CAROL ADELMAN

Foreign Aid

Effectively Advancing Security Interests

The use of foreign aid as a tool to advance national security interests has been a driving force in US foreign policy since the implementation of the Marshall Plan, the United States' first official aid program. Critics of using aid for national security purposes, such as Columbia professor Jeffrey Sachs and InterAction President and CEO Samuel Worthington, claim that this geopolitical aid goes to countries that are often wealthier and more corrupt than the nations that do not receive it. Such aid, the argument continues, is not spent on long-term development, but on short-term political gain. Proponents of this view draw the conclusion that foreign aid, so motivated, cannot be effective in reducing poverty.

Such contentions are largely unfounded. While there are certainly motivational differences between development aid and security assistance, the natures of these projects are essentially the same, with resources in both cases targeted toward education, health care, agriculture, infrastructure, the environment, and long-term development. In addition, the evidence suggests that security aid does go to poor countries that are in need of assistance, and furthermore, that it is spread across many different regions of the world.

However, critics are not wholly incorrect in saying that foreign aid has not been effective at reducing poverty and increasing prosperity. Indeed, evidence suggests that while disaster relief has been successful, development aid more broadly has been ineffective in generating prosperity, and security assistance has been only somewhat effective in improving US national security interests. The reason for this lack of success in development initiatives has been an unwillingness to engage with local populations and adapt aid programs to a rapidly changing world. The most effective aid programs are not those implemented by USAID or the US government, but are those that are run by private donors while being based on local initiative and involvement. If the United States hopes to use aid effectively in order to bring countries out of poverty and improve its image abroad, it must recognize these trends and devise policies to integrate new models into its foreign aid programs.

Historical Rationales for US Foreign Aid

Before addressing some common misperceptions and deficiencies in US aid policy, it is important to understand the historically central role of foreign aid in US national security policy. The goal of the Marshall Plan, which was to help European democracies back on their feet economically while working together politically, was obviously connected to US security interests at the outset of the Cold War.

In the United States' early clashes with Communism, as Theodore White wrote in his book *In Search of History*, the Marshall Plan was the master move. When George Marshall returned from Moscow in the spring of 1947, there were fears that Stalin would occupy Western Europe. Marshall's plan to but-

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tress European economies and provide political support for their unstable post-war governments likely kept Stalin from pursuing more aggressive policies. As White wrote, "The Marshall Plan had won because it had linked gain with freedom, had assumed that the movement of minds and the movement of peoples must go with the movement of goods and merchants."

While some have questioned its economic impact, the Marshall Plan had an indisputable effect on European integration, bringing its countries together and Germany back into the European community. Thus, the two rationales for providing foreign aid—economic development and US national security—were embedded in the first modern economic aid package. Providing disaster and humanitarian relief to the developing world later became a third important pillar of the US foreign aid agenda.

Disaster Relief and Development Assistance

In evaluating the effectiveness of US financial assistance programs, it is useful to distinguish between the aforementioned three pillars of the US foreign aid agenda—disaster relief and humanitarian assistance, development assistance, and security assistance—as each has met with varying degrees of success.

The first category, disaster relief and humanitarian aid, has generally worked well and has also drawn the strongest support from the US public. The United States has been a leader in delivering goods, coordinating disaster relief, and leveraging vast resources from private contributions. USAID has helped countries implement significant immunization campaigns, feeding programs, and public health emergency measures that have saved countless lives around the globe. However, there has been far less success in the second category of what the US government calls "development assistance." This is aid that is spent with the purpose of promoting economic growth and lifting people out of poverty. From the 1980s to the more recent work of former IMF economists Raghuram G. Rajan and Arvind Subramanian, studies have shown that foreign aid does not increase economic growth.

Rajan and Subramanian conclude that even the best implemented foreign aid programs have a small impact on foreign states. Where growth and development have occurred, the driving forces have been open markets, investments in institutions and people, and policy environments supportive of local and foreign entrepreneurship. Most discouraging is their finding that "in countries that receive more aid, exportable industries systematically underperformed." Rajan and Subramanian further suggest that too much aid can lead to poor governance and disincentives for exports. It is no coincidence, they say, that Africa does not even have a clothing industry despite having the minimal infrastructure and know-how required for these exports as well as favorable access to markets in the West.

One of the most famous economists arguing against foreign aid's impact on economic growth is NYU professor William Easterly. He rebuts two World Bank researchers, Craig Burnside and David Dollar, who claim that aid can have a positive impact on growth when proper fiscal, monetary, and trade policies are implemented. After analyzing their data, Easterly and colleagues conclude that they "no longer find that aid promotes growth in good policy environments."

Jeffrey Sachs argues that a small proportion of official US aid goes toward development. He contends that massive increases in aid, reaching the UN target of 0.7 percent of US gross national income, are necessary to reduce poverty in poor countries. His call for increases, however, ignores the significant existing private philanthropic flows and individual remittances from developed to developing countries. In the United States, these financial flows now exceed foreign aid

Opposite: **Men from the Nicaraguan town of Krukira carry off USAID hurricane relief supplies from a helicopter.** ***Above:*** **At a relief camp in the Indian state of Tamil Nadu, victims of the Indian Ocean tsunami clamor for food aid.**

Photos Courtesy Reuters

by almost three and a half times, as documented in Hudson Institute's 2007 Index of Global Philanthropy.

Moreover, as Center for Global Development research fellows Michael Clemens and Todd Moss point out in their article "Ghost of 0.7%: Origins and Relevance of the International Aid Target," the 0.7 percent target is based on an outdated growth model and assumptions that are no longer true. They conclude that "the 0.7% target began life as a lobbying tool, and stretching it to become a functional target for real aid budgets across all donors is to exalt it beyond reason." In further analyses, economists argue that large aid flows can give governments even less incentive to improve tax regimes as long as they can expect more money from donors than their own citizens. In a stark evaluation of its foreign aid program, the Canadian government's Standing Senate Committee on Foreign Affairs concluded that the program had failed to make a difference in Africa, despite spending $12.4 billion in bilateral assistance. Their February 2007 report stated that "by far the biggest obstacle to achieving growth and stability in sub-Saharan Africa has been poor government and poor leadership within Africa itself."

"ECONOMIC AND POLITICAL CHANGE MUST BE MOTIVATED BY INITIATIVES THAT ARE BASED WITHIN DEVELOPING COUNTRIES THEMSELVES."

Despite some notable development aid success stories, including the Green Revolution, foreign academic training, rural electrification, the elimination of smallpox, and the productivity gains from combating river blindness, evidence of impact at the project level is weak at best. The World Health Organization's "Health for All" campaign, initiated in 1977, resulted in donors giving an estimated US$100 billion to governments for primary care health infrastructure. Yet there is hardly a report issued today on global health that does not put the blame for inadequate healthcare delivery on the lack of primary care systems.

Even some of the flagship programs of aid agencies, such as those that focus on child survival, have results that are either unknown or inconclusive. In May 2007 the IMF reported that it could find no relationship between aid resource flows and infant mortality rates. The US Government Accountability Office evaluated USAID's 20-year-old, US$14 billion child survival program, and could not find evidence of positive health outcomes. A 1995 USAID review of 203 agricultural credit, input, and marketing projects revealed that a majority fell short of their potential. Another summary showed that 11 integrated rural development projects in Asia, Africa, and Latin America did not deliver benefits to the needy. Projects were hampered by unwieldy public bureaucracies, inflexible project design, inappropriate national economic policies, and poor coordination among participating agencies. These negative results are partially due to the fact that projects have been poorly evaluated, but they are primarily due to the fact that projects have been poorly conceived and lack local ownership or co-investment by the people they were designed to help. Thus, there is little development of in-country institutions and human capacity for self-reliance.

Given this and other evidence regarding foreign aid development projects, there is little to suggest that more aid will lead to greater prosperity. While it is in the interest of the United States for countries to develop, such economic and political change must be motivated by initiatives that are based within developing countries themselves. India and China are perfect examples of this fact. Both countries receive low foreign aid per capita, and both have had large-scale poverty reduction through policies that have opened their economies to private sector led growth. US government aid can indeed help those countries that are committed to development, but only when the aid is delivered in such a way that it goes directly to individuals and institutions and is matched by local initiatives.

The Effectiveness of US Security Assistance

The third pillar of the US foreign aid agenda—security assistance—is defined exclusively by the fact that its programs are motivated by national security interests. However, the *nature* of these programs does not differ from those implemented under the aegis of development aid or relief assistance. In the past, security assistance has been aimed at combating Communism, promoting peacekeeping, creating regional peace accords, maintaining military bases, controlling nuclear weapons and narcotics, and fighting terrorism. In contrast to the general success of disaster relief and the general failure of development aid, security assistance has had a fairly mixed record. Such aid did help the United States achieve European integration after World War II, maintain bases in the Philippines, garner allies in the Gulf War, and buy peace time in the Middle East through the Camp David Accords. Yet at the same time, the effectiveness of security assistance in influencing developing countries' policies and opinions of the United States has not been consistent.

The most obvious failures of security assistance have occurred in the Middle East. Debunking the assumption that foreign aid buys local support for the United States, even before the 2003 invasion of Iraq, countries that received considerable US security assistance funds saw rising anti-Americanism. Egypt, one of the largest US aid recipients in the world, tolerated anti-Americanism and harbored some of the terrorists involved in the attack on the World Trade Center on September 11, 2001. Moreover, significant aid to Pakistan over the last 20 years has not helped to diminish anti-American sentiment in the country.

Following the invasion of Iraq, the increase in US security assistance to the Middle East has neither improved the United States' public image nor bolstered its national security. With ongoing insurrections in Iraq and Afghanistan, low approval ratings of the United States persist, even in the face of an increase of US security assistance to the region.

Security aid remains a highly debated facet of US foreign aid—not because of its mixed record in improving US security interests, but because of the contentious nature of using US aid money for reasons other than direct development assistance. However, many of the criticisms levied against US security aid policy are either incorrect or irrelevant, and it is important to address these arguments before further discussing the effectiveness of aid programs.

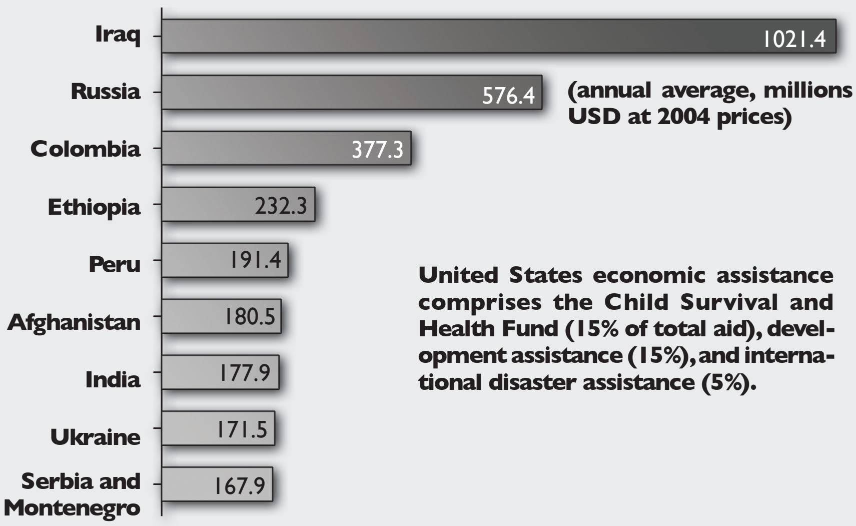
Critics of security assistance claim that it forms a predominant portion of US foreign aid. But of all US Official Development Assistance (ODA)—which includes the budgets of USAID, the State Department, the Department of Defense, the Peace Corps, US contributions to UN agencies, and other agency programs that support relief and development—less than 30 percent was spent on security assistance, including Iraq, in 2006. Less than 2 percent of ODA was spent on cash grants directly to foreign countries. Thus, the vast majority of security assistance is being spent on projects targeting health, education, agriculture, infrastructure, the environment, and long-term economic development. While there is a motivational difference behind why certain countries receive security assistance, the nature of security assistance projects themselves does not differ from those of development or relief projects.

With regard to the argument that security assistance does not go to the poorest countries, 21 of the 48 countries receiving security assistance have per capita GNIs below US$1,000, including Afghanistan and Pakistan, two of the largest recipients. Of the top 15 recipients, 10 have per capita GNIs of less than US$1,500, ranging from US$140 in Liberia and US$480 in Haiti to US$1,420 in the Philippines.

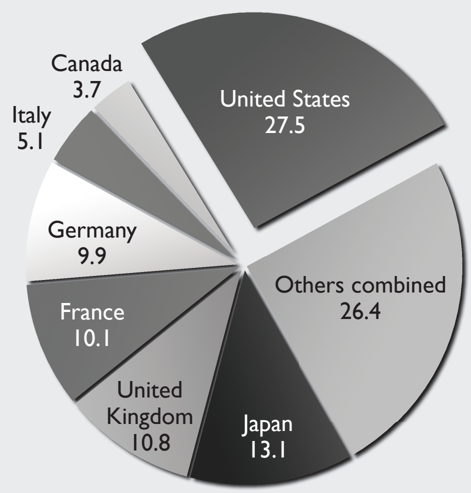
Additionally, 53 percent of security assistance goes to regions other than the Middle East. For example, poor South

ASSISTING THE WORLD

Top Recipients of U.S. Economic Assistance, 1995-2004



Official Development Assistance, 2005 (billions USD)



National Priorities Project; OECD DAC

Asian countries such as Bangladesh, India, Pakistan, and Afghanistan were slated to receive US$739 million in 2006. In the East Asia and Pacific region, Cambodia, Nepal, and Vietnam have per capita GNIs of less than US$700. While some higher-income countries receive security assistance, including Ireland, Israel, and Cyprus, they account for less than 10 percent of these funds, and aid to Israel will be phased out in 2008.

Security assistance, therefore, does target the right countries. But its success—both in raising prosperity and improving the United States' image—has been spotty at best. It is therefore necessary to look at ways to improve foreign aid in general and to seek out methods to adapt existing programs to make them more effective in a changing world.

Global Changes since the Marshall Plan

In his 1962 Special Message to Congress on foreign aid, President Kennedy encouraged nations to mobilize their own resources for growth. This was an excellent prescription for successful economies. Countries following this advice have advanced into the category described by the United Nations as "less without least," or the states that are left when the least developed are subtracted. By 2015 the percentage of people living on less than US$1 a day in these countries (primarily in Asia, Latin America, the Middle East, and North Africa) is projected to decline from a high of 40 percent in 1990 in South Asia to under 15 percent in all regions.

Countries in the "least" developed category, however, have not enjoyed this successful trajectory, even while receiving significant amounts of foreign aid. Poverty levels in sub-Saharan Africa are higher than in the rest of the developing world and are declining at a slower rate. Despite promising economic growth rates in many states, by 2015 nearly 38 percent of Africa's population will still be living on less than US$1 per day.

The Marshall Plan's stunning success led policymakers to assume that similarly large capital flows to poor countries would lead them to prosperity. But this was mistaken, as the Marshall Plan helped to rebuild already developed countries, not develop countries that had always been poor. Indeed, foreign aid cannot substitute for leadership and self-reliance in developing countries. Rather, growth and poverty reduction depend on countries establishing their own policies that encourage rule of law, job creation, exports, good governance, and investments in human capital.

An equally important change in the nature of foreign aid since the Marshall Plan era has been in its nature and composition. While government foreign aid has almost tripled since the Bush Administration came into office in 2000, such aid does not constitute the principal financial flow from the United States to the developing world. In fact, US government aid comprises less than 15 percent of all US economic engagement with developing countries. US private capital flows for investment and lending account for 36 percent of that engagement, and US remittances and private assistance from foundations, corporations, charities, universities, religious organizations constitute another 50 percent. Indeed, some 75 percent of all financial flows from developed countries now comes from private donors.

The developing world is therefore interacting more with private players in the United States than with the US government. In contrast to the Marshall Plan era when there was little private investment and philanthropy, government foreign aid is now a minority shareholder in emerging economies.

Boxes full of supplies donated by USAID are carried off cargo planes by Philippine soldiers. The supplies were for the victims of the 2006 landslide. Recently, some have called for a restructuring of the way the US government distributes aid.

The new forms of philanthropy

Photo Courtesy Reuters

are reaching people more directly, with skilled volunteers delivering hands-on assistance at one-third of the cost of government consultants. New players hail from investment banks, hedge funds, and business schools, combining altruism with for-profit business models. Bonds issued against small loans to the poor allow private capital to help the microfinance market grow. Insurance companies provide low-cost insurance for the poorest of the poor against death, disease, and even crop failure. Immigrants now send money directly home to their villages to build clinics, schools, and roads through new banking accounts, cell phones, and credit cards. The leaders of this transformation in foreign aid delivery—these new "philanthro-capitalists"—focus on results, local ownership, and the creation of sustainable projects.

New Implications for Foreign Aid

While US government assistance will continue to provide disaster relief, humanitarian aid, and security assistance, it needs to transform the way in which this aid is delivered so that it can truly help people prosper.

Assistance should fund projects that are "demand-driven," or developed by local institutions with people who are contributing their own time, money, and expertise to a given project. Too often, aid monies go to expensive contractors who are more interested in creating long-term business agreements than long-term development in poor countries. A 2005 OECD report stated that the average cost of a consultant ranged from US$173,760 per year in Bangladesh to US$200,000 in Jamaica. These costs exclude overhead and benefits, so the final costs of global consultants are probably closer to US$300,000 per year for a contractor funded under a USAID project.

Aid projects must avoid the common problem outlined by Oxford University economist Paul Collier in his recent book *The Bottom Billion*. In this book, Collier traced a donor's grant to Chad for the construction of rural heath clinics. After deductions for transaction costs, legal and illegal, the percentage of funds that were actually used for the clinics amounted to less than 1 percent. By insisting on local contributions and real partnerships, US government aid can pass a crucial "market test" by funding only those projects that have proven to be successful.

USAID should operate like a foundation, where outside groups—public or private—can bring their ideas to the table and receive funding if they have met the criteria for local partnership. In this way USAID can become more flexible in its responses to local problems.

USAID has had some notable successes using this new type of business model, both in its programs in Eastern Europe and through the Global Development Alliance (GDA) started in 2002. Agriculture production has improved in Angola under a GDA public private partnership with USAID, Chevron, and NGOs. The GDA has also launched a successful public-private partnership in Mindanao with a private US energy company, the Winrock Foundation, and a local NGO. For the first time in 2007, nearly 7,000 households in 227 villages in Mindanao rang in the new year with a light source other than candles. All these partners brought their own time and money into the alliance, thus helping to assure for project success.

"THESE NEW 'PHILANTHRO-CAPITALISTS' FOCUS ON RESULTS, LOCAL OWNERSHIP, AND THE CREATION OF SUSTAINABLE PROJECTS."

While these USAID efforts are without a doubt laudable, they constitute a miniscule part of its multi-billion dollar program. The new partnership model should be the main mode of delivering development assistance if foreign aid is to be effective and relevant. By involving more local individuals, development assistance has a greater chance of working. At the same time, using government aid to motivate more US citizens to engage in partnerships with developing countries can improve US image and national security.

When organizations such as Rotary and Lions Clubs, the YMCA, and United Way International establish indigenous organizations in developing countries, US citizens are helping to improve civil society in developing countries. This approach stands a better chance of helping poor societies than the typical top-down project, which is constrained by a straitjacket of USAID earmarks that may or may not be useful in a particular country.

Operating in new ways in the new developing world will be a tall order for US government aid institutions that are used to old business models and the same universal prescriptions for every country. But if the United States is serious about motivating substantial development in poor countries and enhancing its national security interests in the process, it will need to relinquish these outdated policies and embrace a new kind of aid that encourages local participation and domestic initiative. H