Development. This Fund could receive initial funding of perhaps \$500 million, which could come from cuts in either foreign military financing or the ESF account. The Fund would operate in a manner similar to a non-operating private foundation. It would have a small staff which would allocate the money for grass-roots projects in a limited number of poor countries according to specific anti-poverty and sustainable-development criteria. Congress and the President would determine both the criteria and the countries which could be funded. The Fund would make grants to public and private non-profit development organizations -- ranging from AID itself to UNICEF or Save the Children -- which would submit grant proposals to the Fund and compete for resources. The Fund's board of directors, appointed by the President, would decide which projects to fund. If the Fund proved successful, Congress could, in the future, allocate an increasingly greater share of the bilateral foreign aid resources to the Fund.⁶

⁶This proposal is similar to a proposal for a Sustainable Development Fund made by John Sewell and others at the Overseas Development Council (see Sewell and Storm, *Challenges and Priorities in the 1990: An Alternative U.S. International Affairs Budget, FY 1993*, Overseas Development Council 1992), and a proposal for a Foundation for Sustainable Development included in a bill introduced in 1992 by Representatives Owens and Gilman called the Earth Summit Leadership Act. Our proposal builds on an earlier proposal by author Prosterman and Charles Taylor for a Fund for Global Equity (Prosterman and Taylor, "Proposed Draft Legislation for a Fund for Global Equity," October 29, 1977).

interventions that are most likely to benefit the poor. The development needs in most recipient countries are numerous, and the relatively small U.S. foreign aid resources cannot successfully address all development problems. The U.S. should concentrate its aid resources on fewer interventions, and choose interventions most likely to benefit the poor. Four particular areas where there is legislative precedent upon which both AID and Congress could build are land reform, micro-enterprise credit, basic education, and child survival.

5. *Concentrate more resources on land reform activities.* Agriculture is still the main source of income for the poor, and land is their most important means of production. So it is not surprising that poverty is highly correlated with landlessness in most of the developing world. Despite this fact, the U.S. foreign aid program has been almost totally uninvolved with the issue of land reform in recent years. In contrast, during the years following World War II, the U.S. provided substantial support to land reform programs in Taiwan, South Korea, and Japan which helped create the foundation for successful development in those countries. The land-tenure issue remains of critical importance in countries ranging from India to South Africa and Brazil. Congress should set aside a portion of foreign-aid funds for land-reform support, and perhaps create a land-reform office within AID. If the U.S. is serious about fighting poverty and environmental degradation in developing countries, AID will have to become more engaged on this issue.

draw the line between those countries where there is to be a set of mutually reinforcing efforts large enough to matter, and those where our country is simply showing the flag with a small and symbolic aid program.

7. Increase AID's operating expenses budget and field staff. A special strength of the U.S. foreign aid program had been its strong field presence and the technical expertise of its field staff. Yet with new AID missions opening up around the world, existing missions are under intense budgetary pressure to cut U.S. field staff. Since Fiscal Year 1979, the number of Development Assistance projects requiring oversight has doubled, while the number of U.S. direct-hire field staff has declined by almost one-quarter. These cuts in field staff have a disproportionately adverse impact on AID's best grass-roots, anti-poverty projects, because these projects tend to be the most staff-intensive. We view these staff cuts and the continuing pressure for further cuts as a significant factor likely to decrease foreign aid's beneficial impact on the poor. Congress should increase AID's operating expense budget (even at the expense of some substantive program resources) and lower AID/Washington staff, so AID field staff can be increased adequately to respond to present needs and opportunities. AID should also increase the amount of local currency directed towards operating expenses for overseas missions.

8. Set aside funding for United States educational activities on foreign aid and its accomplishments. While polls show that most Americans support using public funds to help poor people overseas (the support for Operation Hope in Somalia is a good example), most Americans do not understand what role foreign aid plays or can play in helping the poor. The American public is under-educated on foreign aid and development issues, a factor contributing to the lack of constituency for foreign aid. While Canada and most Western European countries provide modest funding for domestic educational activities on foreign aid and development, AID is prohibited by law from doing so. It is important that Congress lift this prohibition and allow AID to engage in some domestic educational work.

9. Do not include any significant emphasis on capital projects in an attempt to promote U.S. trade competitiveness. Finally, a redesigned foreign aid program should not emphasize capital projects and should not be used primarily to promote U.S. exports. AID, under pressure from some in Congress, is directing increasing resources to capital projects in an attempt to promote U.S. trade competitiveness. But spending more of the available foreign-aid dollars on capital projects is a terrible idea. It will divert resources away from those projects which benefit the poor and promote broad-based growth, and will not contribute to a solution of America's trade problems.

Emphasizing capital projects will result in a replay of the failed trickle-down approach of the 1950s and 1960s. In those years, the U.S. focused aid on projects like

linkage to the basic needs and sources of livelihood of the poor. In our more recent experience, the great majority of capital projects do not benefit the poor. On an "A" to "F" grading scale by which we have assessed an aid project's likely benefit for the poor, most such projects receive a "D".

The pressures for such capital projects must be consciously resisted, against the importunities both of American firms seeking valuable construction contracts, and of those officials in recipient countries (and AID) who would like to see grand and visible "monuments." The extremely high opportunity costs for such "monuments" -- measured by what could instead be done with the same resources for the vast numbers of the hard-working poor -- must be borne in mind.

Nor will spending more foreign aid dollars on capital projects provide a solution to America's trade problems. Foreign aid can be far more useful as a tool in promoting long-term American economic interests by supporting broad-based growth in recipient countries, thereby creating future markets, than by directly subsidizing U.S. contractors. The best strategy for expanding U.S. exports over the long term is to expand the incomes of the poor majority in the developing world. The real solution is a long-term solution, and does not appeal to those looking for short-term fixes, or to U.S. companies seeking a windfall.

If the President and Congress can find the will to make them, the benefits of such changes in the foreign-aid program could positively affect the lives of hundreds of

would be in the best economic, strategic, and humanitarian interests of the United States. Moreover, they could create a foreign-aid program capable of commanding broad support from the American public, and deserving of such support.

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