FOREIGN AID POLICY: OLD WINE IN NEW BOTTLES?

Phil Bliss

A SHIFT TO FOSTERING INSTITUTIONAL CHANGE, RATHER THAN PROVIDING DIRECT AID, WILL MEET BUREAUCRATIC RESISTANCE.

BY THOMAS DICHTER

Secretary of State Condoleezza Rice's Jan. 18, 2006, speech at Georgetown University on transformational diplomacy can be taken as one bookend of the new U.S. foreign policy. In it, Sec. Rice noted that the "fundamental character of regimes now matters more than the international distribution of power." She ended her speech by reminding the audience that "democracy is hard and democracy takes time."

The other bookend could be identified as USAID's January 2004 *White Paper*, "U.S. Foreign Aid: Meeting the

Challenges of the 21st Century." In it the agency commits itself to transformational development and notes, among other things, that "institutions, not resources, matter most;" that "countries not committed to reform conventional development programs are unlikely to advance development;" and that "aid is essentially supportive, while local leadership, ownership and participation are critical." The paper underscores the need to pay attention to absorptive capacity constraints and emphasizes the concept of "selectivity," meaning that aid ought to go where it has the best chance of making a lasting difference.

So framed, U.S. foreign aid policy could be said to recognize officially the following four principles: 1) the importance of time, implying that any expectation of quick and easy solutions is unrealistic; 2) the primacy of institutions over resources, implying that money is not the answer (or at least not money alone); 3) the key role of commitment and political will on the part of the developing countries, implying (along with the related notion of selectivity) that it does not really pay to provide much development aid without them; and 4) the role of aid as a support, implying that instead of conventional delivery (directed packages and projects loaded with "cargo"), aid might be reconceived of as more indirect and strategic, aimed at catalyzing and fostering host-government initiatives.

Even if these interpretive add-ons might be less than fully intended by official policy, the new emphases still add up to a conceptual framework that is surprisingly on the mark. I say "surprisingly" because the aid establishment (U.S. and worldwide) has been agonizingly slow in saying openly what thousands of veteran aid practitioners have known for decades. And "on the mark" because, indeed, these are pretty accurate distillations of over 50 years of lessons — lessons that, as others and I have lamented, were apparent but never clearly articulated, much less acted upon.

Is there any evidence that these sound principles are being translated into action? What would foreign assistance programs based on them look like? And, more important, what are the prospects that they will become the basis for development aid in the future? Before addressing these questions, it is useful to review how we got to this point.

The Aid Dilemma

The 1961 U.S. Foreign Assistance Act can be seen as the practical beginning of "modern" American development-oriented foreign aid; namely, aid aimed at helping the many new nations (then called "underdeveloped") as opposed to post–World War II relief, Marshall Plan aid in Europe or aid tied to "mutual security." Worldwide, official development assistance from the advanced industrial nations to the developing nations grew fairly steadily until about 1990, when it leveled off at about $60 billion per year. ODA stayed in that range until 2002, but since then has been growing steadily again.

USAID economic assistance (which does not include food aid, State Department programs such as the HIV/AIDS Initiative, the Peace Corps or military assistance) was $12.9 billion in FY 2001, $16.1 billion in FY 02, $20.8 billion in FY 03 and $26.6 billion in FY 04. Not surprisingly, target countries and sectors have varied considerably over the last 50 years: the 1960s saw large infrastructure projects; the 1970s, Basic Human Needs; and the 1980s, appropriate technology, with microcredit becoming popular in the 1990s. Today debt relief and Iraq reconstruction are major budget lines. Altogether, about $2 trillion dollars have been spent on aid for the developing countries since 1961.

But for those of us who have been "out there" for any length of time during the past five decades, a private discomfort has grown as we have seen how little we have to show for the trillions of dollars. Let's leave aside budget support to certain preferred countries, as well as disaster and humanitarian relief; those aid categories are basically unrelated to long-term development and poverty reduc-

Tom Dichter's career in international development spans 40 years of life and work in over 50 developing countries. He was a Peace Corps Volunteer in Morocco in the early 1960s and, much later, a Peace Corps country director in Yemen. He was vice president of the American NGO TechnoServe, a program officer at the Aga Khan Foundation in Geneva, a researcher on development issues for the Hudson Institute and a consultant for many international agencies, including the United Nations Development Program, the International Fund for Agricultural Development, USAID, the Asian Development Bank and the World Bank, as well as for the Austrian and Philippine governments and several private companies. He is the author of Despite Good Intentions: Why Development Assistance to the Third World Has Failed *(University of Massachusetts Press, 2003) as well as numerous op-eds, articles and policy papers.*

Most important, we have seen how incredibly tricky it is to figure out how to leave behind something sustainable after "the project" is over.

tion. The lack of results is distinctly on the developmental side of the balance sheet. Half of the world's population (3 billion people) live on $2 a day or less. One billion do not have access to clean water (despite a commitment made by the advanced nations that there be clean water for all by 1990). In 1978, the world's donor nations resolved to see to it that primary health care be fully available to all by 2000. We are still not anywhere near that goal. Roads and other projects we built years ago are in ruin or disrepair in many countries. Poverty in much of Africa is as bad as, or worse than, ever.

Where there *has* been significant poverty reduction (e.g., China), it has had little to do with aid; and where direct aid has dominated, we have seen little lasting poverty reduction. We have seen how often well-meaning anti-poverty projects get captured by corrupt officials, bureaucratic red tape and local elites. We have seen how easy it is to create dependency in the midst of a rhetoric of self-reliance; and how even brilliantly-conceived, well-executed projects come to naught in a context of political instability, underdeveloped or nonexistent infrastructure and lack of human capital. Most important, we have seen how incredibly tricky it is to figure out how to leave behind something sustainable after "the project" is over and, thus, how easy it is to succumb to the temptation to make the day-to-day accounting for development "cargo" substitute for development — as if the accounting for seeds, hoes, tractors, pumps, pipes, hours of consultant time, vehicles, numbers of agricultural extension officers "trained" and, more recently, microcredit loans processed were all we needed to prove we had done our jobs well.

Our discomfort is often tempered by the tendency to say, Wait a minute, didn't we eradicate smallpox? Aren't we on the way to controlling guinea worm and trachoma? Aren't we finally seeing progress (in places like Uganda) against HIV/AIDS? Haven't we inoculated millions of kids against many diseases? Haven't we prevented the starvation of millions more through food donations? What about those bags of wheat USAID used to unload in countless counties, the ones with the handshake logo and the words (in several languages) "Gift of the People of the United States"? Didn't these things make a difference?

Of course they did — in the short term and on a one-to-one basis. But they didn't lead to development in the real sense of the term; i.e., economic growth and lasting poverty reduction. In virtually all of the poorest nations of the world (the Nigers, the Haitis, the Malawis — those countries in which the aid portion of the budget dominates) the picture after decades of assistance is embarrassing, to say the least. In Guinea (Conakry), for example, the national railroad grid has literally disappeared: the tracks are gone or buried under silt and vegetation and the rolling stock is in ruins. In many of the poorest countries, the precariousness of daily existence has increased to the point where the clamor to leave is intense, especially among young people. This is "voting with one's feet" in the worst way because this desire to leave represents the people's "report card" on the country's future.

Many of us in the field began to realize long ago that institutions are more important than resources; that lack of absorptive capacity is a killer constraint; and that aid should be a support and not the name of the game itself. But we hardly ever saw our agencies take that knowledge on board.

Aligning Practice with Rhetoric

Today official doctrine belatedly reflects these realities. So what would aid programs based on an appreciation of these realities look like? Here are just a few examples of the innovations implied in the new rhetoric.

First, they would not be direct, time-bound "projects." Such projects may fit well with direct interventions like community water systems, farmer-to-farmer programs, irrigation, soil improvement, livestock, maternal and child health, microcredit, fisheries and so on, but increasingly they are anachronisms. No matter how enlightened they look on paper — with their emphasis on stakeholder participation, capacity building and even on policy formulation — outsider-funded and outsider-designed projects tend to be engineered down to the smallest detail. And, once launched, the objective becomes filling in the boxes in the quarterly workplan or log frame (now called the "results framework"). It ends up being about checklists. So the training workshop — rather than absorption of the workshop content — becomes the "result." And, inevitably, the focus is on money — funding the workshops, the vehicles, the per diems of workshop participants, and so on. Though the word invariably figures in the project description, "sustainability" is not usually a result.

What is needed now, instead, are more supple, longer-term efforts that are cargo-less, and where some of what is transferred has to be paid for. These efforts should have experts present who can become part of the system over the long term, not just for two, three or five years. The focus should be on the institutions that can enable growth: legal, judicial, financial, property registration and other systems. Some of this type of work is going on today, but it has for the most part been stuffed into a "project" mold. We need efforts that are longer, more flexible and more process-oriented, and that can work with what is there, step by step, taking the time needed to bring about lasting results.

Such approaches will not lend themselves to a quarter-by-quarter results framework matrix, so creative arrangements will be needed to replace a finite budget. One possibility is to have USAID interventions in the institutional realm (whether in the form of loans or grants) indemnified or underwritten by private equity (a role, potentially, for some of the new philanthropy). Thus, even if public money ends up being difficult to account for over a long timeframe (say, 10 or more years), a fund would have been created and managed to pay back the Treasury.

More conventionally, we could at least go back to basics: the building blocks of development — roads, education, health — and this time get it right by ensuring that the institutional context to support such building blocks is there or can be built alongside. How to ensure that context is another question. The answer is not to pay for the building to house the road maintenance organization and buy its equipment. The viability of the institution is in its "software," not its machines and bricks and mortar. To determine what that software is — how things work, what incentives and stakes really count, what the obstacles are — takes homework we are not used to doing.

In addition, we need to invest not just in better understanding how things really work in particular countries, but also in serious research on phenomena that lie on the periphery of development but have the potential to undermine or to support it. For example, a growing brain drain is affecting much of Africa and we need to understand its mechanisms better. Similarly, the role of remittance transfers back to many developing countries (now double the worldwide total of official development aid) has vast untapped potential for local development, yet the phenomenon is not well understood.

In short, we should be shifting radically to a smarter, less-is-more approach to aid; to an approach that wrestles almost entirely with institutions and not the delivery of things; that tackles development's challenges in innovative, experimental ways; and that relies more on fostering, catalyzing and supporting institutional change, rather than on doing things directly for the poor.

Forces Against Change

Unfortunately, however, this shift cannot be made without taking on the combined weight of the political, social and cultural forces in and around the aid bureaucracy that militate against change. There are at least four different factors in place that tend to keep USAID operating in a business-as-usual mode.

1. Political-cultural forces. The U.S. is one of the most evolved democracies in the world. One result of that is an exponential growth in the formation of highly diverse constituencies. We have a culture that more and more values everyone having a voice; that values the opportunity for everyone's interests to be mediated and debated. We have also, perhaps as a consequence, a politics and culture that are highly tuned to fad, buzzwords and political correctness.

USAID is notoriously hampered (if not entirely driven) by this political-cultural complex. So while new and refreshing visions may catch the public eye, the foreign aid system itself seems likely to continue to reflect the myriad interests that have created a long checklist of dos and don'ts. Between the lines (and not very well hidden at that) USAID's mission statement remains: "Something for everyone; all (or most) things for all (or most) people" — crisis response, conflict resolution, stabilization of emerging and transitional countries, food aid, democratization, HIV/AIDS prevention, business development, rural development, etc. — whether or not it excels at any one thing, or whether or not any one thing may be more important than any other for long-term development.

Moreover, in the post-9/11 environment, the newly explicit link between aid and national security, and the closer day-to-day ties with the State Department, make hopes for a focus on the new developmental emphases even less likely.

As might be expected, the budget reveals the priorities. Of the total American aid budget of $33.4 billion for FY 2004, fully 20 percent was for military assistance, with the rest for economic assistance provided by several government agencies including USAID ($11.1 billion), the Department of Agriculture ($3.1 billion, mostly for food aid) and the State Department ($4 billion including HIV/AIDS, narcotics control, refugee assistance and anti-terrorism). The lion's share of economic assistance will continue to go to a small number of countries, largely for carrot-and-stick reasons rather than development selectivity: Israel, Egypt and the post-9/11 foci of Iraq, Afghanistan, Pakistan, etc. Of USAID's FY 04 budget, 27 percent went for "security support." Economic assistance, albeit on a much smaller scale, will continue to go to old targets with little regard for the new emphases. These small sums add up: USAID's own record shows, for example, an accumulated total of economic assistance up through FY 04 of $1.4 billion in Malawi, $1 billion in Niger, $1.46 billion in Guinea, and $3.4 billion in Haiti. The numbers differ slightly, but the picture is similar for Morocco, Ghana, the Philippines, Panama, Sri Lanka and so on. USAID seems poised to continue to spread itself around rather thinly to all manner of needy countries regardless of the principle of selectivity, or the dangers of continuing dependency.

USAID's "yellow book" (its directory of contracts, grants and cooperative agreements with universities, firms and non-profits) tells the same old story. The Indefinite Quantity Contracts, the grants and other arrangements continue to be made with familiar players, beginning with the venerable Beltway bandits — the for-profit firms whose business is delivering USAID's packages (DAI, Chemonics, Nathan, Checchi, Abt, and so on). The business-as-usual theme shows up especially in contract durations. They remain, by and large, just one to five years (and no more than seven), ignoring the deepest lesson of all:

development takes time, and usually open-ended time.

2. The role and position of NGOs. Up through the late 1970s, the world of U.S. NGOs in development assistance was a peripheral one. They were run by dedicated people who worked for little money (recall the word "voluntary" in the now-less-used term Private Voluntary Organization). They often worked close to the grassroots in the field (they emphasized "community participation" in project planning long before the concept was formalized in the aid establishment). They rarely showed up at meetings in Washington. They were too busy and, in any case, couldn't really afford the price of the airfare or hotel. Only a few had a working relationship with the U.S. aid establishment.

In 1988, there were 205 American NGOs registered with USAID. By 1996 that number had grown to 439. Today there are 533 U.S. NGOs registered with USAID, plus 59 international NGOs. All of these are listed in the USAID Private Voluntary Organization Registry so that they can apply for a piece of the official aid pie. Today their IQCs and contracts are not much different than those concluded with for-profit contracting firms, and even small NGOs maintain Washington offices.

Meanwhile, some of them have become giants: for example, CARE, with an annual budget of over $600 million; Save the Children, at $271 million; and World Vision, at $807 million. They are now large bureaucracies, with large public relations and marketing staffs. And even though the giants rely largely on private money for their budgets, they continue to maintain a healthy relationship with USAID, in part because federal money is cheaper (getting a million-dollar USAID contract uses less marketing energy than getting a $10,000 private gift), and in part because it usually allows a percentage to be used for operational overhead, while private money is more restricted. There are other NGOs, however, with budgets in the $5-million to $20-million range, that depend more heavily on USAID for 15 to 40 percent of their operating budgets, making them "quangos" (for quasi-NGOs).

Whatever potential the American NGO world might have had to act as a critical counterpoint to the official aid bureaucracy has been dissipated, if not entirely lost. The independent, nimble, committed, on-the-ground NGO is today more of a myth than ever. Instead, a large number of NGOs depend on business as usual.

What is needed now are more supple, longer-term efforts that are "cargo-less," and where some of what is transferred has to be paid for.

3. The dominance of money in the public debate about development. From the Monterrey Consensus and Tony Blair's Africa Commission report, to Jeffrey Sachs' (and Kofi Annan's) *Investing in Development: A Practical Plan to Achieve the Millennium Development Goals* (United Nations, 2005) and rock star Bono's private meetings with George W. Bush, the central message has been that development efforts to reduce poverty will only succeed "when we get more money" (the calls range from doubling to quadrupling today's worldwide aid budget).

It is close to impossible today to make reasoned arguments about alternative ways to foster development in the face of all this noise. The late British economist P.T. Bauer's comment about the misguided belief in money as the answer went unheeded 15 years ago; today it is not even dimly heard: "To have capital is the result of economic achievement, not its precondition."

Of course there is a role for resources, but there is just no compelling argument for increasing what we already have, especially if we look at the history of development aid. Money has been more of a problem than a solution. It has created or at least encouraged dependency and corruption, and certainly has diverted our attention from the hard lessons we have learned. As aid has become more and more about resources, those resources seem to be tied as much to the perpetuation of the aid industry — its contractors and its employees — as they are tied to the supposed beneficiaries. Is the money for us, or is the money for "them"?

4. Development aid as a profession and a career. The evolution of development assistance into a full-fledged profession has created a set of stakeholders whose interests are at base opposed to adapting the lessons we have learned. Only business as usual — especially if the calls for more money are heeded — makes it possible for aid agencies to grow and thus absorb new people. The more aid projects there are — and especially the more they are about resources (money and things), the more staff are needed, and the more the giant consultant databases can be made to cough up chiefs of party and project specialists.

There are also more formal entry doors into the U.S. aid structure than ever before. Many young idealistic Americans have always aspired to meaningful work that promises to improve the world, and they now have many options to prepare themselves for such a career: the Peace Corps, professional graduate-degree programs, work with NGOs — and especially work in the newly formed foundations of the young (and rich) entrepreneurs of the dot-com age. The appearance of a number of youngish, new-money philanthropists is a significant new phenomenon in the history of U.S. development assistance. Money talks. Yet while most donors say they want only to do things that are effective, if you suggest that it might be more effective to spend $2 million on banking reform than to spend $100 million on the direct provision of microcredit, they are likely to be skeptical.

Whatever potential the American NGO world might have had to act as a critical counterpoint to the official aid bureaucracy has been dissipated, if not entirely lost.

In conclusion, the forces arrayed against change are powerful. Under their sway, ideas that do not cost a lot of money, that do not lead to large contracts, and that do not involve vehicles, computers, office equipment, furniture, travel allowances or hardship pay are unlikely to gain much traction. The stakes in keeping things pretty much the way they have been (cosmetic changes notwithstanding) are as high as ever.

For the time being, U.S. foreign aid policy (still) packages the same old wine in new bottles. ■