

Major Report Says Foreign Aid Promotes National Interest

After 50 years of American aid to countries struggling with poverty and conflict, millions live better and longer lives but much remains to be done, especially in Africa, according to a major new USAID report marking the Bush Administration's views on foreign aid.

The theme that runs throughout the report, "Foreign Aid in the National Interest," is that aid will be a key instrument of foreign policy in the coming decades.

Released by Administrator Andrew S. Natsios Jan. 7 at the Heritage Foundation, the report was written by leading development experts inside and outside of government. It attempts to capture a snapshot of what the Agency has learned about making nations grow economically.

"This report will provide policymakers, development professionals and international affairs experts with new thinking, fresh analysis and innovative approaches to tackling the problems of our time," said Natsios.

The report examines the latest "state-of-the-art" techniques in promoting democracy, economic development and health, and in delivering humanitarian and conflict-related assistance. It is based on a similar benchmark work published by former Administrator Alan Woods in 1989.

The report will be shared with other development agencies, think tanks, the private voluntary community, legislators, and the press. A series of roundtables with the authors will be held around the United States and in Europe in early 2003.



Chapter 1 Promoting Democratic Governance

Democracy has spread around the world since the 1989 collapse of communism, replacing both leftist and authoritarian regimes in Asia, Africa and Latin America. But in many countries, democracy has become shallower and millions remain without real, basic rights.

While the number of "electoral democracies" has never been higher, the proportion of liberal democracies with rule of law, civil liberties, and vibrant civil society has declined. Many electoral democracies exhibit growing problems of governance that are eroding their legitimacy among the public and undermining their stability. Argentina and Pakistan are two extreme examples, but public support for democracy has declined even in countries such as South Korea and Costa Rica.

For these reasons, a larger portion of U.S. assistance should be devoted to democracy and governance efforts. Good performers must be tangibly rewarded. But if there is no political commitment to democratic and governance reforms, the United States should suspend government assistance and work only with non-governmental actors. The United States should encourage multilateral institutions such as the World Bank, and other bilateral donors, to do the same. Only such a "tough love" approach by the United States and the rest of the international community will produce sustained democratic governance reforms.

Strategic priorities for assistance include controlling corruption, increasing accountability, and strengthening the rule of law. Pursuing these priorities requires coordination and consistency within the U.S. government.

Chapter 2 Driving Economic Growth

At least for the next generation, U.S. strategy for reducing poverty in developing countries must focus on promoting growth in poor countries. Growth in such countries is good for the poor. New data eliminates any doubt that rapid economic growth reduces poverty.

Self-sustaining growth is difficult for developing countries because it requires institutions that protect property rights, ensure low transaction costs and thereby support private markets. No simple alternative has been found to the gradual evolution of such institutions. Good economic governance boosts economic growth.

In poor countries agricultural development connects poor people to economic growth. The requirements for agricultural development are well known. Better agricultural technology and adequate prices for farmers lead to profitable farm investments and higher incomes that lift rural residents out of poverty.

Globalization provides an unprecedented opportunity to direct resources toward development. Globalization and regional integration have benefited participating countries regardless of their level of development. By and large, countries characterized as "normal integrators" have achieved significantly more rapid growth and poverty reduction than "slow integrators".

Productivity growth depends on a favorable business climate and the sophistication with which companies compete. The sophistication of companies is inextricably intertwined with the quality of the national business environment, which depends on both microeconomic and macroeconomic policies and institutions. These include transparent regulation, reliable law enforcement, and lower trade barriers.

Chapter 3
Changing Health Needs

In most developing countries, fertility and mortality rates have declined, life expectancy has increased and health care has improved significantly. Increasingly, these countries must cope with aging populations and the growing incidence of chronic illnesses such as heart disease, cancer, and diabetes.

In other countries—mainly in Africa—fertility and mortality rates have remained high, life expectancy is low, and key health indicators have stagnated or worsened. Infectious diseases, including HIV/AIDS, continue to be widespread.

The traditional pattern of health assistance in developing societies, with its heavy emphasis on maternal and child health, is shifting, in part due to declining infant mortality, reductions in the birth rate and greater longevity.

As a result, while USAID should continue fighting infectious diseases, including HIV/AIDS, and continue supporting reproductive and maternal/child health, the Agency should help developing countries prevent and treat chronic diseases.

To cope with the complexity and rising costs of delivering health care, USAID should expand partnerships and coalitions and explore new approaches to health care financing.

Health care needs to shift to preventative, family-focused care and to developing institutions and financial arrangements that will make quality health care affordable, and accessible, to alleviate suffering and improve health.

Chapter 4
Mitigating and Managing Conflict

The report lays out in stark terms the growing number and complexity of man-made and natural disasters and it documents a corresponding increase in U.S. humanitarian assistance. It calls for greater rigor in the development assistance community to identify the motivations underlying conflicts and potential conflicts and to look at all development through a “conflict lens.”

It also reminds us that “all aid is political,” including humanitarian assistance, for it introduces material goods in an impoverished setting. The growing number and complexity of humanitarian disasters and the possibility of disasters feeding off each other and spilling over borders is laid out.

A broader and deeper appreciation of the complex causes surrounding violent conflicts is needed to prevent their occurrence if possible, or to manage and mitigate their effects if necessary.

The health of political, economic and social institutions is a critical factor in determining whether violent conflicts will emerge in developing countries. USAID should continue to develop new program design tools to help missions address the emergence of violent conflicts as early as possible.

Chapter 5
Providing Humanitarian Aid

The international community’s experiences with conflicts and natural disasters in the 1990s led to big changes in the scope, funding, and profile of humanitarian aid. Trends guarantee that humanitarian aid will remain enormously important for the United States—the world’s largest humanitarian donor. In 2000, it provided \$1.6 billion in official humanitarian aid and more than half of all resources for the relief operations conducted by the World Food Program.

By the end of 2000, internal (within-state) conflict, repression, and failed states had generated 14.5 million refugees and nearly 25 million people displaced within their own countries. These complex humanitarian emergencies necessitated addressing the larger security and human rights issues, at times making them an element of political and military strategies.

Initiatives to redefine the nature of humanitarian response include efforts to:

- (a) improve standards and accountability,
- (b) improve protection for relief workers,
- (c) strike a balance among political, military, and humanitarian strategies, and
- (d) address the links between disasters and development efforts.

The United States must place special emphasis on protecting war-affected populations, especially internally displaced persons. Other goals are to improve standards and accountability, ensure development programs do not increase vulnerability to disasters and expand USAID staff to include human rights experts, economists, and other social scientists.

Chapter 6
The Full Measure of Foreign Aid

There has been a major shift in sources of resource flows from the United States to developing countries. Twenty years ago, Official Development Assistance (ODA) was the largest source of aid to the developing world. Today, private flows from U.S. foundations, private and voluntary organizations (PVOs), corporations, churches and individual remittances exceed ODA—primarily because of the unique U.S. tax structure and the country’s strong tradition of private giving.

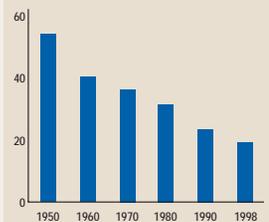
While many of the private resource flows are poorly understood and documented, the size and impact of private international giving may create new opportunities for development agencies. Working with the many providers of private resources, foreign assistance can enhance its effectiveness and define its comparative advantage and its role in the 21st century.

Over the next 10 years, prospects for growth in private sources of philanthropy as well as in private foreign investment are very good. But the challenge will be to develop local counterparts that can help local affiliates and other local businesses engage in philanthropy and work on laws and regulations that encourage private giving and private investment.

This chapter also captures the changes in the wider context in which development assistance operates—globalization, technological changes, increasing direct private investment in developing countries, numerous localized conflicts and the crippling impact of HIV/AIDS.

50 YEARS OF DEVELOPMENT GAINS

PEOPLE LIVING ON LESS THAN \$1 A DAY
(% of world population)



Source: 1950-80 are from Bourgaignon and Morrison 2002 and 1990 and 1998 use the numbers of poor from Ravallion and Chen 2001, and world population from the United Nations World Population estimates.

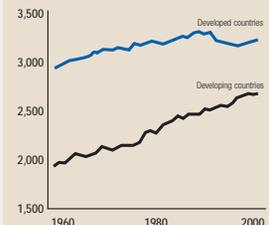
MANY MORE PEOPLE CAN READ



World Bank. Curt Caspary
In 1950 only 35 percent of people ages 15 and over in developing countries were literate, but by 2000 this share had more than doubled to 74 percent.

Source: UNESCO, Statistical Yearbook (various years) and July 2002 Assessment.

CALORIC INTAKE ON THE RISE
(calories per day per capita)



Source: FAO Agristat database.

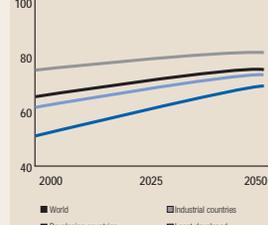
INFANT MORTALITY PLUNGING



By 2020 the average infant mortality rate in developing countries will fall below 50 per 1,000 live births, surpassing the goal set at the United Nation’s Summit for Children.

Source: Raymond 2002.

LIFE EXPECTANCY CONVERGING
(life expectancy at birth in years)



Source: 1950-80 are from Bourgaignon and Morrison 2002 and 1990 and 1998 use the numbers of poor from Ravallion and Chen 2001, and world population from the United Nations World Population estimates.

ELECTORAL DEMOCRACIES MORE PREVALENT
(proportion of electoral democracies (%))



Source: Freedom House 2002.