WEEK 12: IS MORE FOREIGN AID THE ANSWER?
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I. Development Assistance

A. What is Foreign Aid

Def: Private & public resource transfers ($) from DCs to LDCs

B. Why Do DCs & Organizations Give Foreign Aid?

- Promote economic development (e.g., education, health)
- Support their security, military, political & strategic interests
- Dispose of “surplus” grain/sell other products
- Encourage human rights, economics policy& democratic reforms
- Respond to humanitarian disasters (tsunamis, famines, earthquakes)
- Other?
C. Who Provides Foreign Aid & Why?

1. Public sources: "Official Development Assistance" (ODA)

   **Note**: ODA only includes $ that goes to poor LDCs for development & humanitarian assistance (not military aid)

   o Major **multilateral donors** ($ from DCs to LDCs via an international organization)
     - UN Agencies--FAO, WFP, UNDP, IFAD, WHO, UNICEF
     - Non-UN Agencies--WB & IMF (big!), Euro.Development Fund
     - Regional Dev.Banks--Asian, African, Inter-Amer.Dev. Bank

     **Why?** to promote economic development & economic reforms

   o Major **bilateral donors** ($ from a DC to a govt. & NGOs in LDCs)
     - Western DCs (especially to former colonies)
     - OPEC countries (especially to Arab world)
     - Japan (especially to Asia)

     **Why?** Promote security, economic/political reforms, dispose of agricultural surpluses (i.e., US)

2. Private sources ($ from orgs. & individuals to international organizations, & NGOs working in LDCs)

   o Foundations: Rockefeller, Ford, Kellogg, Gates

   o Churches: World Council of Churches, individual denominations

   o NGOs: Oxfam, CARE, CRS, Save the Children, Doctors Without Borders, World Vision, etc.

   o Private philanthropy—some recent examples
     - Gates--donates more $ for **world health** (AIDS, TB, malaria) that U.S. govt.!
     - Buffett—$30.7 billion via Gates Foundation
     - Turner—in late 1990s, gave $34 billion to pay US’s UN debt, $1 billion to UN humanitarian programs.
     - Soros--gives $ to private **institution** in 27 former communist countries to strengthen **civic society**
     - And the “new rich” in LDCs

     **Why?** Promote humanitarian concerns, development
   *A broader concept of foreign aid* (USAID’s new idea)  
   - Foreign direct investment (FDI): 39%  
   - Personal remittances (esp. to Mexico, Brazil): 25%  
   - ODA (Part I, poor LDCs, & Part II, other countries): 18%  
   - Religious organizations: 5%  
   - NGOs/PVOs: 5%  
   - Corporations/corporate foundations: 4%  
   - University/college scholarships: 2%  
   - Foundations: 2%

   **Should these all be called “foreign aid”?**

   - FDI=$301 billion, Remittances=$126 billion, Bilateral Aid=$68 billion,  
     World Bank=$20 billion, NGOs=$5 billion

D. *Is Foreign Aid (ODA) a gift?*  
   - **Loans**—made at commercial or subsidized interest rates  
   - WB & Int. Monetary Fund primarily make loans which must be repaid  
   - **Grants**—no repayment required, bilateral aid is mostly grants

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II. **UN Millennium Development Goals**  
   They are a blueprint—agreed to by all countries & leading development institutions—for meeting the needs of the world’s poorest

**What are the 8 key goals? (2015)**  
   - Eradicate extreme poverty & hunger  
   - Achieve universal primary education  
   - Promote gender equality & empower women  
   - Reduce child mortality  
   - Improve maternal health  
   - Combat HIV/AIDS, malaria & other diseases  
   - Ensure environmental sustainability  
   - Develop a global partnership for development

**What’s needed to achieve them?**  
   - Developing countries—a greater commitment (“political will”) to political, economic & social reforms  
   - Developed countries—an increase in foreign aid & trade reforms

**Trends in ODA—all donors**  
   - Up since 2000, but world financial crisis threatens future increases
### III. US Foreign Aid Spending ($20.7 billion, 2004)  
(Foreign Operations Budget--Illustrative)

<table>
<thead>
<tr>
<th>Type</th>
<th>Amount</th>
<th>Percent</th>
<th>Description</th>
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<tbody>
<tr>
<td><strong>Military Assistance</strong></td>
<td>$3.4 billion</td>
<td>23%</td>
<td>Mostly to Israel, Middle East countries</td>
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<tr>
<td><strong>Economic/Political Security Assistance</strong></td>
<td>$5.4 billion</td>
<td>26%</td>
<td>Supports for US security interests; $ is paid directly to the govt.</td>
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<td>Goal--assist &quot;friendly&quot; governments facing a crisis/threat</td>
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<td>Provides $ for country to import goods, pay foreign debts</td>
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<td>Examples--Aid to Vietnam (formerly), Israel, Egypt, Afghanistan</td>
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<td><strong>Bilateral Development Aid</strong></td>
<td>$6.2 billion</td>
<td>30%</td>
<td>Projects designed to strengthen/build agricultural research, family planning,</td>
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<td>road, health services, universities, environment</td>
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<td>Technical assistance--pays salaries for &quot;experts&quot; to teach, plan &amp; manage</td>
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<td>projects</td>
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<td>Training--scholarships to study in US (Fulbright program)</td>
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<td>Commodities—buildings, vehicles, equipment</td>
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<td><strong>Humanitarian/Disaster Relief Assistance</strong></td>
<td>$2.6 billion</td>
<td>12%</td>
<td>Assistance to people affected by tsunamis, earthquakes, drought</td>
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<tr>
<td><strong>Multilateral Development</strong></td>
<td>$1.7 billion</td>
<td>8%</td>
<td>US government transfers $ to international agencies</td>
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**Note**: Foreign Aid-Related Expenditures NOT Considered ODA

- Military Aid--addresses US security concerns
- Drug suppression--reduces flow of drug to the US
- Debt forgiveness--reduces LDC’s debt burden
- Subsidies to US exporters--provides subsidies & repayment guarantees to promote US exports
- State Department—supports diplomatic relationships abroad
- Peace Corps—supports humanitarian projects
IV. History of U.S. Foreign Aid Program

Overview
- US has given aid given throughout its history
  - **Note**: Ben Franklin, earliest example, offered to send sons to college after Iroquois signed a treaty with the US government
- Formalized & expanded since WW II
  - Has **primarily** focused on promoting the “national interest” (i.e., US foreign policy objectives)

A. Early AID Programs
1. Lend-Lease (1941-45): provided military support to European allies
2. Marshall Plan (1948-52): provided funds to rehabilitate Europe
3. Mutual Security Act (1951): provided military aid to support security interests in Europe/Asia (Korean war, cold war)

B. Foundations For Current AID Program
1. **Roosevelt**—sought to build a more liberal political & economic order
   - Build international orgs./UN to insure world peace & stability
2. **Truman**—emphasized technical assistance
   - Give LDCs access to science & technology
3. **Kennedy** (1960)—“prosperous world is a more secure world”
   - Increase economic growth (not development) via industrialization
   - Assumed benefits would “trickle down” to the poor
4. **Johnson** (1963)—aid to SE Asia, driven by the Vietnam War
5. **Nixon** (1968)—help the “poorest of the poor”
   - Focused on supporting agricultural, nutrition, population, health, education projects (build land grant universities in LDCs) that were very expensive
6. Reagan (1980) -- need to focus resources on more cost-effective and strategic projects
   o Promoted policy reforms, beginning of Washington Consensus

7. Bush I (1988) -- LDC’s policies discourage development, so
   o Link aid to economic policy, human rights & democratic reforms
   o Strengthen the private sector & work with NGOs
   o Promote sustainable development (more $ for population, environment)

   o Focused on economic growth & agricultural development; population, health & nutrition; environment; democracy & governance; education & training; humanitarian assistance

C. USAID’s (Bush II) Bilateral Program ($8.2 billion, 2004)
   (Excluding $18 billion for Iraq)

1. Three Pillars
   o Economic Growth, Agriculture & Trade (54%)
     Focus: a) interdependence of economic growth & agricultural development, b) sustainability, c) human capital to create viable market economies

   o Democracy, Conflict, & Humanitarian Assistance (15%)
     Focus: a) promote peaceful resolution of conflict, b) citizen participation & growth of democracies, c) respond to man-made/natural disasters—including food aid

   o Global Health (31%)
     Focus: a) maternal & child health, nutrition, women’s reproductive health, b) HIV/AIDS, c) infectious diseases
2. Regional Distribution—excl. Iraq ($8.2 billion, 2004) (Figure)
   o Middle East (38.4%)
     ✓ Israel=US$ 2.6 billion
     ✓ Egypt=US$ 1.37 million
   o Africa (18.3%)
   o South Asia (17.3%)
   o Europe (inc. Russia & NIS) (11.4%)
   o Latin America & Caribbean (11.4%)
   o East Asia (3.1%)

3. Recent Trends in U.S. ODA
   o Increase in bilateral aid
   o More aid for new initiatives
     ✓ Global AIDS Initiative
     ✓ Millennium Challenge Account
   o More aid to Africa (health), global war on terrorism partners (Figure)
   o More aid to Afghanistan & Iraq
   o Less aid to Europe

D. Obama? Too early to say (http://www.usaid.gov)
   o Feed the Future--$3.5 billion over 3 years (WWW)

V. Is Foreign Aid a Success or a Failure?

A. Many accomplishments:
   o Major improvements in LDCs–infant mortality, life expectancy, literacy, health services, school enrollment

   o Many successful projects:
     Examples
     ✓ Infrastructure–roads, dams, universities
     ✓ Health--smallpox, oral rehydration, AIDS, family planning
     ✓ Agriculture--research, famine early warning, new crop varieties

     But hard to measure foreign aids’ impact on “economic development”
   o AID has multiple objectives (security more than development!)

   o Problems facing LDCs are great, $ for foreign aid is very small
     Note: Total ODA DCs gave to LDCs (2002) was about $10/capita ($56 billion), but increased to about $104 billion in 2007 (Map)

   o Many years are require to see the impact of a project

   o Hard to sort out "other" factors (e.g., weather, conflicts)
B. What are Some Major Criticisms of Foreign Aid?

- We can’t afford to aid to LDCs—should 1st address unmet US needs
  - **But**  
    - AID is only a small part (0.9%) of the US Federal budget *(Figure)*

- AID goes to corrupt leaders in LDCs  
  - **But**  
    - Aid has been and still is given for political/security reasons
    - Reforms have been made to increase accountability/reduce corruption (e.g., Millennium Challenge Account, new WB policies to combat corruption)

- AID benefits rich people in LDCs, not the poor
  - **But**  
    - Aid is now being redirected to:
      - Preserve the environment, promote health & nutrition
      - Support free market economic reforms, promote democracy

- AID doesn’t help the US
  - **But**  
    - Most aid $ are actually spent in the US (80%)
    - US benefits, if foreign aid helps LDCs to develop:
      - Creates new export markets for US firms
      - Exports created jobs for Americans
      - Reduces illegal immigration from poor LDCs
      - Reduces environmental spillover
      - Reduces threat/spread of human/crop diseases
    - US benefits if foreign aid prevent “failed” states (e.g. states that harbor terrorists, drug traffickers, spark humanitarian disasters, undermine the global economy)

C. What Lessons Have we Learned for Making Foreign Aid More Effective in Promoting Development?

- Aid’s impact is greatest, if LDC’s policies support free market, exports, private enterprise, democracy

- Investments in human capital (people), institutions & infrastructure are the key catalysis of economic development
VI. Future of Foreign Aid

A. United States
   1. Most Americans support Foreign Aid
      - 2000 Poll—Most supported giving aid, but thought US spent too much (20% of federal budget)--10% was preferred! (Actual =0.9%)
      - 2006 Poll—65% felt US should give 0.7 of GDP to assist poor countries, 71% were willing to give $15-$30/capita to achieve Millennium Development goals
   2. Post 9/11 has increased Congress's support for foreign aid (Cartoon)
      - Millennium Challenge Account
      - Commits US to increase aid
      - Aid will target LDCs that show strong commitment to good governance/fighting corruption, improving health/education & pursuing economic policies that foster enterprise
      - HIV/AIDS—major US commitment
      - But aid will still be driven by national security issues (terrorism, oil)
        - Winners: Iraq, Afghanistan, oil exporters
        - Losers: human rights, non-frontline nations

B. G-8/G-20
   1. Greater priority to supporting agriculture (Decline in Ag AID)
   2. Increased loans/guarantees to combat financial crisis
   3. But concern that G-8 countries aren’t meeting aid commitments

C. World Bank’s (Pres. Wolfson) Challenge to DCs
   1. Increase ODA from DCs by US$ 10 billion/year for 5 years
   2. Reduce agricultural subsidies (now US$ 350 billion, 7 time ODA)
   3. Open markets to goods produced in LDC
   4. Increase debt relief for the poorest LDCs (primarily in Africa)

D. NGO Community’s Concerns
   1. Must recognize that “relief” efforts don’t address the causes of a disaster—must refocus on the root causes
   2. “Rich & powerful”/govts. & int. orgs. to increase aid to Africa, provide more debt relief & reduce agricultural subsidies
   3. Must NOT use humanitarian agencies to promote military objectives
   4. Must find a way to keep DCs engaged—not just for tsunami’s
   5. W.B. must promote poverty reduction, not US policy goals
D. African Leaders (Who will save Africa?)

1. Now realizing African countries will prosper or collapse together, must take greater responsibility for solving Africa's problems

2. Several recent promising developments
   (e.g. Pan African Parliament, African Standby Force, East African Community, African Court on Human & People’s Rights)

3. New Partnership for African Development (NEPAD)
   o Will implement peer review: democracy, good governance, human rights, gender equality, development policies
   o Hope to reverse the decline in Aid to Africa (Figure)
   o Developing option for donors to put $ into a common basket

E. Private capital flows are replacing Aid as source of development $ But
   o Private investment (1996) was 16 time greater than ODA and is increasing, but goes mainly to only 29 countries (Figure)

2. Africa still needs Aid--little private capital flows to SSA—due to small markets, poor infrastructure, untrained labor force, political instability—recent increases mainly in resource extraction (Figure)

VII. Conclusion

Aid isn't **THE ANSWER** to development, but it’s an important **PART** of the solution

**LDCs need to help themselves:**
- Implement political reforms to increase accountability
- Implement economic reforms to promote growth & increase foreign investment
- Slow population growth to more resources available for development
- Invest in education/training/health to increase productivity
- Invest in agriculture to increase food production
- Other?

**DCs need to help LDC's achieve these goals by:**
- Providing additional foreign aid--global cooperation is the only way to solve world’s critical problems, reduce poverty
- Supporting trade reforms, so LDCs can sell exports in DCs
- Recognizing cost-effectiveness & importance of aid
- Other?
VIII. Myths About U.S. Foreign AID

**Myth #1: AID Goes to the Poorest Regions of the World**

**Fact:** Power politics has been most important

**Historical Trend**

- Asia’s share—down
- Africa share—has always been small, but will increase in the future—Africa’s problems increasingly threaten DC’s security
- Middle East’s share, up after Camp David Agreement

**Myth #2: Most Foreign Aid Goes to the Poorest LDCs**

**Fact:** Reducing poverty hasn’t a primary rational for US aid

<table>
<thead>
<tr>
<th>Country</th>
<th>Amount</th>
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<tr>
<td>Iraq</td>
<td>$18.4 billion</td>
</tr>
<tr>
<td>Israel</td>
<td>$2.6 billion</td>
</tr>
<tr>
<td>Egypt</td>
<td>$1.87 billion</td>
</tr>
<tr>
<td>Afghanistan</td>
<td>$1.77 billion</td>
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<tr>
<td>Colombia</td>
<td>$0.57 billion</td>
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<tr>
<td>Jordan</td>
<td>$0.56 billion</td>
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<tr>
<td>Pakistan</td>
<td>$0.39 billion</td>
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<tr>
<td>Liberia</td>
<td>$0.21 billion</td>
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<tr>
<td>Peru</td>
<td>$0.17 billion</td>
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<tr>
<td>Ethiopia</td>
<td>$0.16 billion</td>
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**Myth #3: Most Foreign Aid Is For Development Projects & Food Aid**

**Fact:** Most AID $ have been spent on military assistance & Economic/Political Security

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<th>Type</th>
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<tbody>
<tr>
<td>Bilateral Development</td>
<td>30.1%</td>
</tr>
<tr>
<td>Military</td>
<td>23.2%</td>
</tr>
<tr>
<td>Economic/Political Security</td>
<td>26.1%</td>
</tr>
<tr>
<td>Humanitarian</td>
<td>12.3%</td>
</tr>
<tr>
<td>Multilateral Development</td>
<td>8.2%</td>
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**Myth #4: The US is Very Generous**

**Fact:**
The U.S. is far less generous today than in earlier years. The U.S. is far less generous than other DCs.

1. **US Foreign aid (ODA) has declined (in real $ and as % of GDP)**
   - **Peak:** 3.2% of GDP (Marshall Plan) (Hist. Fig.)
   - **2002** (Figure)
     - 0.15% of GDP
     - Lowest share since WWII

   **Perspective—Compare to other expenditures (1998)**
   - Military budget $272 billion
   - Cosmetics/beauty $53 billion
   - Soft drinks $25 billion
   - Tobacco $36 billion
   - Alcohol $31 billion
   - Greeting cards $8 billion
   - Pet food $7 billion

2. **All OECD countries (2007) give higher percent of their GNI (exc. military)**

   US is the largest donor nation, but 30 year ago the UN/DCs set 0.7% of their GNI as a target for ODA (Figure)

   ~ Norway 0.95% ~ Denmark 0.81%
   ~ Sweden 0.93% ~ UK 0.36%
   ~ Luxembourg 0.91% ~ Canada 0.29%
   ~ Netherlands 0.81% ~ U.S. 0.16%

3. **The EU gives 3 times (2003) as much foreign aid as the US, but the US’s GDP is 27% greater than the EU’s GDP** (Figure)

   ~ U.S. $16.3 billion ~ EU $47.2 billion
Myth #5: The US Spend Much of the Federal Budget on Foreign Aid
Fact: The US spends less than 1% (0.9%) of federal budget on Aid

Note: Most Americans polled:
  o Thought the US spent 20% of the federal budget on foreign aid
  o Felt that 10% was about right!

Myth #6: Most Foreign Aid Dollars are Spent in LDCs.
Fact: 80% of AID $ are spent in the US or go to US citizens for:
  o Purchasing US equipment, food, other goods
  o Salaries & living expenses of American "experts", consultants