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## Toward a Complete Foreign Assistance Strategy

Although the MCA is an important new program with great potential, only a small number of countries will receive MCA funding—perhaps 20 or so over the first three years. The administration has not developed comparable strategies for countries that fail to qualify for MCA funding, whether they just miss qualifying or are failed states mired in perpetual conflict. Thus, the MCA falls well short of the goal of effectively supporting a large number of countries struggling with poverty and global inequality, and it does nothing to directly fight the war on terrorism. Moreover, the potentially positive impacts of the MCA and broader foreign aid programs are diminished by other US policies that undermine growth and development in low-income countries, particularly certain trade restrictions and agricultural subsidies. Thus the MCA is, at best, only part of a complete foreign assistance strategy.

### **Beyond the MCA: Foreign Assistance in Nonqualifying Countries<sup>1</sup>**

Since the MCA focuses on countries with governments that have shown the strongest commitment to development, it deals with the easiest cases among poor countries and therefore will have little impact on dozens of others, including failed and failing states that pose a security threat, allies

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1. Parts of this section are drawn from Radelet (2003).

in the war on terrorism, and others struggling to achieve prosperity, which do not quite qualify for the MCA. How should US foreign assistance programs be designed for these countries?

One strategy would be to open up the MCA to more countries in an attempt to meet broader national security goals. In a House International Relations Committee meeting on March 6, 2003, one member of Congress called for an expansion of the MCA selection criteria to include measures of a country's cooperation with the United States on fighting the war on terrorism.<sup>2</sup> In effect, if a country fell short on any of the three original MCA criteria—ruling justly, investing in people, and establishing economic freedom—it could still qualify for the program by virtue of actions taken in the war on terrorism. This idea, while compelling in the sense of doing something directly to fight terrorism, would cripple the MCA, since it would subject the program to the same conflicting pressures that have bedeviled past aid programs. A single tool cannot be used to solve all problems. Just as using a screwdriver to drill holes would destroy it, using the MCA to assist strategic partners would irreparably harm it. The US government should reward countries that cooperate in the war on terrorism—surely a worthy goal—with different tools, leaving the MCA to concentrate on growth and development.

However, while the proposed expansion of the MCA would not work, the broader point is correct: the United States needs clear strategies for the countries that do not qualify for the MCA. US objectives and local circumstances in non-MCA countries are bound to differ from those in MCA countries, demanding that a different approach be applied.

Consider first the countries that almost qualify for the MCA but fall short in one or two areas—the so-called tier II countries. US objectives—of economic growth and poverty reduction—in these countries are broadly similar to those in the MCA countries, but the conditions on the ground in these countries are not yet strong enough to allow for the more flexible funding mechanisms envisioned for the MCA. One approach, advocated by Gene Sperling and Tom Hart (2003), is expanding the MCA to include these countries in a second tier. They propose that half the MCA funding should go to the first-tier countries and the other half to a larger group of second-tier countries that, while not meeting the full MCA standards, have shown commitment and progress in at least one important policy area. For example, a country that fails to qualify for the first tier of the MCA but has a strong record on education policy could tap into the second tier to partially fund its education strategy.

A different approach would be to keep the MCA as an exclusive program for countries that meet the standards, but to redesign current US aid programs in the tier II countries to meet the objectives that Sperling and Hart correctly identify. This approach would have the advantage of keep-

2. See complete hearing at [wwwa.house.gov/international\\_relations/fullhear.htm](http://wwwa.house.gov/international_relations/fullhear.htm).

ing the MCA “pure” and provide greater incentives for countries to qualify. USAID would play the primary role in the tier II countries, implying that the administration needs to develop a strategy to make USAID more effective on the ground in these situations. For example, traditional aid programs could be changed to allow governments in tier II countries to write proposals focused on the areas where they fall short of qualification, with the aim of helping them qualify in the near future. Or, as Sperling and Hart suggest, they could write proposals in the areas in which they have demonstrated the strongest commitment and some early success. In either case, these proposals would be much more limited than MCA programs. But like the MCA, these programs would be held to rigorous standards of accountability and transparency and would be carefully monitored and evaluated. If these programs were successful, the administration could seek additional funding for them, or it could consider using some of the \$5 billion annual MCA allotment, if the qualifying countries are unable to effectively absorb the full amount.

In countries a little farther from qualifying, something closer to traditional USAID approaches could be used, with two important changes. First, USAID must adopt a narrower scope of activities. The agency is involved in far too broad a spectrum of activities. It must learn that just because a problem exists in a developing country does not mean USAID must fund a program to solve it. Early in the Bush administration, USAID identified the following priority areas: economic growth; trade and agriculture; global health; and democratization, conflict prevention, and humanitarian assistance. But this list is too broad: economic growth can include everything from education to bond markets to privatization to roads. The agency needs to narrow its scope significantly (to perhaps health, education, agriculture, and humanitarian aid) and focus on improved performance in those areas. Second, to be successful in these countries, USAID will need more flexibility from Congress, with fewer earmarks and directives and more flexible procurement and contracting procedures. Many of the USAID’s difficulties can be traced to the labyrinth of restrictions that Congress has placed on it, and it is difficult to see how its performance can be significantly improved without some relief from these burdens.

In nations with weaker, more corrupt governments that show no interest in development, USAID should direct funds carefully (within its narrower set of activities), with most activities carried out by nongovernmental organizations (NGOs) rather than by the government. The precise methods should be determined on a case-by-case basis. In some nations with weaker governments—especially new ones or those in postconflict situations, such as Afghanistan, for example—working through the government may make sense, as a way to strengthen government institutions and provide a basis for stronger development policies.

The greatest challenge lies in failed states, where governments are ineffective or nonexistent, and terrorism, drug trafficking, money laundering,

and other international crime can breed. Although the Bush administration's National Security Strategy is replete with discussion of these countries and the threats they pose, it contains no real strategy for dealing with them. Foreign aid can only play a limited role, in concert with diplomatic and other initiatives. In some cases, the United States might provide limited funding to governments to reward tentative positive steps. In the most desperate situations, it can do little more than provide humanitarian assistance through NGOs. In some cases it should provide nothing at all, as aid can actually make the situation worse. The risks in these situations are huge, as demonstrated in Somalia and Afghanistan, with a high chance of failure. But the stakes for the United States are equally high.

Making these strategies work will require a firm commitment both to designing forceful strategies and to providing adequate funding. As discussed in chapter 1, even with full funding for both the MCA and the HIV/AIDS initiative, US ODA levels will reach only about 0.17 percent of GDP in 2006, well below pre-1990 levels. In announcing the two new programs, President Bush made a firm pledge that the new programs would be fully funded without reducing appropriations for current programs. With growing overall budget pressures and the need for new funding for rebuilding in both Iraq and Afghanistan, the president's commitment to this pledge will be sorely tested. However, programs for the tier II countries, failed and failing states, and strategic partners cannot be funded on the cheap without risking their effectiveness in meeting US foreign policy objectives.

In addition, however, the global economic environment is of central importance, and here the United States plays a key role. If the United States is serious about helping low-income nations establish a base for robust private-sector activities, sustained economic growth, and poverty reduction, it must rethink some of its other policies affecting these nations.

The most important are protectionist US trade policies that forbid poor countries from selling their textile and agriculture products in US markets and agricultural subsidies that give an unfair advantage to US farmers. The 2002 farm bill was a major step backward because it encourages even greater surplus US agricultural production, artificially depresses world prices further, and undermines the incentives and opportunities for some of the poorest farmers in the world to make a subsistence living. According to a recent Oxfam report, US cotton subsidies are larger than the entire GDP of Burkina Faso and three times larger than USAID's budget for all of Africa. The report estimates that the subsidies created economic losses greater than 1 percent of GDP in Burkina Faso, Mali, and Benin (Oxfam 2002).

Indeed, in mid-March 2003, the World Trade Organization set up a dispute panel to investigate Brazil's complaint that US cotton subsidies are illegal under international trade rules. The Brazilian government argued that the subsidies are squeezing its exports in world markets and depressing world prices, and cost Brazilian cotton farmers \$640 million in lost

foreign earnings in 2002. India, Pakistan, China, Taiwan, Argentina, and Venezuela asked to be third parties in the case. Whatever the merits of the case, it is one indication that the US government's claim that it desires a truly open global trading system and widespread economic opportunities is not altogether convincing to low- and middle-income countries.

As significant as the MCA is, opening US markets to allow the world's poorest farmers to sell their products on an equitable basis would be far more beneficial to a greater number of poor nations as well as to the US economy. Initiatives like the Clinton administration's Africa Growth and Opportunity Act and the Caribbean Basin Initiative, now embraced by the Bush administration, are only first steps, since they only slightly reduce existing barriers and leave significant obstacles untouched.

Similarly, greater debt relief is imperative for some of the poorest countries (such as Uganda, Ghana, and Tanzania) to make the public investments in health and education necessary to provide the basis for economic growth. The United States has already forgiven 100 percent of its claims on these and other low-income countries, including some potentially MCA-eligible countries, through the Heavily Indebted Poor Country (HIPC) Initiative.<sup>3</sup> This was a huge step forward, but the United States should work actively toward finding ways for the International Monetary Fund, the World Bank, and other international institutions to provide more debt relief for deserving countries.

The United States should also revisit other policies with deleterious impacts on poor countries. For example, climate change is already disproportionately affecting poor countries through unusual weather patterns. The Kyoto accords may have been flawed, as the administration claimed, but President Bush's decision to walk away from the negotiations sent a chilling message that the American economy was more important than any other consideration, adding to resentment abroad. Fortunately, the administration has acknowledged that global warming is a problem, but it has yet to introduce a strategy to fight it. The administration's reinstatement of the so-called Mexico City amendment, which bans funding to overseas health organizations with even indirect ties to abortion services, will reduce effective family planning programs to the detriment of poor women worldwide. The Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement that was concluded in 1994 increases the cost of access to many products and technologies for poor countries and is likely to reduce competition, further increasing prices in the future. It creates significant disadvantages for low-income countries in many important development areas, such as health, agriculture, education, and information technologies.<sup>4</sup>

3. For an analysis see Birdsall and Williamson (2002).

4. See the report of the UK government's Commission on Intellectual Property Rights at [www.iprcommission.org/graphic/documents/final\\_report.htm](http://www.iprcommission.org/graphic/documents/final_report.htm).

These policies undermine the goals of the MCA and will make its programs less effective than they could be in fighting poverty, creating economic opportunities, and spreading prosperity in low-income countries. The Center for Global Development and *Foreign Policy* magazine have recently constructed a Commitment to Development Index ranking 21 of the richest countries on six dimensions of their policies toward poor countries: aid, environment, investment, migration, peacekeeping, and trade. The United States ranked 20th on the list.<sup>5</sup> If the US government is serious about achieving these goals, it will have to fundamentally change some of its own policies that stand in the way.

## A Fundamental Restructuring

Making USAID and other foreign assistance programs more effective will require a fundamental restructuring of existing programs. A striking feature of the MCA and President Bush's HIV/AIDS initiative is that both programs will be administered outside existing channels, revealing the administration's lack of confidence in conventional US aid bureaucracies (not to mention multilateral vehicles such as the Global Fund to Fight AIDS, Tuberculosis, and Malaria). But implementing separate initiatives threatens to further confuse the already disconnected US development and humanitarian assistance programs. Moreover, if the existing system is inadequate to administer the new programs, it should be restructured and strengthened, and so far the administration is eschewing that task. To avoid taking on that challenge imperils the effectiveness and threatens the future of foreign aid programs outside the MCA.

The administration and Congress should develop a new strategic vision for USAID. The agency's recent report titled *Foreign Aid in the National Interest* falls short of proposing a new strategy and vision (USAID 2003). USAID Administrator Andrew Natsios' testimonies before the Senate Foreign Relations Committee and House International Relations Committee in early March 2003 are more on the mark, representing what may be the first tentative steps in the right direction.<sup>6</sup> Key aspects of a new strategy should include:

- Defining the different approaches USAID will make and the different aid delivery mechanisms it will use in tier II countries, weaker coun-

5. For more information about the index, see the May/June 2003 issue of *Foreign Policy* magazine, [www.foreignpolicy.com](http://www.foreignpolicy.com), and the Center for Global Development Web site, [www.cgdev.org](http://www.cgdev.org). See also Birdsall and Clemens (2003).

6. See the written testimony of all the witnesses, including Administrator Natsios, at <http://foreign.senate.gov/hearings/hrg030304a.html>.

tries, and failed states to achieve results, recognizing the greater risks inherent in these circumstances.

- Narrowing the scope of activities that USAID funds. Setting priorities means making clear decisions about the range of activities that the agency will no longer undertake. A clearer focus, however, will lead to more effective interventions and stronger results.
- Fully transferring political-based aid programs, such as building democracies, preventing conflicts, and supporting front-line states, to the State Department, as proposed by Lancaster (2000). These programs should be evaluated separately from other USAID operations.
- Perhaps more important, finally rewriting the Foreign Assistance Act (FAA) to clarify the roles and methods of foreign assistance to meet US foreign policy goals in the 21st century. As part of the process, the administration and Congress should discard the morass of earmarks, directives, and other cumbersome rules that undermine USAID's effectiveness and design from scratch a more effective set of operational rules.

Taking on these challenges will not be easy. Revamping USAID will require altering its internal bureaucracy and mindset. Several attempts to rewrite the FAA have been made in the last two decades, but all fell short because of lack of support in either the administration or Congress. Without these changes, however, the US foreign assistance program will not succeed in supporting major US foreign policy goals of enhancing security and expanding prosperity.

To date, the Bush administration's approach to its new aid initiatives has been to introduce them as separate programs rather than integrate them with existing programs. It has followed this pattern with the MCA, the new HIV/AIDS program, the new funds for complex emergencies and famine, the Middle East initiative, and other programs. This approach threatens to balkanize US foreign assistance programs, rather than coordinate them in an integrated way. For these initiatives to be more effective, a more comprehensive restructuring of foreign assistance is necessary, including rewriting the FAA.

A rare moment of bipartisan support now exists for foreign assistance in both the administration and Congress, with a growing confluence of ideas on objectives, methods, and strategies. There is a certain Nixon-goes-to-China flavor in President Bush's embrace of new foreign aid programs, which opens the door for a true bipartisan effort at fundamental change. It is time to take advantage of this opportunity to make US foreign assistance more effective in combating poverty, widening the circle of development and prosperity, fighting terrorism, and furthering other US strategic interests abroad.

