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Back to the Drafting Table

Has AID outgrown the Foreign Assistance Act—again?

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IT WAS NEARLY 18 years ago when the headline of AID's in-house newspaper, *FrontLines*, trumpeted the news: "Aid Reorganization Proposals Go To Congress; Plan Coordinator's Office, Institute, and Corporation." That issue of April 22, 1971, celebrated the reorganization plan commissioned by President Richard Nixon. In the words of then-Assistant Administrator Ernest Stern, "A review of the developing world and U.S. relations to it showed that we had outgrown the Foreign Assistance Act of 1961." He cited four changes that would focus the reform efforts. First, the United States was no longer the majority donor (having dropped from 57 percent of total official development assistance (ODA) to 47 percent between 1960 and 1969). Secondly, resources of international financial institutions such as the World Bank were growing rapidly and thus becoming "leaders in coordinating international development assistance." Third, with the growth of bureaucratic capabilities in developing countries, they could take on more planning and implementation formerly done by AID. And finally, trade and investment were seen as "playing a progressively more dynamic role in development."

In fact, many observers believe that the 1971 attempt at reorganization failed. What was eventually produced in 1973 in the "New Directions" legislation looked very different from the executive branch proposals, with such an overwhelming focus on basic human needs as to pull the U.S. foreign assistance effort out of broader economic development efforts. In effect, the mandate for comprehensive development was left to the international financial institutions, causing a hemorrhage of funding and people into those institutions for some years thereafter.

Most importantly, by grafting the new legislation onto the 1961 act, Congress endorsed

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the Christmas tree approach to foreign assistance: don't replace old priorities with new ones—just keep diluting the mandate. Even those who would argue that the 1973 reorganization was a success would agree that it polarized the field. It put in place a system of accountability that ensured foreign assistance would be programed at the grass roots: elementary schools built, hungry people fed, children vaccinated, and birth control distributed. It embodied the distrust between Congress and the executive branch, reinforced by waves of legislative barnacles that continued to grow during the 1970s and accelerated in the 1980s.

Aside from all Washington politics, the effect on AID development professionals was particularly pernicious. A premium was placed on *not* getting in trouble, as opposed to being entrepreneurial. And the focus became obligating the annual funding, rather than achieving development goals.

The successes of the 1980s, therefore, have not been easily won. Identifiable progress can be seen in institutional development, policy reform, combating poverty, and technology transfer. Indicators of improved quality of life are common. Life expectancy in Latin America is now more than 60 years at birth, and people are more likely to die of chronic diseases than of communicable diseases. The technical and financial problems of combating famine in Africa and Asia have been mastered, even if political hurdles still keep relief from reaching some people. And economic policies throughout the developing countries are being propelled in the right direction by enlightened leaderships.

But progress has been achieved *despite* the authorization framework, not with its help. As the number of objectives proliferated, the ability of AID to focus was that much more difficult. The number of accountability provisions threatened to transform AID from an agency of programmers into an organization of accountants. And the number of provisions in the Foreign Assistance Act (FAA) catering to special interests continued to climb. Winning development successes in that environment had to be won twice over—in the developing countries and then again in Washington.

New Realities

Foreign assistance is dealing with an environment transformed in a number of aspects, a function of changes in the United States, in the developing countries, and in the rest of the donor community. But it is also a function of a new relationship between the United States and the global economy. Most broadly, the United States now embodies what was once the hypothesis of academic modelers: we are truly part of an "interdependent" world. Trade occupies an unprecedented percentage of our GNP. The trade imbalance and consequent gyrations in the value of the dollar are causing stress in the domestic economy. International economic issues are rapidly rising toward the top of domestic political concerns.

The second reality for the United States is a combination of the budget deficit and the squeeze on the foreign assistance share. It has meant a struggle to maintain the same level in current dollars for foreign assistance, even as other donor numbers are rising. Most impressively, the negotiated requirements for multilateral institutions are increasing rapidly, both in our IDA 8 experience at the World Bank and as can be foreseen in the upcoming IDA 9 talks. We have reached the second stage in the reduction of the American role. At the end of the 1960s, the United States dropped below 50 percent of global ODA. We now face dropping into second place among all bilateral donors in dollars, and are at the bottom of the rankings for percentage of GNP allocated for official development assistance. In effect, we no longer have the program breadth and the budgetary depth to be all things to all developing countries.

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To balance the budget problems, the nature of economic relations between the United States and the developing countries is no longer primarily an aid relationship. The roles of trade, finance, and investment are far more important in a quantitative sense. We have seen such development in bank financing, to the benefit of the developing countries in the 1970s and to their detriment in the 1980s, as they attempt to service the loans. Trade, too, has been a two-edged sword. The United States buys large quantities of Third World exports, but can unintentionally do great damage when they are cut off, as in rearrangement of sugar quotas. What observers of the trade scene have noticed in recent years is the increasing extent to which developing countries absorb American exports. In other words, to help meet the U.S. trade deficit, we should be emphasizing developing countries' growth. And that will involve trade and investment as much as bilateral grant assistance.

Finally, the universe of developing countries has diversified. Even more than in prior decades, some countries are sustaining their own growth patterns, and others are moving

backwards. The development gaps among the Third World countries are becoming more obvious all the time. A recent report for AID showed that daily caloric intake per capita in Latin America, Asia, and the Middle East had grown from about 2,000 in 1965 to about 2,300 in 1986. At the same time, it dropped in Africa from 2,100 to 2,000, with specific countries' figures sickeningly low. The same report indicated that food production was failing in Africa, while climbing in other developing countries.

The success stories, however, are impressive. Much of East and Southeast Asia is exceeding expectations. Even that Malthusian paragon of 20 years ago, Mauritius, is trying to keep its growth rates under 10 percent annually because there is insufficient labor to staff all the investment going into the island. Mauritian investors are planning joint ventures with India in order to offload some of the unfulfillable orders into Indian factories. The world of development, therefore, has to deal with the unforeseen, both in the successes and the failures.

AT THE SAME TIME, the nature of U.S. bilateral assistance has been changing. We have, for virtually all development assistance and economic support fund programs, eliminated the loan as an assistance instrument. This made sense in the face of the growing debt crisis and the reduced present value of loans at three to four percent in a world of far greater inflation. Assistance has focused increasingly on macroeconomic issues. After all, of what value is a terrific project in a sector doomed to failure by overall government policies? The quest for sensible macroeconomic policies leads AID missions and host governments to collaborate in specific sectors as much as in country-wide policies. U.S. foreign assistance is also much more cognizant of other donors' activities. Coordination is occurring on a policy level through the OECD, at a country level through periodic consultative groups (chaired by the World Bank) and roundtables (chaired by the UN Development Program), and at the sector/project levels in-country (chaired by lead donors). In only a few countries is the United States the lead donor anymore. For our dollars to be spent effectively and to avoid undercutting one another, collaboration is increasing.

If all these positive developments are underway, what is the push to rewrite the FAA? It is that, along with growing understanding that the United States is no longer the dominant player on the block and that development programs have to respond to diverse conditions, the legislative base of the U.S. program is increasingly restricting the ability of AID to respond properly. Whether in funding earmarks or program directives, the U.S. program is losing its responsiveness just at a time when a premium is placed on it. To increase funding earmarks while the overall level is stagnant effectively reduces the ability of AID to respond to changing development realities. To increase global program directives at a time when the conditions in the Third World are diversifying forces the AID program off the mark, and wastes taxpayers' money. To continue to authorize and appropriate funding on an annual basis while we encourage Third World governments to engage in multi-year development planning is to make the United States seem irrelevant or, at best, capricious. To continue to expand the number of required objectives in the FAA is to encourage superficiality in an assistance program that has led the world of donors in sophistication.

The Real Problems

There is remarkably little dispute about the nature of the problems in the current act, whether between political parties or between the two ends of Pennsylvania Avenue. People of good will do arrive at different answers, but it is a measure of the growing trust within the branches of government that most do agree on the right questions. It might be helpful to sketch those out.

- Functional accounts no longer have the same meaning as when they were created. Indeed, the activities for which the accounts are named are not confined to the accounts. Certain activities, such as the environment, energy, and education, are spread across many of the accounts. After the experiment of the last two years—where functional accounts have been abolished for the Africa region—it is clear to some that they should be eliminated for the whole Development Assistance account. For accountability purposes, AID could readily inform Congress at the end of the year about progress made on a number of key objectives that would encompass current functional accounts.
- The geographic allocation of foreign assistance creates enormous tensions between the executive branch and Congress, even as both sides recognize that some flexibility in

geographic allocations makes sense in the present world. Country earmarks have increased in a helter-skelter manner in recent years, both from the authorizing and appropriating committees. At the same time, regional earmarks (as in Africa) are becoming attractive to some members. We can't have it both ways. The politically prominent countries receive favored treatment through earmarks, leaving those (frequently the poorest) countries of less interest to fend for the leftovers in budget allocations. Thus, programs in countries such as Jamaica, Indonesia, and Bolivia have to respond like yo-yos to the vagaries of earmarks. If the bipartisan spirit that infuses so much of the foreign assistance program also held sway on this issue, regional allocations might make sense, with frequent consultations on the country programs that lie within each mark.

• We need to find a way to reflect the multi-year character of development planning. It has been helpful for the authorizing committees to focus on two-year authorizations in recent years. Such a spirit should be extended to the appropriators as well. But just as important is the question of oversight. The planning cycle at AID—use of three-to-five year country development strategy statements—is not reflected in the dialogue with Congress. Program oversight by Congress would be greatly facilitated if the valuable time of members and staff were focused on AID countries as the mission strategies come up for review. One-year or two-year cycles make no sense from a developmental perspective, and only force choppiness into programs. This may be easier to accomplish politically, now that the worst adjustment phase of Gramm-Rudman is past.

• Multi-year planning would need to be complemented by a more effective way of communicating the impact of U.S. foreign assistance. The public and Congress appropriately ask, "What difference does another dollar of foreign aid make?" AID cannot explain that on a one-year basis, but in the course of a development planning cycle, AID should be able to convey that very clearly, and show how it is learning from the successes and failures that emerge. But Congress doesn't encourage that perspective. For every hour spent reading AID evaluation reports, congressional staff spend a hundred hours reading audit reports. As a result, AID knows where every dollar is spent. It is equally important to give AID incentives to know what impact each dollar has had, too.

• The FAA needs to differentiate between goals and objectives. The confusion of the two over the last decade has led to a proliferation of the mandates for AID, and a consequent inability to meet them to the satisfaction of Congress and the interest groups who pressed for them. As the clout of the United States has shrunk, with its declining share of global ODA, everybody has become more frustrated about the situation. Many argue that the act has too many objectives; but that isn't really the issue. The "goals" of the FAA should be clear: sustained, broad-based economic growth and development. That effort encompasses all donors' efforts, in which the United States can play a catalytic, but not determinative, role. On the other hand, each country program will set objectives, negotiated out between the United States and the host government, with the appropriate oversight from Con-

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gress that the priorities are correct. Clearly, AID is accountable for progress in meeting those stated objectives, and if it is unable to meet them, to explain why not. For those purposes, the menu of objectives needs to be very broad, given the diverse circumstances of the developing countries. AID also needs to give attention, however, to the goals of the program, and be able to translate the reality of Africa, Asia, and Latin America into progress reports for the casual American observer. If that is not done, political support for the assistance program cannot be sustained.

• The FAA clearly needs to provide for improved coordination within the U.S. government. Many schemes have been proposed for dealing with that issue—revitalization of IDCA, incorporation into the State Department, cabinet rank, etc.—but whatever the solution, the problem needs common agreement first. Foreign assistance is no longer the principal "currency" of economic interaction with the developing countries. Treasury (monetary affairs and the multilateral development banks), State (UN agencies and foreign economic policy), Agriculture, the U.S. Trade Representative, Commerce, the Export-Import Bank, the Overseas Private Investment Corporation, and others all play major roles today in the economic futures of developing countries. In terms of meeting the dual goals of U.S. foreign policy and economic development in Asia, Africa, and Latin America, it is necessary to recapture an American strategy that encompasses all the bureaucratic players.

A New FAA?

Twenty-seven years is a long time for any agency to live with an increasingly "decorated" authorization. And in the case of the FAA, the changes in approach, the expansion of interest groups, and the diversification of the developing countries themselves have done particular damage to the enabling legislation. There is broadly distributed agreement that a new act should be designed. How it should be done will have to be negotiated among the chairmen of the Foreign Affairs Committee and the Foreign Relations Committee, the secretary of state and the administrator of AID. If such a rewrite were to include military assistance, other cabinet members would be involved as well.

The political will for a new act, however, is surely present. What the American people want is an assistance program that is good for the United States and good for the people of the developing countries. They want it to express the best spirit of this country, that with good will all mankind can be better off, that people need not suffer in the last decade of the twentieth century, and that all people deserve the opportunity to improve their lives. The United States knows more about creating opportunities than any other society on earth. We need an institution with the flexibility to help others realize their dreams as well. A new Foreign Assistance Act would be the first and most important step. □