

Bush and Foreign Aid

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OUT OF THE BLUE

ONE OF THE greatest surprises of George W. Bush's presidency so far has been his call to dramatically increase U.S. foreign aid. In March 2002, Bush proposed an increase of 50 percent over the next three years through the creation of a Millennium Challenge Account (MCA), a fund that would provide \$5 billion per year to a select group of countries that are "ruling justly, investing in their people, and establishing economic freedom." That September, Bush released his National Security Strategy, which gave rare prominence to development and aid alongside defense and diplomacy. Then came his 2003 State of the Union address, in which he called for \$10 billion in new funding (\$15 billion total) over the next five years to combat HIV/AIDS in Africa and the Caribbean. This proposal was rapidly signed into law in late May, on the eve of the G-8 summit. And Bush's 2004 budget included two smaller initiatives: a \$200 million famine fund and a \$100 million fund for "complex emergencies." If these programs are funded as proposed, they will increase U.S. foreign aid from approximately \$11 billion in 2002 to \$18 billion in 2006—the largest increase in decades. Perhaps more important, they will also fundamentally change the way the United States delivers aid by making recipients more involved in setting priorities and by demanding greater accountability for results.

All of these initiatives were quite unexpected from a conservative Republican president whose party has shown a long-standing antag-

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*How close an embrace? George Bush with Nigeria's
Olusegun Obasanjo, Abuja, July 12, 2003*

onism toward foreign aid. Why, then, has Bush pushed for the new spending? Part of the answer is simple political expediency: he needed compelling announcements to make at the development summit in Monterrey, Mexico (hence the MCA), and in his State of the Union address (hence the HIV/AIDS proposal). To some extent, the programs are also part of the administration's response to the September 11, 2001, terrorist attacks. Yet, surprisingly, neither of the major initiatives is aimed at failed states that breed terrorism or at frontline states such as Turkey or Pakistan. The aim seems to be broader, perhaps indicating a reluctant acceptance of the fact that poverty and inequality around the world generate hostility and resentment toward the United States and thereby weaken national security. Both programs, and especially the HIV/AIDS proposal, appear to reflect a growing awareness that Washington must start using both "hard" and "soft" power if it is going to make the world a safer and more secure place.

On their own, however, Bush's new initiatives can have only modest success in fighting poverty, spreading prosperity, and combating AIDS. The MCA and HIV/AIDS programs each target only a small number of

countries, leaving behind the vast majority of poor nations—especially poorly performing and failed states. To make aid even more effective in the post-September 11 world, therefore, deeper changes are needed. The administration must develop hard-nosed, sensible strategies for working with countries that do not qualify for the MCA, from those that barely miss the bar to states that have utterly collapsed. It must restructure the U.S. Agency for International Development (USAID) so as to narrow its focus and revamp its aid-delivery mechanisms. It must rewrite the 1961 Foreign Assistance Act (FAA), an outdated piece of legislation that remains a millstone around USAID's neck. Improving the quality of aid will not be enough; increasing the quantity will also be necessary. Even with the Bush administration's new proposals, foreign aid is still not sufficient to meet the country's major foreign policy goals. Moreover, Washington must reexamine other U.S. policies that hurt poor countries. Its support for the 2002 farm bill; its reinstatement of the "Mexico City policy," which limits funding to family planning organizations; and its rejection of the Kyoto Protocol on climate change without proposing a stronger alternative have all harmed poor countries, in some cases doing more damage than any aid program can remedy.

AID AND SECURITY

FOREIGN AID first became an important tool of American national security policy under the Truman administration. The first great foreign aid program, the Marshall Plan, was aimed at rebuilding Western Europe after World War II, in part as a bulwark against Soviet expansion. President Kennedy vastly expanded U.S. foreign assistance by establishing the Peace Corps, USAID, and the Alliance for Progress, all three designed in part to stem the spread of communism. In the late 1960s, Vietnam became the largest recipient of U.S. foreign aid (defined as grants and subsidized loans aimed at economic development and humanitarian assistance and excluding military aid). By the early 1980s, the Reagan administration had started funneling the same kind of money into El Salvador, Honduras, Guatemala, the Philippines, Indonesia, and Zaire—none a paragon of democracy, but all fighting leftist threats of one kind or another. In the late 1970s, Washington began using aid to support another important foreign policy goal:

Middle East peace. As part of the Camp David accords, Washington significantly increased its support to Israel and Egypt. Today, these two countries remain the largest recipients of U.S. foreign assistance.

Despite these compelling policy interests, throughout the years foreign assistance never enjoyed strong support from Congress. In 1945, Senate Minority Leader Robert A. Taft (R-Ohio) compared membership in the International Monetary Fund (IMF) to “pouring money down a rat-hole.” Other isolationists joined the drumbeat: in 1947, Congressman (later Senator) Everett McKinley Dirksen (R-Ill.) similarly dubbed the Marshall Plan “Operation Rat-Hole.” Decades later, opposing aid became something of a badge of honor for Senator Jesse Helms (R-N.C.), who often boasted that he had “never voted for a foreign aid giveaway.”

With the end of the Cold War, foreign aid lost its original *raison d'être* and much of its remaining support. Critics, led by Senator Helms, charged that it had little impact on economic development and only “lin[ed] the pockets of corrupt dictators, while funding the salaries of a growing, bloated bureaucracy.” The successes in which aid had played an important supporting role—South Korea, Botswana, the Green Revolution (huge increases in grain production in developing countries thanks to the use of new rice and wheat varieties), and the fight to eliminate river blindness—were overshadowed by the focus on countries in which vast amounts of aid had achieved little. President George H.W. Bush, in a speech to the UN General Assembly in September 1992, described USAID as an “institution born in the Cold War [that] needs to be fundamentally and radically overhauled.” Senator Helms and others called for the elimination of the agency, and Senator Mitch McConnell (R-Ky.) urged that it be merged into the State Department.

It should hardly be surprising that aid did not always spur development, however, since that was not its principal aim. Some of its basic goals, such as the support of today's strategic allies, flatly contradicted the interest in longer-term development—contributing to the perception that aid is ineffective. Who believed that Zaire's dictator Mobutu Sese Seko would ever use American largesse to vaccinate children or train teachers? Measured against its true objectives, the supposed failure of aid becomes far less apparent. After all, the United

States won the Cold War, the threat of communism has essentially disappeared, and Israel and Egypt have remained at peace with one another since Camp David. If some foreign aid meant throwing money down rat holes, Washington at least made sure they weren't communist ones.

Since the end of the Cold War, the U.S. foreign assistance program has groped to find its bearings. No recent administration has articulated a compelling vision: what its purpose should be, how it relates to broader U.S. foreign policy and national security interests, and how aid programs should be executed. Outside of Israel, Egypt, and the states of the former Soviet Union, there has been no coherent strategic rationale for aid. Humanitarian arguments have garnered enough support to keep aid programs alive, but only barely: in fights to close the budget deficits during the early 1990s, foreign aid was a key loser. U.S. assistance to poor countries fell by 25 percent in real terms during the 1990s and by 50 percent as a share of U.S. national income (from two-tenths of one percent to one-tenth).

A NEW LEASE ON LIFE

AFTER SEPTEMBER 11 foreign aid came to the fore once again. The most immediate calls for aid, not surprisingly, were to rebuild Afghanistan and to support regional frontline states. The administration quickly committed \$297 million to Afghanistan, \$600 million to Pakistan, and \$250 million to Jordan. Then, in March 2002, almost out of the blue, the president proposed the MCA as part of a broader "compact for development" one week before he traveled to Monterrey, Mexico, for the UN International Conference on Financing for Development. In April, the administration pledged to increase U.S. funding for the World Bank by 18 percent over three years, contingent on the organization's meeting certain performance goals. Finally, in January's State of the Union address, the president unveiled the new Emergency Plan for AIDS Relief, and his new budget included \$300 million to fight famine and for "complex emergencies."

This agenda points to a new rationale for foreign assistance in the post-September 11 world, resting on four key motives. First, aid can

play a direct role in the war on terror by supporting both frontline countries and weak states where terrorism might breed. Bush's 2004 budget, accordingly, calls for \$4.7 billion for aid to key states, including \$657 million for Afghanistan, \$460 million for Jordan, \$395 million for Pakistan, and \$255 million for Turkey. The 2003 supplemental spending bill passed in March provided an additional \$5 billion for these and other countries seen as crucial partners in the war with Iraq. But, in addition to the frontline states, clear strategies are needed to deal with *failed* states that have no functional governments (such as Somalia), *failing* states that seem dangerously headed for collapse (such as Zimbabwe), and *fragile* states that could easily implode (such as Nigeria, Pakistan, and perhaps Indonesia). Foreign aid can be part, but probably only a relatively small part, of the strategies for these weak states. In failed states, for example, aid probably can do no more than provide humanitarian assistance, and there are circumstances in which the United States should provide no aid at all.

Second, foreign aid allows the United States to project "soft power" to accompany, and sometimes offset, its use of military power. For example, the juxtaposition of the HIV/AIDS initiative and the Iraq strategy in Bush's State of the Union address was striking. The administration clearly wanted to demonstrate to the American people, its European allies, and countries around the world that it was not simply fixated on military action, but was willing to project its power to address some of the world's most vexing humanitarian problems.

Third, there is the growing recognition—so far only partially embraced by the administration—that global poverty and inequality threaten U.S. security and national interests. The gap between the richest and the poorest countries of the world has widened in the last 20 years, breeding resentment and anger among people who believe—rightly or wrongly—that the rich have rigged the international economic system in their favor. The United States needs poor countries to support the values it champions and to believe that they, too, can achieve openness and prosperity. But they need U.S. support to make it happen. President Bush famously demanded in the aftermath of September 11 that countries would have to choose to be either with the United States or with the terrorists. Today Washington similarly must choose whether it is with the poor countries of the world or

against them to enable them to make the same choice about the United States.

And finally, poverty and inequality around the world simply run counter to the values of many Americans who believe that the widening income gap and high levels of absolute poverty in poor countries are morally unacceptable. This belief was at the core of the demonstrations against the World Trade Organization, the World Bank, and the IMF in recent years and helps explain calls for greater debt relief and foreign assistance among activists across the political spectrum. Moreover, these messages appear to be filtering through: the administration now regularly meets with church groups, activists (such as the Irish rock star Bono), and nongovernmental organizations (NGOs) to discuss development policies.

In the end, the key to poverty reduction in poor countries is sustained economic growth, which depends far more on a country's own policies and on world trade and financial systems than on foreign aid. Nevertheless, in the right environment aid can play an important role in fighting poverty, and it is in the U.S. interest to make it work better. To be effective, aid has to be both hardheaded and generous. The United States should provide significant support to countries with governments that are committed to making tough decisions consistent with open economic and political systems, as is the MCA's intent. Where governments are less committed or capable, aid should be smaller, with more of it channeled through effective nongovernmental organizations. In some countries, no aid should be given at all. Whenever money is disbursed, Washington should hold recipients more accountable, allocating more funds to activities that succeed and withdrawing money from those that fail.

WHITHER THE MCA?

THE MCA was Bush's first step toward making aid more effective and represents a sharp break with past U.S. policies. The basic idea behind it is to select a relatively small number of recipient countries based on their demonstrated commitment to sound policies, provide them with larger sums of money, give them more say in designing aid-funded programs, and hold them accountable for achieving results.

A newly created government corporation called the Millennium Challenge Corporation will run the program, with oversight from a

board of directors chaired by the secretary of state. The administration will select recipients based on 16 quantitative indicators meant to measure the extent to which countries are “ruling justly, investing in their people, and establishing economic freedom.” The indicators include areas such as budget deficits, trade policy, immunization rates, primary-school completion rates, control of corruption, and the protection of civil liberties. To qualify, a country must score above the median on half of the indicators in each of the three categories, and it must score above the median on corruption. This mechanical process will not dictate the ultimate recipients; the administration will have limited flexibility to adjust the list slightly to take account of gaps, lags, and weaknesses in the imperfect data. About a dozen low-income countries will qualify in the first year, with perhaps 18–20 making the cut by 2006. Once countries qualify, the corporation will fund broad programs designed in close consultation with recipient governments, NGOs, and the private sector. The recipients themselves will set priorities, propose specific activities, and establish benchmarks that will be used to measure progress. In return for this flexibility, the administration must demand greater accountability for results and be willing to cut off funding when programs fail.

Two key points about the selection process are worth emphasizing. First, by using a transparent methodology, the administration is attempting to depoliticize the selection process to a remarkable extent. In fact, the selection process limits (although it does not fully eliminate) the administration’s ability to use MCA funds for unrelated diplomatic goals and will therefore strengthen the program’s focus on growth and poverty reduction. Unfortunately, this focus on the poorest countries will be eroded starting in 2006, when the administration plans to expand eligibility for MCA funds to middle-income countries with less need and greater access to private capital. This group includes several countries of strategic interest to the United States—such as Russia, Colombia, Egypt, Jordan, and Turkey—raising the possibility that MCA funds could be diverted for political purposes. To keep the MCA focused on the poorest countries and avoid the temptation to allocate aid to political favorites, these countries should not be included in the program.

Second, the number of qualifying countries is necessarily small, a design intended to make the program more effective. But the size

involves a tradeoff: the greater the focus on a few countries with a strong commitment to good policy, the less impact the program will have on global poverty and inequality. From this perspective, the MCA will be too small: it may do a lot to help the countries that qualify but do little for the dozens that will not make the grade, leaving a gaping hole in the U.S. strategy to promote global prosperity.

FROM AID TO AIDS

THE PRESIDENT'S HIV/AIDS proposal will provide \$15 billion—\$10 billion of it in new funding—over the next five years to fight the pandemic, including \$5 billion to continue existing programs; \$1 billion for the Global Fund to Fight AIDS, Tuberculosis, and Malaria; and \$9 billion for a new program called the Emergency Plan for AIDS Relief focused on 14 countries in Africa and the Caribbean. Almost as astonishing as the level of funding was Bush's embrace of a comprehensive approach to fighting the disease, encompassing prevention, care, and treatment and including the provision of antiretroviral drugs. This was a huge step forward for an administration in which several top officials had publicly questioned whether Africans have the capacity to implement treatment programs effectively.

Until the State of the Union address, the administration's approach to HIV/AIDS had been tentative and partial. A good example was the mother-to-child transmission (MTCT) program, announced in June 2002. Although it was welcome, the initiative was a modest compromise. Washington was under pressure to do something visible but feared wading too far into a controversial issue involving sex, condoms, and drugs. The MTCT program provided a neat solution: who could be against stopping mother-to-child transmission of this horrible killer? The administration had plenty of political cover: months earlier, Senator Helms himself proposed spending \$500 million on the MTCT program, saying he was "ashamed" that he had not taken strong action earlier to fight the disease. But the administration's commitment was incomplete: that same month, it refused to support the Frist-Kerry Bill, which was aimed at increasing broader HIV/AIDS funding by \$500 million.

In the ensuing months, however, some members of the administration, the intelligence community, and conservative groups began

to recognize the extent of the crisis and the shortcomings of this partial approach. Secretary of State Colin Powell referred to HIV/AIDS as “a national security problem,” recalling the Clinton administration’s decision to classify the pandemic as a security threat. In September, the National Intelligence Council reported that the virus was on pace to spread quickly in several countries of enormous strategic importance to the United States, including China, Russia, and India. In the same month, the administration released its new National Security Strategy, which gave remarkable prominence to HIV/AIDS.

The Helms conversion, coupled with quiet backing from conservative religious leaders such as Franklin Graham, provided enough support to enact a stronger program. A stream of reports noted that life expectancy in Botswana had plunged from 60 to 39 years, that adult infection rates had surpassed 20 percent in seven African countries, and that 13 million children had been orphaned by AIDS in Africa (a figure equivalent to the entire population of Illinois). The administration seemed to grasp that the United States was perceived to be standing idly by as millions died and weak and volatile societies faced incredible social dislocation and upheaval—a situation that hardly advances either U.S. security interests or the broader interests of humanity.

Still, it remains unclear how this newfound commitment will be translated into actual policy. Although Congress has authorized up to \$3 billion for the program in 2004, the administration plans to start slowly, spending just \$2 billion in the first year, well below the amount needed to meet its \$15 billion, five-year commitment. The administration has nominated a new coordinator in the State Department to manage the program, an odd location from which to oversee a technically demanding health initiative and a choice that reflects bureaucratic infighting among agencies more than the program’s needs. The program was also weakened by ideological pressures that led to substantial amounts of money being set aside for abstinence programs and restrictions on funding for programs that work with prostitutes, both of which could undermine its effectiveness. Finally, whereas the law authorizes up to \$1 billion a year for the new Global Fund to Fight AIDS, Tuberculosis, and Malaria, the administration plans to provide only \$200 million—an amount far too small to ensure the effectiveness of this promising innovation.

MAKING IT WORK

ALTHOUGH THE NEW FOCUS on foreign aid signals a positive change in American attitude, the specific programs proposed by the administration will reach only a limited number of countries and are not particularly well coordinated with other assistance efforts. They do not yet constitute a complete foreign assistance strategy. Four broad steps must be taken if Washington's new programs are to reach more people and achieve stronger results.

First, the administration must deliver on its promises, and do so in short order. The MCA is off to a slow start: 11 months passed between the president's proposal and his submission of draft legislation to Congress, and 5 more have passed with little movement forward. The administration rejected the idea of jump-starting the program with small pilot projects in 2003. It has dragged its feet in planning and organizing the details of the program and has been reluctant to share information with Congress, allowing some early support to wane as a result. Funding in 2004 is therefore likely to be substantially lower than both the \$1.7 billion the administration originally implied it would seek and the \$1.3 billion it later requested. Indeed, in preliminary budget markups in July, the House Foreign Operations Appropriations Subcommittee allocated just \$800 million for the MCA for 2004, and the funding could well be cut further. The HIV/AIDS initiative is off to a better start, but the president's plan to ramp up the program slowly means it will only achieve its full impact if it actually receives additional funding in the later years. At the same time, the \$200 million requested by the president for the Global Fund is woefully inadequate. Congress is pushing for more—the May legislation authorizing the new HIV/AIDS program allowed for \$1 billion for the fund, and the House allocated \$500 million for the program in July—but the administration curiously plans to stand firm on the smallest figure. And in spite of repeated promises that new programs will not come at the expense of established ones, the administration has expended little energy to protect funding for existing programs such as USAID's Child Survival and Health Program.

Second, the administration must develop clear strategies for the dozens of countries that will not qualify for its new programs. For countries that just miss the MCA mark, traditional aid programs could

be revamped to allow recipients to write limited proposals, focusing on the specific areas where they fall short. In countries with weaker governments, donors should continue to concentrate on specific projects, but with streamlined contracting and procurement procedures to make projects more cost-effective. Where governments are especially weak (or are part of the problem), aid should be channeled through NGOs and other service providers on the ground. In addition, the administration should quickly expand the new HIV/AIDS program to other countries with high infection rates (such as Lesotho, Malawi, and Swaziland) and to countries fighting to keep prevalence low (such as India, Senegal, and Thailand).

Implementing effective strategies for these other countries will require additional funding. Although it is making progress, Washington is not as generous as it likes to think: even if the new programs are fully funded, the United States will move only from last to second-to-last on the Organization for Economic Cooperation and Development's list of aid providers per capita; aid will then represent just about one-seventh of one percent of U.S. GDP, a figure still below the 1990 level. More important, even with these new programs, the level of foreign assistance simply is not sufficient to get the job done. To put things in perspective, consider Mozambique, where public health spending today constitutes about \$6 per person per year, and significant increases are clearly limited by an average income of \$200 per year. Aid flows that raised health expenditures by, say, 50 percent would raise public health spending to just \$9 per person per year, hardly enough to fund a decent health system, even with forceful government commitment and good policies.

Third, foreign aid alone will not be enough. Although most of the burden lies with the governments of developing countries to implement sound policies, Washington must rethink some of its nonaid policies that affect these nations, especially in the area of trade. It is no secret that U.S. textile quotas have long denied jobs to workers in poor countries. Initiatives such as the Clinton administration's African Growth and Opportunity Act, now embraced by the Bush administration, should hardly be trumpeted as the United States' "giving" something to poor countries, since the legislation only slightly reduces existing barriers and leaves significant obstacles untouched. Other policies raise new barriers, the most pernicious being the 2002 farm bill. Its large subsidies

tilted the playing field even more in favor of U.S. farmers and led to large drops in world commodity prices (especially cotton), seriously harming farmers in developing countries. European farm subsidies do even more damage, but that is no excuse for the United States to further impoverish poor farmers around the world. These policies are precisely the kinds of actions that deepen resentment and distrust of the United States and make its espoused commitment to openness and prosperity for all ring hollow. Other areas calling for urgent improvement include debt-relief, health, and climate change policies that affect developing nations.

Fourth and finally, making U.S. foreign assistance more effective will require fundamentally restructuring existing programs. A striking feature of the new MCA and HIV/AIDS initiatives is that neither will be implemented through existing channels, revealing the administration's distrust of conventional U.S. aid bureaucracies (not to mention multilateral vehicles such as the Global Fund). But implementing separate initiatives threatens to further fragment the already disconnected U.S. development and humanitarian assistance programs. Major programs today are carried out by USAID and the Departments of Treasury, State, and Health and Human Services, not to mention the smaller African Development Foundation and Inter-American Development Foundation. Several other departments run still smaller programs. To this mix the administration is now adding a new corporation to run the MCA and a State Department coordinator for HIV/AIDS. The result could be greater fragmentation, less coordination, more bureaucratic rivalry, and less-effective assistance.

Most important, the administration must clearly define the mission of USAID. The 1961 FAA, as amended, contains a remarkable 33 objectives and 75 priorities for USAID. An overabundance of earmarked funds, directives, and strictures renders USAID unable to meet many of its goals. Indeed, according to the agency's staff, the amount of funding required to meet all of the directives aimed at specific issues exceeds the agency's appropriations. Contracting and procurement procedures at USAID are nightmarish. Yet USAID should be the key agency for working in dozens of countries that will not qualify for the MCA. It should also be a main vehicle for the new HIV/AIDS program, building on the successful programs it has in place across Africa. To make such

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a central role possible, however, the administration and Congress must develop a new strategic vision for USAID with clearer objectives, a narrower scope of activities, and diverse approaches to address the circumstances of different countries. As part of this process, they should finally rewrite the FAA to clarify the role aid is to play in meeting U.S. foreign policy goals in the twenty-first century and the methods needed for it to fill that role. They should also throw out and redesign from scratch the morass of personnel and procurement regulations, earmarked funds, and rules that require the purchase of American goods and services, thus undermining USAID's effectiveness.

Taking on these challenges will not be easy. Revamping USAID will require both legislative changes and altering its internal bureaucracy and mindset. Several attempts to rewrite the FAA have been made in the last two decades, and all fell short due to lack of support in either the administration or on Capitol Hill. But today there is backing for foreign assistance in the administration and among lawmakers on both sides of the aisle, with a growing consensus around objectives, methods, and strategies. There is a certain Nixon-goes-to-China flavor in Bush's embrace of new foreign aid programs that opens the door for a true bipartisan effort. It is time to take advantage of this rare opportunity to make U.S. foreign assistance more effective in combating poverty, widening the circle of development and prosperity, fighting terrorism, and furthering other U.S. strategic interests abroad. 🌐