

7 December 2007 - Palazzo Cardinal Cesi - Rome  
**2nd Forum on Christianity and Market Ethics**

## **Foreign Assistance: What Works and What Doesn't With Recommendations for Moving Ahead**

by Carol Adelman and Nicholas Eberstadt

### *Executive Summary*

By Commissioners Carol Adelman and Nicholas Eberstadt, with assistance from Commission consultants Susan Raymond and Melissa Griswold

[prepared for the United States Commission on Helping to Enhance the Livelihood of People around the Globe (HELP Commission<sup>1</sup>), November 2007]

### Introduction

In preparing the full-length paper on What Works and What Doesn't, over 100 reports, books, and articles were reviewed. We examined evaluations from USAID, other bilateral aid agencies, multilateral donors, foundations, charities and corporations, and met with various evaluation officers and experts. We conducted a meeting with current and former USAID evaluation officials which proved highly useful in better understanding the history and issues involved with evaluation of foreign aid programs. Many of these evaluation officers continued to send their views to HELP Commission staff which was highly appreciated.

Looking back, the paper summarizes the literature on why countries grow, whether foreign aid has an impact at the macro level, i.e. on aggregate economic growth, and whether foreign aid has impact at the micro or project level, on such specific factors as school attendance, health improvements, agricultural production and employment through specific aid interventions. Based on projects identified as successful by the donor community and those that were deemed not successful, we identified the characteristics of successful projects.

Looking forward, the research uses a variety of data sources, including the IMF, World Bank, United Nations Population Division and WHO to project social, economic and demographic changes in the developing world over the next 10 years. The prospective changes are of two types. First, there are projected economic and demographic changes including declining fertility and infant mortality and rising life expectancy, which stand to tilt the locus of health problems in developing countries toward such chronic diseases as cancer and cardiovascular and diabetes and away from the traditional problems of infectious diseases and child survival (still predominant in African countries). Furthermore, the projected rise in the pool of trained professionals and entrepreneurs in developing countries suggests there will be steadily increasing opportunities to work with local talent, thereby enhancing opportunities for "local ownership", self reliance and sustainability in aid projects.

These prospective changes within developing countries will call for a new flexibility in USAID programming – for avoiding "one size fits all" solutions for a diverse world. U.S. assistance

---

1: <http://helpcommission.gov>

will need to be tailored to each country's rapidly changing conditions and development opportunities.

Second, there is an entirely new stream of resources not present when foreign assistance was conceived after World War II. Private resources now dwarf government aid to developing countries, and they have opened up new opportunities for addressing problems in entirely new ways.

The paper concludes with recommendations for USAID funding mechanisms, programming, project design, implementation, and evaluation that emanate directly from the research of past effectiveness and projections of future economic, social and demographic changes and thus opportunities.

### *[Why Countries Grow and the Role of Foreign Aid](#)*

There is general agreement that countries are much more likely to grow when they embrace policies that create open economies, encourage trade, private investment, business creation, savings, and innovation. Of course good governance and the development of a sturdy institutional domestic framework (rule of law, individual rights, property rights, etc.) are also critical to prosperity.

Numerous scholars since the 1950s have debated whether and to what extent foreign aid helps countries grow. The studies largely conclude that the overall effect on macroeconomic growth is negligible at best. We reviewed 8 major studies and the majority shows no relationship between aid and growth, with only one asserting an unqualified positive relationship. The rapid growth of post-Mao China and of India during the past two decades—two major sources of global poverty reduction over the past generation—are not attributable in any appreciable measure to flows of foreign assistance. On the other hand, the ratio of aid to GDP is generally quite high in sub-Saharan countries: but clearly, more foreign aid has not resulted in increased per capita GDP within this region, since a majority of countries have experienced declining growth as aid has increased, and long-term increases in foreign aid have accompanied long-term declines in per capita output in more than a few of these states..

Reasons given in the literature for the lack of a generally positive identifiable economic impact of foreign aid in these studies include the arguments that aid inhibits competitiveness, creates dependency, and absorbs or misallocates political resources in recipient countries; that aid is motivated by non-development donor and contractor interests, and that aid engenders lack of feedback and accountability, host country graft, and corruption.

### *[Do Foreign Aid Projects Work and Why?](#)*

Since recipient country policies are far more important than the volume of foreign assistance in explaining why countries grow, we need to ask: where and how does foreign aid matter? From the nearly \$2.7 trillion in official development aid transferred to recipient countries since 1960,<sup>2</sup> what evidence of program success do we have? And why have the

---

2: Total estimated transfer to recipient countries amounts to \$ 2.665 trillion; estimates are in 2005 dollars, for net disbursements of ODA as defined by the OECD, for the period 1960-2006. Calculations based on data from [www.oecd.org](http://www.oecd.org).

projects been successful? Determining these characteristics of how foreign aid has positively affected the lives of individuals and communities in poor countries can instruct us in what changes can be made to future foreign aid projects.

In recent years, many bilateral donors have examined the effectiveness of their foreign assistance. In its stark evaluation of Canadian foreign aid, the Canadian Parliament Senate's Foreign Affairs Committee concluded that Canada's development agency, CIDA, has failed to make a difference in sub-Saharan Africa, despite \$12.4 billion in aid expenditures there between 1968 and 2007 -], due to slow, unaccountable and poorly-designed development assistance and ineffective foreign aid institutions in Africa. Concluding that vibrant economies and good governance are the answer to prosperity, and that these can only be generated from within African countries themselves, the Committee recommended that Canada move to a foreign aid model similar to the MCC - providing assistance to only those countries that have shown progress in building strong private sectors, creating employment and strengthening their political and economic governance.

The Netherlands, Ireland, Sweden, and Australia have also completed assessments of their aid programs that call for improved evaluation, more local ownership and better institutional capacity in governments. They found that successful projects involved local initiative, good governance, measured results, and the creation of local institutions for sustainability.

Other donors, particularly the World Bank, have attempted to measure programs for results such as poverty reduction. The Bank evaluation unit found that poverty reduction remains a substantial challenge. In a 2006 evaluation of 25 Bank-assisted countries, only 11 reduced the incidence of poverty between the mid 1990s and early 2000s, with poverty either stagnating or increasing in the remaining 14 countries. With some notable exceptions, foundations, private and voluntary organizations, and corporations have not generally evaluated their projects for results at the impact level.

USAID has a long history of evaluation using primarily process and output measures.[?]. While some serious impact-level evaluations have been conducted, the numbers have been low relative to total projects and money obligated by USAID. Nor does information from these evaluations or others seem to be used to inform USAID design and implementation decisions. We have reviewed projects from the Impact Evaluation Series and some illustrative successful projects identified by USAID, the World Bank, foundations, corporations, and think tanks as ones that have been evaluated at the impact level. We then analyzed them for their shared characteristics.

Some of these generally-agreed-upon successes are: Rural Electrification in Bangladesh, Consultative Group on International Agricultural Research (CGIAR), River Blindness Control and Mectizan Distribution, The Health Partnerships Program, Foreign Academic Training, Democracy Building: Results of a Quantitative Study, the Amman Stock Exchange, and Hurricane Mitch. (Obviously, the projects just mentioned are not an exhaustive list; other additional examples have been cited in various reviews.)

Examination of programs that were both successful and unsuccessful brings to light the shared characteristics or principles of foreign aid projects that work.

### *Conclusions and Shared Characteristics of Successes*

**Ownership and initiative must be local.** Successful programs and project initiatives reflect actual needs of the recipient countries as expressed by local actors, rather than simply reflecting instructions of what projects and programs may be available for local recipients from USAID. Local ownership increases the prospects for long-term success by involving local institutions. Such partnerships can, indeed, lead to the continuation of institutional relationships between American and partner leaders long after the end of USAID funding.

**Partnership is the Premise.** Successful projects and programs evidence collaboration between American and developing country institutions, especially private—especially private institutions. Indeed, such collaboration seems virtually essential for a sustained engagement that brings benefits valued by all. The U.S. government should always attempt to ensure partners are committed to a program before it makes an investment; as a general rule, U.S. dollars should be the second or third dollar on the table, not the first. When everyone is committed to common priorities and has made an investment, then everyone will be accountable for the results. With mutual accountability comes sustainability.

**Leverage is the New Framework.** USG funds can take advantage of the myriad new sources and techniques of global support for developing countries including foundations, PVOs, corporations, universities, and remittances. USAID alliances with the multitude of new American philanthropic activity overseas can help leverage resources that far exceed those contained in Federal budgets. These partnerships should recognize priorities and expertise of philanthropic leaders and their institutions. Similar strategies should link U.S. programs to emerging local business leadership in developing countries. Within this framework, USAID becomes not the controlling task-master of U.S. development programs, but the aggregator or facilitator of effort, the creator of syndicates of resources targeted at self-reliance.

**Flexibility is critical.** Problems and potential solutions must respond to the perceived priorities of partners, not to decades-old legislative mandates. Where the nature of the problems and opportunities for change are evolving, AID must be able to respond, and indeed to anticipate such changes and initiate innovative discussions with partners to address them.

**Peer to Peer Approaches are Valuable.** US foreign assistance should seize the chance to address issues on which America's professionals and institutions have expertise and build firm relationships between U.S. and developing country counterparts that will endure on the basis of perceived professional self-interest long after AID's financial role has ended. This peer-to-peer approach should replace the contractor model that currently dominates USAID programming.

**Technology Adaptation and Adoption Matter.** Some of the most widely acknowledged foreign assistance successes, such as the Green Revolution, have at their core the application of technology to improve the human condition. As the scientific and technological capacity of developing countries expands, the potential for technology partnerships in foreign assistance also increases. Local ownership is also important in this context, as integration of technology such as bed nets and oral rehydration salts is vital to ensuring their effective use within the individual communities where they are introduced.

**Leaders and Policy Must Drive Toward Self-Reliance.** The most important steps taken to improve the long-term development success of developing nations will come from within those countries. Local leaders must therefore be the engines of change. Encouraging lea-

dership and good policies may mean ending or reducing aid to a country. We must not be afraid to withdraw funds to ensure that assistance does not result in dependency in recipient countries.

**Continual Information Loops Contribute to Learning and Adjustment.** The best evaluation systems are not simply tasks that result in reports. They are continual feedback loops that give information to managers in real time so programs can be constantly adjusted to improve performance. Success comes from a continual process, not one event, and requires flexibility to adjust programs to changing situations.

**Risk is necessary.** A partnership and venture funding culture implies a tolerance for risk and USAID must be willing to experiment with new approaches to development assistance. USAID will need to develop a mechanism for rewarding the willingness to take calculated risks within its own personnel and programs.

### Recommendations

The lack of evidence of significant impact from past foreign aid efforts, the changing nature and capabilities of the developing world, and the emergence of new sources and approaches to resource transfers for development all point toward a single conclusion: U.S. foreign assistance needs an entirely new business model. The report's recommendations are based on the above conclusions and provide suggestions for the creation of that new model.

Sectoral and project earmarks, directions, and limitations in foreign aid legislation should be removed, with the exception of those that are deemed essential to U.S. national security. U.S. foreign assistance programs should be able to respond fully and flexibly to demand-driven opportunities emerging within the specific context of each developing country. Programmatic limitations on the problems or opportunities that development dollars can address should be removed.

U.S. foreign assistance programs, focused in any area of development, with the exception of those deemed essential to U.S. national security, should not expend U.S. resources without monetary or monetized resources co-invested in the developing country itself. These in-country organizations may include local affiliates of U.S. NGOs and corporations, indigenous foundations, local businesses, or public agencies. Expenditures of U.S. foreign aid should drive toward sustainable public-private partnerships in the host country.

Competition for U.S. foreign assistance dollars should not be among consultants, but among ideas coming from the multiple actors now involved in foreign aid and philanthropy, particularly on the demand side of the equation in developing countries. Those who wish to attract U.S. development investment resources should bring to USAID their best ideas and their own resource contributions from private sources, defended in terms of economic and social impact, local ownership, partnership with local institutions, and achievement of community self-reliance. USAID should operate more like a foundation, not a disbursement agency, articulating areas or problems of interest and inviting competition for best-in-class approaches.

USAID should create a "venture fund", through which any individual or organization with a new idea about how to solve a problem in development in an innovative way, that has economic impact, and creates community self-reliance, can apply for a seed grant. The grant would be for limited duration and limited amounts of money. Risk will be welcomed. The

judgment on awardees would be made twice a year by a peer board. No one receiving USAID money (or who has received USAID money in the last three years) would be allowed to sit on the Board. Grantees would report directly to a panel consisting of all the USG agencies contributing to Official Development Assistance (ODA) of the USG.

USAID should establish a mechanism, e.g. advisory board, for regular and full discussion and consultation with private resources flowing into global development that are now almost four times the amount of ODA. These groups include foundations, charities, corporations, religious organizations and individuals who are sending remittances to their home countries. USAID must be aware of the vast array of new players in global development who are transforming the landscape of how assistance is delivered, i.e. through more efficient means of volunteerism and e-philanthropy, more venture capital approaches, more hands-on and people-to-people approaches, and more results-oriented projects. This mechanism should issue an annual “State of Partnership” report on public-private investment collaboration for development.