

# REVAMPING U.S. FOREIGN ASSISTANCE

*by*

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*It was always our hope and intention to sign the final HELP Commission Report without expressing differences. However, while we agree with certain of that Report's comments and recommendations, we feel compelled to submit as well our personal views and recommendations in a separate report.*

*These additional views, therefore, reflect our overriding, primary conclusions regarding U.S. development assistance.*

*We submit this report on "Revamping U.S. Foreign Assistance" because we believe that the opportunities for bolder U.S. assistance to eliminate dire poverty and improve U.S. national and global security are much greater – and more urgent – than the full Commission's Report conveys. We also believe, notably, that the best way forward to seize these opportunities is through a new Cabinet-level Department for International Development.*

*While the HELP Commission was created by Congress to reflect on how best to deploy the tools of development assistance, we believe that the full Commission's Report does not sufficiently address this mandate. Nor does it, we feel, adequately make the case for foreign assistance, recommend sufficient funding for it, or sufficiently establish its stature and position within the United States Government.*

*Accordingly, in our additional views we make nine recommendations related to the structure of U.S. development assistance, to its financing and modernization, and to its role as a core pillar of national security and American moral values.*

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## *Summary of Conclusions*

- 1) The U.S. should promote development assistance as a core pillar of national security and American moral values.
- 2) The U.S. should follow through on its oft-repeated commitments to the Millennium Development Goals.

- 3) U.S. Foreign Assistance should harmonize U.S. foreign policy commitments in development (such as support for the MDGs and goals adopted at G8 Summits) with the actual budgets and programs of U.S. development assistance.
- 4) U.S. political leaders should explain to the American people the international development objectives and commitments that have been made by the United States.
- 5) U.S. political leaders should explain to the American people the modest levels of U.S. development aid in comparison with spending on other pillars of U.S. security (notably Defense), with U.S. commitments, and with the spending of partner countries.
- 6) The U.S., in line with its own commitments and the actions of its development partners, should make concrete efforts to the target of 0.7 percent of GNP, and should aim to achieve that target by 2015.
- 7) The U.S. should support multilateral objectives and funding mechanisms in health, agriculture, infrastructure, education, and community development, balancing aid roughly half and half in bilateral and multilateral initiatives.
- 8) The U.S. should establish a new separate Cabinet-level Department of International Sustainable Development.
- 9) The U.S. should use the full range of development instruments, including development assistance, trade opening (such as AGOA and a successful Doha Round), aid for trade, and partnerships with civil society.

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### *Foreign Assistance and U.S. Security*

The 2006 National Security Strategy of the United States explains the rationale of development assistance. “America’s national interests and moral values drive us in the same direction: to assist the world’s poorest citizens and least developed nations and help integrate them into the global economy ... Development reinforces diplomacy and defense, reducing long-term threats to our national security by helping to build stable, prosperous, and peaceful societies.”<sup>1</sup> In the context of national security, we should view development as one of the three main pillars, along side diplomacy and defense.

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<sup>1</sup> The United States National Security Strategy 2006. pp. 32-33. Available online at: <http://www.whitehouse.gov/nsc/nss/2006/index.html>.

This rationale has been recognized in U.S. foreign policy doctrine for sixty years. The Marshall Plan effort to rebuild Europe after World War II defined development assistance as a critical tool to support the building of stable, prosperous, and peaceful societies. As General George Marshall explained in 1947, in launching the Marshall Plan:

It is logical that the United States should do whatever it is able to do to assist in the return of normal economic health in the world, without which there can be no political stability and no assured peace. Our policy is directed not against any country or doctrine but against hunger, poverty, desperation and chaos. Its purpose should be the revival of a working economy in the world so as to permit the emergence of political and social conditions in which free institutions can exist. Such assistance, I am convinced, must not be on a piecemeal basis as various crises develop. Any assistance that this Government may render in the future should provide a cure rather than a mere palliative.<sup>2</sup>

President John F. Kennedy made a similar pledge in his Inaugural Address in 1961:

To those peoples in the huts and villages across the globe struggling to break the bonds of mass misery, we pledge our best efforts to help them help themselves, for whatever period is required – not because the Communists may be doing it, not because we seek their votes, but because it is right. If a free society cannot help the many who are poor, it cannot save the few who are rich.<sup>3</sup>

Similarly, in launching the new Millennium Challenge Account initiative on March 14, 2002, President George Bush said the following:

This growing divide between wealth and poverty, between opportunity and misery, is both a challenge to our compassion and a source of instability. We must confront it. We must include every African, every Asian, every Latin American, every Muslim, in an expanding circle of development. The advance of development is a central commitment of American foreign policy. As a nation founded on the dignity and value of every life, America's heart breaks because of the suffering and senseless death we see in our world. We work for prosperity and opportunity because they're right. It's the right thing to do. We also work for prosperity and opportunity because they help defeat terror. Poverty doesn't cause terrorism. Being poor doesn't make you a murderer. Most of the plotters of September the 11th were raised in comfort. Yet persistent poverty and oppression can lead to hopelessness and despair. And when governments fail to meet the most basic needs of their people, these failed states can become havens for terror.<sup>4</sup>

These observations, stretching over six decades, find ample support in the scientific literature and historical data. Poverty is a key factor in global instability. Poor countries are vastly more likely to fall into civil violence, state failure, and international conflict, than are richer states. This finding is thoroughly documented, among other places in the reports of the CIA Task Force on State Failure. And as President Bush rightly noted, the link of poverty and terror rests not with the individual

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<sup>2</sup> General George Marshall, Speech at Harvard University, June 5, 1947.

<sup>3</sup> John F. Kennedy, Inaugural Address, January 20, 1961.

<sup>4</sup> George W. Bush, Remarks on Global Development, Inter-American Development Bank, March 14, 2002.

terrorist, but with the fact that failed states become havens for terror, as has occurred in Afghanistan, Somalia, and many other countries.

The data have recently been summarized in a highly commendable collection of essays, *Too Poor for Peace?*, published by the Brookings Institution (2007). The editors of that volume, Dr. Lael Brainard and Dr. Derek Chollet, summarize the findings as follows:

In a world where boundaries and borders have blurred, and where seemingly distant threats can metastasize into immediate problems, the fight against global poverty has become a fight of necessity – not simply because personal morality demands it, but because global security does as well. Extreme poverty exhausts governing institutions, depletes resources, weakens leaders, and crushes hopes – fueling a volatile mix of desperation and instability. Poor, fragile states can explode into violence or implode into collapse, imperiling their citizens, regional neighbors, and the wider world as livelihoods are crushed, investors flee, and ungoverned territories become a spawning ground for global threats like terrorism, trafficking, environmental devastation, and disease.<sup>5</sup>

One of the scientific teams in the volume, led by Prof. Ted Miguel of the University of California, reached the following conclusion: “The most obvious reading of these findings is that economic factors [poverty and low economic growth] trump all others in causing African civil conflicts, and that institutional and political characteristics have much less of an impact.”<sup>6</sup>

Recently, Dean Kenneth E. Warner of the University of Michigan School of Public Health eloquently pointed to another dimension linking development aid and security:

We live in an era in which our country employs military might in a thus-far strikingly unsuccessful effort to encourage the emergence of democracies around the world. Might we not win far more hearts and minds, and promote democracy far more effectively, by demonstrating that the richest nation is also the most compassionate and generous, that we care about the welfare of our neighbors?<sup>7</sup>

### *Overall progress in economic development*

In the broadest terms, the efforts to promote economic development around the world during the past fifty years have been highly successful, with the notable exception of large parts of sub-Saharan Africa which remain trapped in extreme poverty. The biggest development successes have come in Asia, a vast region with more than half of the world’s population. Economic growth in China, India, Korea, and many other countries, and public investments in health, education, and infrastructure, have powered the most rapid improvement in living standards in world history. Aid has played an enormous role in those gains. The fact that Asia can feed itself is due in no small part to the Green

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<sup>5</sup> Lael Brainard, and Derek Chollet, eds. *Too Poor for Peace? Global Poverty, Conflict, and Security in the 21st Century*. Washington, D.C.: Brookings Institution Press, 2007, p. 1.

<sup>6</sup> Edward Miguel, “Poverty and Violence,” in Lael Brainard and Derek Chollet, eds., *Too Poor for Peace? Global Poverty, Conflict and Security in the 21st Century*. Washington, D.C.: Brookings Institute Press, 2007, p. 55.

<sup>7</sup> Kenneth E. Warner, *Findings*, University of Michigan School of Public Health, Fall/Winter 2006.

Revolution which began in the 1960s, heavily supported by the U.S. public and philanthropic sectors. The fact that disease burdens have come down sharply is due in important part to global aid successes such as smallpox eradication, widespread immunization coverage, malaria control (outside of Africa), and the uptake of oral re-hydration to fight death from diarrhea. The fact that population growth has slowed markedly is a success of aid-supported family planning efforts which the U.S. helped to initiate since the 1960s. The fact that countries like Korea, Malaysia, and Thailand became manufacturing successes results from U.S. and Japanese aid for core infrastructure and technological upgrading.

These successes, while most dramatic in Asia, are also part of the recent history of Latin America, the Middle East and North Africa (MENA). Life expectancy and literacy are on the rise. Child mortality rates have declined. Fertility rates, which determine overall population growth rates, have declined markedly. Americans can take great pride in their contribution to many of these successes.

The fact is that globalization, supported judiciously by international development assistance, is an overall success. There is progress in reducing extreme poverty, mortality rates, and hunger, in most of the world. The biggest challenges are now concentrated in a much smaller part of the world, with the epicenter of the world's development challenge in sub-Saharan Africa and selected parts of Central Asia and Latin America. It is not an accident that development is coming last to these remaining regions, since they face the toughest problems in the world: high disease burdens, poor infrastructure, landlocked regions far from trade, and vulnerability to droughts and other hazards. Fortunately, these problems are susceptible of solutions, given the wind in the sails of the global economy and given the power of modern technologies to address the challenges of disease, food production, and economic isolation.

### *Development Assistance as a Tool in Promoting Economic Development*

There is now sixty years of experience in deploying development assistance as a tool in promoting economic development in low-income settings. Development aid has long been a mix of public and private contributions. When aid is from the public sector, it is known as Official Development Assistance (ODA). Both ODA and private assistance have played an important and successful role in development. Many of the greatest successes in development assistance in the past 6 decades have come through Public-Private Partnerships (PPPs), which typically link ODA with private-sector and philanthropic leadership of various kinds. The Green Revolution in India was spurred by such a partnership. Of course, aid has worked in conjunction with market forces, and most importantly international trade and investment, which have spread the benefits of advanced technologies to all corners of the world.

The special role for ODA has been extremely well described in the Monterrey Consensus, a 2002 agreement among the world's nations which the U.S. strongly supports and repeatedly backs. President Bush, indeed, made the following pledge: "Together we will implement the Monterrey

Consensus, lift all our nations, and show the world that free societies and free markets can deliver real benefits to our citizens.”<sup>8</sup>

The Monterrey Consensus is notable in recognizing the inter-connections among private capital flows, international trade, and ODA. All are vital to economic development of the poor countries. Rather than pitting trade versus aid, the Monterrey Consensus explains why trade and aid are both vital and complementary, and indeed why aid is vital to supporting trade competitiveness of the poorest countries. The Monterrey Consensus therefore contributed to the new concept of “aid for trade,” in which ODA is used to help poor countries to improve their international trade, mainly by building the infrastructure (roads, ports, power) needed to support trade.

Here is how the Monterrey Consensus described the critical role of ODA:

Official development assistance (ODA) plays an essential role as a complement to other sources of financing for development, especially in those countries with the least capacity to attract private direct investment. ODA can help a country to reach adequate levels of domestic resource mobilization over an appropriate time horizon, while human capital, productive and export capacities are enhanced. ODA can be critical for improving the environment for private sector activity and can thus pave the way for robust growth. ODA is also a crucial instrument for supporting education, health, public infrastructure development, agriculture and rural development, and to enhance food security. For many countries in Africa, least developed countries, small island developing States, and landlocked developing countries, ODA is still the largest source of external financing and is critical to the achievement of the development goals of the Millennium Declaration and other internationally agreed development targets.<sup>9</sup>

The Monterrey Consensus also rightly stressed the interconnections of good governance within the poor countries and increased official development assistance from the high-income countries. As President Bush described it at the 2005 World Summit, the Monterrey Consensus reflects a compact between rich and poor countries, linking good governance and official development assistance:

We have a moral obligation to help others – and a moral duty to make sure that our actions are effective. At Monterrey in 2002, we agreed to a new vision for the way we fight poverty, and curb corruption, and provide aid in the new millennium. Developing countries agreed to take responsibility for their own economic progress through good governance and sound policies and the rule of law. Developed countries agreed to support those efforts, including increased aid to countries that undertake necessary reforms ... More needs to be done. I call on all the world’s nations to implement the Monterrey Consensus.<sup>10</sup>

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<sup>8</sup> George W. Bush, Remarks at Inauguration Ceremony of the Special Summit of the Americas, January 12, 2004.

<sup>9</sup> The Monterrey Consensus of the International Conference on Financing for Development. Available Online at: [http://www.un.org/esa/sustdev/documents/Monterrey\\_Consensus.htm](http://www.un.org/esa/sustdev/documents/Monterrey_Consensus.htm).

<sup>10</sup> George W. Bush, Addresses United Nations High-Level Plenary Meeting, United Nations Headquarters, September 14, 2005.

## *U.S. Commitments to Economic Development and Poverty Reduction*

The United States has long recognized that it can not and should not carry the development financing burden on its own. Support for economic development in the poorest countries must be a shared global effort, based on agreed targets. The United States must contribute its share but must be able to rely on other development partners as well. Indeed, the U.S. national interest is best served when U.S. funding helps to leverage financing from others in pursuit of common goals. Other countries view the situation in the same light.

For these reasons, the U.S. and partner countries have agreed on shared global goals for several decades. Great successes have been achieved in disease control, increased food production, the spread of literacy and numeracy, increased school enrollments, improved infrastructure, and many other core development objectives. By far the most important of these today are the Millennium Development Goals (Table 1), adopted by all nations in the Millennium Declaration of the year 2000 and reconfirmed regularly since then, including at the G8 Summits. President Bush conveyed the U.S. commitment to the Millennium Development Goals directly to more than 100 world leaders on the occasion of the 2005 World Summit:

To spread a vision of hope, the United States is determined to help nations that are struggling with poverty. We are committed to the Millennium Development Goals. This is an ambitious agenda that includes cutting poverty and hunger in half, ensuring that every boy and girl in the world has access to primary education, and halting the spread of AIDS – all by 2015.<sup>11</sup>

The Millennium Development Goals (MDGs) are a very important instrument for effective U.S. development assistance for several reasons:

- The world has agreed to the goals and reconfirmed that support each year since 2000
- The world has agreed to a trade and financing framework in the Monterrey Consensus
- The MDGs address extreme poverty in all its interconnected dimensions: income, hunger, disease, deprivation
- The MDGs promote long-term economic growth and wealth creation by encouraging countries to focus on productive investments to end the poverty trap
- The MDGs are ambitious and yet achievable
- The MDGs are quantitative and time bound, therefore offering objective indicators of success and accountability

In addition to the Millennium Development Goals, the U.S. has joined the other G8 nations in committing to other bold and achievable development targets, often under the overall umbrella of the MDGs. Other development goals reiterated at the G8 2005 Summit in Gleneagles, Scotland, and the 2007 Summit in Hieligendamm, Germany include:

- Universal access to HIV prevention, treatment, and care, including anti-retroviral medicines

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<sup>11</sup> George W. Bush, Addresses United Nations High-Level Plenary Meeting, United Nations Headquarters, September 14, 2005.



- for all who need them, by the year 2010
- Eradication of polio
  - Strengthening health systems so that health care, especially primary health care, can be provided on a sustainable and equitable basis
  - Reduction of malaria mortality by at least 50 percent and at least 85 percent coverage of the most vulnerable groups with effective prevention and treatment measures
  - Universal access to free and compulsory primary education of good quality by 2015 in Africa
  - Universal access of children to basic health care (free wherever countries choose to provide this)
  - Global TB control in line with the needs identified by the Stop TB Partnership
  - Aid for trade, including physical, human, and institutional capacity building

It is occasionally said that objectives such as the MDGs or disease control are distinct from objectives to promote wealth creation and economic growth. We emphasize here that this is not the case. Achieving the MDGs and achieving long-term economic growth require the same policy focus, including increased investments in the core infrastructure (roads, power, and connectivity), health and skills of the labor force, and improvements in the business environment (transparency, macroeconomic stability, ease of doing business, and a vibrant financial sector). The fight against extreme poverty and the challenge of long-term economic growth and wealth creation go hand in hand.

### *Current Levels of U.S. Official Development Assistance*

Though development, defense, and diplomacy are the three pillars of U.S. national security, the current investments in national security are almost entirely in the direction of defense spending. Today's under-investment in development is palpable and dangerous. The need for increased development aid has been acknowledged repeatedly by the U.S. Government in recent years, though not yet acted upon satisfactorily by the Administration and Congress.

While there are many ways to calculate the precise budgetary outlays in regard to defense, diplomacy, and development, a straightforward approach is as follows. Defense spending embraces military outlays (Department of Defense), homeland security outlays (Department of Homeland Security), and selected outlays of the State Department (military outlays). Diplomacy includes outlays for diplomacy of the Department of State other than those classified as Official Development Assistance and military support. Development outlays include all spending that is classified as ODA by the agreed standards of the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD).

Figure 1 shows the lop-sided nature of U.S. security policy. One pillar of the three, defense, receives 95 percent of the total outlays in FY07. Diplomacy is funded at 1.5 percent of total outlays and development is funded at just 3.5 percent of total outlays. In dollar terms, the defense spending was \$611 billion in 2007 (comprised of \$549 billion by the DOD and \$50 billion by DHS, plus other

small amounts). Diplomacy may be estimated at around \$9 billion. Development assistance may be estimated at \$22.7 billion.

The relatively low level of development spending is an enormous surprise to most Americans. Repeated survey data have shown that Americans overestimate the level of official development assistance by a factor of roughly 30 to 50 times. On average, Americans estimate in surveys that the United States Government spends one quarter of the budget on foreign aid and roughly 5 percent of U.S. national income. The actual fact is that official development assistance constituted 0.8% of the Federal Budget in FY 2006, and just 0.17% of national income.

The allocation of official development assistance is equally important. U.S. aid is divided between “bilateral” aid, given by the U.S. Government directly to other countries, and multilateral aid, given from the U.S. Government to international organizations such as the World Bank, the African Development Bank, and the Global Fund to Fight AIDS, TB, and Malaria. Most of the bilateral aid falls within the USAID budget, which came to \$9.2 billion in the FY06 budget. Roughly 82 percent of U.S. aid goes through bilateral channels, while the balance of 18 percent goes through multilateral institutions.

The bilateral aid may be categorized by function or by region. USAID makes a five-way classification of bilateral aid,<sup>12</sup> with the approximate budget shares shown for each category shown:<sup>13</sup>

Strategic States	33%
Humanitarian Assistance	19%
Reduce Fragility	8%
Global Issue	18%
Transformational Development	24%

Support for “strategic states” is mainly support for U.S. allies in the “global war on terror” and/or countries in the Middle East. The Economic Support Fund (ESF) is the largest source of outlays for the strategic states. As described by USAID, “[t]he Economic Support Fund (ESF) supports U. S. foreign policy objectives by providing economic assistance to allies and countries in transition to democracy, supporting Middle East Peace negotiations, and financing economic stabilization programs.”<sup>14</sup> The lion’s share of these funds (\$3.2 billion in FY07) goes to the Middle East (\$1.6 billion), Pakistan (\$350 million), and Afghanistan (\$610 million). Emergency appropriations for Iraq and Afghanistan (as part of the Emergency Funding for the Global War on Terror) were an additional \$5.6 billion.

Humanitarian assistance is for immediate needs in the wake of natural disasters, conflicts, and violence. Global issues include HIV/AIDS. The support for HIV/AIDS comes mainly in the Emergency Plan for AIDS Relief (PEPFAR), which totaled around \$2.6 billion in FY07. Aid for “fragile states” is support for stabilization, security, and reform in countries with weak governance and instability.

<sup>12</sup> United States Agency for International Development (USAID), Policy Framework for Bilateral Foreign Aid, January 2006.

<sup>13</sup> Summing to more than 100% due to rounding error.

<sup>14</sup> United States Agency for International Development (USAID), Budget Justification to Congress, 2007. Available online at: <http://www.usaid.gov/policy/budget/cbj2007/>.

“Transformational development” is the assistance category directed at long-term poverty reduction and some aspects of disease control. Distressingly, it amounts to only around one-quarter of the overall bilateral aid, meaning that the vast bulk of aid is for emergencies and U.S. political aims, rather than for the objectives that are most effectively served by official development assistance: long-term economic development. Transformational development includes: Child Survival and Health (\$1.5 billion), Development Assistance (\$1.5 billion), the Millennium Challenge Corporation (\$1.1 billion), and the Peace Corp (\$300 million). The sum of these long-term development programs was \$4.4 billion in FY07.

Since sub-Saharan Africa is the epicenter of the world’s economic development challenge, and faces the biggest challenge of all regions to meet the Millennium Development Goals, it is important to understand the U.S. budgetary outlays for long-term development in sub-Saharan Africa. Official Development Assistance for Africa in FY06 came to around \$3 billion, with the categories shown in Table 2. Let us put this \$3 billion in perspective: There are approximately 800 million people in sub-Saharan Africa, and therefore *U.S. bilateral aid to Africa totals approximately \$4 per African per year.*

### *A historical perspective on U.S. ODA*

One of the reasons that Americans grossly overestimate the levels of U.S. ODA is that ODA as a share of U.S. national income has declined markedly over the past half century. At the time of the Marshall Plan, U.S. ODA exceeded 1 percent of U.S. GNP. By the early 1960s, ODA had declined to around 0.5 percent of GNP. It continued to decline through the 1990s, reaching a nadir of just 0.1 percent of GNP by the year 1999. It has subsequently increased slightly to around 0.17 percent of GNP in 2006, less than one-fifth of one percent of national income. (Figure 2)

Americans also tend to misunderstand how development aid has been allocated across different regions of the world. Consider again the level of aid given to Africa over the past 50 years. It is widely assumed by the public that the U.S. has given vast quantities of assistance to Africa for half a century yet with poor results. This has contributed to a pervasive skepticism about aid, on the ostensible grounds that aid has failed to deliver development results. In fact, aid to all of sub-Saharan Africa during 1961 to 2005 (in constant \$2005 dollars) has totaled a mere \$72.8 billion, about half of what we will spend in the Iraq and Afghanistan War this year alone. One third of the total, \$24.4 billion, was in the form of food aid, which is not long-term development assistance. Total aid minus the cost of food aid was \$48.4 billion, for a region that averaged 450 million inhabitants during this time period. This comes to an average of \$2.50 per African per year, as shown in Figure 3.

By contrast, aid has been large to the Middle East. During 1961-2005, economic assistance to the Middle East and North Africa totaled \$147 billion. Most of this went to Israel, Egypt, Jordan, and Palestine, which received \$92 billion in aid (minus food aid), almost twice the amount to all of sub-Saharan Africa. The cumulative aid to Israel, net of food aid, equaled \$48 billion, the very same as aid to all of sub-Saharan Africa. Since Israel’s population is around one-hundredth of Africa’s, the per capita aid was roughly one hundred times that of Africa, averaging \$242 per person per year.

The regional breakdown of all aid during 1961-2005 is shown in Figure 4. Of the \$548 billion that can be allocated to specific regions (i.e. excluding multilateral aid, administrative costs of USAID, and other aid not allocated by region), Asia received the largest total, at \$172 billion. The Middle East and North Africa was second, at \$147 billion. Latin America was third, at \$96 billion. Africa was fourth, at \$72 billion. Europe (East and West) and Eurasia (the former Soviet Union), came fifth, at \$61 billion.

Total economic assistance pales in comparison with the spending on the military. Total U.S. economic assistance, including food aid, during 1961 to 2005 to all countries totaled \$755 billion (in constant 2005 dollars). During that same period, total spending by the Department of Defense came to \$17 trillion (in constant 2005 dollars).

### *A comparative perspective on U.S. ODA*

The U.S. is the largest aid donor, as shown in Figure 5(a), but this is hardly surprising since the U.S. is also by far the most populous donor country, with a 2006 population of 299 million, compared with 128 million in Japan, 83 million in Germany, 60 in the United Kingdom, 63 in France, 9 in Sweden, and 5 in Norway. In per capita terms, Norwegians average \$629 per person in aid, while Americans average \$76 per person. In terms of ODA as a share of GNP, the U.S. is second to last, just ahead of Greece, as shown in Figure 5(b).

For purposes of global burden sharing, ODA is assessed as a share of each donor's GNP. Since 1970, most donor countries have pledged to achieve the target of 0.7 percent of GNP as ODA, and reiterated that pledge many times. Only five countries – Denmark, Luxembourg, Netherlands, Norway and Sweden – have consistently achieved or exceeded that goal. All of the other 17 donors in the Development Assistance Committee of the OECD have fallen short despite their adoption of the target. The United States signed up to the target in the Monterrey Consensus in 2002, when it joined the rest of the world in the following pledge:

[W]e urge developed countries that have not done so to make concrete efforts towards the target of 0.7 percent of Gross National Product (GNP) as official development assistance (ODA) to developing countries ...<sup>15</sup>

Following the Monterrey Conference, most donor countries set a specific timetable to achieve the 0.7 percent target. Donors in the (pre-enlargement) European Union agreed to achieve at least 0.51 percent of GNP as ODA by 2010 and 0.7 percent of GNP as ODA by 2015. The United States, despite its strong and repeated support for the Monterrey Consensus, has not yet made concrete efforts to achieve the target of 0.7 percent of GNP.

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<sup>15</sup> The Monterrey Consensus of the International Conference on Financing for Development. Available Online at: [http://www.un.org/esa/sustdev/documents/Monterrey\\_Consensus.htm](http://www.un.org/esa/sustdev/documents/Monterrey_Consensus.htm).

## *Private Development Assistance*

The choice of 0.7 percent as the target for ODA has an explanation which remains very relevant today. During the 1960s, the idea took hold in various forums that the rich countries should support the poor countries with an annual transfer of 1 percent of national income. This in turn was to be divided between ODA, targeted at 0.7 percent, and aid from private donors, targeted at 0.3 percent. The 0.7 target was supported by the Pearson Commission (led by Nobel Laureate and Canadian Prime Minister Lester Pearson), and subsequently adopted by the General Assembly the following year.

While a few donor governments have achieved the 0.7 target, no donor country's private sector has come close to achieving the 0.3 percent of GNP target for private development assistance. Many Americans believe that the low level of U.S. ODA is offset by a uniquely high level of U.S. private aid as a share of GNP. This is, alas, not the case. The OECD DAC measures the magnitude of development assistance by non-governmental organizations (NGOs). While the data are incomplete and imperfect, the overall message is unequivocal. As shown in Table 3, for an average of 2004-5, NGO giving is less than 0.1 percent of GNP in all donor countries. U.S. NGO giving is on the high end, at an estimated 0.06 percent of GNP (\$8.4 billion in 2005). Nonetheless, U.S. total giving as a share of GNP, summing the public and private aid, remains near the bottom of the donor rankings, with a combined share of around 0.26 percent of GNP in 2004-5 (0.20 official plus 0.06 private).<sup>16</sup>

## *Other resource flows to developing countries*

Development flows, both official and private, are certainly not the only sources of financial capital to developing countries. Private capital flows in search of profits – both portfolio investment and foreign direct investment (to achieve a controlling interest abroad) – are important for global development, and provide critical benefits both for the United States and recipient countries. It is often said that development assistance is passé since private flows now swamp official flows. This fact does not make ODA obsolete. The private capital flows are heavily concentrated in middle-income countries and in low-income countries with high-value natural resources such as hydrocarbons, minerals, or precious metals. Private capital flows bypass the world's poorest countries, since those countries lack the basic infrastructure of roads, power, ports, clinics, and schools, needed to attract private investments in the first place. As the Monterrey Consensus spelled out, ODA is vital for those

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<sup>16</sup> The Hudson Institute identifies much larger estimates of private giving in its Index of Global Philanthropy, specifically around \$30 billion per year, broken down as follows: Private Voluntary Organizations (PVOs), \$13.4 billion; faith-based groups, \$5.4 billion; universities and colleges, \$4.6 billion, U.S. foundations, \$2.2 billion, and American corporations, \$5.1 billion. However, there is strong reason to believe that these estimates do not reflect true development assistance. With regard to the PVO estimate, for example, while it attempts to cover international projects, it does not distinguish between development-oriented activities and other activities. In turn, the estimate of development aid from faith-based groups is without explanation of the development activities covered or of the services delivered by religious groups. The estimate for university giving is based on purported values of scholarships to foreign students in the U.S. from developing countries regardless of country of origin or personal means – yet notably, only 6 percent of the students are from the poorest continent, Africa. Finally, the estimate of corporate giving is dominated by a non-credible estimate of \$4.2 billion of in-kind donations by U.S. pharmaceutical companies, with no verification that the stated values of the donated products are not simply the patent-protected market prices in the U.S., even though, through generics producers, they may be available to recipient countries at a small fraction of the patent prices.

countries, not only to save lives and keep children in school, but also to prepare the groundwork for future private capital flows. In this sense, ODA is complementary to private flows, and must generally precede private flows into impoverished regions.

Similar points can be made about trade. An open trading system is essential for economic development, including among the poorest countries. Developing countries need to import technology from abroad, and must pay for that technology through their own exports. For this basic reason, export-led growth has been vital for economic success in recent decades. To achieve export-led growth, poor countries need to maintain relatively open trading systems (with low to moderate tariffs, and convertible currencies), and rich countries including the U.S. have to keep their own borders open to the exports of the poor countries.

However, trade reforms can not substitute for official development aid. A recent World Bank paper (2006) calculated the potential gains of a successful Doha Round for several regions of the world.<sup>17</sup> Of an estimated total worldwide gain of \$119.3 billion per year in a successful (and ambitious) Doha scenario, the regional breakdown of benefits is as follows (\$ billion):

High-income countries	\$96.4
Developing countries (total)	\$22.9
with East Asia	\$5.5
South Asia	\$4.2
Latin America	\$9.2
Sub-Saharan Africa	\$1.2
Other	\$1.8

The gains to the poorest regions, and notably to Africa, are very small. The biggest gains are achieved by the biggest traders: the developed countries and the middle-income developing countries. The barriers faced by Africa in achieving increased exports lie mainly in the lack of their own competitiveness, rather than in the barriers in the rich-country markets. African exports are limited to a few commodities (such as hydrocarbons, diamonds, copper, iron ore, cotton, coffee, tea, and cocoa) mainly because these countries are not competitive in manufactures. The lack of manufacturing competitiveness relates mostly to poor infrastructure (especially roads, power, and ports) and the lack of requisite skills, areas that can be rectified through ODA. This basic fact justifies the concept of “aid for trade,” in which ODA to finance export-promoting infrastructure serves as a springboard for improved long-term export competitiveness.

A final category of financial flows from the U.S. to the developing countries is remittances. Remittances are not aid since they represent the hard-won earnings of typically poor migrants working in the United States, Europe, and the Middle East. Yet they can boost source-country incomes and wellbeing. The largest proportion of remittances from the U.S. goes to the Caribbean and Central America. The African share of remittances is small. Worldwide, remittances to Africa are a meager

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<sup>17</sup> Kym Anderson et al., “Doha Merchandise Trade Reform: What’s At Stake for Developing Countries,” World Bank Policy Research Working Paper 3848, February 2006.

4 percent of the total, around \$6 billion in 2005, and half of that total is accounted for by South Africa, Lesotho (remittances from South Africa), and Nigeria.<sup>18</sup> Remittances are no substitute for development assistance to the poorest countries.

### *Public support – and confusion – regarding development assistance*

The American people are understandably confused about foreign assistance, since they hear so little about it from the President and Congress. Americans broadly support effective and large-scale development assistance, yet they also grossly overestimate the actual amount of aid given by the U.S. overall, and to Africa specifically. Since they overestimate the aid, they also assume that much of the (non-existent) aid is being stolen. Americans also fail to realize that most of what is now called “aid” is actually support for geopolitical objectives in the Middle East rather than aid directed at the poorest countries for development purposes.

The Program on International Policy Attitudes (PIPA) at the University of Maryland has been tracking public opinion on development assistance for many years.<sup>19</sup> Americans consistently perceive that foreign assistance spending is around 20 percent of the Federal Budget, when it is in fact around 1 percent! They would actually like it to be 10 percent of the budget. We are thus in the paradoxical situation where the public would like to “cut” aid from an imagined 20 percent of the budget to “only” 10 percent, a level that would in fact constitute a tenfold increase over the actual level of aid. Interestingly, Americans strongly support aid to cut hunger and poverty, and accord that kind of aid much more support than aid to “countries important to U.S. Security.”

### *What works and what doesn't work with ODA*

The discussion on aid effectiveness is clouded by confusions, prejudices, and simple misunderstandings. Many studies try to find a correlation between overall aid and economic growth, and when they find little positive correlation, they declare aid to be a failure. Yet the low correlation does not prove that aid is failing, since much of the aid is directed to countries in violence, famine, or deep economic crisis. It is not a surprise, therefore, that aid is often correlated with “economic failure,” not because aid has caused the failure but rather because aid has responded to it.

We need a much more sophisticated approach than the standard simple correlations to judge the effectiveness of aid. We need to assess the goals of specific aid programs and whether those goals are fulfilled. Did the food aid stop starvation? Did immunizations save lives or eradicate diseases? Did infrastructure spending on roads and ports help to generate new employment in new industries? Did aid for schooling raise enrollments, completion rates, and literacy? Did farm aid increase the productivity of farms? When examined in detail, a large number of aid programs have been extraordinarily successful, and for reasons that can be understood and then replicated.

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<sup>18</sup> Sanjeev Gupta et al., “Impact of Remittances on Poverty and Financial Development in Sub-Saharan Africa,” IMF Working Paper WP/07/38, February 2007

<sup>19</sup> PIPA, “Americans on Foreign Aid and World Hunger,” February 2, 2001, and PIPA, “New Poll Shows American Public Supports Stronger Engagement with Africa,” January 2003. Both available online at: <http://www.worldpublicopinion.org/pipa>.

Another massive confusion in the public debate is the sense that vast amounts have been spent and that no development has resulted. We have seen that this view is doubly incorrect. On the one hand, aid has not been vast, at least in comparison with national incomes, the population of recipient countries, and spending on other areas of concern (e.g., defense). This is especially the case regarding Africa, a region that is regularly maligned for alleged mismanagement of aid yet regularly neglected in actual aid flows. On the other hand, there has been vast development success internationally, with stunning increases in average incomes, life expectancy, child survival, literacy, school completion rates, and other gains, in most parts of the world.

Yet another confusion results from the fact that we regularly overload our development assistance to try to accomplish too many things, especially things not well suited for development aid. It is notable, for example, that one-third of US development aid is currently directed to “strategic nations,” especially in the Middle East, rather than to the world’s poorest nations which need help to escape from poverty. We use our aid to buy allies, directly or indirectly finance the war on terror (e.g. by freeing-up budgets of allies so that they can increase their military outlays), create peace between Israel and Palestine, fight drug trafficking in the Andes and Afghanistan, and more. In the 1960s through 1980s, we wanted aid to help finance the Cold War, and often gave vast sums to thugs and dictators such as Mobutu Sese Seko of Zaire, for this ostensible aim.

When we look at success stories of official development assistance, however, we find that aid is most successful when it is indeed used for development assistance. In other words, the tool of official development assistance truly is a *development* tool. It can help with politics, good will towards the U.S., and even democratization in the recipient countries, but only indirectly, by enabling poor countries to escape from extreme poverty and therefore to escape from the chronic instabilities that accompany extreme poverty.

Here are several great success stories of development assistance.

The Asian Green Revolution. During the 1950s and 1960s, the Rockefeller Foundation and then other donors spurred the development of high-yield seed varieties and new techniques for modernized farming. USAID helped to finance the rapid uptake of these new technologies, including the seeds, fertilizer, and irrigation. Dramatic successes were achieved in the 1960s in India and Pakistan, and later in China, Southeast Asia, and other parts of the developing world.

Smallpox eradication. In 1967, the World Health Organization (WHO) established the Smallpox Eradication Unit, and launched a donor-supported worldwide campaign to eradicate the disease. By 1980, WHO declared the world free of smallpox.

Family Planning. During the 1960s, the U.S. Government and foundations launched a global effort to spread access to modern contraception, based on individual voluntary choices. The uptake of these contraceptive methods, supported by international and U.S. funding, has been widespread (though still largely bypassing sub-Saharan Africa). As a result of these actions, together with declining child mortality rates, spreading literacy, and broader economic trends, fertility rates and population growth rates have declined sharply throughout most of the developing world.



Campaign for Child Survival. In 1982, UNICEF launched a campaign for child survival, based on the powerful combination known as GOBI: growth monitoring of children, oral re-hydration therapy, breastfeeding for nutrition and immunity to infectious diseases, and immunizations against childhood killers. Backed by development assistance, the package enjoyed a remarkably rapid uptake, enabling many of the poorest countries to reach at least 80 percent immunization coverage.

The Global Fund to Fight AIDS, TB, and Malaria. After years of international neglect and under-financing, international donors agreed to step up their actions to fight three killer pandemic diseases: AIDS, TB, and malaria. At the urging of then-UN Secretary General Kofi Annan, they formed a new global fund, to pool their resources and invite countries to formulate national strategies that would be backed by development aid. In a short period of five years, the Global Fund has successfully financed the access of more than 1 million HIV-infected individuals to antiretroviral medicines; the distribution of more than 30 million bed nets, mainly in Africa; and the treatment of more than 2 million individuals for TB.

There are countless other development success that could be described at length. The malaria control programs pioneered in the 1950s and 1960s achieved sustained successes outside of Africa. Other infectious diseases, such as African River Blindness (onchocerciasis), leprosy, and schistosomiasis, have been brought partially under control. Polio is on the verge of eradication, through a public-private partnership of Rotary International, the WHO, and many bilateral and multilateral donors. Major improvements in nutrition have been achieved throughout the world through iodized salt and vitamin A supplementation, both of which have been supported by official development assistance. School attendance has soared in recent years as a result of donor programs, with remarkable successes for example in East Africa. Economic development has been spurred by the construction of industrial zones and supportive infrastructure (roads, ports, power, and rail), backed by official development assistance. Japan's development aid, for example, was highly effective in helping countries in Southeast Asia to gain competitiveness in manufacturing exports.

There are six crucial lessons in these development success stories:

First, the interventions are based on a powerful, low-cost technology. The main underlying force of economic development is technological advance. It is not surprising, therefore, that successful development assistance typically involves the diffusion of a powerful technology, such as high-yield seeds, immunizations, modern contraception, or internet connectivity.

Second, the interventions are relatively easy to deliver, based on an expert-systems and local ownership. Modern technologies are embodied in systems. Vaccinations, for example, are delivered on a specific timetable for young children. High-yielding seeds are deployed in specific packages of farm inputs (e.g., combinations of seed, fertilizer, irrigation, and agricultural extension). The key to success is to deploy the technology in a system that is evidence based, scientifically sound, administratively feasible, and tailored to local conditions.

Third, the interventions are applied at the scale needed to solve the underlying problem. The key to success of the earlier examples was not the demonstration of the underlying technology, but rather the

deployment of the technology at a scale to make a difference. Typically, once the technology is known, and once the expert system has been identified, rapid scale up is possible, building on global strategies and local adaptation and support.

Fourth, the interventions are reliably funded. All of the success stories involve budget outlays over a period of many years, so that participating countries can be confident of sustained financing, and therefore can build institutional systems and provide training and capacity building.

Fifth, the interventions are multilateral, drawing support from many governments and international agencies. The greatest development challenges – extreme poverty, hunger, disease, lack of infrastructure – are beyond the financing capacity of any single donor country. Moreover, a unified effort is more efficient than a congeries of small and disparate projects, at least once the technologies and delivery mechanisms have been developed.

Sixth, the interventions had specific inputs, goals, and strategies, so that success rates could be assessed. All of the success stories had clear strategies (e.g., coverage rates of immunizations, hectares planted with high-yield seeds, and timely isolation of smallpox outbreaks). They did not directly aim for excessively broad and overarching goals – such as “economic growth,” or “rule of law,” or “democracy” or “end of terror” – though broad goals such as these were among the indirect and long-term objectives that motivated the programs in the first place. The programs worked on much more specific objectives, which could be measured, audited, evaluated, and re-assessed as needed.

These six specific points all come down to one overarching point: be practical when deploying development aid. Understand the targeted inputs, the outputs, the financing, and the objectives.

### *Promoting Good Governance through Official Development Assistance*

Official development aid is not an effective instrument to overturn governments, end authoritarian regimes, or ensure strategic alliances. The amounts are too small to determine the internal politics of other countries, even if that were a desirable objective. Development aid is effective for one main purpose: development. For that reason, it is essential to direct aid efforts to development needs, with the long-term perspective that development assistance requires. Aid can not be ratcheted up and down in line with the latest election if aid is to be effective in promoting long-term development. Using aid to “buy friends” on a tactical basis has repeatedly proven to be a losing proposition. The aid is squandered while the “friends” come and go. Aid should focus on economic development to get the desired results.

Still, aid can be a very powerful tool for improving governance by applying high performance standards to the use of aid itself. Aid-supported programs should be transparent, accountable, and subject to audits, monitoring, and independent evaluation. Aid-supported programs should have clear deliverables so that the local population can hold their government accountable for delivery. The diversion of aid funds for corrupt purposes should not be tolerated.

In the long term, U.S. official development assistance will strongly promote democracy by raising living standards in targeted countries. One of the world's most powerful patterns is that rising literacy, health, and incomes lead to strong demands for democracy from within a society. The most powerful and reliable way for outside governments to support the process of democratization, therefore, is to support long-term economic development, which lays the deep basis for long-term stable democratic rule.

### *Modernizing U.S. Development Assistance in the 21st Century*

The U.S. development assistance effort must be updated to the conditions of the early years of the 21st century. This means that the development goals must be made clear and appropriate, the technologies must be identified, the systems for delivery must be assessed, and the multilateral financing must be assured. Our own governmental organization must be up to the task, both in assessing needs, working between the Executive and Legislative branches to ensure sustained programming, and working with other governments to coordinate global efforts. In this section we discuss the goals, technologies, delivery systems, financing, and re-organization of U.S. Governmental efforts.

The Goals. The priorities for U.S. development assistance should be based mainly on the development commitments that the U.S. and the rest of the world have made in recent years, after considerable diplomatic and scientific discussions and negotiations. At the core of the effort should be the MDGs. These goals are already the central organizing tool for most development agencies and multilateral development institutions around the world. The MDGs have the profound advantage not only of specifying explicit and quantitative targets, but also of automatically aligning U.S. efforts with those of partner countries, thereby massively leveraging American resources and expertise.

The focus of the development challenge is in those regions still trapped in extreme poverty, or those places suffering extremely high burdens of hunger, disease, or lack of infrastructure. This means that U.S. efforts should be mainly directed towards sub-Saharan Africa, Central Asia, the Andean region, Haiti, and the remaining pockets of extreme poverty in South Asia. Development aid for middle-income countries should be scaled back accordingly, since these regions can generally finance their own investment needs.

The Technologies. For each of the Millennium Development Goals, there are a set of core interventions, based on proven low-cost technologies, which can spur rapid advances toward the Goals. The UN Millennium Project among other studies has identified the powerful tools at our disposal in each of the key areas. While much can be said about each area, the following highlights can be noted.

*Income poverty:* microfinance, electricity generation (off-grid and on-grid), all-weather roads, access to cell phones and internet, improved population health (see below)

*Hunger:* improved food production through the extension of "Green Revolution" technologies (high-yield seeds, fertilizer, small-scale irrigation, agricultural extension services); micronutrient

supplementation for Vitamin A, iodine, zinc, and iron; monitoring of low-weight children; school feeding programs, with take-home rations for pre-school-aged children

*Universal school completion:* construction of schools, training of teachers, wireless internet connectivity for (solar-charged) computers at schools, separate hygienic facilities for girls and boys, mid-day feeding programs

*Gender equality:* time-saving infrastructure for rural women (water, power, mills, and clinics, within reach of villages); micro-finance for women's groups; improved inheritance and property rights

*Reduced maternal mortality:* emergency obstetrical theatres in all sub-district hospitals; training of assistant medical officers (AMOs) to perform emergency procedures; use of wireless phone systems to create emergency-response units for ambulance services

*Reduced child mortality:* integrated management of childhood illnesses (IMCI), including diarrhea, malaria, acute lower respiratory infection (ALRI), vaccine-preventable diseases, parasitic infections (worms), micronutrient deficiencies, and expert systems for neonatal care; increased use of community health workers, supported by mobile phone and internet connectivity

*Control of AIDS, TB, and Malaria:* packages of preventative and curative health services, e.g., access to medicines and universal protection by insecticide-treated bed nets in the case of malaria

*Universal access to family planning and contraceptive services:* logistics and supply chain management for contraceptive availability; community-worker outreach to ensure the access to family planning services and contraception on a voluntary basis

*Safe drinking water and sanitation:* application of modern hydrological tools to identify sustainable water sources, based on seasonal and annual runoff, rainwater harvesting, sustainable use of groundwater, and improved year-round water storage; investments in sanitation systems, including septic tanks and recycling of human and animal wastes in rural areas, and piped wastewater treatment in urban areas.

While there is much debate about “development assistance” in the abstract, there is a near consensus on the use of aid to expand the access of the poor to vital and proven technologies. Aid-skeptic William Easterly, for example, endorses this approach: “Put the focus back where it belongs: get the poorest people in the world such obvious goods as the vaccines, the antibiotics, the food supplements, the improved seeds, the fertilizer, the roads, the boreholes, the water pipes, the textbooks, and the nurses. This is not making the poor dependent on handouts; it is giving the poorest people the health, nutrition, education, and other inputs that raise the payoff to their own efforts to better their lives.”<sup>20</sup>

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<sup>20</sup> William Easterly, *The White Man's Burden*, New York: Penguin, 2006, p. 368-9

The Delivery Systems. Much is made of the difficulty of delivering such technologies to the poor, with perceived high risks of corruption, mismanagement, and other delivery failures. Yet such fears have been shown time and again to be misplaced as long as the aid is practical, subject to monitoring, adapted to local circumstances, endorsed by local communities, and embedded in a sensible delivery system with audits and evaluation. In recent years, enormous successes have been achieved in the mass distribution of anti-malaria bed nets, the mass scale-up of new vaccines (through the Global Alliance for Vaccines and Immunizations), the mass treatment of children for worm infections, the mass increase in primary-school enrollments and completion rates by eliminating school fees, and the mass access of farmers to high-yield inputs through voucher systems. In all of these cases, success has resulted from transparency, specificity, accountability, and auditing of delivery systems.

The Financing. The basic principles of financing should be clear. First, donor aid should be directed at communities and regions that can not fund their own development efforts. As the Monterrey Consensus rightly noted, this means an emphasis on the least developed countries, particularly on sub-Saharan Africa as a major focus for financing. Second, aid should avoid program designs which aim to have the poorest of the poor pay for vital services. Attempts to sell bed nets or health insurance or medicines to the poor have inevitably led to the exclusion of large parts of the population (especially rural population) from coverage. Third, donor aid should be a mix of bilateral and multilateral initiatives, divided roughly half and half. The U.S. will not, and should not, aim to fund the delivery of services on its own. The efforts should reflect a pooling of bilateral (that is, governmental) donors, international organizations, the private sector, and private philanthropy (including foundations and individuals). In some cases, such financing mechanisms already exist, but in other cases they need to be created. Here is a quick rundown.

Health financing. The Global Fund to Fight AIDS, TB, and Malaria has become the most effective instrument for multilateral financing. The U.S. should increase its contributions to the GFATM, in conjunction with increases of other donor partners. There are currently three “windows” at the Global Fund (for the three diseases). At least two new funding windows should be opened: one for “health systems” (funding of nurses, community health workers, clinic construction and facilities) and one for other readily controllable “neglected tropical diseases” (soil-transmitted helminthes, lymphatic filariasis, trachoma, onchocerciasis, and schistosomiasis).

Education financing. The Education-for-All (EFA) initiative of the Millennium Development Goals is backed by a “Fast Track Initiative” (FTI) largely funded by the United Kingdom. The United States should join the U.K. and other donors in ensuring full financing for EFA-FTI.

Agriculture financing. There is currently no multilateral financing for improving agricultural productivity and total production in sub-Saharan Africa and other hunger hotspots. The Gates and Rockefeller Foundations have recently established an Alliance for a Green Revolution in Africa (AGRA), with initial financing of \$500 million. This should become the startup funding for a new Global Fund for African Agriculture, which would permit the U.S. and other donors to join together in multilateral funding, aimed at the rapid diffusion of high-yield technologies.

*Infrastructure financing.* Some infrastructure, notably telecommunication and internet connectivity, is being expanded rapidly on the basis of private-sector investments. Other infrastructure, notably roads, power, ports, and large-scale urban water and sanitation systems, will require very substantial public financing. Currently, infrastructure financing is provided in a somewhat haphazard way by a variety of donors, including bilateral donors, the concessionary financing window of the World Bank (the International Development Association, IDA), the regional development banks, the European Investment Bank, and others. There is no overall coordination to ensure that total financing is in line with total needs. There is a need, therefore, for a new pooled financing system for critical infrastructure, especially for sub-Saharan Africa. The Millennium Challenge Corporation (MCC) can become a significant mechanism for channeling infrastructure financing by the U.S. Government.

### *Other Special Challenges*

In addition to improved international cooperation and financing mechanisms to achieve the Millennium Development Goals, U.S. development assistance (in conjunction with global partners) needs to focus on a set of specific additional challenges of critical concern to U.S. national security. These additional challenges are not being met by the global system as currently organized, yet will become major problems for the international community and U.S. foreign policy in the years ahead. We will briefly mention five such challenges.

The Crisis of the Dry Lands. The instability that ranges from Northern Mali to the east through Niger, Chad, Sudan, Ethiopia (notably the Ogaden Desert), Somalia, Yemen, Iran, and Afghanistan, has a basic and important underlying dimension: a dry lands crisis. Most of the world's hot spots today are actually the world's dry spots as well. They are dry sub-humid, semi-arid, or arid environments, burdened by massive population increases, degraded environments (such as overgrazing of pasturelands), rising temperatures, and falling precipitation. Rather than viewing the crises in these areas through the lens of global terror or a "clash of civilizations," it is vital to view them through the lens of livelihoods and survival. Only a developmental approach can resolve basic and urgent challenges in this vast region, in order to restore political stability and create the basis for long-term economic wellbeing.

The Challenge of Emerging and Re-Emerging Diseases. The current fear over Avian Flu is just one example of the massive increase in zoonotic diseases (that is, diseases passed from animal reservoirs to humans). HIV/AIDS is the most lethal and widespread of the zoonotic diseases of recent decades, but others include SARS, Ebola, and Hantavirus. The U.S. development program will need to support a greatly increased global investment in infectious disease control, epidemic surveillance and monitoring, and improved safety in handling of livestock and other domesticated animals in the global food chain.

The Emerging Crises of Climate Adaptation. We now understand that anthropogenic climate change is already upon us. We are experiencing significant changes in the hydrological cycle, temperatures,

seasonality of species, range of species, increased vulnerability to droughts and epidemics, acidification of the oceans (from increased carbon dioxide uptake), snow melt and glacier melt, and extreme weather events. The world has agreed on an Adaptation Fund under the auspices of the UN Framework Convention on Climate Change, to enable the poorest countries to undertake adaptation measures in the face of the existing and growing climate changes. The U.S. should plan to be a major source of funding and scientific leadership in that new global effort.

The Reinvigoration of Global Population Policies. The rate of population growth in the world's poorest regions remains staggeringly high. Total Fertility Rates often average 6 to 8 children per mother in impoverished rural areas, and notably in the impoverished dry lands. These regions are without reliable access to modern contraception and family planning services, despite the pledges of the world community to ensure universal access to sexual and reproductive health services by the year 2015. Much research has demonstrated that the failure of population control in the poorest countries poses enormous risks for those societies and for the rest of the world. Dangers include under-investments per child in health, nutrition, and education; insufficient public services to keep up with a fast-growing population; falling farm sizes per household; increased environmental degradation under the pressures of rising populations; and a "youth bulge," in which a high proportion of young men (aged 15-29) in the population make an outbreak of violence and conflict more likely.

Global Trade which Works for All. Development aid can play a large role in fostering export competitiveness, and hence the importance of increased "aid for trade" which should accompany trade liberalization measures under the ongoing Doha trade round.

### *The Structure of U.S. Development Assistance*

There is a strong case for moving development assistance to a new separate Cabinet-level **Department of International Sustainable Development** (DfISD). The new Department would house the existing USAID, PEPFAR (Emergency Plan to Fight AIDS), the President's Malaria Initiative, the Millennium Challenge Corporation, and emerging initiatives in climate change, especially vis-à-vis the developing countries. The case for a separate Department rests on the following principles:

- The need to upgrade U.S. development assistance as a pillar of U.S. national security.
- The need to improve U.S. Government management and expertise in public health, climate change, agronomy, demography, environmental engineering, and economic development.
- The need to work effectively with similar Cabinet-level Departments and ministries in partner countries.
- The need to de-politicize development assistance, so that it can be directed at the long-term investments that are critical in the fight against poverty, hunger, disease, and deprivation.
- The need for coherence of U.S. policies which impact international sustainable development, including official development assistance, trade relations with low-income

countries, efforts on climate-change adaptation and mitigation, and efforts on global public health and disease control.

The current system in which USAID is a part of the Department of State is failing. U.S. aid is excessively politicized by connecting aid with short-term foreign policy exigencies (e.g. the war in Iraq or the Israel-Palestine crisis). It would be very useful to *insulate* development aid from short-term diplomatic pressures. Moreover, USAID has been gutted of much key talent and staffing, and the US Government is currently unable to attract the best young experts in development fields, and will remain unable to do so until the status of sustainable development within the government is improved. The shift in the United Kingdom from having a mere sub-cabinet development agency (the Overseas Development Administration, ODA) to having a cabinet department (the Department for International Development, DfID) has dramatically increased the standing, reputation, and expertise of the United Kingdom in the area of international development. DfID is far ahead of USAID as a global thought-leader in development policy, and DfID's departmental rank is playing a key role in that success.

The new Department would have several specific tasks in its start-up years in addition to the development challenges described in this report.

Re-focusing aid efforts. DfISD will bring together countless aid programs now strewn in a disconnected way across the U.S. Government. It will bolster technical competence (in health, agronomy, engineering, climate, hydrology, finance, and other areas related to sustainable development). It will fix the procurement and contracting systems, widely regarded to be broken. It will promote results-based aid delivery, with monitoring, accountability, and audits.

Promoting effective multilateralism. DfISD will be much better placed than USAID to work with counterpart Ministries of International Development, and to coordinate multilateral efforts.

Leveraging civil society and the private sector. DfISD will promote partnerships with civil society and the private sector. Businesses especially will be encouraged to utilize their technologies (in sectors such as health, agriculture, energy, logistics, finance, and ICT) in partnerships with the U.S. Government and multilateral agencies.

Focusing on fragile states. DfISD will pay special attention to *fragile states*, including the extreme poor, environmentally threatened regions, and post-conflict environments, where development aid can make the difference between economic growth and stability on the one hand, and state collapse and violence on the other.

Integration of all development tools. DfISD will be charged with harmonizing the range of development instruments, including development assistance, macroeconomic support (such as debt cancellation), trade policies (such as the African Growth and Opportunity Act, or AGOA), transparency initiatives (such as the Extractive Industries Transparency Initiative), and other tools of diplomacy and development.



## *The Financing of U.S. Development Assistance*

The current level of worldwide official development assistance, roughly \$100 billion per year, of which roughly \$25 billion is directed to sub-Saharan Africa, is widely acknowledged to be inadequate to support the achievement of the Millennium Development Goals. This is a very important point for U.S. political leaders and the broad public. The global community, including President Bush and the Bush Administration, has repeatedly acknowledged the need for much more aid. Yet the Administration and Congress have not yet delivered on those promises.

Let us re-cap what is needed, what has been promised, and what has so far been delivered. There is universal acknowledgement by governments that more aid is needed to enable the poorest countries to achieve the Millennium Development Goals. This was already committed in the Monterrey Consensus:

We recognize that a substantial increase in ODA and other resources will be required if developing countries are to achieve the internationally agreed development goals and objectives, including those contained in the Millennium Declaration.<sup>21</sup>

It is in that context that the countries agreed to make concrete efforts to the 0.7 percent target. The recognition that much more aid is needed has since been reiterated on several occasions, including at the G8 Summits and the World Summit in September 2005. At the Gleneagles Summit in July 2005, the G8 noted again that:

A substantial increase in official development assistance, in addition to other resources, is required to achieve the internationally agreed development goals and objectives, including those contained in the Millennium Declaration (the Millennium Goals) by 2015, as we agreed at Monterrey in 2002. Fulfilling this commitment is needed in order to consolidate and build on recent progress in Africa, to stimulate the growth that will increase other resources and to enable African and other poor countries over time to reduce their aid dependency.<sup>22</sup>

This observation was followed by the pledge to increase aid to Africa by \$25 billion a year by 2010, “more than doubling aid to Africa compared with 2004.”<sup>23</sup> Two months later, at the World Summit at the United Nations, President Bush repeated the pledge to “increased aid to nations that undertake necessary reforms.”<sup>24</sup>

The overwhelming problem is that until now, these repeated pledges have not been fulfilled. Actual cash flows of ODA have not risen since 2004. While President Bush promised in 2002 that the Millennium Challenge Account would be funded at the level of \$5 billion per year by now, in fact the funding has been under \$2 billion per year. Poor countries are unsure whether the promises will ever be fulfilled and are therefore not able to plan for the future, and are certainly not able to rely on pledges to make multi-year investment decisions, including investments in capacity and training.

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<sup>21</sup> The Monterrey Consensus of the International Conference on Financing for Development. Available Online at: [http://www.un.org/esa/sustdev/documents/Monterrey\\_Consensus.htm](http://www.un.org/esa/sustdev/documents/Monterrey_Consensus.htm).

<sup>22</sup> Gleneagles Summit, 8 July 2005, paragraph 26

<sup>23</sup> Ibid, paragraph 27

<sup>24</sup> George W. Bush, Addresses United Nations High-Level Plenary Meeting, United Nations Headquarters, September 14, 2005.

Many significant studies, including those of the UN Millennium Project and the Africa Commission launched by Prime Minister Tony Blair, outlined, bottom-up estimates of the costs of achieving the MDGs. The UN Millennium Project found that the OECD-DAC donors will need to contribute around 0.54 percent of GNP in ODA as of 2015 in order to co-finance the MDGs on a global basis. Since ODA will be needed for other purposes as well, such as disaster relief, or post-reconstruction financing, the UN Millennium Project recommended that donor countries honor their commitment of 0.7 percent of GNP, in order both to enable success in the MDGs and to meet other challenges which will arise.

Current US ODA, alas, remains stuck at 0.17 percent of GNP, the second-lowest of all donors. Unlike the EU, which has agreed to achieve 0.7 by 2015, the U.S. has no timetable or political consensus to reach that goal, despite the pledge of the U.S. at Monterrey to make concrete efforts to do so. By contrast, military spending in the U.S. is around 5 percent of GNP, when one combines the Pentagon budget with supplemental appropriations to finance the wars in Iraq and Afghanistan.

The U.S. should now join the European Union in setting a specific timetable for increasing aid through the period to 2015. As did the EU, the U.S. should commit to reach 0.5 percent of GNP by the year 2010 and 0.7 percent of GNP by the year 2015. Such a trajectory of aid would ensure success in achieving the Millennium Development Goals by 2015, and would put the world on a trajectory to achieve the end of extreme poverty by the year 2025.<sup>25</sup> Of the total aid, roughly half should be allocated through multilateral channels (e.g. IDA, the Global Fund to Fight AIDS, TB, and Malaria, a new Global Fund for African Agriculture), and roughly half should be allocated through U.S. bilateral initiatives, such as PEPFAR, the President's Malaria Initiative, and the Millennium Challenge Corporation.

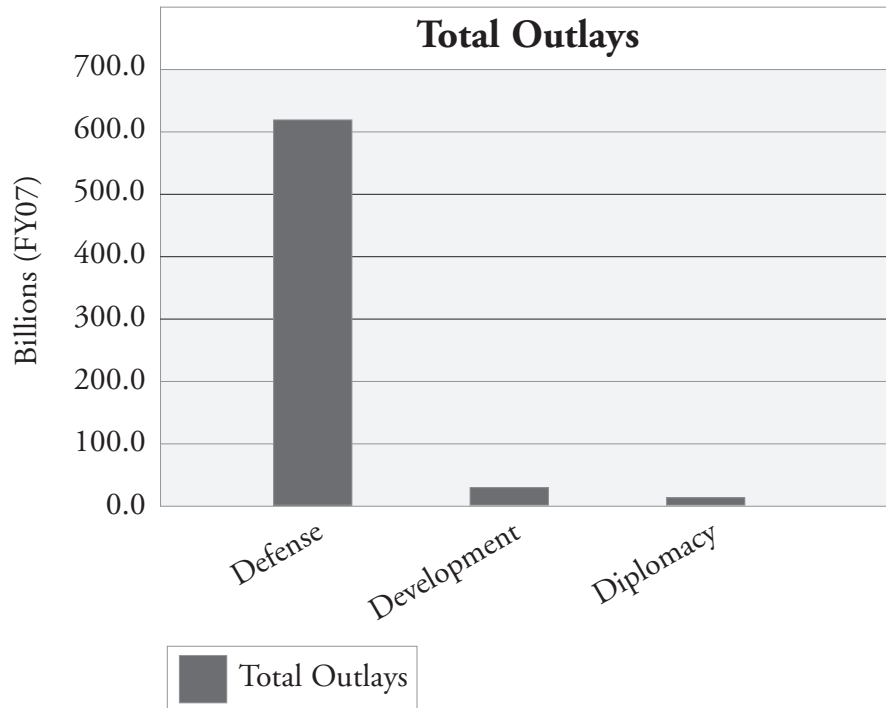
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<sup>25</sup> See the calculations in Jeffrey Sachs, *The End of Poverty*, New York: Penguin 2005, based on the work of the UN Millennium Project and WHO Commission on Macroeconomics and Health, and consistent with the findings of the 2005 Africa Commission of the U.K. Government.

### *Summary of Conclusions*

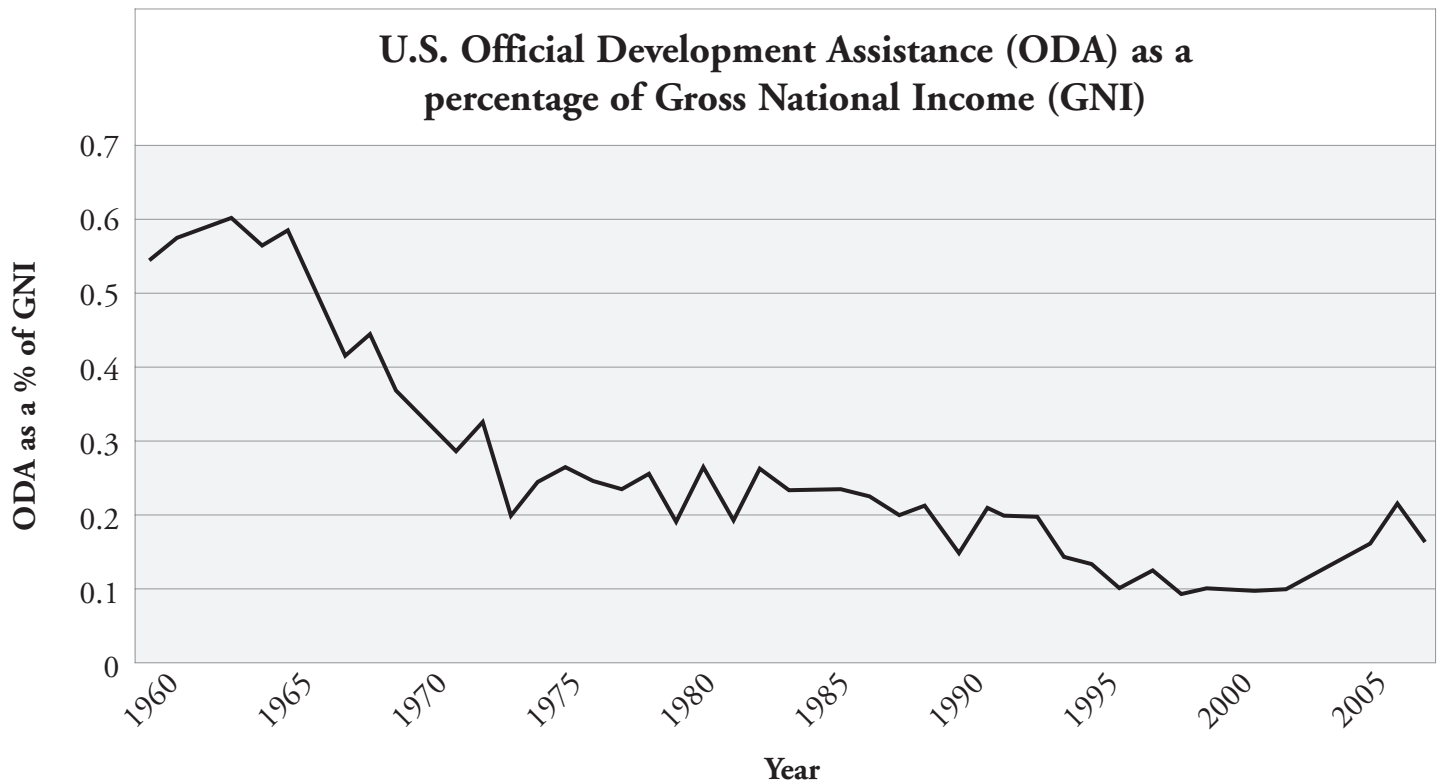
- 1) The U.S. should promote development assistance as a core pillar of national security and American moral values.
- 2) The U.S. should follow through on its oft-repeated commitments to the Millennium Development Goals.
- 3) U.S. Foreign Assistance should harmonize U.S. foreign policy commitments in development (such as support for the MDGs and goals adopted at G8 Summits) with the actual budgets and programs of U.S. development assistance.
- 4) U.S. political leaders should explain to the American people the international development objectives and commitments that have been made by the United States.
- 5) U.S. political leaders should explain to the American people the modest levels of U.S. development aid in comparison with spending on other pillars of U.S. security (notably Defense), with U.S. commitments, and with the spending of partner countries.
- 6) The U.S., in line with its own commitments and the actions of its development partners, should make concrete efforts to the target of 0.7 percent of GNP, and should aim to achieve that target by 2015.
- 7) The U.S. should support multilateral objectives and funding mechanisms in health, agriculture, infrastructure, education, and community development, balancing aid roughly half and half in bilateral and multilateral initiatives.
- 8) The U.S. should establish a new separate Cabinet-level Department of International Sustainable Development.
- 9) The U.S. should use the full range of development instruments, including development assistance, trade opening (such as AGOA and a successful Doha Round), aid for trade, and partnerships with civil society.

Figure 1. The Allocation of National Security Outlays



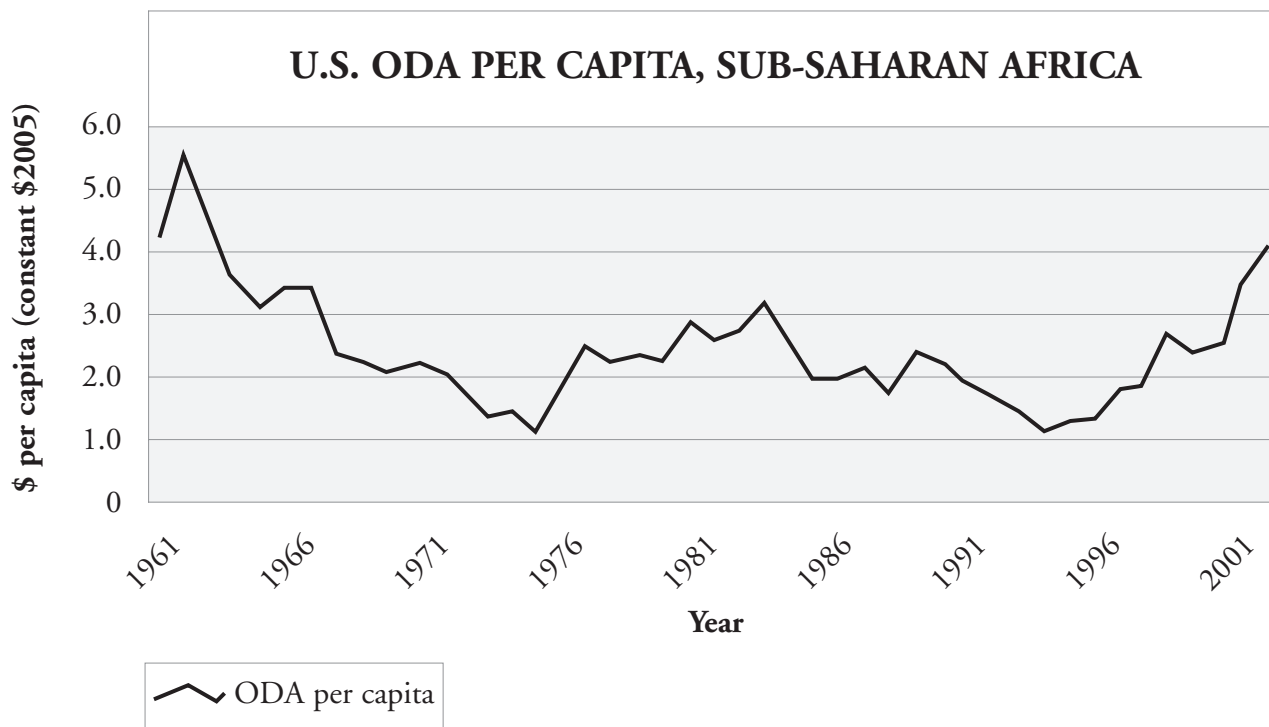
Source: Whitehouse OMB for "Defense" and "Diplomacy"; OECD/DAC for "Development"

Figure 2. U.S. Official Development Assistance as a percentage of Gross National Income



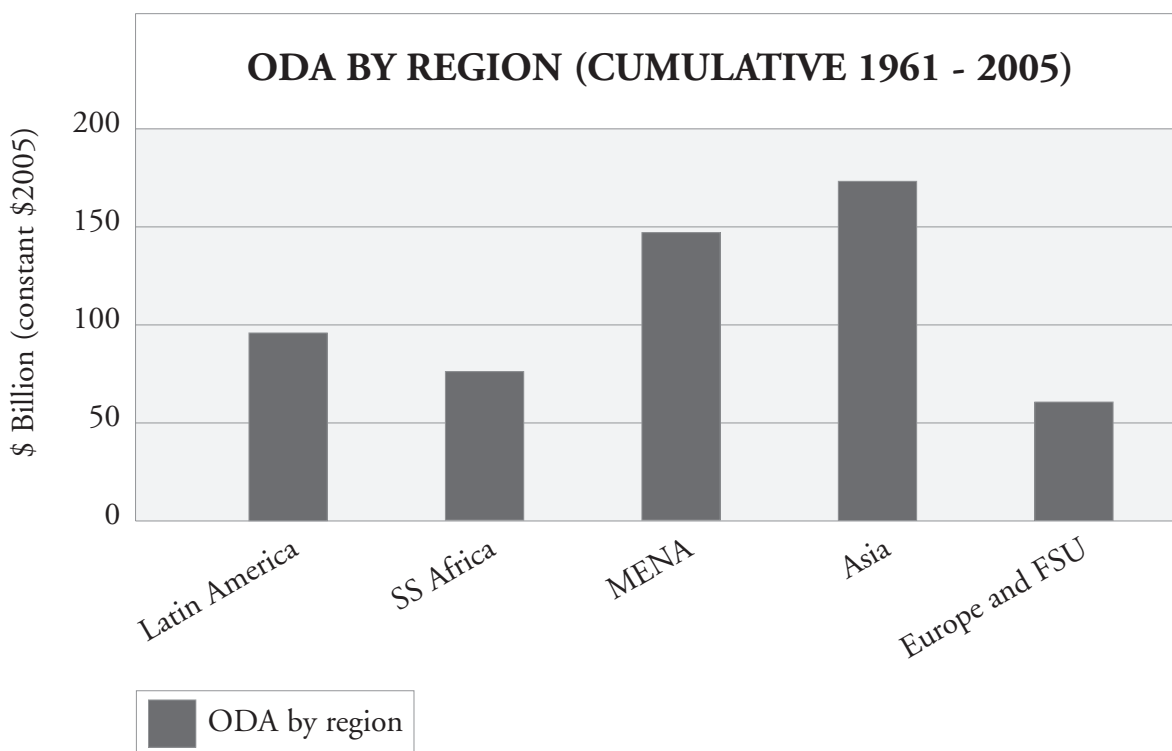
Source: OCED/DAC (2007)

Figure 3. US ODA to Africa (\$ per African), 1961-2005



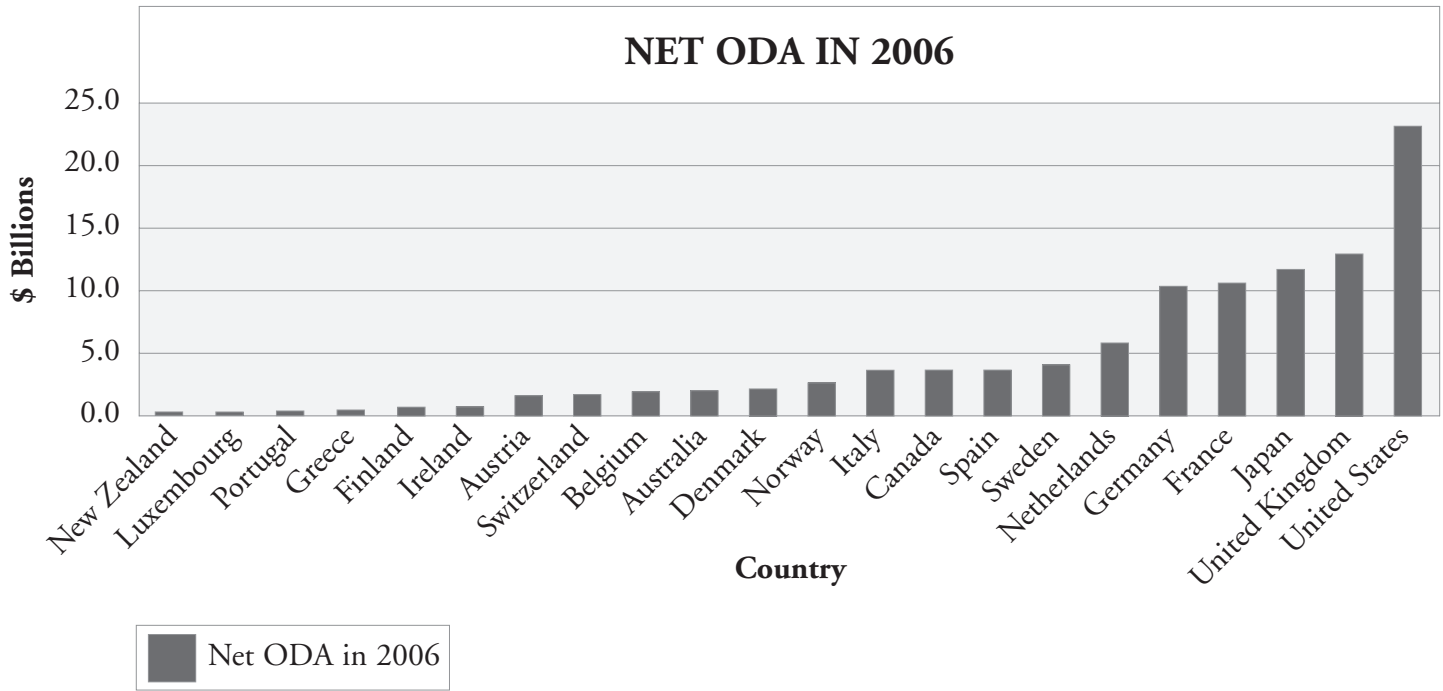
Source: Data from OECD/DAC (2007)

Figure 4. U.S. ODA by Region, 1961 - 2005



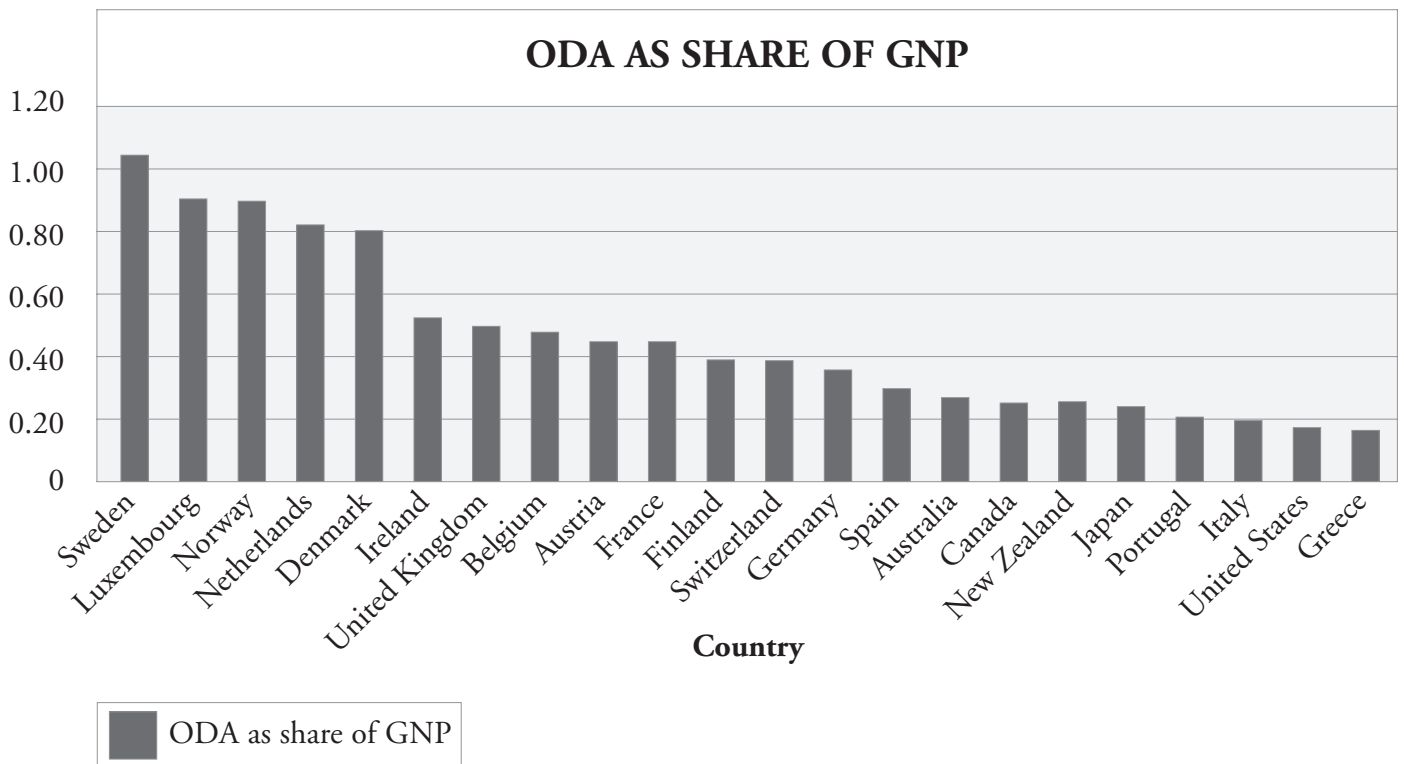
Source: OECD/DAC (2007)

Figure 5(a). Net ODA in 2006



Source: Data from OECD/DAC (2007)

Figure 5(b). ODA as a share of GNP



Source: Data from OECD/DAC (2007)

TABLE 1. THE MILLENNIUM DEVELOPMENT GOALS

TABLE 1. THE MILLENNIUM DEVELOPMENT GOALS	
<b>Goal 1:</b> Eradicate extreme poverty and hunger	<p><b>Target 1:</b> Halve, between 1990 and 2015, the proportion of people whose income is less than \$1 per day</p> <p><b>Target 2:</b> Halve, between 1990 and 2015, the proportion of people who suffer from hunger</p>
<b>Goal 2:</b> Achieve universal primary education	<b>Target 3:</b> Ensure that by 2015 children everywhere, boys and girls alike, will be able to complete a full course of primary schooling
<b>Goal 3:</b> Promote gender equality and empower women	<b>Target 4:</b> Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015
<b>Goal 4:</b> Reduce child mortality	<b>Target 5:</b> Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate
<b>Goal 5:</b> Improve maternal health	<b>Target 6:</b> Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio
<b>Goal 6:</b> Combat HIV/AIDS, malaria, and other diseases	<p><b>Target 7:</b> Have halted by 2015 and begun to reverse the spread of HIV/AIDS</p> <p><b>Target 8:</b> Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases</p>
<b>Goal 7:</b> Ensure environmental sustainability	<p><b>Target 9:</b> Integrate the principles of sustainable development into country policies and programs, and reverse the loss of environmental resources</p> <p><b>Target 10:</b> Halve by 2015 the proportion of people without sustainable access to safe drinking water and basic sanitation</p> <p><b>Target 11:</b> Have achieved by 2020 a significant improvement in the lives of at least 100 million slum dwellers</p>
<b>Goal 8:</b> Develop a global partnership for development	<p><b>Target 12:</b> Develop further an open, rule-based, predictable, non-discriminatory trading system (includes a commitment to good governance, development, and poverty reduction -- both nationally and internationally)</p> <p><b>Target 13:</b> Address the special needs of the Least Developed Countries (includes tariff- and quota-free access for Least Developed Countries' exports, enhanced program of debt relief for heavily indebted poor countries [HIPC] and cancellation of official bilateral debt, and more generous official development assistance for countries committed to poverty reduction)</p> <p><b>Target 14:</b> Address the special needs of landlocked developing countries and small island developing states (through the Program of Action for the Sustainable Development of Small Island Developing States and 22nd General Assembly provisions)</p> <p><b>Target 15:</b> Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term</p> <p><b>Target 16:</b> In cooperation with developing countries, develop and implement strategies for decent and productive work for youth</p> <p><b>Target 17:</b> In cooperation with pharmaceutical companies, provide access to affordable drugs in developing countries</p> <p><b>Target 18:</b> In cooperation with the private sector, make available the benefits of new technologies, especially information and communications technologies</p>

Source: United Nations

<b>TABLE 2. BILATERAL OFFICIAL DEVELOPMENT ASSISTANCE TO SUB-SAHARAN AFRICA, FY06</b>	
Emergency Plan for AIDS Relief	\$675 mm
Child Survival and Health	\$391 mm
Development Assistance	\$588 mm
Millennium Challenge Corporation	\$850 mm (estimated as half of total MCC)
Economic Support Fund	\$121 mm
Food Assistance (PL480)	\$272 mm
Peace Corps	\$120 mm (estimated as half of total PC)
Total bilateral aid to Africa	\$3 billion

Source: United States Agency for International Development, *The Greenbook*



<b>TABLE 3. COMBINING OFFICIAL DEVELOPMENT ASSISTANCE AND GIVING BY NGOS (AVERAGE FOR 2004-5)</b>			
2004-5	ODA/GNI	NGO/GNI	Combined
Australia	0.25	0.10	0.35
Austria	0.38	0.04	0.42
Belgium	0.47	0.06	0.53
Canada	0.30	0.08	0.38
Denmark	0.83	0.03	0.86
Finland	0.41	0.01	0.42
France	0.44	—	—
Germany	0.32	0.05	0.37
Greece	0.16	0.00	0.17
Ireland	0.40	0.17	0.57
Italy	0.22	0.00	0.22
Japan	0.23	0.01	0.24
Luxembourg	0.83	0.02	0.85
Netherlands	0.78	0.07	0.85
New Zealand	0.25	0.06	0.32
Norway	0.91	—	—
Portugal	0.42	0.00	0.42
Spain	0.26	—	—
Sweden	0.86	0.01	0.87
Switzerland	0.43	0.08	0.51
United Kingdom	0.42	0.03	0.44
United States	0.20	0.06	0.26
<b>TOTAL DAC</b>	<b>0.30</b>	<b>0.04</b>	<b>0.34</b>

Source: OECD / DAC (2006)

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