

THE
DEVELOPMENT
GAP

**AID FOR JUST DEVELOPMENT:
REPORT ON THE FUTURE OF FOREIGN ASSISTANCE**

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SUMMARY

Forty years after the launching of the first development assistance programs, most of the Third World is in desperate shape. Signs of this rapidly deteriorating situation are plentiful. Most prominent and significant among them are:

- * a \$1 trillion debt that continues to increase and that appears to be largely unrepayable;
- * a sharp decline in the economic circumstances of the Third World poor, many of whom, particularly women and children, have been forced into survival modes;
- * the exacerbation of these hardships among the poor by the imposition of structural adjustment programs, which have generally failed to reverse the decline of Third World economies;
- * an ever widening gap between the rich and poor in the Third World, which is visible in the expanding dualism in many of those societies; and
- * an increasing anger among the Third World poor that is finding expression in a wide range of forums on aid, development and related issues.

This crisis is partly the result of the adoption over the past two generations of development models promoted by Northern aid agencies. Neither the conventional liberal nor conservative approach to development has been reflective of the needs and realities of the majority of Southern populations, and both have left Third World economies highly vulnerable to changes in international prices and markets. At the moment, lending is being geared to promote policies in the South that are consistent with debt-related interests in the North, while increasing this vulnerability and the suffering of the poor.

Throughout the post-war history of aid, reports issued by committees and commissions led by such luminaries as Walt Rostow, Lester Pearson, Willy Brandt and Frank Carlucci have focused on the expansion of the flow of resources between North and South. When public support for foreign aid declined in the late 1960s, a powerful aid lobby developed that has echoed many of the reports' positions, which it has advanced through the introduction of a plethora of idealistic-sounding cliches. As influential as these reports and this lobby have been, however, they have left virtually unaddressed a number of

fundamental questions. These include:

- * how is aid to reach and assist the poor if it is provided to institutions controlled by unrepresentative governments and elite interests?
- * why should aid be increased if the recipient institutions lack the capacity to effectively administer current flows, much less to ensure that it reaches the poor?
- * why should the U.S. public provide aid to promote export production when there is no evidence that the benefits generated accrue in good part to the poor?
- * how can development policies, programs and projects be effectively fashioned without consultation with the people who are affected at the local level and who can provide an understanding of local realities?

The failure to deal with these fundamental questions, the failure of aid to generate meaningful change in most of the places where it has been generously provided, the ballooning debt, the disillusionment of the U.S. public with aid, and the decline of budgetary resources available for development assistance are not unconnected. Together they reflect a fundamental flaw in the way in which U.S. bilateral and multilateral aid policy and programming have been conceived, designed and implemented. Unless the approach commonly taken to these matters is changed, aid will continue to generate more poverty than it eliminates. A change in this approach must be predicated upon a recognition that:

- * the answers to the problems of development lie largely with poor people themselves, rather than with the ever expanding field of "experts" in the North;
- * the use of aid to support special interests in the United States will in most cases lead to misdevelopment in the Third World; and
- * an aid program structurally linked to foreign policymaking bodies will ultimately be responsive to short-term policy exigencies rather than the requirements for long-term development and stability.

Within this context, Aid for Just Development was written so as to offer a fundamentally different perspective on foreign assistance. The founding directors of The Development GAP have brought to this effort a total of nearly fifty years of experience with aid institutions, ranging from the World Bank to private and voluntary agencies (PVOs), and with grassroots groups, non-governmental organizations and government institutions in thirty Third World countries. From this perspective, the authors assess the ability of the aid community, as presently constituted, to assist the poor overseas and to relate appropriately to their organized efforts to foster change and development.

The Agency for International Development has been constrained in its effectiveness foremostly by its structural relationship with the State Department. Instead of being internally structured to respond to development initiatives and capabilities overseas, AID is organized to respond to requests from Washington. Decisionmaking is still highly centralized, and the demands of headquarters drown the field

missions in paperwork. AID's procedures for program and project development and review remain complicated and time-consuming. Consultants are hired to do most of the missions' project-related work, largely removing AID staff from local reality. As AID increases its policy and program lending at the expense of project support, it is further divorcing itself from the poor and their daily circumstances.

Severe, self-imposed limitations on the range of institutional choice overseas is one of the principal outgrowths of this internal organization. The nature of the project cycle, the heavy paperwork, the lack of incentives to take risks in optimizing project quality, and, in some countries, the pressure to move money generally lead project officers to select large projects operated by established institutions rather than smaller participatory endeavors run by organizations outside AID's normal sphere of contacts.

Similarly, there exists a variety of factors that limit the World Bank's ability to respond to the new generation of participatory institutions in the Third World. Its prescribed role as a facilitator of private capital flows has driven the Bank to move money, build infrastructure and shape open economic systems within borrower countries. This, in turn, leads officials to establish and maintain funding relationships with government ministries and development banks that can theoretically absorb (if not effectively use) large sums of money for projects under centralized control. Under these circumstances and the pressure of the project cycle, project officers are not rewarded for engaging in grassroots consultations, for risk taking or for innovation in the field.

Not surprisingly, a good number of Bank-supported projects have failed, even when judged by the Bank's own standards. While it is recognized by many at the Bank that a lack of local participation and commitment and the poor selection of implementing institutions have been at the heart of these failures, the Bank continues to provide financing to institutions that have proven unable to reach poor segments of the population. The interests of the poor will likely continue to be lost in the Bank's rush to loan even more money during the next five years. These problems will intensify with the growing use of structural and sector adjustment lending to leverage changes in government policies and to underwrite the loans of commercial banks.

Both the Bank and AID have wooed the U.S. PVO community in seeking its political support, and AID has dramatically increased its funding of PVO projects over the past decade. As a result of this growing financial dependency upon AID, PVOs have sacrificed a large measure of the autonomy that makes non-governmental activity significant. Many still maintain a high degree of control over overseas operations and over the definition of development problems and solutions. They have been losing touch with local processes of change and, as a community, have not lived up to their potential as an important link between the people and institutions of the United States and the Third World.

Successful development is largely a function of the capacity of Third World institutions that relate effectively with the poor. The success of a development assistance program can, in turn, be determined in good part by the extent to which it supports the evolution of these organizations as they upgrade their managerial capabilities and expand their constituencies.

Such an aid program must comprise a number of institutions, each of which can provide the appropriate form and amount of assistance for Southern institutions at different points in their development. Currently, the Bank, AID and other large aid organizations are, in their mainstream

operations, all but ignoring this emerging institutional capacity in the South. The result is that very capable organizations that have evolved with the support of a good U.S. PVO or the Inter-American Foundation, for example, have no place to turn for larger-scale assistance. Meanwhile, far too many inappropriate and inadequate public and private institutions in the South continue to receive the lion's share of aid monies. This absurd situation is the reality that underlies the failure of our foreign aid program.

For foreign aid to be transformed into a catalyst for real change in the Third World, extensive restructuring must take place in and among our aid institutions and those to which we are major financial contributors. This restructuring must, in turn, reflect an adherence to the following set of principles --

- * **Participation** of the poor through their own organizations and those that work closely with them: aid organizations should underwrite development activities undertaken and/or supported by Third World people rather than programs that ignore or undermine these efforts.

- * **Responsiveness** to ongoing development activity and to the evolution of effective development institutions: to be effective, the U.S. development assistance program must be restructured to respond to the evolving capacity and needs of local populations and of those local institutions that promote equitable development.

- * **Autonomy** of development assistance institutions from the pursuit of short-term U.S. political, security and economic objectives: to be able to respond to Third World needs and efforts, these institutions must be structurally and operationally independent.

- * **Decentralization** of decisionmaking responsibility: structural autonomy enables internal restructuring and decentralization of aid institutions that places responsibility predominately at the field level, where decisionmaking can be informed by local realities.

- * **Consultation** with local populations to ensure that local knowledge and realities are reflected prominently in aid and development plans and policies: structured consultation with representative Third World organizations would help make badly needed micro-macro linkages by ensuring that local perspectives are incorporated in development programming and policy planning, as well as in project financing.

- * **Accountability** to the Third World poor and to U.S. taxpayers: sufficient oversight by representatives of both these parties is required to ensure that development assistance is utilized for the purposes for which it is promoted.

The foundation of a successful aid program are relatively small organizations, public and non-governmental and always independent in their actions, that can provide support for grassroots initiatives and emerging institutional capacity for development. This is currently being supplied by the Inter-American and African Development Foundations and by some PVOs. To enhance this role:

- * the Senate should apply higher standards than is presently the case in the assessment of presidential nominations of new directors to the foundations' boards;

- * a new Asian and Pacific Development Foundation should be created by Congress, modeled on the ADF and IAF mandate, and long-term, intensive vigilance should be ensured to guarantee the integrity of the legislation and the foundation itself;

- * Congress should establish an autonomous public Foundation for Private and Voluntary Cooperation to enable PVOs desiring government support to operate independently of AID;

- * the foundation should make grants and loans to PVO projects that develop in response to Third World local-level initiative and priorities, that support the emergence of and strengthen indigenous organizations, and that help those with the least access to resources to gain greater control over their development;

- * the foundation should provide no more than 75 percent of a PVO's project costs and no more than 50 percent of a PVO's annual program budget;

- * the foundation should provide a forum for discussions on development issues and support for development education efforts; and

- * the three regional foundations and the PVO foundation should be staffed by people with extensive experience working at the grassroots, and their salaries and operating styles and those of the organizations they support should be modest.

While PVOs and the regional foundations can help in the development of an institutional base for change, their impact will be limited unless they can effect the policies and programming of the large aid organizations. While the initiative must come from these larger institutions, the smaller funders should:

- * educate the former about alternative aid channels and put them in touch with Third World organizations that they have helped develop a strong implementing capacity;

- * help establish mechanisms in Third World countries for the purpose of channeling local perspectives in a systematic fashion into the planning and policy formulation of AID, the World Bank, and other bilateral and multilateral aid institutions; and

- * help establish the capacity among Southern non-governmental organizations to monitor the local-level impact of these larger funders so that adjustments can be made over time.

It is clear that AID will be unable to respond adequately to this challenge unless some fundamental changes are made in our bilateral program. These include:

- * the establishment of an Administration for International Development as a new, autonomous institution with its own board of directors and with a strictly developmental mandate to replace the present AID;

* the separation of political and security assistance, including most ESF monies, from development aid, both legislatively and administratively, by placing it under the management of the State Department;

* the streamlining of the new AID and the decentralization of most of its policy, program and policy functions to overseas offices at the regional, country "cluster," and country levels;

* the employment and deployment of personnel with local-level field experience to provincial centers to provide access for AID to more relevant development organizations for the purpose of involving them in projects, as well as in program and policy planning;

* the provision of program aid on a multi-year basis to those governments and agencies thereof that have exhibited a commitment to a form of development that directly involves and benefits the poor;

* the provision of project aid in those countries not designated as "program" countries to those national and local government institutions and non-governmental organizations most effective in promoting equitable development;

* the denial of development assistance, as stated policy, to those repressive governments on the left and right that are not making a good-faith effort to narrow wealth and income gaps and that do not allow the free functioning of popular organizations, and the denial of political aid by the State Department to those governments that do not allow the new AID to operate in their countries;

* the reduction of the AID budget by matching overseas funding with the absorptive capacity of implementing institutions, by shifting investments from large and ineffective government agencies to more democratic institutions in the public and non-governmental sectors, by the decentralization of staff and authority and the concomitant reduction in consultants and in staff living expenses, and by permitting the expenditure of unutilized funds in subsequent years;

* the elimination of functional accounts (once there is a politically and bureaucratically independent AID), tied aid (to the extent possible so as not to skew local development), and many U.S. consultants, contractors and researchers (and the engagement of more relevant, Third World expertise); and

* the upgrading of congressional oversight capabilities until an autonomous AID is established, and then a reduction in Congress' day-to-day involvement.

While U.S. bilateral development assistance cannot be substantially improved without providing AID with operational autonomy, even this measure will be insufficient to adequately address Third World poverty if the United States does not use its considerable influence to transform the World Bank. While the latter has always been the bankers' bank, its assumption of part of the IMF role in debt-related financing, the dramatic impact on the poor of its increasing policy-based and adjustment lending, and its quest for a large-scale increase in its own funding base have made fundamental changes in its structure, policies and operations imperative. Short of an external restructuring of the Bank (and the other multilateral development banks), the following measures should be taken:

* the present focus on export production should be redirected so as to assist Third World countries in making a transition to greater economic diversification, integration and self-reliance;

* the views of affected populations and communities should be elicited in a systematic fashion through their own organizations for infusion into the banks' economic and sector work, project and program planning, formulation of policy positions they take with governments, and monitoring of implemented projects;

* Bank lending should be pluralized by including more effective, representative and participatory local organizations as project implementors, by reducing the number and size of loans to inadequate national government institutions, and by amending Bank and IDA statutes so as to facilitate the guarantee of loans to non-governmental institutions;

* project, program and adjustment lending should be reduced until the absorptive capacity of relevant and effective institutions can be determined and expanded;

* IDA funds should be redirected from the poorest countries to poor people, to their activities, and to the social services that facilitate their advancement within all the countries in which the Bank lends;

* changes should be made in the Bank's project cycle, internal reward system and staff training to enable staff to take advantage of the recent Bank decentralization to be more responsive and innovative through more extensive contact with local organizations, initiatives and ideas;

* the records and reports of the Bank should be made accessible to the public and to Congress in particular by the Bank and by the U.S. executive branch so as to facilitate oversight, accountability and public discourse on Bank policies and appropriations levels; and

* the congressional appropriations committees should hold up, limit, and/or deny U.S. contributions to Bank recapitalizations, IDA replenishments and appropriations to other multilateral banks until basic changes are made in the operations of these institutions and until there is greater disclosure of bank documents.

The current aid structure must be turned on its head if it is to hold any significance for the majority of the people of the Third World. The World Bank, AID and the other large assistance agencies must switch their support to those public-sector and non-governmental institutions that represent the aspirations of the poor and help foster constructive change. They should not be expected to provide support directly to organizations in villages and urban communities; this is the job of the regional development foundations, PVOs and other Northern non-governmental organizations. They must, however, be in contact with these local realities to be relevant to the processes of change in any society.

Structural autonomy and a decentralized internal structure would enable AID to build on the work done by these smaller funders. It could provide longer-term, larger-scale grant support or financing on soft terms for a range of project and institution-building activities. Once the recipients of this support have upgraded their internal administrative and financial systems, they would become prime candidates for financing by the World Bank and the other multilateral banks. These banks could provide them, at somewhat less than prevailing international interest rates, the large amounts of credit that are generally unavailable for the more creative and popular endeavors in most Third World countries.

For many decisionmakers in the United States and in the aid world, letting go and leaving room for the intended beneficiaries of our assistance to define their development courses is a risky proposition. It provides no assurances that the routes chosen will be familiar or that they will lead in directions that appear compatible with short-term U.S. interests, however they may be defined. Yet, from a national-interest perspective, this is the very strength of a foreign aid approach that is responsive to the needs and efforts of the people of the Third World. It represents to those populations a recognition on the part of the United States of their right and ability to determine their own future. This recognition is the basis for sustained economic and social stability and holds the promise of lasting relationships of mutual appreciation and respect. It is in the building of this stability and such relationships that true, long-term U.S. interests lie.