

Foreign Aid in the National Interest

Promoting Freedom, Security, and Opportunity



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FREEDOM
SECURITY
OPPORTUNITY



FOREIGN AID IN THE NATIONAL INTEREST
PROMOTING FREEDOM, SECURITY, AND OPPORTUNITY

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THE WORLD HAS CHANGED DRAMATICALLY OVER THE past two decades. Of the world's 200 countries in 2001, 124 were democracies—the highest number ever. Nearly 6.0 billion people live in market economies, up from 1.5 billion in 1980. Globalization has integrated the world's markets for goods, services, finance, and ideas. Population growth rates are down, and in most parts of the world health and education have surpassed where the U.S. stood 50 years ago. And remarkable advances in biotechnology are bringing the promise of new cures for the sick and new seeds for the hungry.

But these bright prospects also have dark sides. Many new democracies are fragile, others fake. Many market advances are reversing in stupendous losses of confidence—as with Enron and Argentina. Several billion people remain mired in poverty—and stranded across a gaping digital divide, blind to what could be free for all. Weapons of mass destruction using modern technology could unleash irreversible disasters on people and the planet. And for many people, especially Americans, the terrorist attacks of September 11, 2001, breached the sense of security offered by geography.

In September 2002 President Bush introduced his National Security Strategy. For the first time development has been elevated as the third pillar of U.S. national security, along with defense and diplomacy. Under the leadership of Secretary of State Powell, the U.S. development community is redefining its own strategic priorities to meet this challenge.

These changes have altered the landscape for global development. Within this new landscape U.S. foreign assistance must move in new directions. To inform the debate on future assistance, the U.S. Agency for International Development (USAID) commissioned this analysis of the main trends—and the related challenges—now unfolding. This follows in the tradition established more than a decade ago by then USAID Administrator Alan Woods, whose similar report on development trends changed USAID and the debate on foreign assistance.

The main message of this report: foreign assistance will be a key instrument of foreign policy in the coming decades. The report does not address all the issues of development assistance. Instead, it focuses on six:

- Promoting democratic governance.
- Driving economic growth.
- Improving people's health.

- Mitigating conflict.
- Providing humanitarian aid.
- Accounting for private foreign aid.

Of these six issues, four articulate key development concepts driving the President's proposed Millennium Challenge Account, a major new initiative announced by President Bush in March 2002, just the third major foreign aid policy statement since the second world war. The Millennium Challenge Account is based on the proposition that countries ruling justly, investing in their people, and encouraging economic freedom will receive more U.S. aid.

Around the world one of the most pressing needs is to advance democratic governance—no small task. At a superficial level the state of global democracy appears highly encouraging. Over the past quarter-century democracy has become the world's most common regime. But swirling beneath this expansion is growing disenchantment with political leaders seen by their people as corrupt, self-serving, and unable or unwilling to address economic and social problems. In many developing and postcommunist countries, people are losing confidence not just in elected officials but also in democratic institutions. So, promoting democratic governance must become a higher priority in U.S. foreign aid. Democracy and good governance are required to spur development and reduce poverty in poorly performing countries. It is also vital to U.S. security.

Also essential is boosting economic growth in developing countries. The United States can get global agriculture moving by restoring the budgets of global agricultural research centers, training scientists in basic biology and applied agriculture, and pressing to reduce the damage from industrial countries' agriculture policies. The United States can also promote trade and investment in developing countries by better coordinating its policies and programs. And it can help countries develop their microeconomic agendas, improving the climate for business.

Fundamental to this growth is improving people's health and education. Because of changing demographics, most developing countries will have larger workforces over the next two decades. As a result more resources will be available to invest in economic endeavors. But for that to happen, workers must be productive—and to be productive, they must be healthy. Diseases that cause illness and premature death must be identified, prevented, and

managed—including future health problems, which will be more diverse. If foreign assistance continues to rely on long-standing definitions of public health priorities, it may be unable to address this diversity. Responding to changing health challenges will require different budget allocations and more flexible programs.

Global markets are also changing as developing countries shift from low-cost labor to higher-end manufacturing. That change requires new types of workers, able to learn new skills and use new technologies. A primary school education is no longer enough for workers to take part in the global economy. Moreover, higher degrees—academic and technical—are needed to adapt global technology to local settings and to keep up with new advances. So education systems in developing countries must broaden their sights—and U.S. foreign assistance must offer more support for secondary education for the global marketplace.

Given the devastation caused by conflict, the United States needs to do much more to mitigate it—and when that is not possible, to help manage it. Conflict is the product of deep grievances, political and economic competition, irresponsible political leaders, and weak and unaccountable institutions. It does not occur simply because people are unhappy or greedy, or because a country has the resources to sustain violence. Nor does it happen where all state and social institutions are weak. It happens when causes at multiple levels come together and reinforce each other.

Preventing conflict requires long-term interventions that make states and societies better able to manage tensions. Whatever the causes, a crucial part of the solution is encouraging innovative institutions that can deal with problems—local, regional, and national. The most important principle when designing country programs is to apply a conflict lens to each major area of foreign assistance—from agriculture to economic growth to democracy and governance—and to have each area work in concert.

In the aftermaths of conflict and natural disaster, the United States must continue to provide humanitarian assistance—but much more effectively. The need for humanitarian assistance shows no signs of abating, and new dimensions of disasters will create new demands. Trends indicate a larger, more complex role for humanitarian assistance in the coming decades. The United States, the only national power with truly global reach,

has a critical role in addressing current and future trends in disaster assistance. It must project a clear, consistent message about addressing humanitarian needs in conflict settings and reducing vulnerabilities that transform natural and technological events into disasters.

U.S. assistance can do much to shape the 21st century. And as the Millennium Challenge Account ramps up, U.S. official aid is set to rise from \$10 billion a year today to \$15 billion in 2006 and thereafter. U.S. assistance is generally measured solely as the official development assistance that the government provides through USAID, the Peace Corps, multilateral institutions, and programs sponsored by the State Department and Department of Defense. But many nongovernment sources also provide foreign aid: foundations, corporations, private and voluntary organizations, colleges and universities, religious organizations, and individuals.

All these sources—providing nearly \$60 billion a year, or six times the official assistance—must be taken into account to plan aid more effectively. With private assistance predominating, U.S. official assistance will have to develop stronger partnerships with the full array of private sources.

The dominant themes, then, are for foreign assistance to focus on political leadership, on policy, on people, and on partnership. Unless a country's leaders make smart choices for national priorities and show their political will to work with outside donors, development—and development assistance—cannot succeed. Unless sensible policies are put in place, with the rule of law to promote good governance and individual freedom, development cannot be sustained, particularly for agriculture, the engine of growth for most poor countries. Unless countries invest in health and education, people cannot take on the demands of today's competitive workplace, and development cannot even start. And unless the official development community works better with partners, both traditional and new, many development opportunities will be wasted. Too much is at stake in all this. We have to ensure that these themes suffuse the future of foreign assistance—all in the national interest.

Andrew S. Natsios

*Andrew S. Natsios
Administrator, USAID*

THE NEW CENTURY HAS BROUGHT NEW THREATS to U.S. security and new challenges and opportunities for the national interest. The terrorist attacks of September 11 tragically demonstrated the character of today's world. Globalization has sent unprecedented flows of people, ideas, goods, and services across borders, fostering growth and expanding democracy. More than ever, U.S. security is bound up with the outside world. And as the world has become more connected, it has become more hazardous. Weapons, germs, drugs, envy, and hate cross borders at accelerating rates. Just as the tools, ideas, and resources for progress can quickly move from industrial to developing countries, many forms of risk and instability can travel in the opposite direction.

When development and governance fail in a country, the consequences engulf entire regions and leap around the world. Terrorism, political violence, civil wars, organized crime, drug trafficking, human trafficking, infectious diseases, environmental crises, refugee flows, and mass migration cascade across the borders of weak states more destructively than ever before. They endanger the security and well-being of all Americans, not just those traveling abroad. Indeed, these unconventional threats may pose the greatest challenge to the national interest in coming decades.

Conventional military force, intelligence gathering and operations, law enforcement, and diplomacy play important roles in containing threats to U.S. security. But these mainly deal with the manifestations of trouble, not the root causes. In countries where government does not advance the common good, ordinary people do not realize the promise of development. Corruption is rampant. The state's capacity is weak. Social services are inadequate. And economic growth is stunted. Economic policies hinder growth while benefiting privileged groups. Investment is scant because property rights are insecure, government is predatory, infrastructure is poor, freedom is compromised, human capital is underdeveloped, and there is little confidence in the future. So, economic development is hard to get going—and impossible to sustain.

These circumstances entrench poverty, nurture injustice, and fuel anger and alienation. People give up on the possibility of collective progress. In different countries and among different types of

PROMOTING FREEDOM, SECURITY, AND OPPORTUNITY

OVERVIEW

DEVELOPMENT HAS
DENSELY OVERLAPPING
ECONOMIC, SOCIAL,
TECHNOLOGICAL, AND
POLITICAL DIMENSIONS

people, hopes for development are surrendered in different ways. The surrender may be in crime toward other individuals or in hate and violence toward other ethnic groups. It may be toward the state, in insurgency or revolution, or toward the world's successful countries, in terrorism. The response may simply be to emigrate or flee. Most often, the powerless and suffering simply withdraw from the state and survive as best they can from one day to the next. But surviving on the edge of existence only exposes people to catastrophe when nature or politics takes a downward turn. Even when failing states do not directly threaten the United States, they are humanitarian disasters waiting to happen. Only when countries achieve sustained development can they move beyond a chronic vulnerability to crisis.

Preempting threats and disasters is not the only reason that fostering development is in the U.S. interest. Successful development abroad generates diffuse benefits. It opens new, more dynamic markets for U.S. goods and services. It generates more secure, promising environments for U.S. investment. It creates zones of order and peace where Americans can travel, study, exchange, and do business safely. And it produces allies—countries that share U.S. commitments to economic openness, political freedom, and the rule of law.

Almost all countries with high levels of economic and social development are democracies. Why? Because lawful, accountable, participatory government fosters development—and because prosperous, well-educated people demand political freedom. No two full democracies have ever fought a war with one another. The spread of prosperity and democracy is an important foundation for peace. A free, open, prosperous, lawful world is the kind of world Americans want to live in.

A world where all countries are becoming more prosperous would also be a profound affirmation of U.S. values and ideals. The United States is a nation of immigrants who believe that with energy, ideas, and initiative, anyone can succeed. Americans want to believe that for countries as well as people, progress should not be limited by region or culture, and that the country's founding principles affirming life, liberty, and the pursuit of happiness are universal. For the United States to prosper and be secure, the world must prosper and be secure. Thus the United States must foster development around the world.

WHAT IS DEVELOPMENT? FREEDOM,
SECURITY, AND OPPORTUNITY

Freedoms are not only the primary ends of development, they are among its principal means.

—Amartya Sen

Freedom, security, and opportunity are the essence of development. Development gives people freedom to choose. Though few people ever have the luxury of perfect choices, development expands choices for individuals—and for the broadest possible range of individuals in society. Development increases people's opportunities to prosper—to educate themselves, to work and produce, to consume, to travel, to enjoy leisure, and to enhance their health and well-being as they wish, as much as they wish. A truly developed society offers equal opportunity to all its members regardless of their background. And development offers people security—from threats of violence that might come from the state, from conflict, or from other people.

Development has densely overlapping economic, social, technological, and political dimensions. Economically, it involves growth—through increasing productivity—and the capacity to sustain it independently of foreign aid or nonrenewable natural resources. Genuine development requires autonomous engines of growth—market expansion and technological innovation—supported by government but led by private initiative. Since World War II some countries have experienced economic growth that has far outstripped their real level of development. Swimming in waves of income from oil or other natural resources, they have absorbed windfalls of national income without transforming their productive capacities. In most cases these waves of greater income do not last. And when they recede, the country plunges backward. Frequently this unnatural wealth is grossly misused by autocratic, corrupt, or fanatical leaders.

Real development involves accumulating physical and human capital and implementing governance rules and institutions that foster lasting increases in investment, output, and income. The process requires economic freedom, with people able to work, save, invest, and produce based on their own choices rather than government mandates.

Improvements in plants, equipment, and infrastructure raise productive capacity by promoting efficiency and cutting transaction costs. In addition to technology for agricultural and industrial production, these improvements involve roads, bridges, ports, markets, schools, industrial parks, communications, and water and power grids. Without these public goods, bottlenecks raise production and exchange costs and so discourage investment. Building and maintaining public infrastructure is often hugely expensive and vulnerable to corruption. Thus the quality of governance strongly influences the potential for sustainable infrastructure development.

Investments in people—essential for sustainable development—are well suited to the humanitarian imperatives of foreign assistance. Lasting improvements in a country's income-generating capacity require healthy, well-educated, well-trained workforces, with the broadest possible inclusion of people in the full scope of economic opportunity. Poverty—with its links to illiteracy, chronic illness, and shorter life expectancy—is not simply a profound humanitarian concern. It is also an obstacle to economic growth. Yet vigorous, sustained economic growth is required to reduce poverty.

Socially, development improves human capabilities and well-being by reducing poverty, improving health, and expanding education. Absolute poverty—with little or no access to nutrition, sanitation, clothing, and shelter—degrades the human spirit and becomes a vicious circle, blocking acquisition of the physical, social, and cultural attributes needed for a viable income and more dignified life. Robust physical health and vigorous support for public health—as reflected in declining infant and child mortality, control of deadly and disabling diseases, and increasing life expectancy—are ends in themselves. But they are also important for raising productivity, reducing poverty, and sustaining economic growth. Better education also enhances people's income opportunities and raises society's productive capacity and entrepreneurial potential. This is why it is so vital that girls enjoy the same education opportunities as boys—that half of society not be left behind. Educating girls reduces birth rates, results in higher education levels for their children, increases agricultural productivity, and boosts family incomes—four big pluses.

Development affects groups as much as individuals. A crucial dimension of development is the accumulation of social capital—the networks and associations that bring individuals together based on trust, reciprocity, and cooperation for common ends. The deeper are a country's reservoirs of social capital, and the more these are based on equitable relations, the more vigorous is coordination for—and commitment to—the public good. Social capital does more than expand investment and commerce based on trust and predictability. It also stimulates the participation, civic spirit, and respect for law required for political development and good governance.

Politically, a society develops as it institutionalizes choices for its citizens. Among the most important is electoral choice—the ability of citizens to choose and replace their leaders and representatives in regular, free, fair elections. Another is the ability of citizens to choose their political beliefs and interests, express them, and organize around them. These and related dimensions of political freedom and civil liberty complement economic competition and stimulate and deepen political accountability.

50 YEARS OF DEVELOPMENT GAINS

The development progress in the past half-century has been extraordinary. Developing countries now have an average infant mortality rate (69 for every 1,000 live births) equivalent to what industrial countries had in 1950 (see feature overleaf). In 1951, 40 percent of people in industrial countries had a secondary education; today 50 percent of people in developing countries do.¹ Back then almost 1.8 billion people lived in countries with an average daily intake of less than 2,200 calories; today only 432 million do.² Life expectancy and literacy have increased almost everywhere.

Some countries have achieved even more dramatic gains. In the late 1950s the Republic of Korea, Taiwan, and Singapore were all considered economic basket cases. Yet all three have moved from low to high incomes as a result of sustained, rapid economic growth. Malaysia, Thailand, and more recently Indonesia have also made impressive progress. And Mauritius, with the help of foreign aid, achieved rapid economic and social development, more than

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SECURITY, AND OPPORTUNITY*

Over the past half-century most of the world's people, including the poorest, have seen continual and substantial improvement in their basic living conditions. Developing countries are catching up with industrial countries—particularly in life expectancy, nutrition, and literacy. And in infant mortality and secondary school enrollments they have already reached or surpassed the levels achieved by industrial countries in the early 1950s, when the era of foreign aid began.

INCOMES ARE RISING ALMOST EVERYWHERE

Per capita GDP is the most widely used measure of well-being in a country (box table 1). But it is an incomplete proxy, because it takes into account only the aspects of life captured by market transactions. So it is inadequate for such aspects as education and life expectancy, which also contribute to welfare. Indeed, most people would probably agree that health, life expectancy, access to learning, and freedom to make one's own choices are more fundamental than income.

Another way to measure well-being (though one that still focuses on income) is to find out how many people live on less than a given income. The World Bank uses \$1 a day per person as a rough benchmark to identify the world's poorest people, but

Incomes rising everywhere, except in Africa, and too slowly in the former Soviet bloc, the Arab world, and even Latin America

BOX TABLE 1

<i>Growth in real per capita GDP (%)</i>	<i>Total growth, 1980–2000</i>
World	29
Industrial countries	52
Developing countries	36
East Asia and Pacific	224
Europe and Central Asia	1
Latin America and the Caribbean	7
Middle East and North Africa	4
South Asia	95
Sub-Saharan Africa	-16

Source: United Nations, Global Population Prospects, 2002.

Steady declines in the proportion of the world's people living on less than \$1 a day

BOX FIGURE 1



Source: 1950–80 are from Bourguignon and Morrisson 2002 and 1990 and 1998 use the numbers of poor from Ravallion and Chen 2001, and world population from the United Nations World Population estimates. Note: The main defense for combining the different sources is that the World Bank uses the same combination for a chart (p. 8) in its 2002 publication *Globalization, Growth and Poverty*.

only since 1987. A recent study went back farther in time. Its estimates show a rapid decline in the share of the world population living on less than \$1 a day—from 55 percent in 1950 to 20 percent in 1998 (box figure 1). Just as striking is the steady decade-by-decade decline. Moreover, the study estimates that in 1900 the share of the world's people living on less than \$1 a day was 66 percent, so the reduction in the second half of the century was much more dramatic than that in the first.

PEOPLE ARE LIVING LONGER—AND HEALTHIER

Much of the improvement in life expectancy in developing countries comes from the decline in infant mortality, which fell from 158 per 1,000 (meaning that 15.8 percent of babies died within a year of their birth) to 63 between 1970 and 1999. The United Nations projects that infant mortality in these countries will drop to 58 in 2000–05, the same rate prevailing in industrial countries when they began providing assistance to poor countries in 1950–55.

The progress in life expectancy was general. In the early 1950s some 27 percent of the world's people lived in countries where life expectancy averaged less than 40

years. By the end of the century only 0.2 percent lived in the two countries (Rwanda and Sierra Leone) where life expectancy remained that low. And only 4 percent lived in countries where it was less than 50 years—down from 60 percent in 1950–55 (box table 2).

While life expectancy has clearly lengthened, are people healthier? Or has modern medicine simply kept sick people alive longer? Researchers have concluded that health status closely tracks live expectancy. In general, longer lives are healthier lives.

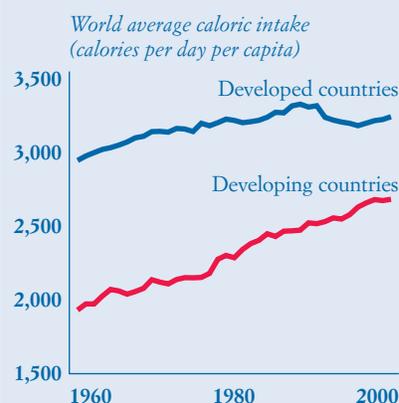
PEOPLE ARE EATING MORE—AND BETTER

Trends in food and nutrition show a steady improvement since 1961, the earliest year for which comprehensive data are available (box figure 2). Since that year per capita caloric intake has risen worldwide, but much more sharply for developing countries (37 percent) than for industrial (9 percent). Developing countries have clearly been catching up: their average caloric intake rose from 65 percent of industrial countries' in 1961–63 to 83 percent in 1997–99. On past trends, developing countries can be expected to reach the average caloric intake enjoyed by industrial countries in 1961 within a decade—by 2010.

The share of the world's people living in countries where average caloric intake probably falls short of general nutritional

Caloric intake on the rise

BOX FIGURE 2



Source: FAO Agristat database.

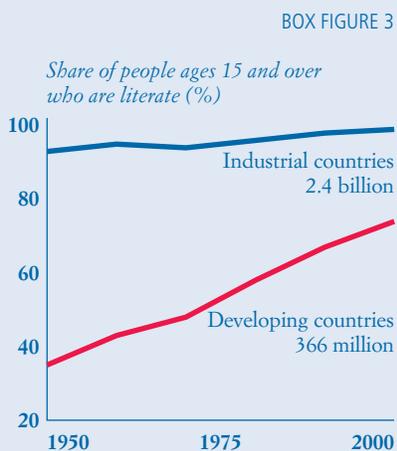
adequacy—less than 2,200 calories per person a day—has declined from 57 percent to 7 percent in less than four decades. Meanwhile, the share living in countries where average intake exceeds 2,600 calories a day has risen from 30 percent to 62 percent. But 36 countries still had a per capita intake of less than 2,200 calories in 1997–99—with 24 in Africa, 11 in Asia, and one (Haiti) in Latin America.

MANY MORE BOYS AND GIRLS ARE IN SCHOOL

Perhaps the most dramatic change has been the spread of literacy from the elite to the majority. In 1950 only 35 percent of people ages 15 and over in developing countries were literate, but by 2000 this share had more than doubled to 74 percent (box figure 3). The raw numbers are even starker: in 1950, 366 million people in the developing world could read—in 2000, 2.4 billion.

Educating children, not adults, has made most of the difference. Between 1950 and 2000 the number of enrolled students in developing countries jumped from about 100 million to about 1 billion. The growth occurred first at the primary level, where enrollment rose from 38 percent of primary-school-age children in 1950 to 100 percent in 1997. (This does not mean that all children were in school in 1997; in poor education systems older children commonly swell enrollment ratios.)

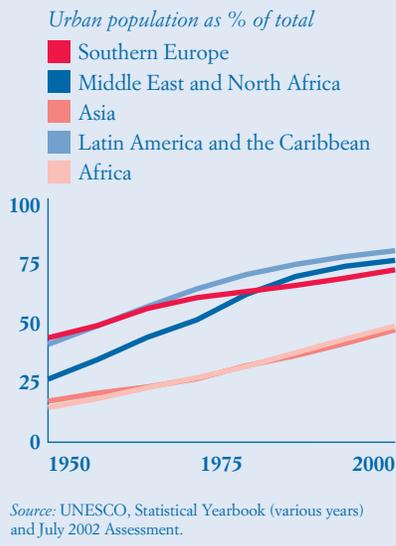
Many more people can read



Source: UNESCO, Statistical Yearbook (various years) and July 2002 Assessment.

The march into cities continues

BOX FIGURE 4



Even more dramatic has been the growth in access to secondary education in developing countries. In 1950 high school was the province of a small elite—5 percent of the relevant age group. By 1997, 52 percent of that age group was enrolled—a much higher share than the 40 percent in industrial countries in 1950. Looked at another way, developing countries lag about 40 years behind industrial countries in providing access to secondary education. They reached a secondary enrollment ratio of 50 percent in 1995—industrial countries, in 1955.

MORE THAN HALF THE WORLD'S PEOPLE ARE URBAN

The world is becoming more urban (box figure 4). By 2000 almost 40 percent of Sub-Saharan Africa's people lived in cities, and about 75 percent of Latin America's. Large nations such as India and China, long considered overwhelmingly rural, have joined the march into cities. In 1950 India had only 17 percent of its people in cities, and China only 12 percent. By 2000 those shares had increased to 28 percent and 32 percent.

Urbanization brings other changes that influence health status. Greater access to education, closer proximity to services, and higher family income can all encourage

more—and more informed—use of health care services. But changes in diet and the more sedentary urban lifestyle can lead to new health risks and an increase in non-communicable disease.

WOMEN HAVE MANY MORE OPPORTUNITIES

In 1950 women had a lower status and fewer rights than men in most developing countries—because of laws and cultural traditions. By century's end, substantial progress had been made across the board.

- Life expectancy for women, already 2.7 years longer than that for men in 1950, has since increased faster than that for men, with the gap reaching 4.2 years in 1995–2000.
- The gross primary enrollment ratio for girls rose from 56 percent to 95 percent, substantially narrowing the gap with boys' enrollment. Girls' enrollments have risen particularly rapidly (from a low base) in Arab countries. But South Asia lags behind. While in South Asia female secondary enrollments were only 65 percent of male enrollments in 1997, in all other regions they had reached at least 80 percent of male enrollments. At the tertiary level, China and India both lag behind all other developing countries.

AND MANY MORE PEOPLE ENJOY FREEDOM

Another area of important progress is human freedom. Recall what conditions were like at the beginning of the aid era in 1950. Stalin ruled the Soviet Union and a third of Europe, and Mao ruled China, both maintaining totalitarian governments that rejected individual sovereignty.

Much progress has also been made in the ability of individuals and families to live and work without undue control by government—in large part because representative democracy has become widely accepted as the only legitimate form of political organization.

Source: Fox 2002.

FREE, FAIR, AND
COMPETITIVE ELECTIONS
ENCOURAGE LEADERS TO
GOVERN MORE
EFFECTIVELY, IN THE
PUBLIC INTEREST

tripling its real per capita income between 1970 and 1998.³

But many countries remain mired in poverty, and in many African countries per capita incomes have declined since the 1970s. In the 1980s and 1990s economic growth in Sub-Saharan Africa averaged about 2 percent a year—while populations grew by 3–4 percent a year. In 1998 the region’s real per capita income was 9 percent lower than in 1970—and in Ghana 16 percent lower, Zambia 41 percent, and Zaire (now the Democratic Republic of Congo) 68 percent.⁴

HIV/AIDS is reversing gains in many countries and deepening poverty in others. Around the world some 40 million people are infected—and nearly three-quarters are in Sub-Saharan Africa, which contains just one-tenth of the world’s population. In seven Southern African countries—Botswana, Lesotho, Namibia, South Africa, Swaziland, Zambia, and Zimbabwe—more than 20 percent of the population is infected.⁵ But the disease is also advancing elsewhere, and is poised to wreak havoc in high-population countries such as China, India, Indonesia, and Russia. The spread of the disease, and the usefulness of technologies and strategies to combat it, will turn on leadership, innovation, and integrated prevention and treatment.

There are many reasons some countries have not made more development progress. But common to almost all of them is bad governance. Rather than being invested in public goods, public resources have been siphoned off by corruption. Kleptocratic leaders have distorted economic incentives, misdirected public investment, and discouraged domestic and foreign investment. Without secure property rights and the rule of law, individuals, communities, and corporations have not had the confidence to risk substantial capital to create wealth. Instead individuals and ruling parties have used their positions to enrich themselves and their families and cronies. Power has been used to distribute opportunities and accumulate personal wealth—not to govern for the common good—creating a zero-sum game in which control of the state means everything. It is easy to see why such societies do not develop—and are prone to violent conflict over control of the state.

PROMOTING DEMOCRATIC GOVERNANCE

Good governance is perhaps the single most important factor in eradicating poverty and promoting development.

—UN Secretary-General Kofi Annan

Governance is a broad concept, encompassing the capacity of the state, the commitment to the public good, the rule of law, the degree of transparency and accountability, the level of popular participation, and the stock of social capital. Without good governance, it is impossible to foster development. No amount of resources transferred or infrastructure built can compensate for—or survive—bad governance.

DEMOCRACY IS GOOD FOR GOVERNANCE

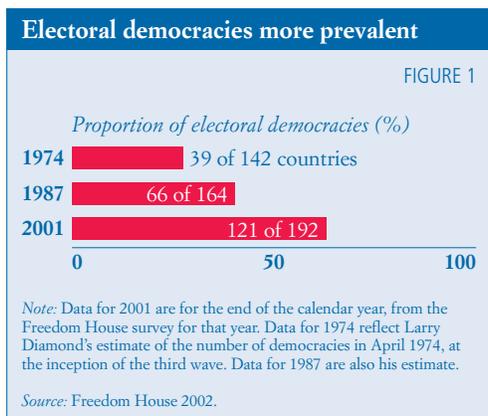
The last quarter of the 20th century witnessed the greatest expansion of democracy in history. If democracy is defined in the minimal sense—as a system of government in which the principal positions of political power are filled through free, fair, and regular elections—about three of every five independent states are democracies today (figures 1, 2, and 3).

Political parties are among the core elements of democracy. They are the only tested vehicles to structure electoral competition, organize government, and recruit leaders. Yet, almost universally, they stand in disrepute. Their client electorates do not believe they truly represent interests or work for the common good. Instead, parties are often seen as internally authoritarian, corrupt, even venal. Donors often agree—and prefer to work with “purer” actors in civil society. This would be a mistake. Donors need to help reform parties, no less than governmental institutions or NGOs.

Democracy is not strictly essential for good governance. Moreover, bad governance is quite possible under formal democratic structures. But free, fair, and competitive elections do make it possible to remove bad or corrupt political leaders. Thus they encourage leaders to govern more effectively, in the public interest.

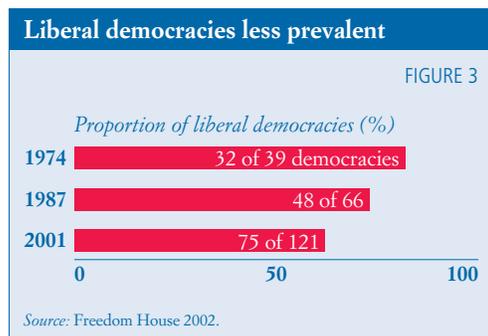
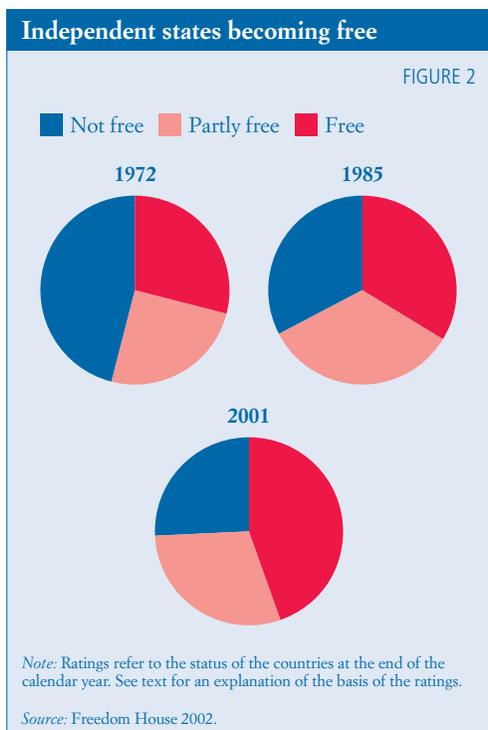
Democracy also gives citizens nonelectoral means—associations, movements, the media—to

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SECURITY, AND OPPORTUNITY



monitor officials and participate in policymaking. In addition, leaders in democracies have stronger incentives (and more institutional means and obligations) to explain and justify their decisions and to consult a broad range of constituencies before making decisions. Such participation and debate give the public a stronger sense of policy ownership. As a result policies are more sustainable and government is more legitimate.

For these and other reasons it is strongly in the U.S. interest to promote both democracy and good governance. The two are mutually reinforcing: when they develop together, resources are used to advance the public good. Public institutions perform their designated roles. Social consensus supports and stabilizes the system of government. Disputes are settled peacefully. And investment flows into the country, attracted by the



low transaction costs associated with government transparency and legitimacy and the rule of law. In these circumstances economies grow, human welfare improves, trade expands, political stability and capacity deepen, and countries become more responsible and resourceful members of the international community.

By contrast, when governance is bad and undemocratic—or only superficially democratic—the pathologies of development inevitably have regional and global consequences. Poverty becomes entrenched, reflecting the resources wasted by corruption and distorted investment. Chronic fiscal deficits drain and ultimately drive away international resources. The absence of the rule of law permits—and poverty drives—wanton destruction of the environment and depletion of biodiversity, threatening the global ecological balance (and robbing the world of new medical and agricultural breakthroughs) in ways not fully fathomed.

In the absence of state capacity and will to address public health problems, HIV/AIDS, tuberculosis, and new viruses proliferate, mutate, and cross borders. Venal, unjust regimes fuel antimodernist and religious fundamentalist movements of rage against the West, especially the United States. In the fertile soil of a weak state and feckless legal system, organized crime networks take root, threatening the rule of law internationally through terrorism, piracy, fraud, counterfeiting, kidnapping, money laundering, and trafficking in weapons, drugs, and people.

How can the United States encourage stable, effective democracies? First, the objective must be clear. The goal is not simply to advance democracy around the world. As the collapse of democracy in Pakistan showed in 1999, a country can have competitive national elections and still have governance that fails to generate development and loses public confidence. Nor is the goal simply to promote more capable and transparent

FEW LEADERS CAN DELIVER GOOD GOVERNANCE WITHOUT THE INSTITUTIONAL ACCOUNTABILITY TO OTHER BRANCHES OF GOVERNMENT AND TO THE PEOPLE THAT DEMOCRACY PROVIDES

PROMOTING FREEDOM, SECURITY, AND OPPORTUNITY

*THE PURSUIT OF STABLE,
EFFECTIVE DEMOCRATIC
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SEQUENCES OF POLITICAL
REFORM IN DIFFERENT
COUNTRIES*

government. Few leaders can deliver and sustain good governance—with its commitment to promoting the public good and restraining the abuse of power—without the institutional accountability to other branches of government and to the people that democracy provides. Even when non-democratic leaders are sincerely committed to reform, the absence of institutional mechanisms to monitor and restrain power eventually degrades the quality and legitimacy of governance.

These mechanisms include an independent judiciary that enforces clear and predictable laws, an elected parliament that can check the power of the executive, and a civil society that can participate in making and implementing policy. When governance is open to the scrutiny and involvement of a wide range of nongovernmental organizations (NGOs), interest groups, think tanks, and mass media, it is more likely to be transparent, public-spirited, and thus legitimate.

There is no guarantee that electoral democracy will deliver such transparency and inclusion. But it is an illusion to imagine that “liberal autocracy” is a development option in today’s world. There are precious few well-governed autocracies, and those that exist (such as Singapore) have sustained good governance for highly idiosyncratic reasons that are not broadly transferable. To develop truly good governance, the typical recipient of U.S. foreign aid needs the openness, competition, and broad and free public participation of democracy.

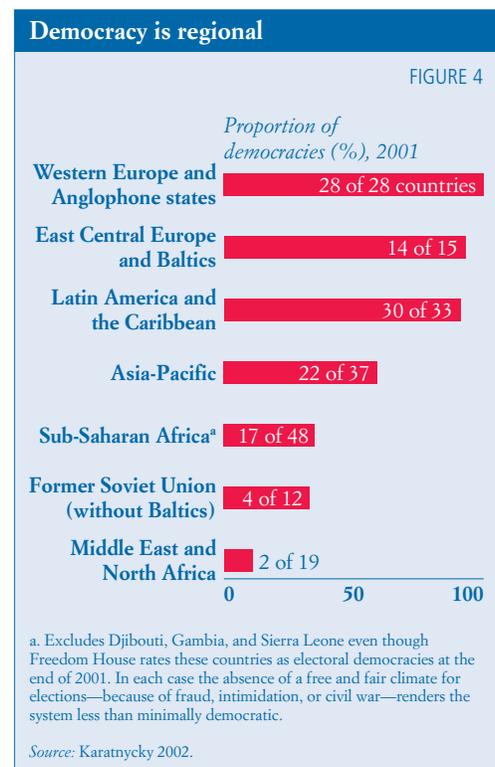
DIFFERENT REFORM SEQUENCES FOR DIFFERENT COUNTRIES

The pursuit of stable, effective democratic governance will involve different sequences of political reform in different countries (figure 4). In some cases the basic framework for multiparty democracy is in place but needs to be deepened and made more effective and accountable. Some emerging democracies suffer from more specific obstacles, such as institutionalization of the rule of law. And in repressive, corrupt, and closed regimes, multiparty competition—if it exists—is largely a façade. In such countries reforming the economy and strengthening civil society might be more viable in the short term than making an immediate transition to electoral democracy. Another possibility for repressive regimes is to start with elections for local office, the training ground for national politicians.

Such variation makes it impossible to offer a general sequence of political reform. Thus democracy and governance must be carefully assessed in each country slated for reform—especially when resources are limited and strategic choices are needed. Moreover, assistance for democracy and governance should be provided with patience and an open mind. No single sector holds the key to fostering democracy and good governance. There is no universal approach, and there are no shortcuts. In most countries lacking stable and effective governance, the United States must be prepared to work on many fronts over long periods.

STRATEGIC PRIORITIES

That said, countries that need assistance for democracy and governance tend to share a few priorities. These involve ensuring that democracy advances development and responds to the needs of society—generating capacity for and commitment to using public resources to promote the public good. Such efforts are not new. The foreign assistance community has worked on most of them, particularly over the past decade. What is needed is not invention but innovation, adaptation, refinement, elaboration, deeper commitment, and expansion of activity in some areas.



Strategic priorities for assistance include:

- Controlling corruption and increasing accountability.
- Strengthening the rule of law and the way it affects individual citizens—not only through the judiciary but also through more professional, vigorous, democratic policing.
- Strengthening and democratizing political parties and deepening their roots in society.
- Helping NGOs committed to democracy and good governance increase their constituencies while using more traditional interest groups to strengthen democracy.
- Developing stronger, more professional states better able to respond to growing public demands for better governance.

Pursuing these priorities requires strengthening links:

- *Across government agencies.* U.S. efforts to strengthen democracy and governance most often fall short because they lack unified support from the entire U.S. government. Such programs cannot succeed if they are inconsistent with U.S. objectives and priorities. It is always difficult to persuade corrupt, undemocratic, or partly democratic regimes to adopt serious governance reforms. But there is no chance of doing so if a regime perceives mixed messages from the U.S. government, whether across agencies or over time. Inconsistency within a region can also generate resentment, confusion, and ambiguity about U.S. aims.
- *Across sectors.* Among the most important lessons of the past decade is that establishing cross-sectoral links—connecting program activities intended to achieve two or more goals—enhances development and amplifies the impact of a given investment. For example, supporting the development of small and medium-size enterprises does more than stimulate and diffuse economic growth. It creates a middle class. And in building up a large class of entrepreneurs independent of the state, it crystallizes interests in better governance, provides new bases for political parties to reach out to these productive interests, and generates new resources to support autonomous interest groups and NGOs. Linking programs for democracy and governance with other programs can thus produce a triple effect. It advances specific aspects of democratic governance. It achieves a more traditional development objective (such as

better health care). And it generates additional benefits that neither program could have achieved alone.

- *Over time.* Successful work on democracy and governance requires patience, dedication, and a long-term perspective. The more intractable a country—in the sense of a long history of poverty and weak governance—the longer it will take to turn things around. Development assistance cannot succeed unless it remains engaged in pressing for democratic reforms and assisting forces of reform over an extended period, possibly decades. Significant improvements in governance also require political will. In intractable cases this will take time to generate—and even as it accumulates, it is liable to erode. So, democracy and governance assistance requires engaging the key actors in state and society to develop and sustain the will to reform.

Such assistance also demands tailoring programs to different countries. Some electoral democracies have problems of democratic performance: widespread corruption, judicial inefficacy, weak political parties, human rights abuses, an incompetent state, and in a few cases one-party dominance. The main challenge in these countries is strengthening governance and political representation. About half the countries in which USAID conducts democracy and governance programs fall into this category.

Other countries are quasi-democratic, with ambiguous regimes. In these countries it is not clear if elections are free and fair, or if elected authorities have full power to govern. Competitive, multiparty elections are held, but the contests involve significant fraud or insecurity. And though all the formal institutions of democracy are in place, most function poorly or with constraints. These countries share the program priorities of the first group but also require electoral assistance.

A third group of countries, electoral authoritarian regimes, hold multiparty elections that can even be quite competitive. But the elections are so tainted with fraud and biased toward the ruling party (and typically the incumbent president) that they cannot be considered free or fair. Some of these countries allow serious competition and pluralism not only in elections but also in legislative and judicial systems—which, along with the media, may take steps to erode constraints and induce accountability. Electoral assistance is a top

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LEVELS OF FOREIGN ASSISTANCE MUST BE MORE CLEARLY TIED TO DEVELOPMENT PERFORMANCE

priority for these more competitive regimes, as is assistance to civil society to intensify demand for reform.

Other electoral authoritarian regimes maintain the façade of multiparty elections but allow little real pluralism or freedom. And when challenged, some of these countries can become brutally repressive. In some cases it may be possible (or strategically wise) to push for genuinely free elections only after other improvements in governance. But in many of these regimes, making elections more credible and fair is vital to preventing violent conflict and securing progress in other areas of governance. In other words, without the uncertainty and incentives generated by true democratic competition, political will for reform is unlikely to emerge.

The final group of countries, closed authoritarian regimes, do not hold multiparty elections and generally exhibit extreme political repression and closure. There is little space for opposition or dissent in civil society or the political system. The executive branch and the security apparatus are thoroughly dominant. These regimes fall into two categories: failed states struggling to restore political order and repressive regimes that ban political opposition. In failed states, rebuilding state capacity is essential for improving governance. But without any type of political accountability, participation, consultation, and power sharing, the state is unlikely to gain the legitimacy needed to consolidate peace and establish effective governance. That same is true for states still plagued by civil war or violent conflict.

Among the most urgent challenges for U.S. foreign assistance is how to engage such poor performers. Where political will for reform is lacking, the main thing assistance can do is work with civil society—including NGOs, religious institutions, interest groups, think tanks, and the media—to strengthen constituencies for reform. There may also be reform-minded elements within government who recognize the need for reform but are reluctant to act in isolation. Over the past decade U.S. assistance has helped both groups in several countries. Assistance can enhance actors' understanding of reform issues, knowledge of experiences in other countries, coordination with one another, capacity to analyze and advocate institutional and policy reforms, and mobilization of support and understanding in society. Other external actors can also help tip the balance

toward reform through persuasive engagement with a country's rulers and society.

GUIDING PRINCIPLES FOR FOREIGN ASSISTANCE

The following principles should guide U.S. and other donor efforts to generate home-grown political will for better governance:

- *Levels of foreign assistance must be more clearly tied to development performance* and to demonstrations of political will for reform and good governance.
- *Good performers must be tangibly rewarded.* Reform should be encouraged through predictable and meaningful rewards. When leaders demonstrate respect for democratic procedures and freedoms, and willingness to undertake and follow through on difficult political and economic reforms, they should receive steady increases in aid from the United States and other donors. In addition, good performers—democracies getting serious about controlling corruption and strengthening the rule of law—should be rewarded in other tangible ways: with debt relief, with incentives for foreign investment (including publicity about their good governance), and with trade liberalization—such as the bilateral free trade agreement recently granted to Jordan. It is crucial, though, that increases in development assistance and other economic rewards be contingent on what governments actually do—and keep doing—not what they say they will do.
- *If there is no political commitment to democratic and governance reforms, the United States should suspend government assistance and work only with nongovernmental actors.* USAID has often used such selective suspensions, which can have important symbolic and practical effects. The only exceptions should be for humanitarian relief and responses to global public health threats, and even then minimal reliance should be placed on poorly performing states.
- *The United States should use its voice, vote, and full influence within the World Bank and other multilateral development banks to terminate development assistance to bad governments and to focus on countries with reasonably good governance.* The principles of U.S. foreign policy should extend into international development—meaning that international financial institutions should stop

financing grossly corrupt, wasteful, and oppressive governments. Considerable progress has been made on this front over the past decade, and the United States should continue to press for greater accountability and logic in international lending.

- *The United States must work closer with other bilateral donors to coordinate pressure on bad, recalcitrant governments.* Reductions in U.S. assistance will not do much to change the behavior of political leaders if their governments continue to receive significant aid from other donors. Leaders will be most likely to change if they perceive a consistent message from international donors.

In intractable cases the most important thing the United States can do to advance development is help generate the demand for democracy and better governance—by strengthening the capacity of NGOs, interest groups, religious institutions, social movements, the media, universities, and think tanks. A larger portion of U.S. assistance should be devoted to democracy and governance efforts, which are fundamental to institutionalizing policies that foster sustainable development.

DRIVING ECONOMIC GROWTH

Success in the global economy comes to countries that maintain fiscal discipline, open their borders to trade, privatize inefficient state enterprises, deregulate their domestic markets and invest in the health and education of their people.

—U.S. President George W. Bush

U.S. economic growth has been moderate, averaging only about 1.7 percent a year per person since 1776. But despite a civil war and periodic recessions, it has been continual. Over 225 years, average annual growth of 1.7 percent means a 44-fold increase in per capita income.⁶ So the miracle of high U.S. living standards has been persistence, not speed. And it has been the result of strong institutions and sound economic governance that permit individuals to become a bit more productive and a bit wealthier each year, and to be confident that the fruits of their efforts will not be arbitrarily taken from them.

One of the biggest challenges facing developing countries is to sustain growth-promoting conditions over a long period, because a growing economy offers the only long-run hope for reduc-

ing poverty. There is scope for implementing growth policies that benefit poor people. But most developing countries have trouble achieving any type of sustainable growth. At least for the next generation, U.S. strategy for reducing poverty in developing countries must focus on economic growth.

Self-sustaining growth is difficult for developing countries because generating knowledge and developing sophisticated human capital depend at least as much on institutions that protect property rights and ensure low transaction costs as on specialization and trade. No simple alternative has been found to the gradual evolution of such institutions. For many developing countries, the quest for growth remains elusive.⁷

GROWTH IS GOOD FOR THE POOR

The importance of market exchange illuminates the role of governance in both causing and alleviating poverty. Bad governance results in poorly defined property rights, high transaction costs, large economic risks, and outright theft. Markets disappear in such environments—and with them poor people's hopes for an escape from poverty.

Other factors affecting poverty are visible but hard to incorporate in general models of development. Cultural and religious values are often high on the list: attitudes, mistrust, traditions, religious outlooks, preferences for leisure, and viewing economic success negatively can impede rapid change. Important research, now under way, will define more precisely the relationship between a country's value system and its level of development. The research suggests how and why value systems evolve—and the measures countries might take to strengthen values that encourage development and alter those that undermine it.⁸

AGRICULTURAL GROWTH IS EVEN BETTER

In recent years many economists have ignored agriculture, arguing that market forces will favor whatever sectors are appropriate. In addition, agriculture plays a shrinking role as economies make the structural transformation to urban-based activities and to industry and services. But in many economies agriculture connects poor people to economic growth. Most of the world's poor people live in or come from rural areas.

ONE OF THE BIGGEST CHALLENGES FACING DEVELOPING COUNTRIES IS TO SUSTAIN GROWTH-PROMOTING CONDITIONS OVER A LONG PERIOD, BECAUSE A GROWING ECONOMY OFFERS THE ONLY LONG-RUN HOPE FOR REDUCING POVERTY

PROMOTING FREEDOM,
SECURITY, AND OPPORTUNITY

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Rising agricultural productivity offers economy-wide benefits, such as making food cheaper for urban residents. Pursuing agricultural strategies in line with market realities and institutional capabilities would provide many benefits to developing countries, including:

- *Access to technology.* For many countries agricultural exports provide the foreign exchange needed to buy foreign technology, mostly machines.
- *Increased capital formation.* Public revenues can be highly productive when invested in public goods and infrastructure that make private investment in agriculture more profitable. If agriculture is more easily taxed than nonagriculture in early stages of development, perhaps through border taxes on exports, it may provide revenue for this important initial stage of public investment.
- *Better social outcomes.* Rural education improves with growth in agricultural productivity and rural incomes. Better education, in turn, can directly increase farm productivity. It can also make moving to cities more economically rewarding for children who leave the farm.

The requirements for agricultural development are well known. Better agricultural technology and adequate prices for farmers lead to profitable farm investments and higher incomes that increase commodity output and lift rural residents out of poverty. As noted, rural education speeds up the process, as does assistance in developing new technology. Successful agriculture requires supportive macroeconomic policies, with low inflation, a stable exchange rate, positive real interest rates, and perhaps some monitoring of short-term capital flows. Extending these policies to trade, getting prices right is important: an open economy with low barriers to internal and external trade should create a level playing field for producers and consumers alike. Improving the rural financial system—so farmers can make long-term investments and to handle savings and remittances—is also essential to successful structural transformation.

BUT IT HAS TO BE SUSTAINABLE

The world's agriculture produces \$1.3 trillion a year in food and fiber. Agriculture, forestry, and fishing account for one of every two jobs worldwide and seven of 10 jobs in Sub-Saharan Africa,

East Asia, and the Pacific.⁹ Maintaining the natural resource base that sustains these jobs is critical in the coming decades.

Environmental degradation of these resources affects both human welfare and the economy. Urban water shortages in China—aggravated by overextraction and pollution of nearby rivers and groundwater sources—cost \$11 billion a year in reduced industrial output and afflict nearly half the country's major cities.¹⁰ Commercial cutting of India's forests and their conversion to agriculture have undermined the traditional system of village management of local forests—causing shortages of fuelwood and building materials for many of the 275 million rural Indians who rely on local forest reserves.¹¹

As global population and income grow, the demand for food, fuel, fiber, and water will increase. To keep up, agriculture must be put on a sustainable footing. Some 2 billion hectares of arable land have been rendered irreversibly unproductive by soil erosion, salinization, compaction, and depletion of organic matter.¹² An estimated 430 million hectares have been destroyed by erosion alone—nearly a third of currently cultivated cropland.¹³ Without conservation, more than 500 million hectares of rainfed cropland may become unproductive over the long term in Asia, Africa, and Latin America.¹⁴

Government prices and policies are key determinants of how ecosystems are treated. They direct many choices on what to consume and how to manage lands and resources. A farmer deciding what crops to plant and what chemicals to use, or whether to increase cultivated area by clearing adjacent forests, is guided by calculating commodity and pesticide prices as well as other farm costs. Similarly, economic factors drive a developer's choice on where to locate housing or a factory or a fisherman's decision on where to fish.

GOOD ECONOMIC GOVERNANCE BOOSTS
ECONOMIC GROWTH

Institutions and rules have to be in place to sustain growth once it starts. To encourage competitive markets, governments must overcome the vestiges of protectionism that stifle market activity and block new entrants into the economy. Good

economic governance, founded on predictable and fair laws, is one way to solve this problem. Since the times of John Locke, economic development has been linked to the protection of individual rights and especially of property.

Good economic governance is the result of strong public institutions, with important roles for individuals, civil society organizations, and business and interest groups. The possibility of developing policies for the public good increases when fairness and equity exist to a reasonable degree and when an open society allows for healthy competition among multiple interests. In many developing countries special interests impede economic activity by marginalizing large and potentially productive segments of society that lack the legal and political means to affect public policy. A lack of transparency in government and absence of equal treatment before the law continue to prevent people from participating constructively in the economy. Democratic processes—with equitable, broad popular participation and transparent laws and regulations—contribute to good governance and sound economic policies, resulting in higher levels of development.

Sound economic governance helps create an environment that encourages private groups and individuals to take risks, invest capital, and export. To encourage exports, governments must, at the very least, provide supportive and predictable laws and regulations. Brazil, the Republic of Korea, and Taiwan show how government policies can support low-cost trade in the transition to export-led growth. The same environment that enables private sector-led growth also encourages foreign direct investment.

MORE TRADE AND INVESTMENT MEAN FASTER GROWTH

Globalization provides an unprecedented opportunity to direct resources toward development. Over the past 10 years developing countries' trade (exports and imports) has grown from less than \$1.9 trillion a year to nearly \$4.6 trillion.¹⁵ Private capital flows to these countries have grown even more dramatically: net foreign direct investment rose from \$30 billion in 1990 to \$188 billion in 1999.¹⁶ Countries that have experienced growth in trade and investment have also achieved faster economic growth.

Globalization and regional integration have benefited countries regardless of their stage of development—but developing countries that have changed conditions and mindsets have gained the most. Among countries that have integrated with global markets, income gaps have shrunk and equality has improved. Countries resistant to globalization or lacking the capacity to foster investment and trade have not fared as well.¹⁷ Countries are better able to enter markets when democracy and the rule of law provide freedom and constrain corruption and monopolistic policies (figure 5).

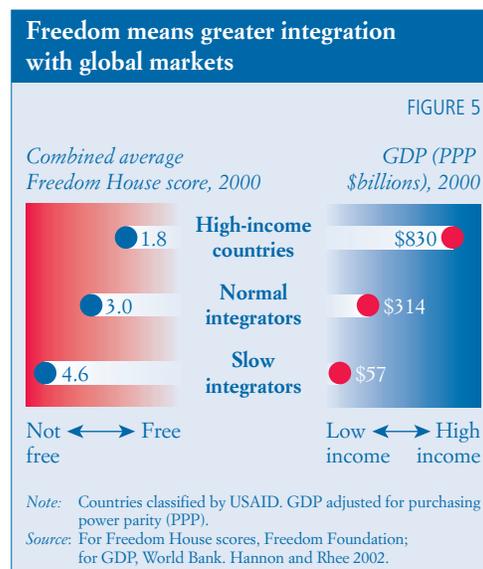
WHICH COUNTRIES ARE THE SLOW INTEGRATORS—AND WHICH, THE NORMAL?

Two indicators show how well countries are integrating:

- The change since 1980 in the share of a country's merchandise trade in GDP indicates the speed of trade integration.
- The share of manufactured exports in a country's merchandise exports in 2000 indicates the depth of trade integration.

Of 111 developing countries, 46 are considered normal integrators and 65 slow integrators.¹⁸ About 90 percent of the least developed countries and 87 percent of low-income countries are slow integrator. In 1999 these countries contained 22 percent of the world's population but accounted for just 9 percent of global GDP and 5 percent of merchandise trade.¹⁹ In Sub-Saharan African 37 countries were slow integrators, with 10 percent of the world's population but only 1 percent of

INSTITUTIONS AND RULES HAVE TO BE IN PLACE TO SUSTAIN GROWTH ONCE IT STARTS



PROMOTING FREEDOM, SECURITY, AND OPPORTUNITY

FOREIGN DIRECT INVESTMENT IS A VALUABLE FORM OF CAPITAL BECAUSE IT ALSO TRANSFERS PRODUCTION TECHNOLOGY, MARKETING, AND MANAGEMENT

global GDP. The Middle East, North Africa, and Central Asia also contain many slow integrators.

Among normal integrators annual growth in per capita GDP rose from less than 2 percent in the 1980s to more than 3 percent in the 1990s. But among slow integrators per capita GDP shrank, from -0.5 percent a year in the 1980s to almost -3.0 percent in the 1990s.²⁰ Differences in global trade and in financial and technological integration are the main reasons for these dramatic gaps.

Most slow integrators desperately need export-oriented foreign direct investment and other types of collaboration with foreign companies. Slow integrators are trying to improve their enabling environments, but potential investors and lenders lack confidence in these countries' capacity to earn foreign exchange and pay back loans. Innovative U.S. assistance could break this vicious cycle, inducing export-oriented foreign investment and other types of foreign collaboration needed to jumpstart nontraditional or manufactured exports.

IMPROVING THE CLIMATE FOR FOREIGN INVESTMENT

Foreign direct investment is a valuable form of capital because it also transfers production technology, marketing, and management. Just as important, that investment is much less vulnerable to investor runs and cross-border contagion than are portfolio investments and bank loans, providing a valuable source of financial stability.

Foreign direct investment has also been a harbinger of globalization. During 1970-86 direct foreign investment flows to developing countries were essentially flat, fluctuating around \$11 billion (in 2000 dollars).²¹ These figures were small relative to development assistance and other official flows. But by 1999 net foreign direct investment had rocketed to \$188 billion, more than three times the official flows (about 20 percent of that foreign direct investment went to China).

Still, in many countries the investment climate continues to be clouded by trade barriers, corruption, and market distortions. Evidence from a large sample of countries suggests that corruption significantly reduces domestic and foreign investment. Leveling the playing field with transparent regulations, predictable laws, and lower trade barriers is necessary to establish a favorable

investment climate (figure 6). The environment for foreign direct investment is also directly related to that for private sector development.

U.S. foreign assistance can speed economic growth by providing better access to U.S. markets, encouraging foreign direct investment, and facilitating worker remittances. It can also speed economic growth by:

- Engaging governments in policy dialogues, often with the explicit or implicit promise of greater aid if policy actions are taken. Meaningful policy dialogue requires extensive knowledge of a country's political economy and local capacity for pragmatic policy analysis.
- Producing new knowledge about development through research and project activities. Policy dialogue and knowledge generation should be seen as mirror images that require coordinated, integrated support over long periods.
- Bringing the United States to the table, often in multilateral settings, for diplomatic and trade negotiations. Connecting developing countries to the \$10 trillion U.S. economy through trade and investment offers a crucial driver for faster economic growth in developing countries. Because the U.S. government has many agencies with many agendas, an overall policy direction has been missing. Clear guidelines on responsibilities for different aspects of foreign assistance—even narrowly in assistance for economic growth—would be welcomed both in the government and by outside participants.

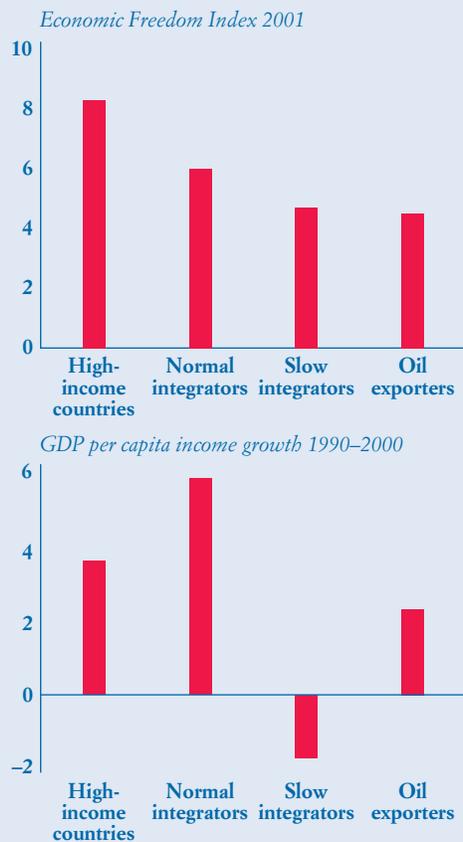
GETTING AGRICULTURE MOVING

For decades, there has been no great secret to agricultural development. Better agricultural technology and adequate prices for what farmers produce will lead to profitable farm investments and income streams that simultaneously increase commodity output and lift the rural economy out of poverty. Education of rural inhabitants will speed up the process, as will assistance in the development of new agricultural technology.

Neither the agricultural technology nor the prices in rural markets have been reliable in Sub-Saharan Africa. In Asia success in linking the non-tradable sector in rural areas to urban markets and labor-intensive export growth has been

Good investment climate, good growth

FIGURE 6



Source: Heritage Foundation, World Bank, USAID country classifications, Hannon and Rhee 2002.

mixed at best. And in Latin America many of the rural poor have migrated to urban areas—which now account for two-thirds of the population there. Central America and Mexico continue to face acute rural poverty, however, and rural strategies will be needed to reduce it.

The mechanisms for developing technology and providing rural price incentives are no longer as clear as they were in the 1960s. The global agricultural research system has a laudable record of important breakthroughs for many of the world's staple foodcrops. But funding for the system has been threatened as the market prices of these crops dropped to historic lows, under the weight of productivity gains in developing countries and publicly subsidized crop surpluses in rich countries. Biotechnology holds out great promise—largely a product of scientific enterprise, public and private, in rich countries. Already, pest resistance and drought tolerance are being incorporated, using biotechnology, into crops of great importance to poor farmers—cotton, maize, and sweet potatoes. Cost reductions and greater productivity are results

that will help keep agriculture moving. Still, few countries have the scientific resources to conduct basic crop research on their own, so a large question looms. Where will agricultural technology come from to feed the additional 3 billion people expected in the next 50 years?

There is an obvious role for the United States in answering this question. First, U.S. leadership can help in restoring budgets of the agricultural research system—and can bring other donors back to the table. Second, our university system is the best in the world at training scientists in basic biology and applied agricultural fields. We have an opportunity to provide the next generation of these scientists for the entire world. Third, we can press for reducing the destructive effect on poor countries of agricultural policies of the industrial countries.

Some place high hopes for solving world market problems in agriculture negotiations at the WTO. But this is likely to be very difficult, as both Europe and Japan are still extremely reluctant to expose their farmers to free markets. But the U.S. Department of Agriculture has taken a clear stance in favor of reduced subsidies and freer trade in agriculture. Its research concludes that removing all forms of agricultural protection and support could raise world prices 12 percent, mostly from removing tariffs. In such a free market U.S. agricultural exports would grow by 19 percent. And removing such distortions would increase global economic welfare by \$56 billion annually—about the same amount as all official foreign aid provided by the industrial countries.²²

Part of the challenge may involve getting U.S. acceptance of agriculture's "multifunctionality" as the basis for domestic policies that have clear social, environmental, or security rationales. The United States joined with other WTO members to launch the Doha Development Agenda that solidified the importance of liberalizing agricultural trade. To be designed are rules that explicitly recognize what functions might be reasonable for agriculture in different countries and at different stages of development. For example, environmental protection would be acceptable for domestic agricultural policies in all countries, whereas policies to stimulate basic grain production to enhance domestic food security would be restricted to countries with limited access to world markets or with poorly developed internal marketing systems.

BETTER AGRICULTURAL TECHNOLOGY AND ADEQUATE PRICES FOR WHAT FARMERS PRODUCE WILL LEAD TO PROFITABLE FARM INVESTMENTS

PROMOTING FREEDOM, SECURITY, AND OPPORTUNITY

Beyond improving the external climate for agriculture, what are the main components of an agricultural strategy and how can the United States help countries develop one? First is a supportive macroeconomic policy, one that yields low inflation, a reasonably stable exchange rate, positive real interest rates, and perhaps some monitoring of short-run capital flows. Second, “getting prices right” extends good macro policy to the trade arena, where an open economy with low barriers to internal and external trade should generate a level playing field for producers and consumers alike. Third, improving the rural financial system will take time but is essential.

None of this is intrinsically difficult, but all of it requires talented policy analysts and government administrators. Training them in U.S. universities and empowering them when they return home is a powerful form of U.S. foreign assistance.

DEFINING THE MICROECONOMIC AGENDA

Much discussion of competitiveness has focused on the macroeconomic, political, and legal circumstances that underpin a successful economy. A stable set of political institutions, a trusted legal context, and sound fiscal and monetary policies contribute greatly to a healthy economy. Macroeconomic conditions provide the opportunity to create wealth but do not by themselves create wealth. Wealth is actually created in the microeconomic foundations of the economy, rooted in company operating practices and strategies as well as in the quality of the inputs, infrastructure, institutions, and array of regulatory and other policies that constitute the business environment in which a nation’s firms compete.

Developing countries, again and again, are slowed or paralyzed by microeconomic failures. With global capital markets, countries can engineer spurts of growth through macroeconomic and financial reforms that bring floods of capital and cause the illusion of progress as construction cranes dot the skyline. Such reforms allow countries to exploit current comparative advantages. But unless firms are fundamentally improving their operations and strategies and competition is moving to a higher level, growth through productivity gains will be snuffed out as jobs fail to materialize, wages stagnate, and returns to investment prove disappointing. Capital flows and attention then shift elsewhere. The austerity that results from such cycles is at the core of the backlash against globalization.

The microeconomic foundations of productivity rest on two interrelated areas: the sophistication with which companies or subsidiaries based in the country compete, and the quality of the microeconomic business environment. National productivity is ultimately set by the productivity of a nation’s companies. An economy cannot be competitive unless companies operating in it are competitive, whether domestic or subsidiaries of foreign companies. The sophistication of these companies is intertwined with the quality of the national business environment. More sophisticated business strategies require highly skilled people, more information, better infrastructure, advanced institutions, and stronger competitive pressure.

Foreign aid organizations, both public and private, have a distinct role in developing and implementing a developing country’s microeconomic agenda. They can bring unique assets to bear that the developing country otherwise would not have access to. Traditionally, foreign donors have provided capital to finance development projects. Often more important, however, is a new type of technical assistance in assessing a country’s current competitiveness, in developing the key elements of its microeconomic agenda, in creating measurement tools to track performance, and in setting up institutions for implementation and continuing research on the microeconomic agenda.

This new technical assistance differs from macroeconomic, legal, and financial assistance in a number of crucial ways. The time line between providing the technical assistance and actual changes in behavior and later outcomes is usually much longer than when stabilizing a government’s budget or fixing the exchange rate by government fiat. Microeconomic reform requires permanent, stable changes of many interrelated policies. These policy changes filter through to changes in companies’ behavior and expectations. Over time, they finally show up in the outcomes if policy makers have kept course. Microeconomic reform is a marathon, not a sprint.

The new technical assistance also requires the cooperation of a large number of participants. It has to include private companies, both domestic and foreign-owned, in assessing the current competitiveness of a location and in implementing changes to upgrade. It has to include non-profit, educational, research and trade organizations to

organize the collective action of individuals and companies and to implement measures to change the business environment. It has to include many different functional and regional parts of government, stretching beyond the traditional focus on the leadership of national ministries.

Finally, the new technical assistance needs to define clusters and regions within a country as their primary unit of action rather than industries and nations. Clusters go beyond individual industries, which on their own control only a subset of the factors that drive their economic performance. And clusters are narrower than large sectors like manufacturing, which are too diverse to allow the development of policies that can make a material difference. Regions control many of the microeconomic business environment conditions that determine the ability of companies to operate productively. And regions differ significantly in their current competitiveness and thus require unique efforts to address their weaknesses. The national level, however, continues to be critical to provide the basic macroeconomic, legal, political, and social conditions that set the stage for microeconomic competitiveness.

On a very basic level, U.S. policies for foreign assistance should meet two practical tests:

- Does the activity upgrade elements of the business environment most critical to development in a particular country?
- What is the distinct advantage to the U.S. in performing this specific activity to upgrade the business environment?

JUMP-STARTING THE SLOW INTEGRATORS

Most slow integrators desperately need export-oriented foreign direct investment and other types of collaboration with foreign enterprises. These slow integrators are making efforts to improve their enabling environment. Yet potential investors and lenders lack confidence in these countries' capacity to earn foreign exchange and pay back foreign loans, stemming from slow integration into the global economy.

Innovative approaches to U.S. assistance strategies can break this vicious cycle. Foreign economic assistance could play a catalytic role in inducing export-oriented FDI and other types of foreign enterprise collaboration needed to jump-start nontraditional or manufactured exports.

As many now agree, globalization is good for development: the countries that have benefited have been the poorer ones, the ones with the most to gain. What can U.S. foreign economic assistance supply? Much, but only with more effective coordination of policy and program development by U.S. government agencies, and departments. The private sector, which has already done so much to promote development, must also be treated as a partner in the difficult task of building the capacity of countries seeking to globalize. Alleviating poverty and creating opportunities for countries "left out" of globalization's benefits are critical for international security and long-term stability. Only by approaching the process of assistance in this larger and more creative framework of coordination can U.S. foreign economic assistance ensure long-term gains in the process of development.

INVESTING IN PEOPLE

Investing in people improves the distribution of assets in the early stages of economic growth. For growth to benefit poor people, these investments must include rural schools, primary health clinics, and household food security. In addition, policies that encourage efficient rural financial markets increase poor people's access to capital.

At later stages equitable growth requires providing unskilled and semiskilled workers with opportunities for high school education and on-the-job training (box 2). If such investments are broadly based and of adequate quality, they will keep the distribution of income from becoming highly skewed until well into the development process—leading to the near elimination of absolute poverty. The Republic of Korea and Taiwan managed such investments quite well as they moved into middle-income status. Brazil, the Philippines, and Thailand did not.

Even the poorest countries can set themselves on a fiscally manageable growth path that includes the poor. But that may not occur. Political forces and governance averse to investing in poor people are more likely in countries where poor people's lack of assets keeps them apart from the growth process. But such obstacles provide U.S. assistance with a rationale for investing in the people who those countries' leaders might choose or be forced to ignore. The resulting policy dialogue, and the resources mobilized behind it, could have dramatic effects.

FOREIGN ECONOMIC ASSISTANCE COULD PLAY A CATALYTIC ROLE IN INDUCING EXPORT-ORIENTED FDI AND OTHER TYPES OF FOREIGN ENTERPRISE COLLABORATION

**PROMOTING FREEDOM,
SECURITY, AND OPPORTUNITY**

Box 2. Making education meet the needs of a modern economy

Gross enrollment trends spotlight the education revolution that took place in developing countries after 1960. The World Bank's *World Development Indicators 2002* shows a 104 percent enrollment ratio in low- and middle-income countries in 1998. The gains of the past decades are even more remarkable given the massive increases in population.

But the numbers mask great differences across regions and within countries. Many industrial countries enjoy near universal literacy. But in the Balochistan region of northern Pakistan only 3 percent of women, and only 8 percent of men, were literate in 1990. And in the developing world an estimated 113 million children—one in every five ages 6–11—are not in school, 60 percent of them girls. Girls' enrollments are lowest in Sub-Saharan Africa and South Asia.

The numbers also mask system inefficiencies, such as grade repetition, overage and underage

enrollment, and children who enroll but never attend. One in four school-age children drops out of school before completing five years of basic education—but international research suggests that countries may be trapped in low returns to education unless children complete at least five to six years of school.

Masked most by the enrollment numbers: educational quality is often deficient. Education must also be linked to a productive economy. It must provide learning on demand so that workers and citizens can meet the needs of a rapidly changing global economy. Primary education, while providing the basics for lifelong learning, is no longer enough to prepare young people for employment. Secondary education and skills-based learning must now be considered essential elements in tapping into the global economy—and in building democratic institutions.

Source: USAID staff.

IMPROVING PEOPLE'S HEALTH

When it comes to health, developing countries are separating into two groups. In the first, larger group, health care has improved dramatically in recent decades—raising life expectancies, expanding workforces, and reducing deaths from communicable diseases. As a result, by 2020 these countries will have achieved international objectives for basic health indicators. They will have smaller populations under 5, and their median ages will approach those in industrial countries today. Moreover, noncommunicable diseases will be the leading cause of death.²³ But these countries will still have subpopulations with health profiles similar to those in least developed economies. Further, there may be unexpected shocks that could cause countries to regress, such as the HIV/AIDS epidemic, social upheaval, and natural disasters.

In a second, smaller group of developing countries—which includes badly managed economies that have seen little or no growth in recent years—health indicators have stagnated or worsened. Fertility and infant mortality rates are high. Life expectancies are low. And infectious diseases, including HIV/AIDS, are widespread. Though some of these countries are seeing slight improvements in demographics and mortality rates, they

will not approach the levels of today's industrial countries by 2020.²⁴

These features offer opportunities—and create challenges. In addition to maintaining basic public health services, the first group of countries must decide how to invest in new approaches and technologies. Global health programs can shift their focus from women of reproductive age and children under 5 to entire families, including income earners and elderly dependents. Better health outcomes will require better management of chronic diseases, from prevention through treatment. Sustainable progress in health will require health care institutions with both capital and recurrent financing. And systems will need to respond to rising expectations for health care and to the dominance of private flows in its funding.

In the second group of countries public health interventions will have to remain focused on family planning and maternal and child health—but, given serious quality problems, must radically revise the strategies used to do so. By 2020 nearly nine of 10 people in this group of countries will be African.²⁵ New thinking is needed to generate more effective results from global health programs. In addition, consideration must be given to external concerns that affect health outcomes—including income growth, education, water, sanitation, and good governance.

What do these changes mean for foreign assistance?

- Health interventions must encompass a wide range of new approaches and actors. Dealing with local financing institutions, employer benefit plans, and telecommunication networks may be just as important as ministries of health. Increasing both the availability and quality of food will remain critical, but new approaches, such as biofortification of staple crops to enhance their micronutrient content, need to be examined.
- The increase in noncommunicable diseases will be permanent, making health care more expensive. Donors and developing countries must make complementary investments involving all parties—public and private—with vested interests in a country's long-term health status, ultimately aiming for self-reliance.
- Given the rapid and diverse changes in many developing countries, donors must be flexible. Efforts to accelerate the progress of countries suffering from traditional health and disease problems must be combined with programs to help other countries address new challenges.
- Despite 40 years of effort, many countries have extremely high infant mortality and low life expectancy, now affected by high HIV/AIDS rates—suggesting a need to carefully evaluate past public health investments, develop new approaches, and better define the role of the private sector.

Why act on these changes? The impact of the changing disease profile on the economies of these countries, the rising expectations of newly democratic populations for better health care, the expertise and experience of U.S. medical and management organizations to help solve these problems—all argue for transforming U.S. global health portfolios into dynamic investments benefiting everyone.

For both old problems and new, the central concern will be self-reliance—so that economic progress can be tied to progress in public health. A central concern of self-reliance will be financial diversity—including private financing, which already accounts for more than half of health resources in developing countries. Political commitment is also key. For many developing countries, self-reliance in traditional areas such as immunizations is not a matter of inadequate resources but of political will, commitment, and management.

NEW OPPORTUNITIES—AND CHALLENGES

New opportunities in global health are a direct result of the changing demographics, epidemiology, and diversity in developing country populations. These opportunities do not imply that humanitarian programs should be eliminated where such needs continue to dominate national landscapes. Nor do they imply that core public health functions dealing with conventional problems are not needed. Indeed, the combination of public and private services is a prerequisite for health progress. But in coming years, where economic progress and democratic governance advance alongside epidemiological change, countries can assume the burden of managing these services.

Keeping breadwinners healthy and taking care of parents. With changing age structures, there is opportunity for widening the focus of global health efforts from women of reproductive age and children under 5 to the family—a unit that encompasses both traditional and emerging health concerns.

The number of children under 5 is falling in many developing regions. And at least until 2020, the number of youth will rise. In addition, grandparents and great aunts and uncles will survive middle age.²⁶ Whether they live independently or with their adult children, their health problems will become a concern for family breadwinners. Thus the health issues of working-age populations will affect family life and economic viability. If both aging dependents and productive breadwinners are chronically ill, a family's future is bleak. Hence the importance of health strategies that aid economic growth.

The near-term challenge is to learn more about families—their problems, their aspirations, and how they are adapting to changing living patterns and health status. How are they allocating their resources to meet changing demands, and how can foreign assistance help that process?

Reexamining financing. The past decade of experimentation with health care financing in developing countries, and equally painful but longer experimentation in the United States, provide a base for exploring new approaches to rising health care costs. Choices will have to be made about public spending, and fresh approaches will be needed to create revenue streams. In young democracies the balance struck between young and old and

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between productive and dependent populations will be a function of what health experts advocate and what people want for themselves. Expectations of health care quality, safety, and service will drive public decisionmaking on health resources. To meet these new demands, governments will have to explore private outsourcing and insurance, as well as pursue greater transparency and better management of service delivery and financing.

One largely unaddressed element is the need for investment in the health industry, for both goods and services. The new epidemiology will require investing in management systems, information systems, technology, provider training, and public education. The public and private capital available for investing in provision—not necessarily bricks and mortar, but start-up costs of new service combinations and organizations—will determine the viability of health sectors in developing countries.

Ensuring quality. Poor-quality health care results in illness and death. It is also a tremendous waste of resources. Higher quality means lower costs. Quality can reduce waste by shortening hospital stays, lowering laboratory test and operating costs, and shifting personnel allocations.²⁷ For even the poorest countries, such assessments of quality argue for new approaches. And especially for the poorest, they highlight levels of waste that are unsustainable under constrained budgets.

The need to ensure quality is becoming more compelling as epidemiology in most developing countries shifts to chronic and noncommunicable diseases—with longer treatment periods and higher unit costs in both private and public systems. The United States is the world leader in disease management and quality assurance, largely because of national debates over cost containment and health outcomes.²⁸ These techniques are becoming increasingly refined and practical to transmit to other settings.

Reexamining management systems. Changing disease patterns, broadening demand among aging populations, and rising expectations will make the management of health services more complex. The decentralization of responsibility that often accompanies democratization and economic liberalization also creates new challenges for public health care.

With the increase in private providers and more diverse financing schemes, the role of public health

ministries will change from providing services to setting standards and overseeing operations. How well these roles are developed will affect the quality and sustainability of national health systems, public and private. Deeper capacity will be required to manage dispersed health care networks rather than centrally controlled systems.

With the demographic and epidemiological transition, one big management change may be in pharmaceuticals. For many noncommunicable diseases, prevention and treatment are combined. Indeed, many of these diseases entail lifelong pharmaceutical use, unlike communicable ones, with the exception of HIV/AIDS therapies. Rising literacy, education, access to information, and globalization will also spur demand for pharmaceuticals. Given the effectiveness of modern medications, greater access to therapeutics can contribute to a more productive workforce at all ages.

Educating the public. Changing demography, rising urbanization, and spreading literacy may provide opportunities for pursuing more comprehensive approaches to public health education, using new communications technologies. Indeed, such strategies may be essential. Many noncommunicable diseases, especially cardiovascular conditions and cancer, have deep roots in behavior. Encouraging prevention through health-promoting behaviors brings prevention to the forefront for these diseases and can be incorporated into existing primary health care initiatives for infectious diseases.

Research in industrial countries shows that as people age, they begin to be more attentive to health problems and their consequences. The absorptive capacity of the population for health information deepens. Technological innovation will make reaching people easier. Even now, solar-powered, satellite-based internet connectivity is spreading to rural areas in many developing countries.²⁹ Cell phone penetration is greater than in some areas of the United States.³⁰ Distance learning methods and technologies are becoming widespread. The evolution of bottom-up wireless mesh routing (Wi-Fi) is rapidly becoming a low-cost method for weaving networks of wireless telecommunications capacity without major investments.³¹ The expected extension of such networks into the developing world will significantly increase the capacity to deliver health care messages and consultation to larger populations for lower costs than ever.

IMPLICATIONS FOR THE PHILOSOPHY AND PURSUIT OF FOREIGN ASSISTANCE

After more than four decades, foreign assistance programs in health—focused largely on public health endeavors aimed at women of reproductive age and children under five—look out on a changed health landscape. Decisions about how to allocate and manage “aid” on that landscape can be guided by various considerations.

First, resources have to confront a growing diversity of complex problems many of which will be more serious. The world is very different from what it was even 20 years ago; it will be even more different 20 years hence. What is striking is the progress, albeit with serious lags in the least developed countries. Entirely new generations of public health problems require entirely new portfolios. Health conditions not previously considered part of a “foreign assistance” portfolio are now worthy of attention. New skills, such as those in health finance and management, become as important as public health credentials.

Second, progress in health will come not just from health programs. Health portfolios must be interdisciplinary, combining the best of health and medical innovation with simultaneous attention to problems as diverse as capital investment capacity, biofortification in agricultural systems to correct micronutrient deficiencies, wireless communication distribution systems, and women’s education. This means that portfolios will need to be fairly slim; one cannot undertake multiple complex partnerships in one place (let alone many places) at once. Having limited resources means being selective about investments with an eye to their economic contributions, staying rigorous and brutally honest about measuring impact, and being insistent on the long-term self-reliance of partners.

Third, public health challenges of tomorrow argue for flexibility. There certainly are no longer simple categories of health challenges, if there ever were. Nor are the challenges defined by narrow age categories or by gender. Achieving equality in partnerships means that the United States must have the flexibility to adapt the discussion to priorities as defined by the emerging health conditions. Accelerating the progress of some countries still in the grip of conventional global health and disease problems must be combined with the ability to help other nations address new challenges not conforming to old categories.

Fourth, despite 40 years of effort, health progress in some nations continues to lag behind, with only slow progress projected for the future. Quality, impact, and sustainability have remained elusive. Given the continuing need for future investment in conventional problems, there should be frank and open discussion on new approaches to achieve results. In other quarters, this has been cast as a matter of inadequate international funding.³² But money is not at the heart of the matter. The partnership dialogue with nations still struggling to make health progress requires exploring and developing entirely new strategies.

The future may thus see major opportunities for a new wave of financing alternatives in the private sector—and for the emergence of service-based commercial lending in health. In the more advanced developing countries, there can be a future in which the health industry is a dynamic force in the economy, creating jobs and accumulating capital.

MITIGATING AND MANAGING CONFLICT

Understanding what, if anything, the foreign assistance community can do to help stop a nation’s slide to self-destruction is critical. By one count, there were 111 armed conflicts in 74 locations in the 1990s. Of these, 56 were counted as major, armed conflicts, meaning that military casualties exceeded 1,000 battle deaths, either in a year or over the course of the conflict. Although the number of new conflicts has been steadily declining since reaching a peak between 1992 and 1993, many of those that remain—in Afghanistan, Colombia, and Sudan—have become increasingly lethal and durable.³³

The vast majority of recent conflicts have been internal, characterized by brutality, severity, and socially divisiveness. They cause tremendous human suffering, with a disproportionate share of the costs falling on civilian victims. Before the second World War, the ratio of military to civilian casualties was nine to one. By the close of the 20th century, that ratio had reversed, producing massive and protracted humanitarian crises.³⁴ Hundreds of thousands have died in direct fighting, with many more forced into refugee states. Fueling religious and ethnic intolerance, these conflicts have led to an enduring climate of hate and fear that can take generations to overcome.

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In addition to the human costs, civil conflict has blunted and reversed prospects for growth, destroyed investments, and caused a dramatic deterioration in the quality of life. Not only has violence taken a serious toll on the economies of countries experiencing conflict, new research demonstrates that the economies of neighboring states and regions also take a serious hit. The financial burden of these wars on the international community is also staggering. In the 1990s the donor community pledged more than \$60 billion in aid to assist in the recovery of war-torn countries. World Bank lending for post-conflict recovery alone has increased more than 800 percent. Between 1992 and 1997, peacekeeping expenditures rose by \$3 billion, and emergency assistance, largely to conflict affected areas, rose by \$33 billion.³⁵

In these anarchic and lawless settings, a new breed of conflict entrepreneurs have found sanctuary, and the line between criminal violence and political violence has begun to blur. Transnational criminal organizations, terrorist networks, and local warlords have amassed enormous power and wealth through instability and violence. Indeed, many of the activities these groups engage in—smuggling drugs, trafficking in people, counterfeiting currencies, trading chemical, biological, and nuclear weapons—are easier during conflict and with failed states. To move toward enduring solutions for the problem of mass violence, it is important to understand that violence is not the problem for these groups and individuals—it is the solution, a political and financial step up rather than a step down.

Conflict becomes more likely when causes operate at all of these levels. Clearly, the simple existence of poverty isn't enough. Nor are ethnic divisions. Nor is access to the human and financial resources necessary to sustain violence. These grievances and "conflict" resources are likely to remain latent until political elites see a reason to tap into them to advance a political or economic agenda, often one that serves them more than the group they claim to represent.

Similarly, if there are strong institutions in place that can address grievance or check the behavior of "conflict entrepreneurs," then whatever incentives for violence exist in a society can find legitimate channels of expression or be successfully controlled. External pressures—global markets, transnational weapons flows, criminal networks—can also undermine efforts to keep the

peace. But these forces are unlikely to lead to widespread violence unless they resonate in some way with internal causes.

WHAT FOREIGN ASSISTANCE CAN DO

At a very general level, conflict prevention and management entail a continuum of interventions that have as their primary objective strengthening the capacity of states and societies to sustainably manage sources of tension and strain in their own countries. This will require helping key stakeholders locate and rank the most important causes of conflict that exist in their own country. In some places, this may be rural-to-urban migration. In others, communal competition over a dwindling water supply or access to arable land. And in others, still, corruption. Whatever the underlying cause, a critical part of the solution is encouraging the growth of institutions that can craft innovative and participatory solutions to these problems at the local, regional, and national levels.

While there are clusters of fairly distinct activities for short-term and long-term interventions, it is important not to compartmentalize them. Even in the period immediately before and after violence, it is critical that the foreign assistance community continue to encourage the creation of institutions that can address underlying grievances and ambitions. It is also vital that short-term assistance, humanitarian or otherwise, be acutely sensitive to how it feeds into or sustains long-term conflict dynamics, particularly the economic dimensions of violence. Some factors critical in the short-term, such as high levels of youth unemployment, require both long-term and short-term interventions.

Determining where a country falls on the continuum from pre-conflict to post-conflict requires much more sophisticated risk-monitoring systems than most foreign donors currently use. Some early-warning models are being developed to assess risks two or more years out. While these models are not perfect, and certainly cannot predict the outbreak of violence with accuracy, they do a reasonably good job of ranking countries by the probability of violence. In combination with regional expertise, they can help donors identify priority countries and guide decisions about what type of intervention is most necessary at a point in time.

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GUIDING PRINCIPLES

There are clear limits to what U.S. assistance can do to encourage peace and discourage violence. In severely divided societies, it may be possible to reduce or manage tensions. But it is not possible to eliminate them, and policymakers shouldn't pretend that it is. A durable peace cannot be imposed from abroad. Outside actors can attempt to shift the balance of power between conflicting parties at the margin. They can raise issues that internal actors might not be able to. They can monitor events. And they can bring diplomatic, financial, and military pressure to bear against leaders who are walking down a dangerous path. But conflict is ultimately the product of deep grievance and ambition, reckless leadership, zero-sum competition over political and economic power, weak or unaccountable institutions, and regional and global pressures. What is required is a change in attitudes and power inside a country and the will to address these issues. While a range of policy tools can help in this task, it is important to recognize that most of what we are able to do is at the margins—and will take years to accomplish.

Even within these limits, we need to recognize that U.S. assistance matters a great deal. All aid is political, particularly in countries at high risk for conflict. Foreign assistance is a valuable resource in a resource-poor and highly competitive environment. It feeds into complex internal dynamics and often produces explicitly political results. These results can be positive but—intended or not—they can just as easily be negative. We need to accept and manage the heightened risks in these types of environments. To some extent, this means being more aware of the political aspects of any project and understanding how its design, implementation, and aims may interact with underlying conflict dynamics in a society. It also means consciously attempting to minimize the potential negative consequences of any project. But “doing no harm” does not mean avoiding all action. It means adopting a strategic framework that has an understanding of conflict at its core—and then taking considered risks within that framework.

One of the most important things the foreign assistance community can do is develop a deeper, context-specific understanding of what drives conflict. This will entail a significant investment in research and analysis, both the donor commu-

nity and in countries where conflict programs are being considered. Much of the success that foreign assistance has been able to claim in the field of health and population, for example, stems from close collaboration between practitioners and researchers. But there is still a strong belief among many development practitioners that conflict is inherently random, driven by passion rather than rational calculation, and not amenable to rigorous analysis or subject to outside influence. There is still a long way to go in conflict research, but scholars have made great strides in uncovering many of the forces that cause and sustain widespread violence.

As important as it is for U.S. assistance agencies to use this research, it is even more critical that they invest in strengthening the capacity of local institutions to conduct research on conflict—and support local discussions about these issues. Unless all the major actors in a society can discuss what they believe to be the central causes of conflict are—it will be extremely difficult to set priorities and devise effective solutions. Drawing in all relevant stakeholders, including the government and the military, has the advantage of gaining consensus on the issues that can be tackled first, and those that are too problematic to take up immediately.

The United States needs to focus as much attention on how to engage or contain groups and individuals who have incentives to participate in violence as on those who are committed to peace. Because of the difficulty of working in environments of conflict, there is a tendency to seek out like-minded human rights organizations, religious groups, and women's groups committed to dialogue and peace. These groups have an important role in the search for solutions, but they have been asked to carry too much of the burden in addressing conflict. The United States also needs to focus on institutions and actors actually driving the violence, whether they are political elites and their followers, religious leaders, or the police.

A cross-sectoral, multi-disciplinary perspective is critical when designing programs in environments of conflict. Every major area focus area in foreign assistance—from economic growth, to agriculture, to democracy and governance—has at least some bearing on the causes of conflict. It is important to apply a conflict lens to each area in high-risk countries, rather than assuming that some areas are more relevant to conflict than others. This is prob-

DETERMINING WHERE A COUNTRY FALLS ON THE CONTINUUM FROM PRE-CONFLICT TO POST-CONFLICT REQUIRES MUCH MORE SOPHISTICATED RISK-MONITORING SYSTEMS

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ably the most important principle to keep in mind when designing a country program.

PROVIDING HUMANITARIAN ASSISTANCE

More than three million people lost their lives in the disasters of the 1990s. Conflict-related emergencies were by far the most deadly, with civilians nine times more likely to be killed than the combatants.³⁶ Natural disasters are statistically less lethal (one-third the number killed in conflict-related emergencies), but they affected seven times as many people over the decade as did conflict.³⁷

Reflecting this growing disaster problem and increased awareness, the international community has responded. Between 1990 and 2000 (using 1999 prices and exchange rates), official development assistance (ODA) for humanitarian aid programs grew from just over \$2 billion to nearly \$6 billion. In most years, the United States was the largest donor of humanitarian assistance by a factor of three to four.³⁸

There is no reason to believe that the 1990s disaster pattern was exceptional, with natural disasters being more numerous and affecting more people but conflict-related disasters being more deadly. Natural disasters will likely become even more devastating as populations at risk increase, and the post-cold war world shows little sign of becoming less violent, although the conflicts now are often internal or “intrastate.” The trends guarantee that humanitarian assistance will remain enormously important for the international community and for the United States. They also guarantee that the controversies will continue.

NATURAL DISASTERS

While conflict-related disasters have dominated the funding and focus of much international assistance over the last decade, natural disasters still take a tremendous toll worldwide. They are neither simple nor purely nature-induced, and their devastation in global economic terms and in terms of populations affected far outstrips the damage caused by conflict.³⁹

Natural disasters killed or affected an average of 211 million people per year during the 1990s—

seven times more than the average of 31 million people killed or affected by conflict.⁴⁰ The number of deaths due to natural disasters during the decade—estimated at 665,000—is only one-third of the number estimated killed in conflict. For natural disasters, the lower numbers killed reflect the benefits of early warning and disaster preparedness measures as well as advances in such basic services as clean water and sanitation.⁴¹ The vast majority of those killed in natural disasters occur in countries with low incomes and low levels of human development, reflecting the correlation between poverty and vulnerability.

The rise in number of natural disasters has been meteoric. There were three times as many natural disasters in the 1990s as in the 1960s.⁴² While geophysical disasters have remained somewhat steady in number, hydrometeorological disasters have increased dramatically. The period 1991–95 saw three El Niño-Southern Oscillation (ENSO) phenomena, associated with the devastating southern Africa droughts of 1991–92, 1993–94, and 1994–95. In 1997–98, the phenomena again affected temperatures and rainfall patterns around the world. South and Central America had devastating floods and landslides in some areas, drought in others. Southeast Asia had droughts and fires, and East Africa heavy rains and floods.⁴³

HUMANITARIAN EMERGENCIES IN FAILED AND FAILING STATES

The defining disaster of the 1990s was conflict-related, and the recent growth in humanitarian aid was largely driven by the devastation in failed and failing states. In the late 1980s five manmade humanitarian emergencies were declared on average each year. In 1990 there were 20. And after reaching a high of 26 in 1994, they averaged 22 a year in the last half of the decade.⁴⁴ The majority of were directly related to conflict or severe government repression. Countries from every region made up the list, including Angola, Burundi, Eritrea, Ethiopia, Democratic Republic of Congo, Liberia, Rwanda, Sierra Leone, Somalia, Sudan, Uganda, Indonesia, Afghanistan, North Korea, Bosnia-Herzegovina, Serbia-Montenegro, Tajikistan, Colombia, and Haiti.

By the end of 2000, intrastate conflicts and repression had generated some 14.5 million refugees and asylum seekers worldwide and more than 20 million people displaced within their own

HUMANITARIAN ASSISTANCE WILL REMAIN ENORMOUSLY IMPORTANT FOR THE INTERNATIONAL COMMUNITY AND FOR THE UNITED STATES

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countries.⁴⁵ The number of refugees was just below 10 million in 1984, peaked at some 16.3 million in 1993–94, and only then began to decline.⁴⁶ Significant refugee repatriations from peace settlements in Namibia, Central America, Cambodia, and Mozambique contributed to the decline. Unfortunately, conflicts in Africa, especially the Great Lakes Region, and elsewhere partially offset these gains. At the end of 2000, Palestinians (4 million), Afghans (3.6 million), and Sudanese (460,000) were the largest refugee populations, more than half the total. Six of the top ten refugee-generating countries were in Africa.⁴⁷

The rise in internally displaced persons has been even more dramatic. From an estimated 1.2 million in 11 countries in 1982, the number rose to 11–14 million in 20 countries in 1986 and to more than 20 million in 40 countries in 1997 (where it remains). Sudan and Angola have most internally displaced people, followed by Colombia and the Democratic Republic of the Congo.⁴⁸ This trend reflects the increased number of ongoing internal conflicts. It also reflects improved access to some displaced populations (and more accurate counts) and the world’s efforts to limit refugee flows through assistance models that attempt to keep people within their national borders.⁴⁹

LOOKING AHEAD

As late as the mid-1980s, only a few pessimists—not well-received—were discussing the potential for religious nationalism, ethnic conflict, and intrastate wars that would, with the demise of the Soviet Union, profoundly affect the world for humanitarian assistance. But we have to look ahead as best we can. Consider the following:

- Economic migrants will continue to swell urban ghettos, many ending up in poor quality housing without water or sanitation and subject to criminal gangs. Flood-induced cholera outbreaks will become more common in urban slums and require emergency responses.
- More people will push into “marginal lands” where human activity has led to deforestation, water shortages, and desertification. Population pressures will continue to force migration to these areas.⁵⁰
- Infectious diseases such as AIDS, tuberculosis, and malaria are emergencies in and of themselves, but they are also deepening the impact of natural disasters and conflict-related crises. HIV/AIDS among drought-affected popula-

tions, for example, is leaving many more susceptible to health problems associated with food shortages (and infectious disease) than they might otherwise be. Related illnesses (and death) deeply affect food security and will leave many families less able to fully recover from natural or conflict-related disasters.

- Technological accidents and disasters are projected to increase in both number and severity because of spreading industrialization, aging plants and technologies, declining resources for safety and monitoring, and rising vulnerability caused by ill-informed development decisions (and nondecisions). The consequences of such accidents will not be sensitive to borders and entire regions could well be affected.⁵¹
- A “domino” or compound effect is also possible whereby a natural disaster triggers a technological event in an urban area, creating unforeseen and uncontrolled population movements and generating conditions for conflict.
- The challenges of meeting needs in current intrastate conflicts remain. While expert opinions vary on whether new intrastate conflicts will erupt, there can be little doubt that some are already intractable and lethal, generating ever-larger numbers of civilian casualties and consequences that are increasingly global in nature.
- The war on terrorism may generate additional intra-state wars or non-military strategies (such as sanctions) that will create new humanitarian assistance requirements.
- Chemical, biological, radiological, nuclear, and explosive disasters loom larger than ever in the post-September 11 world, with still unforeseen implications for humanitarian assistance.

In sum, the need for humanitarian assistance shows no signs of abating, and the new dimensions of disasters will create new exigencies. If anything, the trends indicate an even greater and more complex role for humanitarian assistance in the coming decades. The United States, the one power with truly global reach, has a critical role in addressing current challenges and shaping future trends in disaster assistance.

COMPLEX EMERGENCIES AND THE NATIONAL INTEREST

There is moral imperative for the United States to take a stand when unimaginable human atrocities

THE RECENT GROWTH IN HUMANITARIAN AID WAS LARGELY DRIVEN BY THE DEVASTATION IN FAILED AND FAILING STATES

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THERE IS MORAL
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take place—no matter where. And conflict-related emergencies are, by definition, dangerous to the United States and to global security, as they have clearly destabilized entire regions and proven to be recruiting grounds and safe havens for criminals, extremists, and terrorists.

The war on terrorism’s long-term effects on U.S. humanitarian policies are not yet clear. But one can hope that it will generate more interest in addressing festering complex emergencies abroad, avoiding the use of humanitarian aid as a “fig leaf” covering the lack of political or military action. There is danger, however, that the war on terrorism will bring the United States even deeper into the “politics over humanitarianism” realm. Sustained vigilance is now required on the part of U.S. humanitarian officials to ensure that aid is based on need and that resources are not diverted from more acute but less visible emergencies to meet political ends elsewhere.

The U.S. government has improved its assistance operations over the past decade. It must now place special emphasis on the difficult question of protecting war-affected populations, especially the internally displaced. Our commitment to improving the security for relief personnel and for relief goods is clear. Less clear, or at least less reliable, is the commitment to protect the people receiving relief. While traditional discomfort lingers in the humanitarian community over mixing human rights with humanitarian assistance programs, and using military and other types of security forces to enforce protection, the problem of the “well-fed dead” must be faced. A necessary part of addressing the broader protection issue will be a far more rigorous and systematic approach to guarding those internally displaced.

CLEAR DIRECTIONS

The emerging practices and future trends outlined here point to other clear directions:

- The United States should not only support NGO and UN initiatives to improve standards and accountability. It should also insist on such reforms (and link dollar resources to it), especially in light of sexual misconduct by humanitarian assistance staff in West Africa. Such a strategy should be mirrored by an internal review of accountability measures. The extensive review by the Dutch govern-

ment of its role at the Srebrenica massacre should be taken to heart.

- The United States should take a stronger leadership role in shaping the practices of developmental relief, breaking from its traditional reluctance to embrace the more political aspects of relief operations. At USAID, the recent creation of a transition assistance office and the incipient birth of a conflict management fund give it greater latitude to experiment with some “nontraditional” approaches and, through its programming, shape the evolution of assistance practices in conflict settings. Support for research, case studies, evaluations, and workshops would help to advance the debate around these important new avenues of aid and expedite progress in improving the overall impact of humanitarian assistance.
- On the development side, the United States should initiate a review of all of its development programs with an eye towards creating a culture of “development for disaster prevention.” For much too long, development assistance and programming have been blind to the fact that they have often actually increased vulnerability to disaster, either by ignorance or misinformation.

THE FULL MEASURE OF U.S. DEVELOPMENT ASSISTANCE—OFFICIAL AND PRIVATE

Heroes. The Mexicans living in the U.S. and sending money to relatives back in Mexico are heroes.

—Adapted from Vicente Fox
President
United States of Mexico

At \$9.9 billion, official development assistance accounts for just 17 percent of U.S. assistance to developing countries (table 1). Private international assistance, by contrast, is \$33.6 billion—60 percent of the U.S. contribution, and projected to grow to 69 percent by 2010. Every year the publication of the OECD’s report on development assistance results in press reports and statements by academics and opinion leaders disparaging America’s “stinginess.”⁵² They assert that U.S. foreign policy will be ineffective without more official development assistance.⁵³ They claim that U.S. foreign aid programs collapsed after the Cold War.⁵⁴ But official development assistance is a limited and outdated way of measuring a

country's giving, and donors should reevaluate it, given the enormous growth in the private sector around the world.

In 2000 the international affairs budget totaled \$22.6 billion—so at \$9.9 billion, official development assistance accounted for less than half. That official assistance consists primarily of allocations to USAID, the Peace Corps, multilateral institutions, and certain programs sponsored by the State Department and Department of Defense (table 2). The other \$12.7 billion spent on international affairs represents all other contributions.

Despite reservations about government aid, Americans have a long tradition of domestic and international generosity. Money finds its way from the United States to developing countries through churches, private charities, foundations, and remittances by U.S. workers to their homelands. In 2000 U.S. universities and colleges gave more to developing countries in foreign scholarships than Australia, Belgium, Norway, Spain, and Switzerland each gave in official development assistance. Remittances from U.S. immigrants to their homelands exceeded official development assistance from Japan—the second largest provider (in dollars) of government aid to developing countries in 2001.⁵⁵

Over the past 25 years U.S. private giving has grown significantly. Churches and other religious congregations initially played the largest role in international giving through relief and humanitarian assistance as well as overseas missions. Then colleges, universities, and foundations began responding to international development needs with scholarships and support for foreign universities and research centers. The number and budgets of private voluntary organizations have also grown as Americans have offered their money and time to international causes. With globalization and changing immigration patterns, U.S. corporations have also increased their philanthropy to developing countries. And U.S. immigrants, many from developing countries, have been sending more and more money back to their homelands.

Although this assistance far surpasses official government aid, the data are weak, and the development community knows little about its nature, flow, and the full amounts involved. Donor agencies understand that private international assis-

More assistance than meets the eye

Estimated U.S. international assistance to developing countries, 2000

TABLE 1

	US\$ billions	Share of total (%)
U.S. official development assistance	9.9	18
All other U.S. government assistance	12.7	22
U.S. private assistance	33.6	60
Foundations	1.5	
Corporations	2.8	
Private voluntary organizations ^a	6.6	
Universities and colleges	1.3	
Religious congregations	3.4	
Individual remittances	18.0	
Total U.S. international assistance	56.2	100

a. Including volunteer time.

Source: OECD 2002; OMB 2002; USAID 2002; various private sources.

tance no longer means only relief efforts or missionaries working in isolated villages. Today, this assistance means dollars transferred directly to Salvadoran families from their relatives in America so that they can buy good healthcare and education. It also means dollars starting up indigenous foundations in Kenya that involve community members in creating grants. The size and the impact of private international giving creates new opportunities for development agencies. By learning more and working with this vast private army for assistance, USAID can enhance its effectiveness and define its comparative advantage and role in the 21st century.

Table 3 summarizes all U.S. government international assistance and U.S. private international assistance for 2000, 2005, and 2010. The figure for official development assistance in 2005 does not include additional amounts, still to be decided, for the Millennium Challenge Account, which is to increase that official assistance by \$5 billion a year in 2006 and thereafter. Private international giving is not well documented and all categories are underestimated. The table therefore provides a range from the lowest estimates supported by the research to reasonable higher estimates suggested by known gaps in the research. This range of numbers provides a starting point for estimating private international giving.

Foundations. In 1998 all foundations gave an estimated \$1.6 billion to international activities, a 66 percent increase from 1994. Since the latest surveys are for 1998, they do not reflect the large international grants by the Bill and Melinda Gates

At \$9.9 billion, official development assistance accounts for just 17 percent of U.S. assistance to developing countries. Private international assistance is \$33.6 billion or 60 percent of the U.S. contribution

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REMITTANCES FROM
U.S. IMMIGRANTS TO
THEIR HOMELANDS
EXCEEDED OFFICIAL
DEVELOPMENT
ASSISTANCE

Foundation and by Ted Turner’s UN foundation between 1999 and 2001. These two foundations alone give at least \$350 million a year to international projects.

Assuming a modest international giving growth rate of 25 percent rather than the robust rate of 66 percent it knew in the 1990s, foundation giving could reach \$2.5 billion in 2006 and \$3.1 billion in 2010. Foundation reporting is underestimated since not all of the smaller foundations report. In addition, corporate foundations have underreported or not reported at all for surveys. With better data collection, projected levels will be even higher.

Corporations. The full scope of international corporate giving is unknown. It may well be that not even a small portion of it has been captured. Because these expenditures are relatively new and because of different tax, management, and accounting systems overseas, they are difficult to track. The two latest and most complete studies cover only a small sample, with just over 200 com-

panies included in each. In one sample of 209 U.S. companies, only 83 reported making international contributions and only 74 provided more details for the analysis.⁵⁶

The latest survey on international corporate contributions forecasts increases in giving of 1 percent a year. A conservative estimate would mean \$3.6 billion in 2005 and \$4.6 billion in 2010, an estimate that could perhaps double with better tracking and reporting.

Private and voluntary organizations. PVOs work in some 159 countries in almost all areas of development. The majority work in health, nutrition, and population, with a focus on family planning and child survival. This is followed by community development, food security, food aid, and disaster relief.⁵⁷ Of the 436 PVOs registered with USAID, the top 20 each receive above \$20 million in grants and contracts. The total came to some \$854 million in 2000, 67 percent of PVO funding by USAID. Some of the older, traditional PVOs—such as

Nearly \$23 billion in all: U.S. government international assistance

Total U.S. government international assistance by agency, classification, and selected programs, 2000 TABLE 2

Official development assistance—\$9.9 billion	Other government assistance—\$12.7 billion
USAID	
Operations	Israel
Development assistance	Newly independent states
Child survival, humanitarian	Eastern Europe and Baltic States
Disaster relief, food aid	
State Department	
Refugees, narcotics	Operations
Asia Foundation	Broadcasting (Voice of America, Radio Marti)
International organizations	Peacekeeping
	Educational and cultural exchanges
	International organizations
	National Endowment for Democracy
Department of Defense	
Humanitarian	Military education and training
Peacekeeping development	Foreign military loans
	Antiterrorism, nonproliferation
Other agencies	
Peace Corps	Export-Import Bank
U.S. Trade and Development Agency	Overseas Private Investment Corporation
Multilateral institutions	Inter-American Foundation
Security assistance (Egypt and others)	

Source: U.S. Office of Management and Budget 2002.

CARE, Catholic Relief Services, World Vision, and Save the Children—receive large private contributions for their domestic and international efforts, ranging from \$60 million to more than \$380 million.⁵⁸

Assuming increases of 25 percent, PVO private contributions abroad would rise to \$5.4 billion in 2005 and \$6.8 billion in 2010. Adding the \$3.3 billion value of international volunteer time to each of these years would give a total PVO international assistance of \$8.7 billion in 2005 and \$10.1 billion in 2010.⁵⁹

Colleges and universities. American colleges and universities have played a dominant role in the education of students from developing countries. There were 500,000 foreign students in school year 2000/2001, 3.9 percent of all students enrolled in American colleges and universities. The funding of foreign students increased from \$83 million in 1980-81 to \$1.3 billion in 2000-01. The percentage of foreign students with U.S. university and college scholarships steadily increased as well, to 20 percent. Funding of foreign students by U.S. universities and colleges doubled between 1996 and 2001. Taking just half this increase would result in \$1.7 billion of private funding for foreign scholarships in 2005 and \$2.6 billion in 2010.⁶⁰

Religious organizations. International programs in disaster relief, healthcare, agriculture, and education play a large role in the non-secular activities of religious organizations. In a survey of religious congregations, some 74 percent engaged in international activities as one of their top three program areas (health and human services are the other two).⁶¹ Along with corporate contributions, religious international giving is probably the most underestimated of all private giving. With a current figure of \$3.4 billion, and assuming a 20 percent increase from the previous survey results, religious giving in 2005 would be \$4 billion. In 2010 this could rise to \$7 billion.⁶²

Personal remittances—staggering. Mexican President Vicente Fox calls them “heroes.” Their dollars account for 10 percent of GDP in six Latin American countries and 13 percent in El Salvador alone. They are not presidents of foundations. They are American immigrants sending money back to their hometowns and villages.⁶³ These personal remittances are a fairly new topic in international development circles.

Much more to come

Estimated U.S. government and private international assistance to developing countries (US\$ billions)

TABLE 3

	2000	2005	2010
U.S. official development assistance (ODA)	9.9	10.4	10.9
All other U.S. government assistance	12.7	13.3	14.0
Millennium Challenge Account	n.a.	3.3 ^a	5.0
U.S. private assistance (low estimates)	33.6	43.5	55.2
Foundations	1.5	2.5	3.1
Corporations	2.8	3.6	4.6
Private voluntary organizations ^b	7.6	8.7	10.1
Universities and colleges	1.3	1.7	2.6
Religious congregations	3.4	4.0	4.8
Individual remittances	18	23.0	30.0
Total U.S. international assistance	56.2	70.5	84.9
U.S. ODA as % of total	17	15	19
Other U.S. government as % of total	22	20	16
Private as % of total	60	65	65

n.a. Not applicable.

a. Provisional. The Millennium Challenge Account is set to increase U.S. official development assistance by \$5 billion a year in 2006 and thereafter.

b. Including volunteer time.

Source: U.S. government and private sources.

Worldwide remittances from immigrant workers more than doubled in the 1990s.⁶⁴ In 1989 remittances to all regions of the world were \$21 billion (excluding Russia, for which data were not available). By 1999 the total had soared to \$50 billion. Latin America claimed the highest amount—\$14.5 billion—followed by India’s \$11.5 billion, the Middle East’s \$10.4 billion, and Eastern Europe’s \$6.2 billion. The amount sent to Latin America in 1999 by millions of migrant workers exceeded the financing of USAID and all multi-lateral lending agencies to the region.

Total personal remittances by immigrants in the United States to developing countries were \$18 billion in 2000. Assuming that there is no significant decline in immigration in the medium to long term and that the economy continues to recover in 2002, remittances should continue to grow—but at a slower rate than the 1990s. But even assuming more modest growth rate of 5 percent a year, personal remittances could rise to \$23 billion in 2005 and almost \$30 billion by 2010.

Americans have not given up on foreign aid. They simply have found new channels to express their compassion for those less fortunate abroad. Eclipsing official government aid is a rising tide of

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private giving with significantly lower transaction costs, more client-directed services, and a willingness to cede control to recipients.

Boosting U.S. official development assistance in coming years will be the increased funding through the Millennium Challenge Account. Announced by President Bush at the InterAmerican Development Bank in March 2002—just before the UN Conference on Financing for Development in Monterrey, Mexico—the core assistance to developing countries will rise by \$5 billion a year after three years. This was just the third time in more than 50 years that a U.S. president has proposed a major initiative on foreign assistance. The first was President Truman's, before a joint session of Congress, in what led to the Marshall Plan to lay the foundations for a stable, prosperous, and democratic Europe. The second was President Kennedy's, announcing the creation of the Alliance for Progress, to address the basic needs of people in Latin America.

The Millennium Challenge Account will increase official development assistance by an estimated \$5 billion in 2006 and thereafter. It will support reformers and reward good performance. Research shows that in good policy environments, a dollar of aid attracts two dollars in private capital—but that in poor environments, aid drives out private capital and perpetuates failed policies. A guiding principle of the Account is to promote the participation of beneficiaries in program design and implementation, for that is known to increase the prospects for success. Another principle is to broaden today's development partnerships by including more private firms, universities, foundations, and private and voluntary organizations, thus leveraging U.S. official assistance.

NOTES

1. World Bank 1999.
2. United Nations 2000. FAO 2000.
3. Van de Walle 2001.
4. Van de Walle 2001.
5. Raymond 2002.
6. Timmer 2002.
7. Easterly 2001.
8. Harrison 2000.
9. World Resources Institute 2001.
10. World Resources Institute 2001.
11. World Resources Institute 2001.
12. World Resources Institute 2001.
13. World Resources Institute 2001.
14. World Resources Institute 2001.

15. USAID 2001.
16. USAID 2001.
17. Dollar and Kraay 2002.
18. Hannon and Rhee 2002. All the developing countries with a population of greater than half million and PPP-adjusted GDP data from 1980 or 1990 were included in the analysis. In addition, 27 high-income countries with a population of more than half million and PPP-adjusted GDP data were classified as developed countries. So the global total in the analysis includes 111 developing countries and 27 developed countries.
According to UN (2001), as of 2001, 49 countries (34 in Africa, 9 in Asia, 1 in Caribbean, and 5 Pacific regions) were designated as the Least Developed Countries (LDCs) that are deemed structurally handicapped in their development process, and in need of the highest consideration from the international community in support of their development efforts. Eleven island countries—population of many of these island countries is less than half million—and 15 land-locked countries are included in the LDC group.
19. See the data annex in Hannon and Rhee 2002.
20. See the data annex in Hannon and Rhee 2002.
21. USAID 2001.
22. USDA 2001.
23. Raymond 2002.
24. Raymond 2002.
25. Raymond 2002.
26. Raymond 2002.
27. Lin (in press); Tavrow and others (in press); Abdallah and others (in press); Reinke (in press); Rafeh and El-Tobgi 1995 and A. K. Rowe and others 2001.
28. This is not to say that quality always drives decision making. The Commonwealth fund surveyed U.S. employers and found that 90 percent of employers ranked price above quality in choosing employee health plans, perhaps, of course, because quality is fairly uniform across providers. See J. S. Scott 1998. For a discussion of the strategies for inserting quality deeply into the motivational structure of future health care financing in the United States in the next two decades see K. Davis and others 2000, pp. 3357–62.
29. Mayur and Daviss 1998.
30. Tri-State Trends 2000.
31. Harmon, A. 2002. "Good (or Unwitting) Neighbors Make for Good Internet Access." *New York Times*. 4 March. Also see Markoff, J. 2002. "The Corner Internet Network vs. the Cellular Giants." *New York Times*. 4 March.
32. WHO 2001. A problem with this work is that it fails to examine marginal costs of extending previously sunk investments in public health. These are likely to be less than average costs. Further, the analysis does not distinguish between the local currency and foreign exchange elements of those costs. The international resource is foreign exchange, not local currency. Hence the only aid-relevant cost issue (even at the margin) is that portion of cost structure that requires convertible currencies. Whether inadequacy of resource flows is an issue, and how big an issue, depends on the nature of this financial analysis.
33. Wallenstein and Sollenberg 2001.
34. Semerad and Hawkins 2001.
35. Semerad and Hawkins 2001.
36. Weiss 1999.
37. IFRC 2001.
38. Randel and German 2002. Official ODA is money given by governments of donor countries who are members of the OECD Development Assistance Committee. They include Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the UK, the US and the Commission for the European Union. ODA for humanitarian aid includes (but is not limited to) food aid, and aid to refugees abroad and in the donor countries for their first year of assistance. This latter piece distorts the statistics somewhat since some of the funds counted are spent

in donor countries. See ODI report for fuller discussion of what is comprised in the humanitarian assistance statistics.

39. IFRC 2001.
40. IFRC 2001.
41. Abramovitz 2001.
42. OFDA 2000.
43. OFDA 1998.
44. NIC (National Intelligence Council) 1999. NIC used a combination of USAID and UN data. USAID assistance is triggered by a formal “declaration of disaster” by the U.S. Ambassador or the U.S. Department of State. Thus, the reference to “declared” emergencies.
45. USCR (U.S. Committee for Refugees) 2001.
46. NIC 1999.
47. USCR 2001.
48. USCR 2001.
49. Deng and Cohen 1998. p. 3. Consider, for example, Iraq and Bosnia-Herzegovina, where the international community created “safe havens” to protect and aid people within their own countries and limit refugee flows.
50. Kent 1997.
51. Kent 1997.
52. Johnson, Tracy. 2000. “America’s Stinginess Is a Problem, Carter Says.” *Seattle Post-Intelligencer*. 20 January.
53. Gardner 2000.
54. WHO 2001.
55. IMF 1999 and World Bank 2000.
56. Tillman 2000 and Kao 2001.
57. USAID Private and Voluntary Agencies Financial Statistics Database 2002.
58. Adelman 2002.
59. Adelman 2002.
60. Adelman 2002.
61. Independent Sector 2000.
62. Independent Sector 2002.
63. Bate 2001.
64. IMF 1999; World Bank 2000.

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FOR THE PAST SEVERAL DECADES THE CONVENTIONAL—and, until recently, the predominant—perspective on development in the international donor community has been that countries are poor because they lack resources, infrastructure, education, and opportunity. By this logic, if rich countries and international institutions could only transfer enough resources and technology, improve human capacity enough, and support health and education enough, development would occur. To be sure, greater public resources, better physical infrastructure, and stronger public health and education are essential for development. But they are not enough, and they are not the most crucial factor.

No amount of resources transferred or infrastructure built can compensate for—or survive—bad governance. Predatory, corrupt, wasteful, abusive, tyrannical, incompetent governance is the bane of development. Where governance is endemically bad, rulers do not use public resources effectively to generate public goods and thus improve the productivity and well-being of their society. Instead, they appropriate these goods for themselves, their families, their parties, and their cronies. Unless we improve governance, we cannot foster development.

Democracy—as reflected in free, fair, and competitive elections—is not strictly necessary for good governance. And it is quite possible to have bad governance under the formal structures of democracy. But when competitive elections are truly free and fair, they do provide an instrument for removing bad, corrupt, or merely ineffectual leaders. They thus provide an incentive for political leaders to govern more effectively in the public interest.

Democracy also gives citizens nonelectoral means—associations, movements, the media—to monitor the conduct of public officials and participate in policymaking. And leaders in a democracy have more incentives (and more institutional means and obligations) to explain and justify their decisions and to consult a broad range of constituencies before making decisions. Such participation and debate give the public a stronger sense of policy ownership. As a result policies are more sustainable, and government is more legitimate.

These are some of the reasons that promoting democracy and good governance is so profoundly in the national interest of the United States.

PROMOTING DEMOCRATIC GOVERNANCE

CHAPTER 1

*DEMOCRACY AND
GOOD GOVERNANCE
ARE MUTUALLY
REINFORCING;
WHEN THEY DEVELOP
TOGETHER, RESOURCES
ARE USED TO ADVANCE
THE PUBLIC GOOD*

Democracy and good governance are mutually reinforcing: when they develop together, resources are used to advance the public good. Public institutions perform their designated roles. Social consensus supports and stabilizes the system of government. Disputes are settled peacefully. And investment flows in, attracted by the low transaction costs associated with government transparency and legitimacy and the rule of law. In these circumstances economies grow, human welfare improves, trade expands, political stability and capacity deepen, and countries become more responsible and resourceful members of the international community.

There can also be great benefits for the environment. Where the institutions of governance are strong, access to land, water, and forests is controlled, and private property rights are enforced. The management of natural assets also is much more effective.

By contrast, when governance is bad and undemocratic—or only superficially democratic—development pathologies inevitably have regional and global consequences. Poverty becomes entrenched through corruption and distorted, wasteful investment. Chronic fiscal deficits drain—and then drive away—international resources. The absence of the rule of law permits—and poverty can drive—wanton destruction of the environment. In the absence of state capacity and will to address public health problems, infectious diseases such as HIV/AIDS, tuberculosis, and new viruses proliferate, mutate, and spread across borders. The blatant venality and injustice of repressive regimes foster antimodernist and religious fundamentalist movements of rage against the West, especially the United States. In the fertile soil of a weak state and feckless legal system, organized crime networks take root, threatening the rule of law internationally through fraud, piracy, kidnapping, terrorism, counterfeiting, money laundering, and trafficking in arms, drugs, and people.

The more inept, lawless, corrupt, and predatory governance is, the more likely it is to descend into the violent conflict and state failure that intensify all these factors and produce humanitarian crises—civil war, famine, genocide, physical destruction of communities, and massive flows of refugees. Such crises destabilize entire regions and cry out for risky and costly international intervention. It is much safer and cheaper to build a well-governed, democratic state than to

rescue a failed one. Indeed, the only way to prevent or reverse the threats that flow from bad governance is to foster stable, effective democratic governance. Promoting democratic governance is therefore vital to the national security of the United States and must be a central objective of any development assistance program.

Advancing democratic governance is a huge challenge. Superficially, the global state of democracy appears encouraging. Over the past quarter-century democracy has steadily expanded around the world and is now the predominant form of government. But swirling beneath this expansion has been a dangerous countertrend—a growing disenchantment among populations that increasingly view their political leaders as corrupt, self-serving, and unable to address their countries' serious economic and social problems. In many developing and postcommunist countries people are losing confidence not just in elected officials but in democratic institutions.

The rising cynicism of disaffected populations has much justification. In many new democracies governance is simply inadequate to meet the challenges of economic and political development. And in the typical authoritarian regime governance is even more corrupt, arbitrary, and exploitative. Unless governance becomes more open, lawful, accountable, and responsive—and where formally democratic, more deeply so—it will not deliver sustained development. Transforming governance will require more investment in democracy and governance assistance. It will also require a new, more comprehensive strategy to generate the most crucial ingredient and the one most often missing: the political will of leaders to risk difficult reforms.

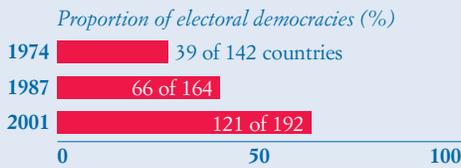
GLOBAL TRENDS IN DEMOCRACY

The last quarter of the 20th century witnessed the greatest expansion of democracy in history. If democracy is defined in the minimal sense—as a system of government in which the principal positions of political power are filled through free, fair, and regular elections—about three of every five independent states are democracies today. In the judgment of Freedom House, the world had 121 democracies at the end of 2001—the highest number in history.¹ Some of these regimes, possibly as many as 17, may be better

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Electoral democracies more prevalent

FIGURE 1.1



Note: Data for 2001 are for the end of the calendar year, from the Freedom House survey for that year. Data for 1974 reflect Larry Diamond's estimate of the number of democracies in April 1974, at the inception of the third wave. Data for 1987 are also his estimate.

Source: Freedom House 2002.

classified as “competitive authoritarian,” since elections, while competitive, either are not free and fair or do not confer full power to rule on those elected. But even by this conservative count, electoral democracy is now the predominant form of government. When the most recent, “third wave” of democratization began in 1974, only about 39 states (28 percent) were democracies.² Today there are about three times as many (figure 1.1).

With the growth in the number of democracies has come a parallel, though more gradual, expansion of freedom. The share of states rated “free” by Freedom House increased from 34 percent in 1985 to more than 40 percent in 1991, and today it stands at about 45 percent, nearly the highest ever (figure 1.2).³ The average freedom score (on the Freedom House scale from 7 as least free to 1 as most free) improved from 4.29 in 1985 to 3.61 in 1992. After deteriorating slightly, the score has continued to improve at a modest pace. The current average of 3.47 is a full point lower than in 1974, when the third wave of democratization began. In most years since 1990 the countries showing discernible improvement in political and civil liberty have outnumbered the countries showing a decline.

Democracy expanded particularly rapidly in the years immediately after the fall of the Berlin Wall in 1989 and the collapse of the Soviet Union in 1991. Within just a few years of the implosion of the Soviet communist empire, democracies increased from about 40 percent of all states to 60 percent. But since 1995 the number of democracies has remained fairly constant (particularly if marginal and dubious cases of democratization are excluded). Transitions to democracy have been largely offset by reversions from democratic to authoritarian rule.

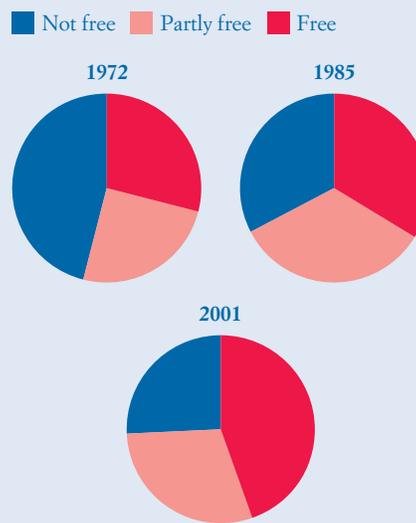
Still, democracy has scored strategically and symbolically important advances in the past few years. In 1999 democracy was introduced in Indonesia and Nigeria, two of the largest and most influential developing countries (and among those with the largest Muslim populations), even as it was breaking down in Pakistan. In 2000 Mexico completed a transition to democracy with the peaceful electoral overthrow of the seven-decade-long hegemony by a single party. In that same year one-party hegemonic regimes were also brought down at the ballot box in Ghana, Senegal, and Serbia, while Taiwan (already a democracy) moved to a more competitive system with the defeat of the long-ruling KMT. In each of these cases the victory of the opposition party signaled the arrival or deepening of democracy, with promising long-term implications for the regional status of democracy.

The march of democratic progress was one of the defining developments of the late 20th century. By the mid-1990s democracy was the only broadly legitimate form of government in the world, and many nondemocratic regimes had liberalized their politics at least superficially. Indeed, today well over half the remaining nondemocratic states portray themselves as democratic, holding regular, multiparty elections.⁴ Few regimes explicitly condemn the basic principles of democracy. And most of the nondemocratic states have significant social movements or critics seeking democratic political change. Internationally, there has also

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GOVERNMENT IN THE
WORLD*

Independent states becoming free

FIGURE 1.2



Note: Ratings refer to the status of the countries at the end of the calendar year. See text for an explanation of the basis of the ratings.

Source: Freedom House 2002.

PROMOTING
DEMOCRATIC GOVERNANCE

MANY OF THE DEMOCRACIES THAT HAVE EMERGED IN THE PAST TWO DECADES EXHIBIT GROWING PROBLEMS OF GOVERNANCE

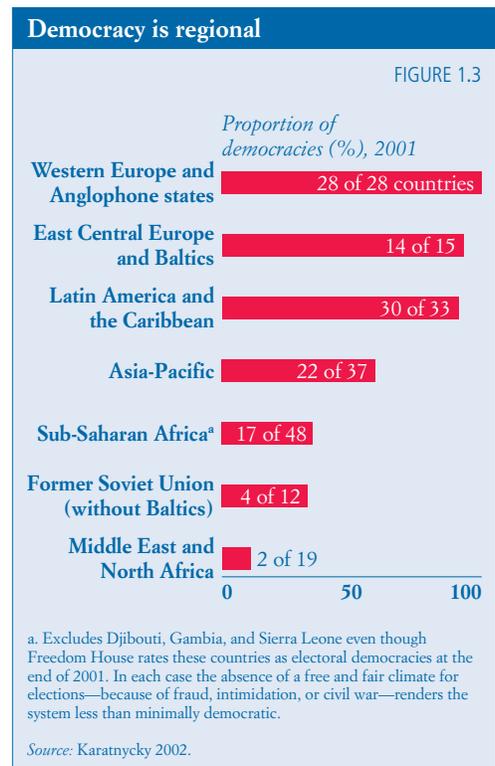
been a distinct trend toward affirming democratic principles, increasingly codified into international law through international and regional treaties and resolutions.⁵

Beyond the leveling off of democratic expansion since the mid-1990s, there have been four other major caveats to the trend of democratization.

- First, as democracy has spread rapidly around the world, it has become shallower. The quality of governance and the rule of law have deteriorated in some existing democracies, and the more recently established democracies have tended to be less liberal and more corrupt.
- Second, the spread of democracy has been far from uniform across regions and subregions. While some regions are now overwhelmingly democratic, others have been only partially touched by democratization. The Arab world remains without a single true democracy.
- Third, many of the regimes that once appeared to be in transition from authoritarian rule (particularly in Africa and the former Soviet Union) have settled into varying shades and forms of authoritarian rule that fall well short of democracy.⁶
- Fourth—and perhaps the greatest cause for concern—many of the democracies that have emerged in the past two decades exhibit growing problems of governance that are eroding their legitimacy among the public and undermining their stability. With the breakdown of democracy in Pakistan in 1999, the recent economic and political crisis in Argentina (which could spread to other Latin American states), and citizens’ mounting disgust with corruption worldwide, the global trend of democratization is at greater risk of reversal than at any time since the end of the Cold War.

REGIONAL DISPARITIES

Democratization has been sweeping but far from universal. Significant regional disparities remain in its extent, depth, and stability (figures 1.3 and 1.4). The United States and Australia, Canada, and New Zealand, together with the 24 states of Western Europe, are all stable, liberal democracies. *Stable* means that they are *consolidated*: there is such deep and widespread commitment to democracy among major groups of the elite and among social strata, and major democratic insti-



tutions have such strength, depth, and predictability, that there is no prospect of a breakdown of democracy.⁷ These 28 advanced industrial democracies are also *liberal* (with an average score of 2.0 or better—that is, lower—on the twin 7-point Freedom House scales of political rights and civil liberties).⁸ Outside Western Europe and the Anglophone states liberal democracy is much more uneven and less deeply rooted.

In Latin America and the Caribbean, Cuba remains the only country of significant size to completely resist democratization. Haiti has competitive elections but has increasingly reverted to its long historical pattern of autocracy and violence. There have also been important breakthroughs in recent years. As electoral administration in Mexico became fairer and more neutral, the country made a transition to democracy in the late 1990s, leading to the defeat of the long-ruling party in 2000. Peru returned to democracy in 2001 with the implosion of the autocratic, military-dominated regime of President Alberto Fujimori. About 9 of every 10 states in the region are democratic, but only about half are liberal democracies.⁹ And a few, such as Argentina, Jamaica, and Trinidad and Tobago, have seen the quality of democracy deteriorate in recent years. As in other regions, there is much variation among subsets of countries. Among Caribbean states, with their British, rule-of-law traditions,

Liberal democracy is also regional

FIGURE 1.4



Source: Karatnycky 2002.

two-thirds are liberal democracies (by virtue of a strong average freedom score).

Similarly, in the Asia-Pacific region 22 of the 37 states (59 percent) are democracies, and 11 (30 percent) are liberal democracies. But distorting these proportions is the fact that the small Pacific island states are much more democratic than other parts of Asia. Of the 12 Pacific island states, 11 are democracies, and 8 are liberal democracies. In Northeast Asia half of the 6 economies (Japan, the Republic of Korea, and Taiwan) are liberal democracies, but none of those in Southeast and South Asia is. Half of the 8 South Asian states are democracies (India and Sri Lanka almost continuously since independence). But only 3 of 11 Southeast Asian states are democratic—Indonesia, the Philippines, and Thailand—and Indonesia is only tenuously and ambiguously so. Beyond India, Japan, the Republic of Korea, and Taiwan (where democratic regimes confront serious challenges of economic and political reform), democracy in Asia tends to be shallow and insecure. Among the 25 states of East and South Asia, only about 2 in 5 are democracies. Moreover, the region is home to 4 of the world's 5 remaining communist regimes (China, the Democratic Republic of Korea, the Lao People's Democratic Republic, and Vietnam) as well as other highly closed authoritarian regimes (such as Myanmar).

The 27 postcommunist states that were part of the former Soviet bloc show a similar pattern of divergence. The first group consists of the 3 Baltic

states, which are more European in their outlook and pre-Soviet histories, and the 12 states of East Central Europe that were not part of the Soviet Union. Fourteen of these 15 states are democratic (Bosnia is still an international protectorate), and 11 are liberal democracies. Even such formerly autocratic postcommunist states as Albania, Croatia, and Yugoslavia (Serbia and Montenegro) are becoming more liberal and democratic. Overall, the region is moving steadily, if still unevenly, toward economic liberalization, democratic consolidation, and European integration.

By contrast, of the remaining 12 states of the former Soviet Union, only 4 are democracies, and 3 of these—Armenia, Georgia, and Ukraine—are only ambiguously so. In each case electoral fraud and obstacles to political pluralism and competition make it unclear whether it is really possible to change the national leadership through the electoral process. Russia, more clearly beyond this point, can be considered “electoral authoritarian.” There are no liberal democracies among the post-Soviet states, and the general trend in this region is toward less freedom. In the Kyrgyz Republic, once the lone functioning democracy in Central Asia, democracy has been undermined under the weight of corruption, electoral fraud, and the increasing centralization and abuse of power by the president.

Among the 48 states of Sub-Saharan Africa, democracies—or at least popular aspirations for and appreciation of democratic government—are more prevalent than at any time since decolonization. But many African “democracies” are hollow and ambiguous, and many other regimes stake a manifestly false claim to democratic status. Only two African states have been continuously democratic since independence, Botswana and Mauritius. Both have small populations (around 2 million or less), and both have achieved a pace of economic development that has eluded most other countries in the region.

Since 1990 most African countries have faced pressure for regime change and have at least legalized opposition parties and opened more space for civic organization. But only about a third of the states (somewhere between 14 and 20, and by this count, 17) have elections that are sufficiently free, fair, and competitive to meet the standard of democracy, and only five of these are liberal democracies. The most important liberal democracy in Africa is South Africa, which has sustained

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high levels of freedom despite political turbulence, economic hardship, and dominance by a single party. By contrast, Africa's other big states are all struggling politically. The effort to build democracy in Nigeria, the most populous African country, confronts corruption, religious and ethnic violence, and a weak and fractious party system. Sudan remains a highly repressive state unable to resolve its 19-year-old civil war. The Democratic Republic of Congo is struggling to overcome a debilitating legacy of predatory corruption, state failure, and civil war. While a few countries, such as Ghana and Mali, seem to be functioning reasonably well as democracies, most of Africa's new democracies and quasi-democracies seem to be slipping backward into less accountable, more abusive, and more personalized rule. Both democratic and authoritarian institutions are weak and open to change.

The Middle East (including North Africa) is the region least hospitable to democracy. Of the 19 states in this broad region, only 2—Israel and Turkey—are democratic (though in Turkey the military still retains a veto on many important issues). None of the 16 Arab states is a democracy, though several (Jordan, Lebanon, and Morocco) have at least some electoral competition and social pluralism. Bahrain is gradually exploring a possible opening of electoral competition. Yet not a single Arab state affords its people true political sovereignty, and the tentative movement toward greater political openness has been largely arrested and reversed by the growing fear of terrorism and the mobilization of radical Islamists in the wake of the September 11 attacks on the United States. The only liberal democracy in the region is the only Western-oriented state, Israel, and there freedom has diminished in recent years under the stress of terrorism.¹⁰

The prospects for developing democracy appear especially dim in the Arab Middle East, because of the strong possibility in some countries that a rapid opening to free and fair elections would bring the victory of antidemocratic, radical Islamist forces. The alienation and extremism of these radical Islamists have been stimulated by the mix of globalization and the development failures of their own societies. Now, even those Islamists pursuing nonviolent political struggle and social mobilization appear intent on using electoral competition merely as a vehicle to win power so that they can impose an Islamic fundamentalist order on society—and thus in many respects a

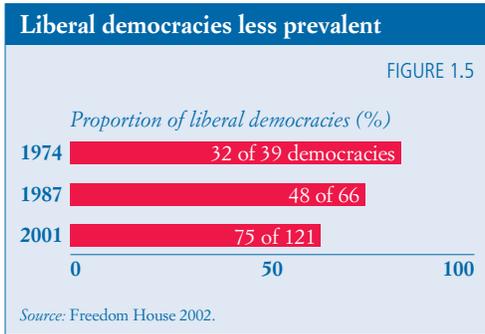
more rigidly repressive regime. Unfortunately, many authoritarian Arab regimes—such as those in Algeria, Egypt, and Syria—have deliberately played on this danger to delegitimize political opposition. This has created a more polarized political arena and a self-fulfilling prophecy in which the radical Islamists are the only viable opposition in the eyes of a growing share of the population.

The Arab Middle East, then, is the region with the strongest obstacles to democracy and the greatest near-term dangers for U.S. national security. Many strategically important authoritarian regimes that have been friendly to the United States and Europe—such as those in Algeria, Egypt, and Saudi Arabia—have become less stable. In these and other states in the region the old “ruling bargain,” in which society acquiesced to autocracy in exchange for economic and social resources, has broken down as resources have become scarcer and social problems and divisions have intensified. A growing number of observers believe that these regimes must begin now to construct a new ruling bargain based on better, more accountable governance, gradually increasing political freedom and pluralism, and serious reform of the economy and state. Otherwise, these regimes will face the prospect of deepening political instability and perhaps political breakdown.

THE RISE OF “ILLIBERAL DEMOCRACY”

The third wave of democratization has seen a growing divergence between electoral democracy and liberal democracy. The second involves not only free, fair, and regular elections but also a strong rule of law buttressed by an independent judiciary and other institutions of accountability that check the abuse of power, protect civil and political freedoms, and thereby help foster a pluralistic and vigorous civil society.¹¹

Along with the dramatic growth in the number of democracies during the third wave came a marked increase in “illiberal democracy.” In 1974 more than 80 percent of the world's democracies were liberal, and all of them were rated “free” by Freedom House. Even in 1987 almost three-quarters of democracies were liberal. But as democracy exploded with the demise of communism, liberal democracies declined sharply as a share of the total (figure 1.5).



By 1991 fewer than 60 percent of democracies were liberal, and that share continued to fall with the expansion of democracy through the mid-1990s. While the share has risen again since the late 1990s, the figures tell an important story. The presence of democracy around the world is broader today but also thinner than a decade ago. There has been a striking rise of illiberal democracy. Indeed, some democratic regimes are only ambiguously so, and many of these function poorly in protecting human rights, controlling corruption, and addressing economic and social problems.

The shallow and illiberal democracy in so many states is cause for concern for several reasons. First, human rights and the rule of law are ends in themselves, and many democracies (and all authoritarian regimes) fall far short of their obligations to foster and protect the basic rights of their citizens. Second, there is growing evidence of a strong association between the quality of democracy and its legitimacy in the mind of the public: citizens' support for democracy is more robust, and democracy is more stable, where justice, accountability, civil liberties, and restraint of power are greater.¹² Third, underlying this relationship is the strong connection between the quality of governance and the stability of democracy. Where democracy is less liberal, governance is poorer—more corrupt, wasteful, incompetent, and unresponsive. This entrenches poverty, obstructs economic development, opens the door to recurrent crises, and prevents poor countries from using international assistance effectively and can lead to state failure. Liberal democracy is a major building block of good governance, which in turn fosters and sustains broad-based development.

ELECTORAL AUTHORITARIAN (PSEUDODEMOCRATIC) REGIMES

After a decade of arrested and reversed political openings, it can no longer be said that such

countries as Azerbaijan, Cambodia, Cameroon, Egypt, Haiti, Kazakhstan, Kenya, and Morocco are in transition to democracy. There were transitions from authoritarian rule.¹³ But these imploded or went off course, leaving authoritarian regimes still largely intact. Most of these regimes did not completely close off political pluralism, however. Instead, they are *electoral authoritarian*: they allow multiple political parties to contest elections held at regular, constitutionally mandated intervals, but they do not allow opposition parties and candidates full freedom to campaign and a fair chance to win. Formal democratic institutions, like multiparty elections and parliaments, exist to obscure (and sometimes to soften) the reality of authoritarian domination. They are a façade designed to purchase acceptance from the international community and domestic constituencies (thus the term *pseudodemocracy*). Such regimes combine varying degrees of competition, pluralism, and repression.

Cambodia is home to one of the more hegemonic of these regimes. The ruling Cambodian People's Party, under the former communist autocrat Hun Sen, dominates power and political life through both corruption and extensive violence and intimidation. But the political opposition has a significant presence in parliament and in local government councils, and there is at least some space to question government policy and conduct.

In the more competitive of these regimes, such as that in Russia, alternative voices in politics, government, and civil society are stronger and more numerous. Russian President Vladimir Putin has largely eviscerated the main independent media. But opposition parties and leaders still win elections in some regions and challenge government policy in the Duma (parliament), and the resulting competition and pluralism inject some uncertainty into political life. With electoral reform, mobilization of civil society, and relative unity among opposition forces, such uncertainty can translate into the surprising defeat of once-hegemonic parties, as has happened in recent years in Ghana, Mexico, Senegal, and Serbia. But merely holding regular, multiparty elections does not put regimes on a path to democracy. Unless there are fundamental changes in the regimes, permitting free and fair elections and greater civic and political space, a transition to democracy is most unlikely.

THERE IS GROWING EVIDENCE OF A STRONG ASSOCIATION BETWEEN THE QUALITY OF DEMOCRACY AND ITS LEGITIMACY IN THE MIND OF THE PUBLIC

PROMOTING DEMOCRATIC GOVERNANCE

*OF THE PROBLEMS OF
GOVERNANCE, MOST
URGENT AND PERVASIVE
IS THE WEAKNESS—
AND OFTEN THE DECAY—
OF THE RULE OF LAW*

SHALLOW DEMOCRACIES

Since the mid-1990s two global trends have been colliding, making for a more politically turbulent and unpredictable world. One has been the surprisingly robust and resilient third wave of democratization. The other has been a spreading democratic malaise in many parts of the world.

Three problems of governance underlie this malaise and obstruct the consolidation of democracy. Most urgent and pervasive is the weakness—and often the decay—of the rule of law. No problem does more to alienate citizens from their political leaders and institutions, and to undermine political stability and economic development, than endemic corruption among the government, political party leaders, judges, and bureaucrats. The more endemic the corruption is, the more likely it is to be accompanied by other serious deficiencies in the rule of law: smuggling, drug trafficking, criminal violence, human rights abuses, and personalization of power.

Even in the wealthy, established democracies of Europe, Japan, and North America, scandals involving political party and campaign finance have eroded public confidence in parties and politicians. In the less established democracies political corruption scandals are much more likely to erode public faith in democracy itself and thereby to destabilize the entire system. This is particularly true where corruption is part of a general syndrome involving growing penetration of politics and government by organized crime, misuse of executive and police powers to intimidate and punish political opposition, and the politicization and inefficacy of key institutions of “horizontal accountability,” such as the judiciary, the audit agency, and even the electoral commission. In many countries today, democracy is weak and insecure because political leaders lack sufficient democratic commitment—the political will—to build or maintain institutions that constrain their own power. And civil society is too weak, or too divided, to compel them to do so.

The second broad source of malaise is economic. In many developing and postcommunist states economic reforms—where they have been implemented at all—have not yet generated rapid, sustainable economic growth. A few states have experienced rapid growth, and some at least modest growth. But in most new and troubled democracies economic growth is too slow, and too narrowly distributed, to lift large segments of

the population out of poverty. In many countries of Latin America, in some countries of Africa (such as South Africa), and in some Asian countries (Pakistan, the Philippines) the problem is compounded by extreme inequality in income and wealth. In these countries democracy cannot be consolidated until substantial progress is made in reducing poverty and inequality.

The third problem is the inability to manage ethnic, regional, and religious differences peacefully and inclusively. Cultural diversity is not an insurmountable obstacle to stable democracy. India has learned how to manage diversity through complex institutions of federalism. Spain largely contained its secessionist pressures with a system of asymmetrical federalism. And like Australia, Canada, and the United States, Europe has learned to adapt its democratic institutions to assimilate immigrants from a wide range of other countries and cultures. The problem arises when one ethnic or religious group seeks hegemony over others, or when minorities believe that they are being excluded from power, including any meaningful control of their own affairs.

These three problems—indeed, crises—of governance intensify and reinforce one another.

- Visible corruption sharpens the sense of injustice and grievance associated with poverty, unemployment, and economic hardship. Corruption has also hindered economic reforms, especially privatization.
- Poverty and economic stagnation reinforce the feelings of discrimination and political marginalization among indigenous peoples. Entrenched as the principal means of economic advancement, political corruption and clientelism exacerbate ethnic and regional conflict in Africa and Asia by raising the premium on control of the state and making politics a more desperate, zero-sum struggle for control of economic opportunity.
- Weak rule of law makes it easier for ethnic and sectarian leaders to mobilize violence at the grassroots in efforts to win power for themselves. It also facilitates electoral fraud and violence.

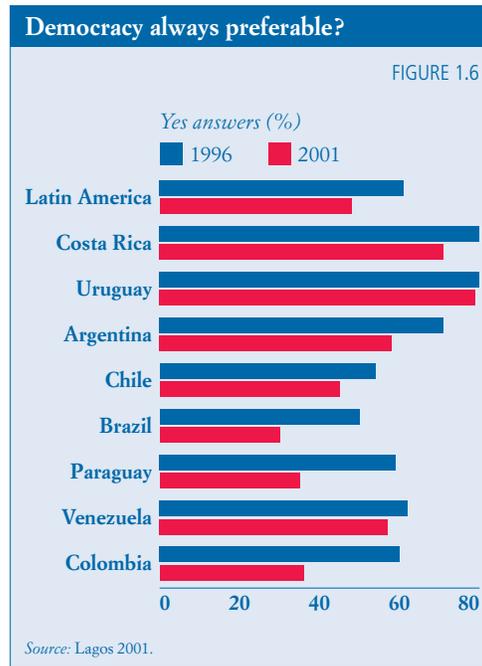
Underlying all this in many countries is a lack of commitment to the public good and to the rule of law. Citizens and elites have little trust in one another and in the future. Thus they devise strategies for taking from a stagnant stock of resources rather than for enlarging that stock. They focus on

ends rather than means—securing power and wealth by any means possible rather than in legal and constitutional ways.

These crises of governance are the main sources of democratic insecurity in the world today. All three contributed to the breakdown of democracy in Pakistan in October 1999. Poor governance and deferred economic reforms led to the implosion of Argentina’s economy and the resignation of its president amid public rioting and looting in December 2001. Each of the three crises is visible in Indonesia and Nigeria as well as in many other, smaller countries, including in the Andean region. Weak rule of law and continued economic stagnation and decay now also threaten the prospects for building democracy in Russia, Ukraine, and other post-Soviet states. In these and other countries not only do major political leaders have at best an ambivalent commitment to democracy, but democratic political parties and civil society groups lack the resources, the organizational strength, and the popular bases to promote successful democratic reform.

Failure to govern effectively takes a toll on the legitimacy and stability of democracy. The democratic malaise is particularly visible in public opinion trends in Latin America. The 2001 Latinobarometro survey recorded big drops in support for democracy in most of the countries it covered (figure 1.6). Between early 2000 and April–May 2001 support for democracy as “preferable to any other kind of government” declined from 60 percent to 48 percent across Latin America. In the 2002 survey, one year later, support for democracy improved slightly, and today about half of all Latin Americans believe that democracy is the best form of government. But support for democracy has declined or remained low in several key countries in the region since 2000—dropping from 50 percent to 39 percent in Colombia, from 64 percent to 57 percent in Peru, from 71 percent to 65 percent in Argentina, and from 39 percent to 37 percent in Brazil. These decreases are not always matched by increases in support for authoritarian rule. But they do reflect growing apathy toward democracy. Even in Costa Rica and Uruguay, the region’s most stable and clearly consolidated democracies, support for democracy has declined by 6 percentage points in the past two years.

Latin America’s democratic malaise is driven by accumulating problems of governance. In 2001 three in five Latin Americans rated their country’s



economic situation as “bad” or “very bad.” A growing proportion, now four in five, believe that crime and drug addiction have “increased a lot” in recent years, and the same proportion also give this response about corruption. Trust in major democratic institutions is low and continuing to decline: only around one in five trusts the national congress or political parties, and fewer than 30 percent trust the judiciary.¹⁴ While support for democracy appears greater in the postcommunist countries of Central and Eastern Europe, these democracies also suffer high levels of disaffection, with only 22 percent trusting parliament, and only 13 percent political parties, in 1998.¹⁵ And in the Republic of Korea support for democracy declined sharply after corruption scandals and an economic crisis in 1997, falling from 69 percent to 54 percent in 1998 and to 45 percent in 2001.¹⁶

The spread of democracy around the world is thus impressively broad but worrisomely thin. The demise of communism and other one-party socialist regimes, and the failure of the Islamic fundamentalist state in Iran to become an attractive, dynamic model, have left liberal democracy as the only system of governance with broad ideological and political appeal. Globally, democracy today is triumphant and dominant. But it is also under severe and growing strain from the intersecting crises of governance.

The next decade will thus be a time of both great danger and great opportunity for democracy. Without lasting reforms to improve governance—

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by reducing corruption, professionalizing the state bureaucracy (especially economic management), and strengthening judicial, administrative, and political institutions—many more democracies are likely to disappear. Breakdowns may come through a military coup (as in Pakistan in 1999), through an executive coup (as in Peru in 1992), or through the slow strangling of democratic pluralism and competition by an overbearing president. But improvements in governance, even incremental ones, could buy time for democracy, allowing it to gradually sink deeper roots in political party life, in civil society, and in the national culture.

A STRATEGY FOR ASSISTING DEMOCRATIC GOVERNANCE

Thus the prospects for development, and for effective development assistance, depend on the quality of governance—the way in which public power is exercised and public resources are managed and expended. Poorly performing states—those mired in poverty and illiteracy for decades—will not achieve sustainable development unless they dramatically improve governance. Only when the rule of law ensures property rights and low transaction costs will domestic capital be invested productively and international capital flow in. But corruption and weak rule of law will persist until voters have the power to remove governments that fail to perform—politically as well as economically.

So, for the world's poor people, democracy is not a luxury. It is an indispensable instrument for securing accountable government and for ensuring that aid is used effectively. Governance has to be made more responsible, competent, efficient, participatory, open, accountable, lawful, and legitimate. Unless that happens, poorly performing states will not experience the kind of vigorous, sustained development that transforms human development, achieves economic growth, and permanently lifts large segments of the population out of poverty. And badly governed states will produce diffuse threats to global order and the U.S. national interest.

With time, and with thoughtful evaluation and assessment, USAID is learning more about what it takes to develop democracy and good governance. USAID's democracy and governance pro-

grams have evolved in important ways since they became a big part of U.S. development assistance efforts in the early 1990s. Early on, it became clear that the freedom, fairness, and meaningfulness of elections are shaped months in advance by the quality and integrity of electoral administration, the design of the electoral system, the rules on campaign and party finance, the capacity and openness of political parties, the political awareness of voters, and the level of freedom and security. Consequently, support for elections matured from a narrow focus on the voting and vote counting to a broader engagement with the political system and electoral environment, including extensive assistance for voter education, electoral administration, and earlier monitoring of electoral preparations and campaigning.

In the mid-1990s an evaluation found that technical assistance to judicial systems could not build a rule of law without political will for reform and a civil society that is aware and engaged.¹⁷ USAID decided to generate the political demand for reform, and the capacity to use the justice system, through wider programs of assistance to civil society organizations working for human rights, legal assistance, justice reform, and the like. Similarly, USAID—and every other major international donor—have become much more aware of the harmful consequences of corruption for democracy and development. Thus the priority given to addressing this problem has increased substantially, along with analytic insight into the conditions for genuine reform.

In recent years much more assistance has gone to nongovernmental organizations (NGOs) and business coalitions working for greater transparency and accountability, and to efforts to strengthen government institutions to monitor and combat corruption. The surge in complex humanitarian emergencies during the 1990s was met with a better capacity to respond, particularly to the political dimensions of postwar recovery, and with a new ability to move in quickly to assist political reconstruction after violent conflicts. Gradually, democracy and governance programs have been guided by a more nuanced understanding of the political context in each country, and methods of strategic assessment for country programs have been honed.

How can the United States foster stable, effective democracies in the coming decades? First, the objective must be clear. The goal is not simply to

advance democracy around the world. As the collapse of democracy in Pakistan in 1999 showed, a country can have vigorously competitive national elections with frequent shifts in power and still have governance that fails to generate development and loses public confidence. Nor is the goal simply to promote more capable and transparent government. Few leaders can deliver and sustain good governance—with its commitment to promoting the public good and restraining the abuse of power—without the institutional accountability to other branches of government and to the people that democracy provides. Even when nondemocratic leaders are sincerely committed to reform, the absence of institutional mechanisms to monitor and restrain power eventually degrades the quality and legitimacy of governance.

In almost every country good governance—responsible, accountable, public-spirited—must go hand in hand with democracy. First, democracy provides the people with an indispensable instrument of electoral accountability—the opportunity to remove leaders who perform poorly. Second, when this opportunity is denied—through obstacles to fully free, fair, competitive, and neutrally administered elections—the incentive of incumbents to restrain themselves and serve the public good withers. Corruption seeps through the financial and political system, as in Indonesia. Rulers become not only venal and distant from public concerns, but also increasingly abusive of human rights, as in Zimbabwe. Third, democracy provides the public with the freedom and the institutional means, between elections, to scrutinize the conduct and policy decisions of public officials and hold them accountable. Fourth, leaders in a democracy thus have more pressures, means, and incentives to explain and justify their decisions and to consult a broad range of constituencies before passing laws and making decisions. Fifth, wider public dialogue and participation in policymaking produce decisions that are more legitimate and sustainable.

Free, fair, and competitive elections are the essential factor for democracy. Moreover, other institutions of good governance are much more likely to be vibrant and effective in a democracy than in a nondemocracy. These include an independent judiciary that enforces clear and predictable laws, an elected parliament that is autonomous and capable of checking the power of the executive

branch, and a civil society with the freedom and resources to monitor, evaluate, question, and participate in making and implementing policy. When governance is open to the scrutiny and involvement of a wide range of NGOs, interest groups, think tanks, and mass media, it is more likely to be transparent, public-spirited, and thus legitimate.

There is no guarantee that electoral democracy will deliver such transparency and inclusion. But it is illusory to imagine that “liberal autocracy” is a development option in today’s world. There are precious few well-governed autocracies, and those that exist (such as Singapore) have sustained good governance for highly idiosyncratic reasons that are not broadly transferable. To develop truly good governance, the typical recipient of U.S. foreign assistance needs the openness, competition, and broad and free public participation of democracy.

The pursuit of stable, effective democratic governance will involve different sequences of political reform in different countries. In some cases the basic framework for multiparty democracy is in place but needs to be deepened and made more effective and accountable. Some emerging democracies suffer from more specific obstacles to consolidation—such as lack of the institutions of rule of law. And in repressive, corrupt, and closed regimes, multiparty competition—if it exists at all—is largely a façade. In these states, reforming the economy and strengthening civil society might be more viable in the short term than making an immediate transition to electoral democracy.

Where democracy is completely absent, one plausible—though more gradual—path of transition is to phase in electoral competition beginning at the local level and then moving up to higher levels. This is the path that Taiwan followed over several decades.¹⁸ It is also the path by which many observers believe that China could become a democracy—by extending competitive elections from the village level to the township, county, provincial, and then national level while also eventually allowing competing parties. In other highly authoritarian countries, such as Myanmar and Saudi Arabia, introducing free and fair municipal elections might allow the gradual accumulation of political trust and mutual restraint between regime and opposition, and between competing opposition forces, lowering

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the risks of transition. The one essential condition for progress along such a path: when competitive elections are held, they must be fairly and credibly administered.

Such variation makes it impossible to offer a general strategy or sequence of political reform. That is why democracy and governance must be carefully assessed in each country receiving assistance, especially when resources are limited and strategic choices must be made. That is also why assistance for democracy and governance needs to be pursued with patience and an open mind. No one sector holds the key to fostering democracy and good governance. No one solution fits all cases. And no shortcuts exist. In most countries that lack stable and effective governance today, the United States must be prepared to work on many fronts over long periods.

Even so, countries that need assistance for democracy and governance tend to share a few priorities. These involve ensuring that democracy advances development and responds to the needs of society—generating capacity for and commitment to using public resources to promote the public good. Such efforts are not new. The foreign assistance community has worked on most of them, particularly over the past decade. What is needed now is not invention but innovation, adaptation, refinement, elaboration, deeper commitment, and an expansion of activity in some areas.

Strategic priorities for assistance include:

- Controlling corruption and strengthening the institutions of horizontal accountability.
- Strengthening the rule of law and the way it affects individual citizens—not only through the judiciary but also through more professional, vigorous, and democratic policing.
- Strengthening and democratizing political parties and deepening their roots in society.
- Helping NGOs committed to democracy and good governance broaden their domestic constituencies while using more traditional interest groups to strengthen democracy.
- Developing stronger, more professional states better able to respond to growing demands for better governance.

Pursuing these priorities requires strengthening links:

- *Across government agencies.* U.S. efforts to improve democracy and governance most often fall short because they lack unified, vig-

orous support from the entire U.S. government. Specific programs of assistance for democracy and governance cannot succeed if they are inconsistent with U.S. objectives and priorities. It is always difficult to persuade corrupt, undemocratic, or only partly democratic regimes to adopt serious governance reforms. But there is no chance of doing so if the regime perceives mixed messages from the U.S. government, whether across agencies or over time. And inconsistency within a region can generate resentment, confusion, and ambiguity about U.S. aims.

- *Across donors.* Development suffers when different donors work at cross-purposes or fund overlapping objectives at the expense of unmet needs. Credible, effective diplomatic pressure for better governance requires that all major donor countries express similar expectations of badly governed states. A government is much more likely to pursue serious reform if these donors deliver similar messages about what it must do if it is to receive significant aid and debt relief.
- *Across sectors.* Among the most important lessons learned by USAID in the past decade is that establishing cross-sectoral links—connecting program activities intended to achieve two or more goals—enhances development and amplifies the impact of a given investment.¹⁹ Linking programs for democracy and governance with other programs can produce a triple effect. It advances specific aspects of democratic governance. It achieves a more traditional development objective (such as improving health care). And it generates additional benefits that neither program could have achieved alone. Moreover, investments in other sectors can help build the economic, social, and cultural foundations for sustainable democracy and good governance. For example, supporting the development of small and medium-size enterprises (in part by reducing obstacles to their legal existence and protection) does more than stimulate and diffuse economic growth. In building up a large class of producers independent of the state, it crystallizes new interests in better governance, provides new bases of support for political parties, and generates new resources to support autonomous interest groups and NGOs.
- *Across borders.* Cross-border links enable government agencies, civil society organizations, thinkers, and practitioners to share experience

and learn from one another. Each takes something back from the other, and a new type of international pressure may gather in the form of regional solidarity and commitment to democracy and good governance. Several types of regional programs can promote democracy and good governance. When regional organizations such as the Organization of American States, Inter-American Institute of Human Rights, and Southern African Development Community (SADC) seek to establish regional norms of democracy, human rights, and good governance, the United States should support their efforts financially. And when they fail to rise to urgent challenges, as SADC has with Zimbabwe recently, the United States should engage them diplomatically and support civil society organizations within the member countries that seek a more consistent, forthright, and active regional posture.

- *Over time.* Successful work on democracy and governance requires patience, steadfastness, and a long-term perspective. The more intractable a country—that is, the longer its history of poverty and weak governance—the longer it will take to turn things around. Development assistance cannot succeed unless it remains engaged in pressing for democratic reforms and assisting forces of reform in the state and society over long periods, possibly decades. Significant improvements in governance also require political will. In intractable cases this will take time to generate, and even as it accumulates, it is liable to erode. Thus assistance for democracy and governance requires a strategy for engaging the key actors in state and society to develop and sustain the will to reform.
- *Across national and local levels.* The local dimension must connect with the national. Reform of state structures must proceed in tandem with promotion of civic participation—and vice versa. USAID strategies for strengthening local government generally emphasize stimulating local political participation. This not only develops active citizenship but also helps make government more responsive to citizens' needs and concerns. But if government is to respond, it must have the resources and capacity to do so. This requires training local government officials to enhance their capacity to govern effectively and accountably. But it also requires supporting national initiatives (laws, administrative

regulations, even constitutional reforms) to transfer more power, authority, and resources to the local level. Thus providing effective support for local democracy may involve assistance to national executive agencies, parliamentary committees, and even political parties—to identify institutional models and policy lessons from other countries, to help draft administrative regulations and laws on decentralization, and to address the funding constraints of local governments. In short, decentralization (from the top down) must work in tandem with efforts to improve local governance (from the bottom up).²⁰

- *Between the supply and demand for political reform.* Among the major lessons emerging over the past decade is the need to balance the demand and supply sides of the political reform equation. Assistance for democracy and governance cannot succeed if it works on only one side or the other. Even if state elites propose reforms—for example, to privatize state industries, improve the tax system, or crack down on smuggling and bribery—these reforms may not be sustainable unless society is educated about the need for them and mobilized to support them. Urgently needed reforms are often undermined in implementation by a failure to develop broad constituencies for reform among stakeholders. State officials who want to undertake reforms need technical assistance in their ministries or agencies. But sustainable reform also requires programs targeted to interest groups (such as trade unions and chambers of commerce), advocacy NGOs, think tanks, and the mass media. The momentum for systemic reform of governance often begins with the formation and mobilization of such groups.

Cutting across all these priorities are lessons about what it takes to foster stable and effective democratic governance: political will and clear and unambiguous leadership by the U.S. government.

ASSESSING AND CLASSIFYING COUNTRIES

Countries are not entirely unique. Their political regimes can be roughly grouped into categories according to their democratic development. Strategic priorities overlap across categories, but a country's place in a typology of regimes begins to tell something about what needs to be done.

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At one extreme is the consolidated democracy, which, because of its level of economic and political development, has “graduated” from assistance. Botswana and Mauritius, Chile and Costa Rica, and the Czech Republic, Hungary, and Poland fall into this group. These countries can play an important role in U.S. assistance for democracy and governance to their neighbors, by providing institutional lessons and human resources through cross-border links. But with the possible exception of Botswana, now in the grip of a catastrophic HIV/AIDS epidemic, they no longer need significant external assistance.

Some countries that, because of their middle-income status, either never received or have long since graduated from development assistance—such as Argentina, Thailand, Turkey, and Venezuela—continue to face serious governance problems. These countries are not consolidated democracies (or if they once were, no longer are). Limited, focused assistance could help them remove obstacles to improving and consolidating their democratic institutions. At the other extreme are repressive, closed regimes, such as the Republic of Congo, Iraq, and North Korea.

Between these extremes are some 75 countries, a group that includes almost the entire former Soviet Union, the politically lagging countries of Eastern Europe,²⁵ African countries, and most of Latin America. Few of these countries have a consolidated democracy. Indeed, about half are not democracies, although they fall short of democracy in varying degrees and ways. These countries can be roughly grouped into four categories:

1. *Electoral democracies with problems of democratic performance.* These countries—such as Bangladesh, Benin, Brazil, Ghana, Mali, Mexico, Namibia, the Philippines, Senegal, South Africa, and most of Central and South America—have relatively free, fair, and competitive elections that are more or less institutionalized. In some of these countries not even that basic element of democracy is secure, but in most the threats to democracy arise from other shortcomings: corruption, an ineffectual judiciary, weak political parties, human rights abuses, an incapable state, and, in a few cases, one-party dominance.
2. *Ambiguous, quasi-democratic regimes.* In these countries—most prominently Indonesia, Nigeria, and Ukraine—it is not clear whether

elections are free and fair or whether elected authorities have full power to govern. These countries have competitive, multiparty elections, but the contests are marred by significant fraud and manipulation or insecurity. All the formal institutions of democracy are in place, but most function poorly or with constraints. To the extent that their elections are not democratic, the regimes in this category are “competitive authoritarian,” a subtype of the following category.

3. *Electoral authoritarian regimes.* These countries have multiparty elections, and the elections may even be quite competitive, but they are so tainted with fraud and biased toward the ruling party (and typically the incumbent president) that they cannot be considered free and fair. Some of these countries—such as Georgia, Jordan, Kenya, Lebanon, Morocco, Tanzania, and Zambia—allow serious competition and pluralism not only in elections but also in legislative and judicial systems, which may take prudent steps to break free of executive domination. The mass media may also act to erode constraints and induce accountability.²¹ But other countries—such as Azerbaijan, Belarus, Egypt, and most of the Central Asian republics—merely maintain the façade of multiparty elections while allowing little real pluralism or freedom. When these regimes are seriously challenged (as in Zimbabwe), they can become brutally repressive. Other countries in this category include Cambodia, Guinea, Haiti, Liberia, and Uganda.
4. *Closed authoritarian regimes.* These countries do not conduct multiparty elections and generally exhibit the greatest political repression and closure. There is little space for opposition or dissent in civil society or the political system. The state executive and the security apparatus are thoroughly dominant, at least within the territory they control. Countries that fall into this category include Angola, the Democratic Republic of Congo, Eritrea, Rwanda, Sudan, and Turkmenistan.

This categorization is not an arid academic exercise. It helps organize thinking about strategic priorities. Within these four categories, different countries will need different mixes of programs. Even so, common strategies and priorities can be identified for each group of countries.

1. *Electoral democracies* face one overriding challenge: to improve the quality of governance and political representation. Securing free and fair elections may be important in some of these countries. But in most it is no longer a major problem or it is one that domestic political actors have learned to manage through their own organizations and resources (or can be helped to manage with modest additional aid). In the countries where democracy is not yet consolidated and major governance problems persist, a nearly universal priority is controlling corruption and enhancing the rule of law. Nearly all these countries need significant help in strengthening and professionalizing their judiciaries, their other institutions of horizontal accountability (such as anti-corruption commissions), and their political parties. The main goal must be to make politics more transparent, accountable, and responsive. In all these countries civil society has an important role to play in educating and mobilizing citizens in support of systemic reform and deeper democracy.

2. *Ambiguous, quasi-democratic regimes* share the program priorities of the first group but also require electoral assistance. These countries still often need all three types of electoral assistance: to develop the technical capacity, independence, neutrality, and professionalism of electoral administration; to educate and inform voters; and to empower domestic monitoring efforts in civil society. In a few countries, particularly Indonesia, civilian authorities need help in developing their capacity to manage the military and subordinate it to their constitutional authority.

3. *Electoral authoritarian regimes* vary widely. Some allow considerable competition and pluralism and could become democratic if elections became free and fair. For these more competitive regimes, electoral assistance is a major priority, as is assistance to civil society to strengthen demand for reform. A country assessment might determine (as for Egypt) that it may be possible (or strategically wise for the United States) to open elections to genuinely free competition only after making other improvements in governance. But in many electoral authoritarian regimes—such as Belarus, Cambodia, Haiti, Kenya, Liberia, Zambia, and Zimbabwe—improving

the credibility and fairness of the electoral process is vital to prevent violent conflict and to advance governance on other fronts. Without the uncertainty and incentives generated by truly democratic competition, the political will for reform is unlikely to emerge.

4. *Closed authoritarian regimes* fall into two categories: failed states, struggling to reconstruct a viable political order, and very repressive regimes in which political opposition is banned. In failed states, rebuilding state capacity (even in very elementary aspects of administration) is essential for improving governance. But unless some means of political accountability, participation, consultation, and power sharing emerge, the state is unlikely to gain the legitimacy needed to consolidate peace and establish effective governance. The same is true for states still plagued by civil war or violent conflict, such as Angola, the Democratic Republic of Congo, and Sudan.

POLITICAL WILL INVOLVES A BROAD CONSENSUS AMONG RULING ELITES, CUTTING ACROSS PARTIES AND SECTORS OF GOVERNMENT, IN FAVOR OF DEMOCRATIC AND GOOD GOVERNANCE REFORMS

GENERATING (AND ASSESSING) POLITICAL WILL

In most countries where development has failed or stalled, the most important missing ingredient is the political will of the nation's leaders to improve governance—the commitment to follow through on a particular policy course. At its most resilient, political will involves a broad consensus among ruling elites, cutting across parties and sectors of government, in favor of democratic and good governance reforms. But consensus is always imperfect, and will is most important at the top levels of government, among major political leaders and senior civil servants. There, political will must be robust and sincere. That is, leaders must be committed not only to take actions to achieve the objectives of reform, but also “to sustain the costs of those actions over time.”²²

Without a robust commitment to fundamental reforms—to control corruption, open the economy, enhance the rule of law, respect basic civil and political rights, and allow independent centers of power both within and outside the government—foreign assistance will fail to ignite sustainable development. It may attain limited sectoral objectives, but these will not add up to development, and they may be highly reversible. Children may be inoculated, only to find that they have no access to education or, later, to jobs that lift families out of poverty. Schools may be

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built, only to be destroyed in civil war. Clinics may be constructed, only to fail because they lack access to medicines. Local participation and local governance may be improved, only to be undermined by a predatory national government. Opposition political parties may be strengthened, only to be marginalized by electoral fraud. Judiciaries may be helped by technical assistance, only to be corrupted and intimidated by national leaders.

Country experience underscores the importance of political will in mediating the impact of foreign assistance. A study of three countries with sizable democracy and governance programs in the 1990s (Bolivia, Bulgaria, and South Africa) concluded that USAID's investments produced substantial returns precisely because the political leadership was so committed to reform. The broader and more sustained the elite consensus in favor of governance reforms, the greater the impact democracy and governance programs tend to have. Modest investments go much further where there is broad will to reform among political elites, and large investments are wasted where there is none.

Political will is not an either-or phenomenon. In the typical country receiving assistance, the will to reform is mixed and ambiguous. Within the state and ruling party some elements favor reform (or would if reform gained momentum), while others work against it. Different officials may favor different kinds of reform. Some may favor economic reform but only if it does not involve surrendering political power or protected monopolies. Others may favor democracy but only of the "neopatrimonial" kind, driven by patronage. A president or prime minister may promise international donors a package of governance reforms but then grow cold when he realizes the political risks. Or he may promise anything to get aid with no serious intention of ever delivering (box 1.1).

In the worst cases (often countries with some strategic importance to one or more donors) international development assistance takes on the appearance of a mutual con game: intractable countries pretend to be developing, and international donors pretend to be helping them. No one faces up to the reality that development is not occurring because governance is rotten. The most urgent challenge for U.S. foreign assistance in the coming years is how to engage such poor performers.

How can the political will to bring about basic, systemic reform be generated? Such political will is generated from three directions: from *below*, from *within*, and from *outside*. Organized pressure from below, in civil society, plays an essential role in persuading ruling elites of the need for institutional reforms to improve governance. There may also be some reform-minded elements within the government and the ruling party or coalition who, whether for pragmatic or normative reasons, have come to see the need for reform but are reluctant to act in isolation. Finally, external actors in the international community often tip the balance through persuasive engagement with the rulers and the society and by extending tangible rewards for better governance and penalties for recalcitrance.

U.S. foreign assistance can help develop the first two forms of pressure and has done so in a number of countries in the past decade. Where political will for systemic reform is lacking, the main thing that foreign assistance can do is strengthen constituencies for reform in civil society, including NGOs, interest groups, think tanks, and the mass media. Assistance can enhance these actors' understanding of reform issues, their knowledge of experiences in other countries, their coordination with one another, their capacity to analyze and advocate institutional and policy reforms, and their mobilization of support and understanding in society.

International efforts to stimulate governance reform have shown that fundamental reform can be sustained only where there is homegrown initiative. If governments merely promise changes in policies and institutions in response to international pressures, they will not implement the reforms seriously and consistently. "Imported or imposed initiative confronts the perennial problem of needing to build commitment and ownership; and there is always the question of whether espousals of willingness to pursue reform are genuine or not."²³ International engagement will therefore fail if it simply requires a government to sign off on a package of dictated reforms, as has often been the case with assistance from the international financial institutions. Its goal must be deeper and more procedurally democratic: to generate public awareness and debate and to induce government leaders to sit down with opposition and social forces to fashion a package of reforms unique to and owned by the country.

Box 1.1. Doing the donor dance in Kenya

The international donor community and the government of Kenya have been engaged in a dance over macroeconomic and governance reforms since the mid-1980s. The donors have conditioned assistance on the Kenyan government's agreeing to and implementing a broad range of reforms—liberalizing the economy, pursuing prudent macroeconomic policy, downsizing the public sector (including privatizing state industries), ending corruption, and increasing democracy. President Daniel Arap Moi and his government have repeatedly promised reform but rarely delivered.

In November 1991 the donor community suspended more than \$250 million in balance of payments and budgetary assistance to Kenya, stating that the government had failed to follow through on promises to liberalize the economy, reduce corruption, and improve its human rights record. Kenya thus became the first African country to have its aid suspended for bad governance.

In response, President Moi announced that he was lifting Kenya's constitutional ban on opposition political parties, paving the way for the first multiparty elections in 26 years. Kenya also liberalized its economy, including abolishing fixed exchange rates. At the same time senior cabinet members engaged in a phony export scheme that bilked the Kenyan treasury of an estimated \$350 million, while the Central Bank printed money to finance the president's reelection campaign. The result was a 40 percent spike in inflation and an interest rate hike that brought the Kenyan economy to a halt.

Although most bilateral assistance agencies, including USAID, reduced their programs in Kenya and ended balance of payments assistance, the World Bank and the International Monetary Fund renewed quick-disbursing aid

to Kenya in 1993 and 1994 when the Moi government promised to follow through on the reform agenda. Further World Bank lending followed. But in mid-1997, on the eve of another election, the international financial institutions again concluded that aid should be halted, citing the persistence of massive corruption. They returned in June 2000—the Bank with a \$150 million program to reform the civil service, the Fund with \$200 million. Given their experience, they conditioned these loans more tightly on performance than they had earlier loans, and scheduled disbursement in a series of tranches. Yet by December, after only one disbursement, both agencies suspended assistance when it became clear that the Moi government—having received the down payment—was not serious about delivering on its promises.

The lesson from the donor dance with Kenya is clear. The donor community must tightly condition and closely monitor any direct assistance to the Kenyan government, bypass the government entirely by disbursing funds directly to NGOs and private contractors, or limit its programs to food aid and humanitarian relief. USAID has chosen the second option. But the Bank and the Fund—as required by their programs and bylaws—disburse funds only to the Kenyan government.

A comprehensive USAID strategy for dealing with such cases as Kenya must also consider the role of the international financial institutions. Their programs dwarf those of the U.S. government and represent the “big money” sought by the Kenya government. Unless these programs are tied more closely to performance, USAID's efforts to nurture broad-based reform will be undercut.

Source: Barkan 1998.

*A BETTER APPROACH
IS TO DISPENSE AID
SELECTIVELY TO REWARD
AND DEEPEN REFORMS*

FROM CONDITIONS TO SELECTIVITY

To be successful, international engagement must shift from *conditionality* to *selectivity* in foreign assistance. In many cases—international lending, for example—conditionality has been *ex ante*, with governments promising policy reform in exchange for aid. As a result donors, not the governments, “own” the reforms. A better approach is to dispense aid selectively to reward and deepen—and thus preserve and consolidate—

reforms that a country has already begun to implement according to its own design. Selectivity focuses aid on good performers—countries that have reasonably good policies and institutions—and on serious reform efforts, already under way, by governments and societies that have taken responsibility for designing their own policies and institutions.²⁴

Helping to generate authentic, homegrown political will for better governance takes patience, intelligence, coherence, consistency, and dexterity.

PROMOTING
DEMOCRATIC GOVERNANCE

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Toward this end, the following principles should guide U.S. foreign assistance and the policies of other international donors:

1. *Levels of foreign assistance must be more clearly linked to a country's development performance and to demonstrations of political will for reform and good governance.*
 2. *Good performers must be tangibly rewarded.* Reform should be encouraged through predictable and meaningful rewards. When political leaders demonstrate respect for democratic procedures and freedoms, and willingness to follow through on difficult political and economic reforms, they should receive steady increases in aid from the United States and other donors. In addition, good performers—democracies getting serious about controlling corruption and strengthening the rule of law—should be rewarded in other tangible ways: with debt relief, with incentives for foreign investment (including publicity about their good governance), and with trade liberalization—such as the bilateral free trade agreement recently concluded with Jordan.
 3. *Rewards must be granted for performance, not for promises that may be repeatedly made and broken.* The only way to exit from the “cat and mouse” game of international conditionality is to make increases in development assistance and other economic rewards contingent on what governments actually do (and keep doing), not on what they say they will do. Rewards should be structured to lock into place the institutions and practices of democracy and good governance. For example, the European Union requires that democracy and respect for human rights be institutionalized before a country can be considered for admission, and these conditions are included in the accession agreements. The United States might adopt a similar standard as a requirement for free trade agreements (whether bilateral or as part of a multilateral arrangement). And there should be clear and credible procedures for suspending countries that depart from this standard. For heavily indebted poor countries, debt relief should be granted only to those that have demonstrated a basic commitment to good governance by allowing a free press and civil society, ensuring an independent judiciary,
- and establishing a serious anti-corruption commission. Even in these cases the debt should not be forgiven in one fell swoop, but suspended and retired incrementally (for example, at 10 percent a year), creating incentives for sustaining good governance.
4. *If there is no political commitment to democratic and governance reforms, the United States should suspend government assistance and work only with nongovernmental actors.* The only exceptions should be humanitarian relief and responses to global public health threats, and even then minimal reliance should be placed on poorly performing states. USAID has often used such selective suspensions, which can have important symbolic and practical effects. The United States typically provides only a small share of the foreign assistance to a government, but a highly visible one. When the United States ceases development assistance to a government, other donors take notice (and should be lobbied to follow suit), as do political and social actors in the country. To be effective, this approach must have substantial consequences. Political leaders must learn that they will pay a heavy international price for bad governance, forfeiting material resources and becoming more isolated diplomatically.
 5. *The United States should use its voice, vote, and full influence within the World Bank and other multilateral development banks to terminate development assistance to bad governments and to focus on countries with reasonably good governance.*²⁵ The United States should extend the principles of its foreign policy into international development, persuading the international financial institutions to stop financing grossly corrupt, wasteful, and oppressive governments. Much progress has been made on this front over the past decade, and the United States should continue to press for greater accountability and logic in international lending. Where there is no demonstrated commitment to reform, development assistance should go to nongovernmental actors. Beyond humanitarian and public health assistance, the aid should be aimed mainly at empowering civil society to change the regime or improve governance in other ways. Otherwise, even if aid funds are spent directly by aid agencies or through NGOs, they will simply substitute

for what corrupt officials are stealing from the national budget and so will do little to reduce poverty.

6. *The United States must work more closely with other bilateral donors to coordinate pressure on bad, recalcitrant governments.* Reductions in U.S. aid will do little to change the behavior of political leaders if their governments continue to receive funding from other donors that far exceeds the U.S. aid. Leaders will be most likely to change if they perceive a coherent message from international donors.
7. *Where committed reformers can be identified within the state, donors should work with them.* The United States should identify and try to strengthen the hand of reform-oriented ministers, agency heads, and provincial governors. “Assistance can be provided to reformers to help identify key winners and losers, develop coalition building and mobilization strategies, and design publicity campaigns.”²⁶ Often, nodes of reformers or even majorities favoring reform can be found in branches of the state outside the executive, such as the legislature, the judicial system, and other agencies of horizontal accountability that may be deprived of resources and authority. Even when reformers lack the power today to effect far-reaching change, training and technical assistance may enable them to expand public constituencies for reform. Such assistance may also represent an investment in the future, when a political shift gives reformers real power.
8. *State capacity must be enhanced, but it makes no sense to strengthen the capacity of state structures that lack the political will to govern responsibly.* Building effective state structures must be a major goal of assistance for democracy and governance, but not until state leaders are serious about governance. Large investments in the infrastructure and technical capacity of judiciaries and legislatures will be largely wasted if there is no political will to use the enhanced capabilities for more honest, responsive, and accountable governance.
9. *Donors should encourage the global private sector to accelerate efforts to incorporate judgments about the quality and transparency of*

governance into investment decisions. To continue pressing this agenda, donors should institutionalize support for Transparency International and other global anti-corruption efforts. An important priority is to improve comparative measures of the quality of governance and then widely publicize them, to encourage the private sector to invest in countries that are governing well and adopting promising reforms. Credible (independent) and publicly disseminated measures of governance are particularly important for smaller, more peripheral developing countries, on which reliable information is slower to reach investors. The United States might also introduce incentives (such as through the Overseas Private Investment Corporation and the negotiation of free trade agreements) to encourage investment in better-governed countries.

10. *International donors must strengthen the global rule of law, particularly the capacity to track down and close off corrupt flows of money in the international banking system.* The United States must work to institutionalize rigorous global standards and procedures for rapidly identifying and recovering corruptly acquired assets. It must also work vigorously to ensure that member states of the Organisation for Economic Co-operation and Development (OECD) enforce the new OECD convention against bribery. The anti-money laundering tools used to combat terrorism and drug trafficking can also be applied to fight international crime and corruption.

ONLY WITH A
COMPREHENSIVE,
CONSISTENT, “TOUGH
LOVE” APPROACH FROM
THE INTERNATIONAL
COMMUNITY IS
POLITICAL WILL FOR
GOVERNANCE REFORM
LIKELY TO EMERGE

“TOUGH LOVE” FOR DEVELOPMENT

Only if governance becomes more democratic and accountable will development occur in the poorly performing countries. And only with a comprehensive, consistent, “tough love” approach from the international community is political will for governance reform likely to emerge and to be sustained. Once there is evidence of such political will, assistance for democracy and governance must work on many fronts to develop the institutions that fight corruption and defend the rule of law, to strengthen and democratize political parties, and to improve the functioning of representative and administrative institutions. Where political will for decent

PROMOTING
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governance is lacking, there is no higher priority for development than to generate it and probably no way to do so except through aid to civil society. But where democratic governance reforms do take place, the international community must back them with more than words and more even than assistance for democracy and governance.

Countries and leaders that improve governance must realize rapid, tangible rewards for the progress they make and the risks they take. Good performers—and these will be mainly democracies fighting corruption—must see their countries move onto a different path, one where average incomes rise, where the quality of daily life visibly improves, and where resources flow in to improve health, education, and public infrastructure.

Although some democracy and governance programs have been in place for some time, sustained efforts to promote democratic governance are still at a relatively early stage. But some lessons are clear. Strategies for promoting democracy and good governance must focus relentlessly on generating and sustaining political will for systemic reform, with diplomacy and aid working hand in hand. Donors must work with one another. Experience must be shared across borders. And democracy and governance objectives must inform and inspire development assistance in every sector. To have an impact on the difficult and seemingly intractable cases, the United States and other donors must do more, more coherently, across a range of objectives, and must sustain the effort (with periodic assessment and adaptation) over a long period. This will require a patience and long-term perspective to which Americans are unaccustomed and which does not come easily in a democracy with short electoral cycles.

NOTES

1. Karatnycky 2002; Freedom House 2002.
2. The first long wave of global democratic expansion ended with the breakdown of many democracies between World Wars I and II, and the post–World War II wave of democratization ended with the “second reverse wave” that began in the early 1960s. See Huntington 1991.
3. Freedom House rates as “free” the states with an average score between 1 and 2.5 on the combined 7-point scale of political rights and civil liberties. See Karatnycky 2002.
4. Of the 71 regimes not rated as democracies by Freedom House, 46 have regular multiparty elections and only 25 are politically closed in this respect. See Table 1 in Diamond 2002.
5. Franck 1992; Rich 2001.
6. Carothers 2002.

7. For theoretical perspectives on democratic consolidation, see Linz and Stepan 1996; Diamond 1999; Schedler 2001.
8. For details on the twin scales, see Freedom House 2002.
9. The classification of countries as democracies in this discussion follows the Freedom House’s annual survey. See Freedom House 2002.
10. For more discussion of the “democracy gap” in Muslim majority (especially Arab) countries, see Karatnycky 2002.
11. Civilian control of the military is also necessary. For a more detailed conceptualization, see Diamond 1999.
12. See Diamond 1999 for a summary of some of the evidence from public opinion surveys in developing and postcommunist countries.
13. This term (rather than “transitions to democracy”) was carefully chosen to capture the indeterminacy of the process. See O’Donnell and Schmitter 1986.
14. *The Economist*. 2001. “The Latinobarometro Poll: An Alarm Call for Latin America’s Democrats.” 28 July.
15. Lagos 2001.
16. Chu, Diamond, and Shin 2001.
17. Blair and Hansen 1994.
18. Chao and Myers 2001.
19. Lippman 2001.
20. USAID 2000.
21. Levitsky and Way 2002.
22. Brinkerhoff 1999; Brinkerhoff 2000.
23. Brinkerhoff 2000, p. 242.
24. Collier also calls this conditionality “an agency of restraint.” See Collier 1999, p. 327.
25. For a similar approach, see Collier 2002.
26. Brinkerhoff 2000, p. 249.

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DRIVING ECONOMIC GROWTH

CHAPTER 2

THE UNITED STATES HAS BEEN GROWING ECONOMICALLY ever since 1776, while most of the world has not. Per person, economic growth in the United States has averaged only about 1.7 percent a year.¹ But over 225 years this growth has caused a 44-fold increase in per capita income. Thus high U.S. living standards are explained by the persistence of growth, not its speed. Sound institutions and economic governance allow individuals to become wealthier and more productive over time, secure that the fruits of their efforts will not be arbitrarily taken from them.

The challenge for developing countries is to promote growth long enough to achieve prosperity. In many ways it is easier for them to do so than it was for the United States. Many productivity-enhancing tools—discovered during the course of American growth—can now be easily acquired and applied. They do not need to be reinvented. But political, ethnic, tribal, and religious rivalries—and predatory governments—impede coherent, sound economic policies supported by the rule of law. Such policies offer the best hope for rapidly reducing poverty.

Effective economic governance makes development possible. Growth policies can be made to have the benefits reach the poor. But in most developing countries the real challenge is achieving any kind of sustainable growth—and over the long term, a growing economy is required to reduce poverty. At least for the next generation, U.S. efforts to reduce poverty in developing countries must focus on promoting growth in developing economies.

This chapter examines long-run patterns of economic growth in developing countries, identifying reasons for sustained growth in certain countries—and for its absence in others. Supporting agriculture is crucial for many developing countries and for many poor people. In addition, integrating with the world economy—through trade and foreign investment—helps economies become more competitive. Ultimately, however, a nation's productivity is determined by the productivity of its workforce—and their success is intertwined with the quality of the business climate.

NEW THINKING ON DRIVERS OF GROWTH

Economists have conceptualized the process of economic growth around three basic models:

specialization and trade, investment in machines, and increasing returns to knowledge. At different points in the history of economic thought, each model has been advocated as the fastest road to riches. Yet all three have a contribution to make. Adam Smith was highly optimistic about prospects for raising living standards through the higher labor productivity that results from specialization. Because specialization requires trade, low trade barriers are required so that manufacturers can access larger markets. Competition—the invisible hand—then induces greater specialization, raising labor productivity and living standards.

This trade-intensive strategy for economic growth requires many transactions, often at long distances and over time. Thus institutions that defend property rights and lower transaction costs, such as the rule of law, have come to be seen as the foundations of a market economy. This is why economic governance is considered an essential starting point for economic growth, not something to be tackled later.

The success of the industrial revolution in the 19th century, first in Britain and then in France and Germany, added technological change to strategies for growth. Such change was seen as embodied in machines using mechanical power. It was recognized that not all countries could invent and produce machines. But all were free to import them and reproduce the factory system that was making Europe so rich and powerful. This “capital fundamentalism” stressed accumulating savings and investing in machines that embodied the latest technologies. Investment and production did not have to rely on the profit motive of private investors, but instead could be directed by national planners. This model was used for German industrialization in the late 19th century and Soviet industrialization in the mid-20th century.

But the “machine model” could go only so far. It raised productivity but did not create self-sustaining growth. The machines involved were good at producing a fixed set of products but not at adapting to changing technologies and consumer desires. Only markets and capitalism can accomplish these tasks. With accelerating scientific innovation in advanced countries, productivity growth came to depend more on knowledge than on machines. Economies such as Brazil, Israel, the Republic of Korea, and Taiwan had institutions that could support the absorption of Western knowledge—rather than just

machines—and moved to modern economic growth. Economies without these institutions, including the Soviet bloc, nearly all of Africa, and most of the Islamic world, could not. As a result, they have slipped into economic stagnation or decline. Some have slipped even further, into chaos and conflict.

The model of economic growth that explains this performance is based on increasing returns to knowledge. Instead of diminishing returns as more of the same machines are used in a given labor force, returns to knowledge increase because of spillovers to additional users. Large payoffs from new knowledge, especially where there is patent protection, encourage entrepreneurs to develop it, in some cases by adapting findings from research universities and research centers.

Economic growth is now seen as an endogenous response to incentives throughout the economic system. The modern concern for enforcing intellectual property rights as well as property rights for land, goods, and financial assets is easy to understand from this perspective. Lack of protection for intellectual property rights will slow the search for new knowledge—and hence economic growth.

Self-sustaining growth is difficult for developing countries because generating knowledge and developing sophisticated human capital depend at least as much on institutions that ensure strong property rights and low transaction costs as on specialization and trade. The belief that there are shortcuts to the gradual evolution of such institutions is now seen as mistaken. For many developing countries, the quest for growth is quite elusive.²

THE RECORD OF GROWTH

Economists have developed myriad models to explain the empirical record of growth. The usual prescriptions—low inflation, macroeconomic stability, openness to trade, good institutions, government investment, democracy—can all be shown to contribute to growth in a certain set of countries or during a certain period. But they are far from a complete explanation.

Specific factors also influence economic growth. Unstable prices for commodity exports slow growth. Avoidance of urban bias in education speeds it up. Trade openness was bad for growth in the 1930s and 1940s, of little importance in the

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1950s and 1960s, and highly significant in explaining rapid growth in the 1970s and 1980s.

Rapid growth in the national stock of capital goods (such as infrastructure and industrial machinery) can lift a developing country onto the first rung of the development process. But eventually, total factor productivity—efficiency in using capital, labor, and other inputs—becomes the main source of higher incomes. This realization led to the “knowledge model” of development described above. Difficulties in moving to the “knowledge model” are evident in the growth record of the 1990s. More than a third of the 108 developing and transition economies had lower per capita incomes in 2000 than in 1990. The decade saw some of the fastest growth ever in global output and international trade, indicating that the external environment was favorable to growth. Thus sources of poor performance came from within the countries.

None of the 38 poor performers were affected by East Asia’s financial crisis in the late 1990s. In fact, none were in Asia. Nearly half (18) had been part of the Soviet Union. Africa accounted for another 14 countries. And despite reasonable economic performance for the region as a whole, 4 countries in Latin America and the Caribbean suffered decade-long declines.³

Such long-term economic problems point to deep-seated failures to establish the core elements required for modern economic growth: provision of public goods and social infrastructure, of a stable macroeconomic environment, and of a favorable business climate. Why do some governments fail to provide these essentials for growth—or even actively undermine them? Modern political economy has tried to answer these questions, but with only modest success.

**GOOD ECONOMIC GOVERNANCE BOOSTS
ECONOMIC GROWTH**

Institutions and rules have to be in place to sustain growth once it starts. To encourage competitive markets, governments must overcome vestiges of mercantilism and protectionism that stifle market activity and prevent new entrants into the economy. Good economic governance, founded on a predictable and fair system of law, is one way to do so. Since the times of John Locke, economic development has been linked to the protection of individual rights and especially of property.

In an empirically rich study of this linkage, Hernando de Soto shows how, without a legally integrated property system, poor people in developing countries cannot convert their work and savings into capital.⁴ Their property, both immovable and moveable, cannot be pledged as collateral for loans that would allow them to turn their assets into capital, and their assets have no representation—such as a title pledged against a mortgage. De Soto calls this lack of representation “dead capital.” Government has a crucial role to play in creating this system of representation so that capital can be mobilized to support investment and growth. Without national capital markets, economic growth cannot be sustained even with development assistance and foreign direct investment.

Good economic governance is the result of strong public institutions, with an important role for individuals, civil society organizations, and business and interest groups. Where fairness and equity exist to a reasonable degree, with an open society allowing for healthy competition among multiple interests, there is a greater possibility of developing policies for the greater good. Yet in many developing countries powerful interest groups impede economic activity by marginalizing large, potentially productive segments of society that lack legal and political means to affect public policy. Democratic processes, equitable and broadly based popular participation, and transparent laws and regulations are important for developing good governance and sound economic policies. They also result in higher levels of development.

Sound economic governance encourages private individuals and groups to engage in economic activities such as taking risks, investing capital, and, ultimately, exporting goods and services (figure 2.1). To encourage exports, governments must at least provide supportive, predictable laws and regulations. And as discussed below, the same enabling environment that supports private sector-led growth encourages foreign direct investment—because a safe, relatively unrestricted policy environment encourages foreign as well as local investment.

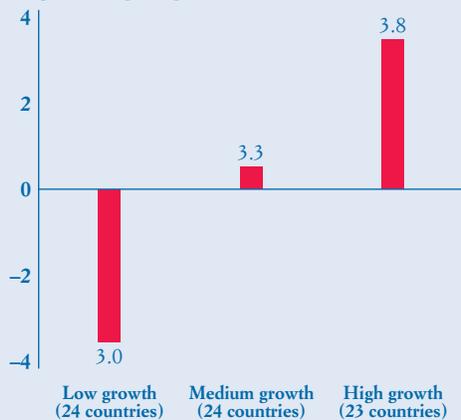
GROWTH IS GOOD FOR POOR PEOPLE

Poverty is closely linked to low economic productivity. Low productivity results from supply factors (such as limited availability of land, skills, or appro-

Good governance boosts economic growth

FIGURE 2.1

Average corruption index for countries grouped by growth in per capita PPP GDP, 1990–1999



Note: Per capita GDP adjusted for purchasing power parity (PPP).
Source: For index values, Transparency International; for growth rates, World Bank. Hannon and Rhee 2002.

priate technology) as well as demand factors (such as low prices for commodities, limited availability of productive jobs, and poor access to urban markets). Local markets can ease both types of shortcomings, providing an affordable and accessible arena of exchange for goods and services produced by poor people. Without market exchanges it is almost impossible to escape poverty.

The importance of market exchanges illuminates the role of governance in causing and easing poverty. Bad governance means poorly defined property rights, high transaction costs, large economic risks, and outright theft. Markets disappear in such environments—and with them, poor people’s hopes for escaping poverty.

Other factors also affect poverty. Cultural and religious values are often high on the list. At least in the short run, people’s attitudes, general levels of trust, traditions, religious taboos, preferences for leisure, and the like can impede rapid change. Research is now under way to quantify how value systems and world views affect growth.⁶ And once the links are better understood, they can be incorporated in models of development.

New data eliminate any doubt that rapid economic growth reduces poverty.⁷ In all but a few countries economic growth has increased per capita incomes for the poorest 20 or 40 percent of the population. Yet despite rapid global growth since World War II, the world still has a large—

and in some regions, growing—number of poor people. Are these people forever trapped in low-growth environments? Are there circumstances where economic growth does not reach the poor? Fortunately, it is possible to understand the relationship between reductions in poverty and changes in the distribution of income, and to strengthen the link between economic growth and poverty alleviation.

Income distribution matters because it reflects and affects how growth changes the lives of poor people. The sectors in which growth originates and the initial distribution of income help shape how well poor people connect to economic growth (box 2.1). In countries where the gap between the incomes of the poorest 20 percent and the richest 20 percent is less than twice the average per capita income—that is, where the income gap is relatively small—growth in both agricultural and nonagricultural productivity improves the distribution of income. Growth in agricultural productivity is slightly but consistently more effective in generating incomes for all people.⁷ Rising agricultural incomes spur growth in nonagricultural rural production as well. In the long run, the agriculture sector will absorb a smaller share of productive resources, and nonagricultural job opportunities will be more important for poor people.

Outcomes are strikingly different in countries where the income gap is more than twice the average per capita income. In such countries the poorest fifth of workers are disconnected from the economy and so do not benefit from growth in agriculture or nonagriculture. Instead higher agricultural productivity favors the rich—undoubtedly because of an unequal distribution of assets, particularly land.

Thus the distribution of assets matters. It is almost impossible to understand the impact of economic growth on income distribution and of income distribution on the rate and distribution of economic growth without considering the distribution of assets in society. Assets are likely to be distributed even more unequally than income.

Research in Latin America has linked poor people’s slow income growth to the unequal distribution of land and education.⁸ In addition, the higher is the initial poverty rate, the less effective is nonfarm economic growth in reducing poverty. Recent research has also shown that the composition of economic growth matters for poverty reduction in India:

*WITHOUT MARKET
EXCHANGES IT IS ALMOST
IMPOSSIBLE TO ESCAPE
POVERTY*

**DRIVING
ECONOMIC GROWTH**

Box 2.1 Income inequality is declining—thanks to the global economy

In recent decades the main concern about global economic growth has been that the international distribution of income is worsening—often interpreted to mean that the rich are getting richer and the poor are getting poorer. Economic growth can produce this result, but it is empirically unusual. More often, a worsening income distribution means that poor people's incomes rise slower than rich people's.

This issue is important, because an unequal income distribution can create class conflict. But it is also a complex issue, because an increase in inequality is not necessarily undesirable. The important issue is the source of the inequality—whether it is wealth creation or exploitation by the rich.

Growth in Western Europe illustrates the issue. A thousand years ago the global distribution of income was much more equal: almost everyone was poor. Then Western Europe began developing institutions and technology that resulted in steadily increasing per capita incomes. (The timing of the region's rise is the subject of debate, with its average income moving ahead of the rest of the world sometime between 1000 and 1750.) From about 1500 onward this

wealth creation caused the world income distribution to become increasingly unequal. Bourguignon and Morrisson (2001) estimate that world income inequality increased steadily between 1820 and 1970, then fell. Dollar and Kraay (2002) conclude that world income inequality peaked around 1975 and has been declining since. (The largest factor in this decline has been rapid growth in China and India, which Dollar and Kraay attribute to these countries' increased participation in the global economy.)

Beyond the issue of wealth creation is the issue of the proper measure of inequality. A broader measure of inequality—one that takes into account life expectancy and access to education—would be preferable and would show more favorable trends than one that relies solely on income.

Finally, the focus on income distribution is often a diversion from a more important question: what is happening to the real incomes of poor people? This issue is more relevant for reducing deep poverty.

Source: Maddison 2001; Bourguignon and Morrisson 2001; Dollar and Kraay 2002.

poverty has persistently responded far more to rural than to urban growth. Both theoretical and empirical work, then, suggest that inequalities may persist and that certain inequalities particularly limit opportunities for the poor.

AGRICULTURAL GROWTH IS EVEN BETTER FOR POOR PEOPLE

In recent years many economists have ignored agriculture, arguing that market forces will favor the most appropriate sectors. Moreover, agriculture plays a shrinking role as economies make the structural transformation to urban-based activities and to industry and services. But in many economies agriculture is crucial for connecting poor people to economic growth. Most of the world's poor people live in or come from rural areas. Rising agricultural productivity offers economywide benefits, the first of which is cheaper food for urban residents. Pursuing agricultural strategies in line with market realities and institutional capabilities would provide many benefits to developing countries, including:

- *Better access to technology.* Agricultural exports often pay for imports of foreign technology, mostly machines.
- *Increased capital formation.* Income from agriculture can finance investments inside and outside the sector. Although savings may be less productive in government than private hands, public investments in infrastructure and public goods can raise the profitability of private investment in agriculture. If agriculture is more easily taxed than nonagriculture in the early stages of development, it may provide revenue for this important initial stage of public investment.
- *Better social outcomes.* Rural education levels are affected by growth in agricultural productivity and rural incomes. Such education can directly increase farm productivity. It can also make moving to cities much easier and more economically rewarding for children who leave the farm.
- *A more supportive environment for growth.* There are many reasons economies produce less than they could. Economic growth is slowed by weak institutions, ineffective

economic policies, political instability, and lack of economic freedom. How changes in agricultural productivity affect these growth determinants is a matter of much speculation and little empirical evidence. Still, evidence is accumulating on two points. Unstable prices for agricultural products may slow investment. Unstable politics—in the form of restless rural populations challenging political leaders if they are left behind during rapid economic growth—may have the same result.

To continue to be good for poor people, agricultural growth has to be sustainable. As global population and income grow, agriculture must be put on a sustainable footing. Government prices and policies are key determinants of how ecosystems are treated. They direct choices on what to consume and how to manage lands and resources. A farmer deciding what crops to plant and what chemicals to use, or whether to increase cultivated area by clearing adjacent forests, is guided by calculating commodity and pesticide prices as well as other farm costs. Similarly, economic factors drive a developer's choice on where to locate housing or a fisherman's decision on where to fish.

The institutions of governance are also important for managing the environment. These institutions control access and enforce private property rights—to land, water, and forests. They also help in managing natural assets not suited to private ownership, such as air. Where the institutions of governance are effective, the management of natural assets is also effective. But where they are weak—or captured by narrow interests—aquifers are depleted, forests are overexploited, and pesticide and fertilizer use is excessive.⁹

AGRICULTURAL DEVELOPMENT BOOSTS ECONOMIC GROWTH

In many countries agricultural development has made crucial contributions to economic growth, and investments in agriculture have had large economic returns. Lower food prices, stimulated by rapid technological change in agriculture, have raised living standards directly (especially for poor people, who spend a large share of their household budgets on food) and indirectly (by keeping real wage costs low in the industrial sector, fostering investment and economic transformation). Some argue that the benefits of low food prices can be obtained as easily by import-

ing food as by investing in domestic agriculture.¹⁰ But a pure trade strategy risks losing other benefits of agricultural modernization.

These benefits include the backward and forward linkages that connect cities with the countryside. Without such linkages societies are more vulnerable to fluctuations in world markets, inequities between rural and urban inhabitants, underemployment in rural areas, and excess migration. The returns to strong rural-urban linkages include a relatively smooth structural transformation—as in Taiwan, in contrast to Thailand. Surprisingly, given how long this debate has been going on, there are still no satisfactory tests of the impact of changes in agricultural productivity on the mechanisms of “catch-up” growth outlined above, or on the value of rural-urban linkages.

RURAL GROWTH REDUCES POVERTY

Rural growth connects poor people to economic growth. Much progress has been made over the past decade in identifying how this happens. Foremost in this effort is John Mellor's model of agricultural growth, rural employment, and poverty reduction, which emphasizes the role of nontradable goods and services in moving underemployed workers from agriculture into the nonagricultural rural economy.¹¹ This model emphasizes rural incomes as the driver of the demand for these goods and services and describes how this economy is linked to urban demand—especially when it is driven by rising incomes among workers in labor-intensive export industries.

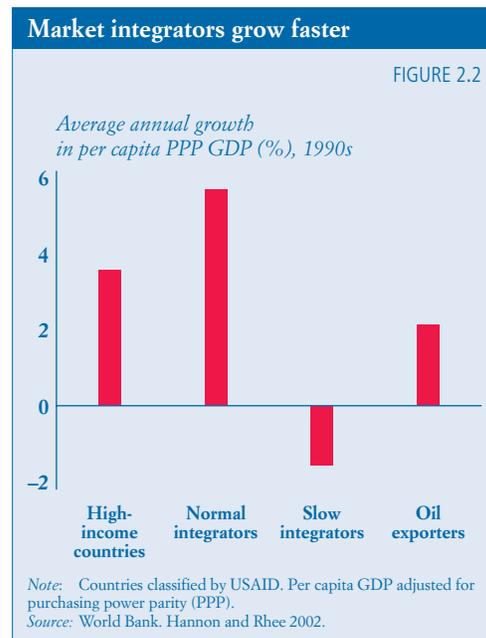
Mellor's model is the first to explicitly recognize this connection between manufactured export performance, the role of the nontradable sector in the rural economy, and subsequent reductions in poverty. Thus the model explains why countries with rapid growth from labor-intensive manufactured exports and substantial agriculture sectors have had such strong records of poverty reduction. Yet policymakers and donors often ignore the nontradable sector precisely because so much emphasis is placed on the importance of exports and open economy strategies for economic growth. Retargeting public spending to support a more balanced strategy will not sacrifice overall growth performance, and it will help reduce poverty.

Two other components of the relationship between rural growth and poverty reduction should be

IN MANY COUNTRIES INVESTMENTS IN AGRICULTURE HAVE HAD LARGE ECONOMIC RETURNS

DRIVING ECONOMIC GROWTH

GLOBALIZATION EXPANDS CHOICES AND CREATES OPPORTUNITIES FOR CONSUMERS AND PRODUCERS



noted. First, political commitments to rural growth imply a more balanced political economy, with less urban bias than historically occurred in most industrial countries. In recent years many developing countries have reduced macroeconomic biases against agriculture, including overvalued currencies, repressed financial systems, and exploitive terms of trade. Further progress might be expected as democracy spreads and empowers rural populations in these countries.

The second component is the linkage between urban and rural labor markets, often in the form of seasonal migration and remittances. There is no hope of reducing rural poverty without rising real wages for rural workers. Rising wages have a demand and a supply dimension, and migration can affect both in ways that support higher living standards in both parts of the economy. Rural-urban migration also raises other issues depending on whether it is driven by the push of rural poverty or the pull of urban jobs. Either way, such migration has clear implications for food security, with urban markets becoming more important in supplying food for a country's people.

Whether the rural economy or the world market is the best source of this supply is a basic strategic issue for economic policymakers. Countries should focus their growth strategies on what they do best, and that frequently means agriculture, not high-tech manufacturing. That brings the discussion to the importance of trade—and the investment it encourages—in promoting growth.

MORE TRADE AND INVESTMENT MEAN FASTER GROWTH

Success in the global economy comes to countries that maintain fiscal discipline, open their borders to trade, privatize inefficient state enterprises, deregulate their domestic markets and invest in the health and education of their people.

—U.S. President George W. Bush
January 2002

Globalization—the economic integration of the world's countries—has been a defining force of the past decade. It offers unprecedented opportunities to direct resources toward development. During the 1990s the exports and imports of developing countries jumped from less than \$1.9 trillion to nearly \$4.6 trillion.¹² Private capital flows grew even more dramatically, with net foreign direct investment in developing countries rising from \$24 billion to \$184 billion.¹³ Countries that have experienced growth in trade and investment have achieved correspondingly faster economic growth.

Yet globalization involves more than just increasing production. It also expands choices and creates opportunities for consumers and producers. As global competition pressures governments to reduce barriers and promote better economic and social conditions, globalization paves the way to reform. Governments realize that they must not only encourage trade and investment but also establish strong institutions that support markets and provide social assistance to people in need.

On balance, globalization and regional integration have benefited the countries involved regardless of their stage of development. These benefits have been identified in studies by the World Bank and other international organizations, U.S. government agencies, think tanks, and academics. Globalization has been a boon for countries willing and able to integrate with global markets—particularly developing countries that have adjusted prevailing conditions and mindsets (figure 2.2).¹⁴ Countries resistant to globalization or lacking capacity to develop investment and trade have not fared as well. Contrary to widespread expectations, income gaps have shrunk among countries that have integrated with global markets. Moreover, global income equality has improved in recent years (figure 2.3).

Global income inequality, up then recently down

FIGURE 2.3

Mean log deviation between a typical individual income and the average per capita income (%)



Source: Dollar and Kraay 2002.

In 1999 UN Secretary-General Kofi Annan noted that “the main losers in today’s very unequal world are not those who are exposed to globalization, but those who have been left out.”¹⁵ Similarly, the November 2001 World Trade Organization ministerial conference in Doha, Qatar, revealed that most developing countries want more globalization, not less. The challenge for developing countries left out is to enhance their capacity to participate in and benefit from the opportunities of the global market.¹⁶

Poor people in globalizing countries are less poor than they were a decade ago.¹⁷ Higher income inequalities, as in China, have been caused more by factors unrelated to globalization (such as regional differences and social and education variables) than by lower incomes among poor people. In fact, incomes have increased among the poorest 20 percent of the world’s people, though less rapidly than among other population groups. Increased trade usually accompanies faster growth and does not systematically change household income distribution, so it is generally associated with increased well-being among poor people.

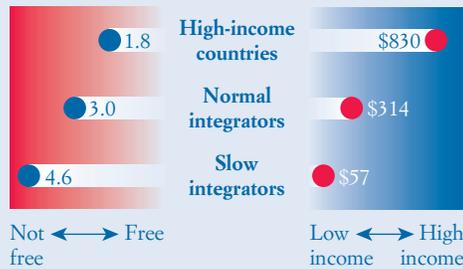
Countries are better able to enter global markets if democracy and the rule of law are in place and corruption and monopolistic policies are held in check (figure 2.4). There is also a strong correlation between freedom and growth, in keeping with the typology that normal integrators are freer than slow integrators. As a result globalization has been a sig-

Greater freedom means greater integration with global markets

FIGURE 2.4

Combined average Freedom House score, 2000

GDP (PPP \$billions), 2000



Note: Countries classified by USAID. GDP adjusted for purchasing power parity (PPP).

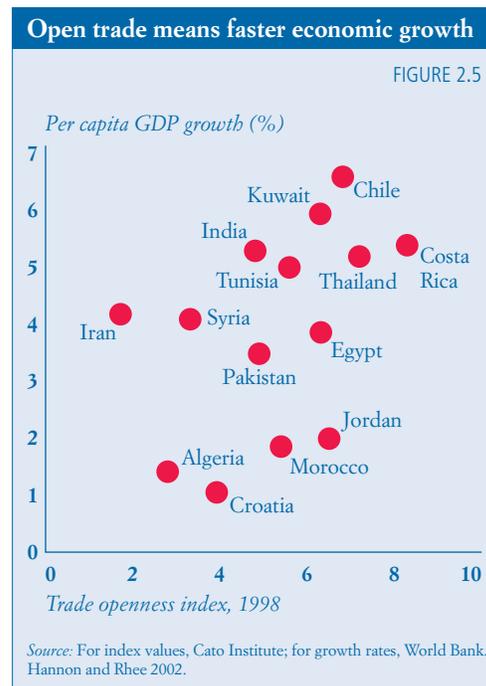
Source: For Freedom House scores, Freedom Foundation; for GDP, World Bank. Hannon and Rhee 2002.

nificant force not only in reducing inequality between states but also in reducing poverty.¹⁸

Globalization favors participants who liberalize trade—particularly those with industrial and manufacturing capacity—and leaves behind those who do not. In the 1960s the East Asian “tiger” economies (Hong Kong, Republic of Korea, Singapore, Taiwan) began to change their economic policies and become more integrated with global markets. Other economies inside and outside the region soon followed suit, often with impressive results. During the 1980s and 1990s many other countries—including Chile, China, India, Mexico, Uganda, and Vietnam—also recognized the correlation between freer trade and economic growth. In addition, the fall of the Berlin Wall in 1989 caused a surge in integration of regional and global markets. The gains from lifting the remaining restrictions to trade are nevertheless enormous: on the order of \$250 billion a year, \$108 billion of that developing countries, with 60% from developing country liberalization and 40% from rich country liberalization.¹⁹ Trade can thus be a powerful engine of growth. Over time it has become clear that successful globalization requires more than just liberalizing trade: other essential efforts include liberalizing domestic commodity and capital markets, establishing the rule of law to enforce property rights, and implementing effective regulation. (Liberalizing capital markets too soon and too fast creates other problems, however, indicating the need for a well-designed approach.)

Following the September 11, 2001, attacks on the United States, a close look at countries harboring

MANUFACTURED EXPORTS PLAY A KEY ROLE IN ECONOMIC GROWTH



terrorists shows that their economies suffer not from the excesses of globalization, but from a lack of it. Some, such as Algeria and Pakistan, are among the most closed to trade in the world (figure 2.5). Many, including Iran, Iraq, Jordan, Qatar, Saudi Arabia, Syria, and the United Arab Emirates, saw real per capita incomes decline between 1985 and 1998.²⁰ These countries also have limited political freedoms and weak human rights, which have been linked to poor economic performance.

A recent survey of nine Middle Eastern countries concluded that a lack of trade openness and significant barriers to private sector development limit potential for foreign trade. Many of the barriers to private sector development are internal, ranging from government red tape and obstacles to business or product registration to weak or nonexistent capital markets.²¹ Indeed, many Middle Eastern governments have rejected free trade and open markets as a matter of choice. Relative to their Asian counterparts, most of which started from a lower economic base, Middle Eastern countries have poor productivity, weak private sector development, scarce job creation, limited trade (aside from oil), and low incomes. Excluding fossil fuels, the Arab world exports less than Finland, a country of 5 million inhabitants.²²

The region's poverty and lack of opportunity have undoubtedly contributed to the growth of radical anti-Western terrorist movements. But this poverty cannot be blamed on the West or on

globalization. Political elites in these countries have chosen to reject globalization—and in their efforts to shield themselves from Western values or the political reaction to those values, they reject integration as well.

Jordan shows how that can change. Under the new king's leadership, reforms were pushed through to enable the fastest accession ever to the World Trade Organization. Manufacturers thought that compliance would force their products off the shelves. Farmers thought that their products would not compete in Europe and that European farmers would flood Jordanian markets. The concerns were unfounded. Indeed, foreign investors are now coming in to take advantage of Jordan's high-tech labor force and possibly turn the country into an Arab silicon valley. Opening to the West has also included a U.S.-Jordan free trade agreement.

WHICH COUNTRIES ARE SLOW INTEGRATORS—AND WHICH ARE NORMAL?

Two indicators are used to classify countries as slow or normal integrators with the global economy:

- The speed of each country's trade integration is measured by the change since 1980 in the share of merchandise trade in GDP (adjusted for purchasing power parity, or PPP).
- The depth of trade integration is measured by the share of manufactured exports in total merchandise exports in 2000.

Of 111 developing countries, 65 are slow integrators and 46 are normal (table 2.1).²³ About 87 percent of low-income countries are slow integrators. In 1999 slow integrators contained 22 percent of the world's population but accounted for just 9 percent of global GDP, and in 2000 they accounted for only 5 percent of global merchandise trade. Sub-Saharan Africa is by far the least integrated region, with 37 of 39 countries considered slow integrators. In 1999 the region's slow integrators contained 10 percent of the world's population, but in 2000 they accounted for just 1 percent of global GDP. The Middle East and North Africa and Central Asia also have more slow than normal integrators.

Among normal integrators annual growth in per capita GDP rose from less than 2 percent in the 1980s to more than 3 percent in the 1990s. But

Who's normal—who's slow

Developing countries by speed of integration, income, and region

TABLE 2.1

Income group	Slow integrators	Normal integrators	Total
Upper middle income	6	16	22
Lower middle income	14	23	37
Low income	45	7	52
Total	65	46	111
Share of 1999 world population (%)	22	63	85
Share of 2000 world GDP (%)	9	36	45
Share of 2000 world merchandise trade (%)	5	23	28
<i>By region</i>			
Central Asia	4	0	4
East Asia and Pacific	4	8	12
Eastern Europe	4	15	19
Latin America and the Caribbean	8	14	22
Middle East and North Africa	7	3	10
South Asia	1	4	5
Sub-Saharan Africa	37	2	39
Share of 1999 world population (%)	10	1	11
Share of 2000 world GDP (%)	1	1	2

Note: Table includes all developing countries for which data are available for 1980 or 1990 GDP (adjusted for purchasing power parity).
Source: Hannon and Rhee 2002.

among slow integrators per capita GDP shrank—and the annual rate of contraction slipped from less than -0.5 percent in the 1980s to almost -3.0 percent in the 1990s. Differences in trade, financial, and technological integration were the main causes of these dramatic gaps in growth rates.²⁴

There are at least three types of slow integrators:

- Failed states—those mired in conflict or civil war.
- Transition economies—those with problems caused by the transition from command to market economies.
- Countries with environments inimical to integration—those suffering from conditions that impede global integration and unable to encourage domestic and foreign firms to engage in activities that promote it.

These problems are rooted in weak governance, the effects of which—corruption, illegal activity, limited trade, inadequate fiscal policies—have already been discussed. Trade generally plays a catalytic role in integrating domestic and global economies. Without it, countries cannot take advantage of global opportunities.

One of the main lessons of 20th century development, particularly from East Asia's superstar

economies, is that manufactured exports play a key role in economic growth. Accordingly, over the past two decades many developing countries have tried to adjust their export patterns. But normal and slow integrators have exhibited extremely uneven changes in such patterns.

TRADE AND INVESTMENT FOR ECONOMIC DEVELOPMENT

The November 2001 World Trade Organization (WTO) ministerial conference in Doha, Qatar, initiated a new round of international trade negotiations, known as the Development Round because of its emphasis on the needs and interests of developing countries—particularly the world's least developed countries. The plan created at the conference is focused on ensuring that these countries achieve beneficial, meaningful integration with the multilateral trade system and the global economy.

The conference advocated a more active role in international trade negotiations for the representatives of developing countries, who stated an unequivocal desire to be integrated with the global economic system. And for the first time, industrial countries committed themselves to addressing the domestic protectionism that has so

FOREIGN DIRECT
INVESTMENT IS ONE OF
THE MOST IMPORTANT
CAPITAL FLOWS THAT AN
OPEN ECONOMY CAN
ACHIEVE

DRIVING
ECONOMIC GROWTH

*DEVELOPING COUNTRIES
CAN ATTRACT FOREIGN
DIRECT INVESTMENT IF
THEY LIBERALIZE TRADE
AND INVESTMENT*

**The \$500 billion global market of choice
for developing and transition economies**

FIGURE 2.6



often thwarted the export potential of developing countries in sectors such as textiles, agriculture, and HIV/AIDS drugs. The conference also emphasized the importance of providing technical and financial assistance to integrate developing countries with the multilateral trade system. During its first three years the goal of the Development Round is to improve access to foreign markets for all participating countries. U.S. government departments and agencies will develop a U.S. government negotiating strategy for the Development Round.

OPENING U.S. MARKETS

Between 1985 and 2000 U.S. GDP doubled, from \$4.9 trillion to almost \$10 trillion.²⁷ Providing market access to its economy is one of the great

est benefits that the United States can give any developing or transition economy. In 1990 U.S. imports from developing and transition economies totaled \$151 billion. By 2000 these imports had more than tripled, to \$495 billion (figure 2.6).

Since the 1970s the United States has taken steps to open its markets to developing and transition economies. Efforts include the Generalized System of Preferences, which provides for duty-free imports from some 146 developing and transition economies. Between 1999 and 2000 duty-free U.S. imports from the 48 least developed countries, as classified by the United Nations, increased from \$2.2 billion to \$3.3 billion.²⁶ Nearly 90 percent of U.S. imports from the least developed countries are eligible to enter duty free.

As noted, growth in exports of manufactured goods is an important indicator of a country's capacity to increase economic growth over the long term. Developing exportable products is often a challenge. Taiwan, for example, started out manufacturing textiles and apparel but moved on to become one of the world's leading manufacturers of capital goods and information technology. Today countries such as Mauritius, which began developing a vibrant textiles manufacturing industry in the 1980s, are moving on to manufacture more sophisticated information technology and provide related services. Thus many countries have tried—with varying success—to develop textiles manufacturing as a first step toward competitive exports.

Industrial country quotas on textiles and apparel have long been a highly contentious aspect of textiles trade between developing and industrial countries. This system, called the Agreement on Textiles and Clothing (which replaced the Multi-Fiber Agreement during the Uruguay Round of international trade negotiations), will be phased out

Box 2.2 Increasing U.S. imports through the African Growth and Opportunity Act

With strong bipartisan support, in May 2000 the U.S. Congress enacted the African Growth and Opportunity Act (AGOA) to catalyze Sub-Saharan Africa's integration with the global economy. The 35 Sub-Saharan countries covered by the act enjoy duty-free, quota-free market access for 1,800 products on the U.S. tariff schedule as well as 224 items not covered by the Generalized System of Preferences.

For beneficiaries the most attractive part of this effort is duty-free, quota-free access to U.S. textiles and apparel markets. In the first half of 2001 the program accounted for 58 percent of the \$11.6 billion in U.S. imports from Sub-Saharan Africa—a dramatic increase in a short period. Moreover, the program takes a comprehensive approach to development, promoting good governance through political and economic reforms in beneficiary countries.

Source: Hannon and Rhee 2002.

by 2005. Most U.S. imports from least developed countries are quota free or subject to the quota phaseout under the Agreement on Textiles and Clothing or the tariff rate quotas under the Uruguay Round Agreement on Agriculture (box 2.2).

IMPROVING THE CLIMATE FOR FOREIGN INVESTMENT

Foreign direct investment is one of the most important capital flows that an open economy can achieve. Such investment has attracted growing attention in recent years because it is typically accompanied by transfers of production, marketing, and organizational technology. Just as important, foreign direct investment provides valuable financial stability because it is much less vulnerable to investor runs and cross-border contagion than are portfolio investment and bank loans.

Foreign direct investment in developing countries has also been a harbinger of globalization. During the 1970s and first half of the 1980s such flows were essentially flat, hovering around \$11 billion (in 2000 dollars).²⁷ These amounts were small relative to development assistance and other official flows. But in 1986 these flows began rising sharply, and between 1990 and 1999 net foreign direct investment in developing countries jumped from \$30 billion to \$188 billion in 2000 dollars. (About 20 percent of that investment went to China).²⁸

Developing countries can attract foreign direct investment if they liberalize trade and investment policies, support free domestic markets, and strengthen the rule of law—particularly to protect property rights. Clearly defined property rights have been an important legal development in many East Asian countries and largely explain the high foreign direct investment in these countries in the 1990s. These rights allow foreigners to own local assets as well as equity in a broad range of companies. In fact, many of the region's newly industrializing economies, including the Republic of Korea, Malaysia, and Taiwan, offer incentives to foreign investors, such as guaranteed repatriation of profits and tax relief.²⁹

Still, in many countries the investment climate remains clouded by corruption, trade barriers, and market distortions. Evidence from a large sample of countries suggests that corruption significantly reduces domestic and foreign investment. A favorable investment climate requires

transparent regulations, predictable laws, and low trade barriers. In developing and transition economies the environment for foreign direct investment is also directly related to the environment for private sector development. That brings the discussion to firms—the drivers of competitiveness in world markets and the main creators of jobs and wealth.

A MICROECONOMIC AGENDA FOR DEVELOPMENT

The traditional approach to economic development—focused on generic macroeconomic, legal, and political conditions—has delivered significant improvements in many parts of the world. But deeper efforts are needed to fully reap the benefits of past reforms. Indeed, without additional steps the sustainability of past achievements is in doubt.

A new microeconomic approach to economic development provides a framework for taking those additional steps. It is more country-specific, more long-term, covers more individual policies and activities, and involves far more participants. It is not a quick fix. But it is the primary way to increase developing countries' ability to compete in world markets while improving their living standards.

NEW THINKING ON THE MICROECONOMIC FOUNDATIONS OF COMPETITIVENESS

Many discussions of competitiveness focus on the macroeconomic, political, and legal features of successful economies. These features are becoming increasingly well understood. Stable political institutions, trusted legal mechanisms, and sound fiscal and monetary policies contribute enormously to a healthy economy. But they are not enough. Though they provide opportunities to create wealth, they do not create it. Instead, wealth is created through an economy's microeconomic foundations, rooted in company operations and strategies as well as in the inputs, infrastructure, institutions, regulations, and policies that constitute the business environment in which a nation's firms compete. To fully succeed, political, legal, fiscal, and monetary reforms must be accompanied by microeconomic improvements.

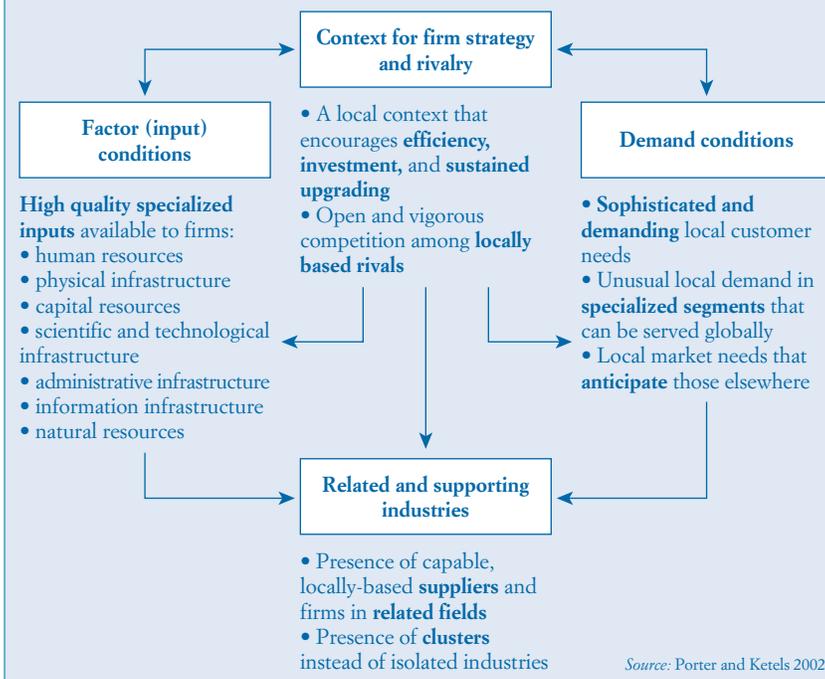
Many developing countries are continuously tripped up by microeconomic failures. Growth

A MICROECONOMIC APPROACH IS MORE COUNTRY-SPECIFIC, MORE LONG-TERM, COVERS MORE INDIVIDUAL POLICIES AND ACTIVITIES, AND INVOLVES FAR MORE PARTICIPANTS

DRIVING
ECONOMIC GROWTH

Determinants of the microeconomic business environment

FIGURE 2.7



competitive unless the companies operating in it are competitive. But the sophistication of companies is inextricably intertwined with the quality of the national business environment. More sophisticated company strategies require more highly skilled workers, better information, improving infrastructure, more advanced institutions, and stronger competitive pressure.

To support rising prosperity, companies must transform their ways of competing. The advantages that a nation's companies enjoy must shift from comparative advantages (low-cost labor or natural resources) to competitive advantages (resulting from more distinctive products made using more productive methods). Strengths in competing at earlier stages of development become weaknesses at more advanced stages. Copying of foreign technology, for example, must give way to development of indigenous technology. Yet companies often resist change because past approaches were profitable and old habits are deeply ingrained.

Efforts to move to more sophisticated ways of competing require parallel changes in the microeconomic business environment. This environment is determined by four related features: the quality of factor (input) conditions, the context for firm strategy and rivalry, the quality of demand, and the presence of locally related and supporting industries (figure 2.7).

STAGES OF ECONOMIC DEVELOPMENT

As economies develop, they move through three stages of competitive advantage and ways of competing. In the factor-driven stage, basic inputs such as low-cost labor and access to natural resources are the main sources of competitive advantage and international products. During this stage firms produce commodities or relatively simple products designed in more advanced countries. Technology is assimilated through imports, foreign direct investment, and imitation. Companies compete based on price and lack direct access to consumers. They have limited roles in the value chain and are focused on assembly, labor-intensive manufacturing, and resource extraction. A factor-driven economy is highly sensitive to global economic cycles, commodity price changes, and exchange rate fluctuations.

In the investment-driven stage, efficiency in producing standard products and services becomes

surplus can be generated through macroeconomic and financial reforms that exploit comparative advantages, attracting floods of capital and creating the illusion of progress. But unless firms can create valuable goods and services using increasingly productive methods—moving competition to higher levels—growth will be snuffed out as jobs fail to materialize, wages stagnate, and investment returns disappoint. Capital flows and investor attention will then shift elsewhere. The austerity that results from such cycles is at the core of the backlash against globalization that is becoming perhaps the world's most pressing economic problem.

DRIVERS OF COMPETITIVENESS

A central challenge in economic development is to create conditions for rapid, sustained growth in national productivity. The microeconomic foundations of productivity rest on two related elements:

- The sophistication of competition, reflecting the operations and strategies of domestic companies and of foreign subsidiaries based in the country.
- The quality of the microeconomic business environment.

A country's productivity is affected by the productivity of its companies: an economy cannot be

the dominant source of competitive advantage. Products and services become more sophisticated, but most technology and designs still come from abroad. Technology is accessed through licensing, joint ventures, foreign direct investment, and imitation. During this stage countries both assimilate foreign technology and develop capacity to improve it. The national business environment supports heavy investment in efficient infrastructure and modern production methods. Companies mainly serve original equipment manufacturing customers and extend capabilities more widely in the value chain. An investment-driven economy is focused on manufacturing and outsourced service exports. It is susceptible to financial crises and external, sector-specific demand shocks.

In the innovation-driven stage, the dominant source of competitive advantage is the ability to produce innovative products and services at the global technology frontier using the most advanced methods. The national business environment is strong in all areas and contains deep clusters of related industries. Well-developed institutions and incentives support innovation. Companies compete using unique strategies that are often global in scope. An innovation-driven economy has a high share of services and is resilient to external shocks.

DIFFERENT APPROACHES FOR DIFFERENT MICROECONOMIES

The traditional approach to economic development uses a generic model for all countries (see above). In contrast, the microeconomic approach allows countries to focus on priorities that reflect their stage of development—resulting in agendas for action that differ significantly by country. Specific agendas enable countries to leverage their advantages and avoid zero-sum competition based solely on cost.

Appropriate company operations and strategies, as well as the influence of various elements of the business environment, differ for countries at different income and productivity levels. Transitions between the stages of economic development—from factor-driven to investment-driven to innovation-driven—are particularly challenging because the stages involve different bases of competitive advantage and modes of integration with the global economy.

Low-income countries: enhancing sophistication in factor-driven economies. For companies in low-income countries the main challenge is to move beyond competing based solely on cheap labor or natural resources. Enhancing company sophistication can involve making production processes more sophisticated, introducing marketing and developing brands, and beginning to delegate authority. At this stage it is premature to advance other elements of corporate operations and strategies.

Complementary efforts to improve the business environment can also raise GDP per capita. These efforts include strengthening transportation and communications infrastructure, improving public education and manager training, liberalizing trade, reducing corruption, protecting intellectual property rights, and introducing a meaningful antitrust policy. Improving the quality of suppliers and tightening regulatory standards are also important, as is improving corporate governance through effective boards of directors. All these steps create a foundation of efficiency, transparency, and competitive pressure to improve factor-driven competition.

Middle-income countries: increasing efficiency in investment-driven economies. Companies in middle-income countries must move from the factor-driven stage to the investment-driven stage. Corporate priorities take on a stronger customer orientation, whereas in the factor-driven stage products were either commodities or designed by foreign original equipment manufacturers. Licensing foreign technology, developing capacity to improve technology, and spending on research and development become important. In addition, gaining control of international distribution is essential to moving beyond the role of passive commodity or labor exporter. Employee training is also important for increasing efficiency.

The investment-driven stage also places new demands on the business environment. Enhancing business efficiency requires reducing bureaucratic red tape and strengthening the legal system. In addition, financial markets become much more important in order to mobilize debt and equity capital. The investment-driven stage depends on high investment in products, processes, and technology. Increasing demand is important to foster improvements in producer quality. Industrial clusters should be fully developed to support higher efficiency. As countries reach the upper-middle-income stage, companies must use

ENHANCING BUSINESS
EFFICIENCY REQUIRES
REDUCING
BUREAUCRATIC RED TAPE
AND STRENGTHENING
THE LEGAL SYSTEM

DRIVING
ECONOMIC GROWTH

ONE OF THE MOST
IMPORTANT
CONTRIBUTIONS THAT
THE UNITED STATES CAN
MAKE IS TO PARTICIPATE
IN INTERNATIONAL
POLICY DISCUSSIONS,
TRADE NEGOTIATIONS,
AND TREATY
DEVELOPMENT

the best available foreign technology, produce products that meet international standards, and organize at high levels of efficiency.

HOW CAN THE U.S. SUPPORT GROWTH IN DEVELOPING COUNTRIES?

Several forms of U.S. foreign assistance will likely trump official development assistance in expediting economic growth in developing countries (see chapter 6). These mechanisms include access to U.S. markets, foreign direct investment by U.S. companies, remittances from foreign workers living in the United States, and the actions of U.S.-based or -funded nongovernmental organizations (NGOs). Still, official development assistance has a role to play by:

- Providing direct financial support for policies, programs, and projects through bilateral assistance, to improve agricultural productivity, implement competitiveness strategies, build infrastructure, and provide scholarships and technical training.
- Engaging developing countries in policy dialogues, often with the explicit or implicit promise of delivering more aid if policy actions are taken.
- Producing and disseminating new knowledge about development through economic research or project activities funded by USAID or other U.S. government agencies.
- Involving the United States in broader, often multilateral, discussions during diplomatic and trade negotiations—helping to open the door to the \$10 trillion U.S. economy.
- Connecting to the U.S. economy through trade and investment provides a vital engine of growth for developing countries.
- Helping countries build the capacity to trade—and to take part in multilateral trade negotiations.

The United States should seek to influence development processes primarily by engaging in policy dialogues, producing and disseminating new knowledge, and advocating trade-led growth at home and abroad.

Engaging in meaningful policy dialogue requires extensive knowledge of a country's political economy and capacity for pragmatic policy analysis. Here the U.S. role as a contracting agent can help it access knowledgeable analysts, especially if countries have made a long-term effort to build

the research and knowledge base needed to produce and retain such analysts. Policy dialogue and knowledge generation should be thought of as mirror images that require coordinated support over long periods. One of the most important contributions that the United States can make to economic growth in developing countries is to participate in international policy discussions, trade negotiations, and treaty development.

GETTING AGRICULTURE MOVING

Requirements for agricultural development have been understood for several decades. Adequate agricultural technology and sufficient prices for what farmers produce lead to farm investments and income streams that increase commodity output and reduce rural poverty. Educating rural inhabitants speeds up the process, as does assistance in developing new agricultural technology.

Sub-Saharan Africa's agriculture has long suffered from inadequate technology and insufficient prices in rural markets. Asia has had limited success in linking the rural nontradable sector to urban markets and to labor-intensive export growth. In Latin America many poor rural residents have migrated to urban areas, which now contain two-thirds of the region's population. But Central America and Mexico still suffer from severe and persistent rural poverty, and strategies are needed to reduce it.³⁰

Mechanisms for developing agricultural technology and providing rural price incentives have weakened since the 1960s. The system supported by the Consultative Group on International Agricultural Research (CGIAR) has an impressive record of increasing crop yields for many of the world's staple foods. But funding for the system has been threatened as market prices for these crops have dropped to historic lows, reflecting productivity gains in developing countries and government-subsidized crop surpluses in industrial countries. Few developing countries have the scientific resources to conduct basic crop research, so where will agricultural technology come from to provide food for the additional 3 billion people expected in the next 50 years?

Biotechnology holds out great promise—it is largely a product of scientific enterprise, public and private, in industrial countries. Pest resistance and drought tolerance are being integrated

already into crops of great importance to poor farmers—cotton, maize, and sweet potatoes. The science may be complex, but once the new varieties are developed and appropriate food safety and environmental risk analyses have been completed, their incorporation into both farming and food systems can be relatively swift. Farmers and consumers in the United States, Argentina, China, and South Africa are already beginning to realize the results of this evolution in agricultural science. With fewer pesticides to apply, production costs drop. With more resistance to pests and drought, harvests are greater.

The United States has an obvious role in this. First, U.S. leadership is essential in restoring agricultural research budgets and can encourage other donors to do the same. Second, U.S. universities are the best in the world at training scientists in basic biology and applied agriculture, and could provide the next generation of these scientists for the developing world.

Third, the United States can press to ease the damage to developing countries caused by agriculture policies in industrial countries. Industrial countries protect their farmers against low and unstable prices, but developing countries cannot afford such subsidies or defend the trade interventions that would be needed to do the same. Industrial country policies shift the adjustment burden to developing countries—sometimes with devastating effects on local farmers. Agriculture-led economic growth is impossible unless it is profitable.

Some observers hope that World Trade Organization (WTO) negotiations will solve problems in global agriculture markets. But such solutions are unlikely given the reluctance of Europe and Japan to expose their farmers to free markets. Strong interest groups in Washington also support subsidies to help ensure the profitability of U.S. farming—though the U.S. Department of Agriculture favors reduced subsidies and freer trade in agriculture. The department's research concludes that eliminating all global agricultural protection and support could raise world agriculture prices by 12 percent, mostly by removing tariffs. U.S. agricultural exports would grow 19 percent in such a free market.³¹ Removing such distortions would also increase global economic welfare by \$56 billion a year—about the same amount as all foreign aid provided by industrial countries.

At the November 2001 meeting of the WTO in Doha, Qatar, the United States joined the other WTO members to launch the Doha Development Agreement, which solidifies the importance of liberalizing agricultural trade.

In July 2002 the United States proposed bold reforms for agricultural trade:

- Eliminate export subsidies, phasing in the reductions over five years.
- Eliminate the export monopolies of state trading enterprises, thus allowing any producer, distributor, or processor to export, and end the special financial privileges of state traders.
- Prohibit export taxes on agricultural products, except for developing countries that rely on them for revenues.
- Cut and simplify agricultural tariffs.
- Limit trade-distorting support to 5% of the total value of agricultural production.³¹

International negotiations on agriculture desperately require leadership. Part of the challenge may involve achieving U.S. acceptance of agriculture's multiple functions as the basis for policy reforms with clear social, environmental, or security rationales. With this acceptance the United States could take the lead in the Development Round of WTO negotiations, designing rules that recognize agriculture's different functions in different countries at different stages of development. For example, environmental protection is an acceptable objective for agriculture policies in all countries, while policies that stimulate basic grain production to enhance domestic food security would be restricted to countries with limited access to global markets or weak internal marketing systems.

Beyond improving the external climate for agriculture, what are the components of a national agricultural strategy? The first is supportive macroeconomic policy—one that yields low inflation, a reasonably stable exchange rate, positive real interest rates, and perhaps some monitoring of short-term capital flows. Second, getting prices right extends good macroeconomic policy to the trade arena, where an open economy with low barriers to internal and external trade should generate a level playing field for both producers and consumers.

Once agricultural technology is in place as the basis for profitable farming, externalities from

*THE UNITED STATES HAS
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ELIMINATION OF EXPORT
AND PRODUCTION
SUBSIDIES*

*DRIVING
ECONOMIC GROWTH*

*INVESTMENTS IN PEOPLE
IMPROVE THE
DISTRIBUTION OF ASSETS
IN THE EARLY STAGES OF
ECONOMIC DEVELOPMENT*

rural growth argue for increasing policy attention and budget allocations to the rural nontradable sector. Part of this sector's profitability will come from a labor-intensive export sector linked to the global economy. Rapid growth in such exports creates demand for labor directly as well as for the goods and services of the rural economy, which raise demand for labor indirectly.

Improving rural financial systems is also essential to a successful structural transformation, both to permit farmers to make long-term investments and to handle intersectoral financial flows such as savings and remittances. Such improvements will take time. And while needed changes in agricultural and rural financial markets are not exceptionally difficult, they do require talented policymakers and government administrators. Training these workers in U.S. universities and empowering them when they return home is a powerful form of U.S. foreign assistance—and one in which USAID has considerable experience.

INVESTING IN PEOPLE

Investments in people improve the distribution of assets in the early stages of economic development. For pro-poor growth this means investing in rural schools, primary health clinics, household food security, and rural financial markets. At later stages it means creating opportunities for high school education and on-the-job training for unskilled and semiskilled workers. If broadly based and of adequate quality, such investments will keep the distribution of income from becoming highly skewed until well into the development process, leading to the near elimination of absolute poverty. The Republic of Korea and Taiwan managed to maintain such investments until they achieved middle-income status. Brazil, the Philippines, and Thailand did not.

Even the poorest countries can set themselves on a growth path that includes poor people in a fiscally manageable way. But that may not happen. Political forces or governance averse to investing in poor people are more likely in countries where poor people's lack of assets disconnects them from the growth process. But donors can deal with this situation: it gives them a rationale for investing in the people that country leaders might choose or be forced to ignore. In such cases the policy dialogue, and the resources mobilized behind it, can have dramatic effects.

JUMPSTARTING SLOW INTEGRATORS

Some forms of export-oriented collaboration between domestic and foreign firms that do not involve foreign equity—such as international sub-contracts and technical or marketing agreements—can be as effective as export-oriented foreign direct investment in promoting growth. But foreign firms that are potential sources of foreign direct investment and other types of collaboration have little interest in slow integrators, which have the most desperate need for them. Such collaboration could jumpstart nontraditional or manufactured exports from slow integrators, especially those in Sub-Saharan Africa.

Innovative approaches to development assistance can break this vicious cycle. For example, industrial countries can help slow integrators enter global markets for manufactured goods by:

- *Offering preferential market access*—such as that provided by the U.S. Generalized System of Preferences, Caribbean Basin Initiative, and African Growth and Opportunity Act, and by the EU Everything But Arms program. The declaration from the November 2001 WTO ministerial conference in Doha, Qatar, addresses the need for preferential market access.
- *Building capacity for trade*—such as through the U.S. TRADE program, similar programs sponsored by other industrial countries, and programs sponsored by multilateral development banks. Again, the Doha declaration advocates such efforts.

The United States is well positioned to help build capacity for trade given its companies' extensive experience with and dominant role in trade, investment, and enterprise collaboration in developing countries. U.S. companies could help design rational policies and strengthen the firm-level export capacity of slow integrators.

U.S. programs to build trade capacity among slow integrators could also promote international production sharing as an innovative complement to the other assistance.

**IMPLEMENTING THE MICROECONOMIC
AGENDA**

The microeconomic approach to development has important implications for foreign aid organizations. It can help them set priorities for their

activities and concentrate on areas where they are best able to help—clarifying the roles of institutions focused on the macroeconomic, legal, and political preconditions for development and institutions focused on the microeconomic agenda for competitiveness.

The new approach requires donors to review their country policies, priorities, and programs. On a basic level, all country programs must pass two practical tests:

- Does the activity upgrade the elements of the business environment most essential to development in this particular country?
- What is the advantage of a donor performing this activity to upgrade the business environment?

A country's microeconomic agenda for competitiveness and development is based on assessments of its current economic performance, its business environment, and the cluster composition of its economy. Other factors that influence policy priorities include the country's location, internal geography, and often its economic history. Based on this information, the country can define priority actions to expedite growth and development.

Foreign aid organizations, public and private, have a distinct role in developing and implementing a developing country's microeconomic agenda. In their traditional role of financing development projects, donors must ensure that their capital is spent in line with a country's microeconomic priorities. Often more important, however, is a new type of technical assistance—to assess a country's competitiveness, develop the main elements of its microeconomic agenda, create tools to track performance, and set up institutions for implementation and continuing research on the microeconomic agenda.

This new technical assistance differs from standard macroeconomic, legal, and financial assistance in several crucial ways. Compared with stabilizing the government budget or fixing the exchange rate by government fiat, it usually takes much longer to see behavioral changes and later outcomes from this assistance. Microeconomic reform requires permanent, stable changes in many related policies. These policy changes influence company behavior and expectations. And if policymakers stay the course, the changes eventually become evident in economic outcomes. Microeconomic upgrading is a marathon, not a sprint.

A push for clean environmental technologies should be part of the microeconomic reform. U.S. firms, facing strict environmental standards, have led in the export of pollution-abating equipment and services. Developing country firms—in the face of similar standards, or more likely the stringent demands of overseas buyers—could be pushed to develop safer, cleaner products and services. And they could be assisted in their efforts by the new technical assistance.

The new technical assistance also requires the cooperation of many participants. It must include private companies, domestic and foreign, in assessing the competitiveness of a location and in implementing improvements. It must include nonprofit, educational, research, and trade organizations to organize the actions of individuals and companies and to make changes to the business environment. And it must include many different functional and regional parts of government, stretching beyond the traditional leadership of national ministries.

Finally, the new technical assistance must recognize the role of clusters and regions as important units of action. Clusters go beyond individual industries, which on their own control only some of the factors that drive their economic performance. But clusters are narrower than large sectors, such as manufacturing, that are too diverse to allow the development of policies that can make a material difference. Similarly, regions control many of the microeconomic conditions that determine whether companies are able to operate productively. But regions also differ significantly in their competitiveness and so require unique efforts to address their weaknesses. The national level, however, remains essential to provide the basic macroeconomic, legal, political, and social conditions that set the stage for microeconomic competitiveness.

*FOREIGN AID
ORGANIZATIONS HAVE A
DISTINCT ROLE IN
DEVELOPING AND
IMPLEMENTING A
DEVELOPING COUNTRY'S
MICROECONOMIC
AGENDA*

NOTES

1. Timmer 2002.
2. Easterly 2001.
3. World Bank 2002b.
4. De Soto 2002.
5. Deininger-Squire 1996. See Porter 1998. The concept of stages was first introduced in Porter 1990. See also Porter, Sachs, and Schwab (2001) and Porter (2000) for further discussion of these ideas.
6. Harrison 2000.
7. Collier and Dollar 2001.
8. Birdsall and Londano 2002.
9. World Bank 2002b.
10. Timmer 2002.

11. Timmer 2002.
 12. Hannon and Rhee 2002.
 13. Hannon and Rhee 2002.
 14. The 2001 World Development Indicators were used to create a set of countries that had a population greater than 500,000 people and purchasing power parity adjusted GDP since 1980. Slow Integrating Countries and Normal Integrating Countries are defined based on the speed and the nature of their trade integration with the global economy. One measure is an increase in the merchandise trade to PPP adjusted GDP ratio of a given country to determine whether they are slow or normal in integrating. The other measure is the share of manufactured exports as a percentage of a country's total merchandise exports is used to represent their level of trade integration. Countries with merchandise trade to PPP adjusted GDP ratios in 2000 were lower than those in 1980 or 1990 and whose manufactured export share of merchandise exports were less than 50 percent are classified as slow. Countries with merchandise trade to PPP-adjusted GDP ratios in 2000 that were higher than those in 1980 or 1990 and whose 1999 manufactured exports share of merchandise trade was greater than 30 percent are classified as normal.

15. Annan 2000.
 16. Hannon and Rhee 2002.
 17. Lindert and Williamson 2001.
 18. Dollar and Kraay 2002.
 19. World Bank 2002a.
 20. Maddison 2001.
 21. Hoekman and Messerlin 2002.
 22. Lewis 2002.
 23. Hannon and Rhee 2002. All the developing countries with a population of greater than half million and PPP-adjusted GDP data from 1980 or 1990 were included in the analysis. In addition, 27 high-income countries with a population of more than half million and PPP-adjusted GDP data were classified as developed countries. So the global total in our analysis includes 111 developing countries and 27 developed countries.

According to UN (2001b), as of 2001, 49 countries (34 in Africa, 9 in Asia, 1 in Caribbean, and 5 Pacific regions) were designated as the Least Developed Countries (LDCs) that are deemed structurally handicapped in their development process, and in need of the highest degree of consideration from the international community in support of their development efforts. Eleven island countries—population of many of these island countries is less than half million—and 15 land-locked countries are included in the LDC group.

24. These findings are broadly consistent with recent World Bank studies on globalization and poverty by Dollar and Collier (2001) and Dollar and Kraay (2001, 2002) even though the analysis here covers all 111 developing countries—including major oil exporters—with PPP-adjusted GDP data, while the Bank studies cover a sample of 72 developing countries.

25. Hannon and Rhee 2002.
 26. Hannon and Rhee 2002.
 27. Hannon and Rhee 2002.
 28. Hannon and Rhee 2002.
 29. Hannon and Rhee 2002.
 30. Timmer 2002.
 31. Timmer 2002.
 32. FASonline 2002.

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WHEN IT COMES TO HEALTH, DEVELOPING countries fall into two groups. In most, health care has improved dramatically in recent decades—raising life expectancies, expanding workforces, and reducing deaths from communicable diseases. As a result, by 2020 these countries are expected to achieve international objectives for basic health indicators. They will have smaller populations under 5, and their median ages will approach those in industrial countries today. Moreover, noncommunicable disease will be the leading cause of death. But these countries will still have subpopulations with health profiles similar to those in least developed economies. Further, there may be unexpected shocks that could cause countries to regress, such as the HIV/AIDS epidemic, social upheaval, and natural disasters.

In a second, smaller group of developing countries—which includes badly managed or conflict-torn economies that have seen little or no growth in recent years—health indicators have stagnated or worsened. Fertility and infant mortality rates are high. Life expectancies are low. And infectious diseases, including HIV/AIDS, are widespread. Though some of these countries are seeing slight improvements in demographics and mortality rates, they will not approach the levels of today's industrial countries by 2020.

These features offer opportunities—and create challenges. In addition to maintaining basic public health services, the first group of countries must decide how to meet the challenges of changing health patterns. Global health programs can shift their focus from women of reproductive age and children under 5 to entire families, including income earners and elderly dependents. Better health outcomes will require better management of chronic diseases, from prevention through treatment. Sustainable progress in health will require health care institutions with both capital and recurrent financing. And systems will need to respond to rising expectations for health care and to the dominance of private flows in its funding.

In the second group of countries public health interventions will have to remain focused on reproductive and maternal and child health—but must examine the strategies to do so. By 2020 nearly 9 out of 10 people in this group of countries will be African.¹ Global health programs will need to evolve to produce more effective results.

IMPROVING PEOPLE'S HEALTH

*HEALTH INTERVENTIONS
MUST ENCOMPASS A WIDE
RANGE OF NEW
APPROACHES AND
ACTORS*

In addition, consideration must be given to external concerns that affect health outcomes—including income growth, education, water, sanitation, and good governance.

What do these issues mean for foreign assistance?

- Health interventions must encompass a wide range of new approaches and actors. Dealing with local financing institutions, employer benefit plans, and telecommunication networks may be just as important as ministries of health.
- The increase in noncommunicable diseases will be permanent, making health care more expensive. Donors and developing countries must make complementary investments involving all parties—public and private—with vested interests in a country's long-term health status, ultimately aiming for self-reliance.
- Given the rapid and diverse changes in many developing countries, donors must be flexible. Efforts to accelerate the progress of countries suffering from traditional health and disease problems must be combined with programs to help other countries address new challenges.
- Despite 40 years of effort, many countries have extremely high infant mortality and low life expectancy, now affected by high HIV/AIDS rates—suggesting a need to carefully evaluate past public health investments, develop new approaches, and better define the role of the private sector.

The changing profile of disease is affecting the economies of developing countries. Moreover, in many newly democratic countries, people are demanding better health care. U.S. medical and health care organizations have the expertise and experience to help solve many of their problems. All these points suggest that U.S. efforts to improve health care overseas must continue to evolve to benefit both the public and private sectors and the citizens of all the countries involved.

**HEALTH, DEVELOPMENT, AND AID:
CHANGES AND CHALLENGES**

Over the past few decades the world has seen significant changes in health indicators and services. This section and several that follow examine these changes and project developments over the

next 15–20 years, drawing on the socioeconomic and health factors that have driven recent changes.

Health outcomes are closely related to political and civil freedoms. Open societies generally have lower mortality. For example, countries considered “not free” are more than three times as likely as “free” countries to have infant mortality rates about 50 per 1,000 live births.² Similarly, a recent World Bank study found that an increase in any of six indicators of good governance is associated with at least a halving of a country's infant mortality rate.³

Better health is also related to higher incomes and economic growth, with the effects running in both directions. Differences in income growth over the past 30 years explain some 40 percent of differences in mortality improvements between countries.⁴ Although the direct effects of health on economic growth are difficult to distinguish at the macroeconomic level,⁵ decent health is essential for worker productivity and individual economic welfare. It is safe to assume that investments in health contribute to growth in countries with good governance, institutions, and economic policies.

DIVERSITY AND DECENTRALIZATION

Developing countries are increasingly diverse, socially and economically. Poor people in these countries—long the targets of foreign assistance—are no longer just illiterate subsistence farmers with large families, living far removed from markets in overwhelmingly agrarian economies. They are urban and rural, single and married, young and (increasingly) old, literate and illiterate, employed and unemployed, skilled, unskilled, and even professional, and from families both large and small. They live in economies that mix agriculture, basic manufacturing, and services, that receive varying amounts of foreign investment, and that have different levels of private and public ownership of means of production.

Yet within and across many developing countries, poor people still have one thing in common: they continue to suffer disproportionately from infectious diseases of global concern, including HIV/AIDS, tuberculosis, malaria, sexually transmitted diseases, and infant diarrhea. But growing numbers of poor people are also dying from diseases and conditions more common in industrial

countries. These include hypertension, stroke, coronary disease, and diabetes, which can be managed through preventive care delivered at the primary level. Although these chronic diseases are of public concern, they have not been the focus of foreign assistance programs for health.

New, more flexible approaches are needed in international health care. International institutions increasingly speak of “global health,” yet most health services—public and private—are provided locally. The number of democratic countries is growing, and within them nonprofit organizations, consumer interest groups, and private providers are emerging and bringing health care closer to patients. Decentralization requires better standards and quality control for both public and private health services.

URBANIZATION AND EDUCATION

Urbanization is generally associated with other changes that influence health status. Relative to their rural counterparts, urban households tend to have better access to education, be closer to services, and have higher incomes—all of which increase their use of health services. By standard health indicators, urban residents are in better health than rural residents. But changes in diet and more sedentary lifestyles may create new health risks for people living in cities, increasing noncommunicable diseases. Urban crowding can also increase the risk of communicable diseases, like tuberculosis, cholera, and meningitis.

According to the United Nations Educational, Scientific, and Cultural Organization (UNESCO), education levels in developing countries, a crucial determinant of health status, are changing. In 1970 just 40 percent of developing countries had medium or high literacy rates, but by 2005 that share is expected to be 88 percent. Although much of this progress is the result of rising literacy in Latin America and Asia, some countries in Africa—including Cameroon, Ghana, Kenya, and Tanzania—are projected to achieve literacy rates of 80 percent by 2005. Still, concerted commitment to education remains essential. In Mali, for example, literacy is projected to be 50 percent in 2005—and in neighboring Niger, just 19 percent.⁶

Women’s education is particularly important for health because it is highly correlated with reductions in infant mortality. Since 1970 there has been

considerable progress on female literacy in the 98 developing countries tracked by UNESCO. In 1970 fewer than one woman in three was literate in more than a third of these countries. By 2005 only four countries, all in Africa, will have such low female literacy. In two-thirds of these 98 countries, female literacy will exceed 75 percent by 2005.⁷

BROAD PROGRESS, STARTLING CHANGES, PERSISTENT QUANDARIES

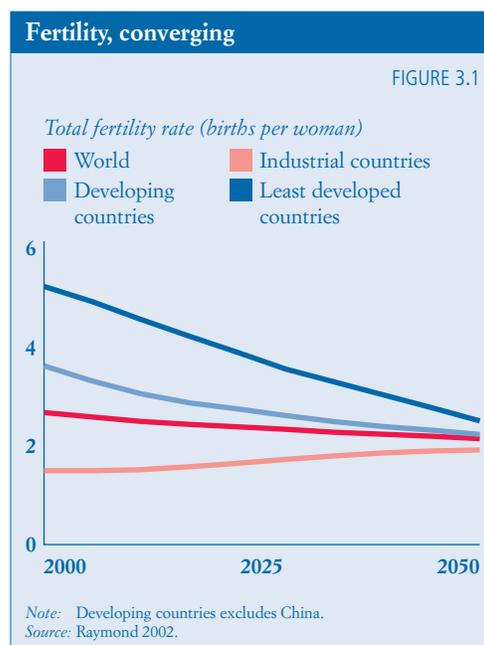
Demographics are changing in developing countries.⁸ Fertility and infant and child mortality are falling, while life expectancy is rising. As a result populations are aging, with broad implications for economic growth. How will these issues affect development prospects in developing countries, and how should assistance programs respond?

FERTILITY

Around the world, the average number of births per woman has been declining since the mid-1970s. Although there will still be a gap in 2020, the United Nations projects that by 2050 fertility rates will be nearly the same in industrial and developing countries (figure 3.1).⁹

In a March 2002 report the United Nations Population Division proposed lowering by 1 billion people its global population projection for

FERTILITY AND INFANT AND CHILD MORTALITY ARE FALLING, WHILE LIFE EXPECTANCY IS RISING



IMPROVING
PEOPLE’S HEALTH

*ECONOMIC GROWTH
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DECLINE BECAUSE IT
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WOMEN TO BELIEVE THEY
ARE BETTER OFF WITH
FEWER CHILDREN*

the end of the 21st century.¹⁰ This significant revision was based on trends in some of the most populous developing countries, including Bangladesh, Brazil, Egypt, India, Indonesia, Iran, Mexico, the Philippines, and Vietnam. It had been assumed that fertility in these countries would fall to the replacement level by 2050, or an average of 2.1 children per woman. But it is falling much faster. UN demographers predict that fertility in these countries will ultimately fall below the replacement level, to 1.85 children per woman. In India alone these revised estimates suggest 600 million fewer people in 2100 than previously expected.

Although the world's population will still be growing at mid-century, reflecting momentum from higher fertility in the past, 80 percent of the world's population is projected to have fertility rates below the replacement level. As a result, during this century the world's population is expected to stop growing and start slowly shrinking.¹¹ Still, fertility rates will continue to be higher in the least developed countries (averaging 4.2 children per woman in 2015–20) than in other less developed countries (2.7 children, excluding China).

Fertility is falling for several reasons. First, contraceptive use has risen considerably and should continue to do so, lagging behind only in Sub-Saharan Africa (figure 3.2).¹² Contraceptive use is especially high—ranging from 65–85 percent of women—in countries where fertility rates are below replacement levels.¹³ Once families per-

ceive that contraceptives have contributed to their well-being, they use them consistently.¹⁴ Benefits include the reduction of maternal, child, and infant mortality.¹⁵

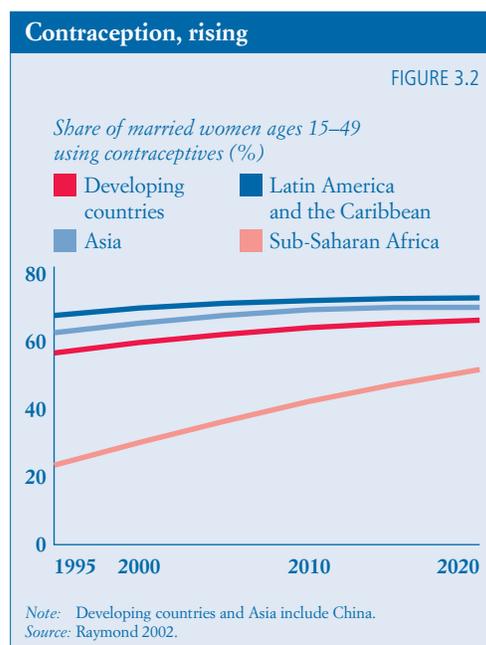
Second, economic growth is a key factor in causing fertility to decline because it generally leads women to believe they are better off with fewer children. Without economic growth, an important rationale for having large families does not change.¹⁵ Rather, changes in fertility are driven by parents weighing economic and personal choices in the face of falling infant mortality.

Over the past 20 years there have been two main debates among researchers and policymakers about the relationship between fertility and development. The first argues that lower fertility reduces poverty in developing countries.¹⁶ The second claims that targeted population programs can change women's preference for the number of children they have, increase contraceptive use, and lower fertility.¹⁷ These debates offer lessons for family planning and poverty reduction programs.¹⁸

As far back as the mid-1980s it was reported that demographic factors such as fertility decline and population growth play a role in economic development—but that good governance, adequate resources, sound economic policies, and lack of corruption are even more important.¹⁹ More recent research suggests that once fertility starts to decline, investments in human and physical capital can help reduce poverty in countries with good economic and social policies.²⁰ The conclusion, then, is that good economic policies do more to reduce poverty than fertility and family planning programs.²¹

Various questions arise when looking to the future of family planning programs in least developed countries where fertility remains high. First, in 2020 what will be the unmet need for contraception that cannot or will not be met by market forces? As economies grow and people become more educated in general and better informed about family planning in particular, they recognize the benefits of smaller families.²² With the uncertainty that AIDS poses in some parts of the world, expectations are that the momentum of fertility declines will continue unabated.

Second, how will the youth bulge (ages 15–20) in developing countries affect fertility preferences and population growth over the next decades? By 2020 most people in this age cohort will be in mid-



adulthood. Relative to their parents, they are from smaller families, are better educated, and have benefited more from economic growth.²³ Studies indicate that they desire smaller families and will likely have lower fertility rates than their parents.

As with nearly all measures of progress, countries with intense HIV/AIDS epidemics may experience very different fertility patterns. The 16 African countries with the highest incidence of HIV/AIDS are projected to see fertility fall by 23–39 percent through 2020, compared with a 21 percent decline for Africa overall.²⁴ Because HIV/AIDS is more common among people of working age, reducing poverty will be even more difficult in these countries.

LIFE EXPECTANCY

Around the world, average life expectancies are converging, with rapid increases in developing countries and flattening rates in industrial countries (figure 3.3).²⁵ In 1950 the average newborn in industrial countries was expected to live 30 years longer than in developing countries. By 2015 that gap will have narrowed to 10 years. But for the least developed countries a 20-year gap will remain in 2020, and will not narrow to 10 years until 2050.

No single factor accounts for increases in life expectancy. Falling infant mortality rates are one reason, but progress has also come from better public health and nutrition, expanded access to

health care, improved water and sanitation, more widespread education, and increased incomes.

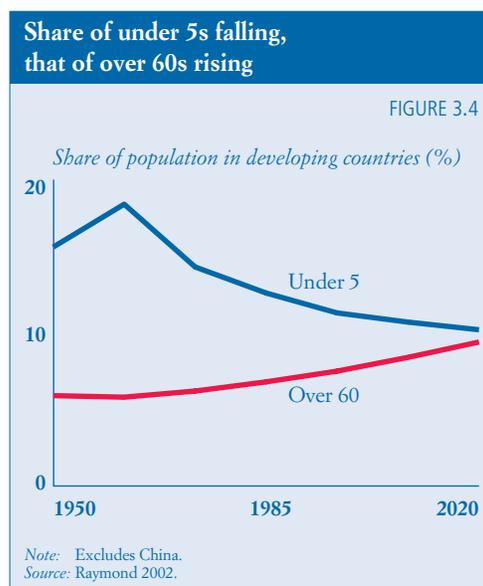
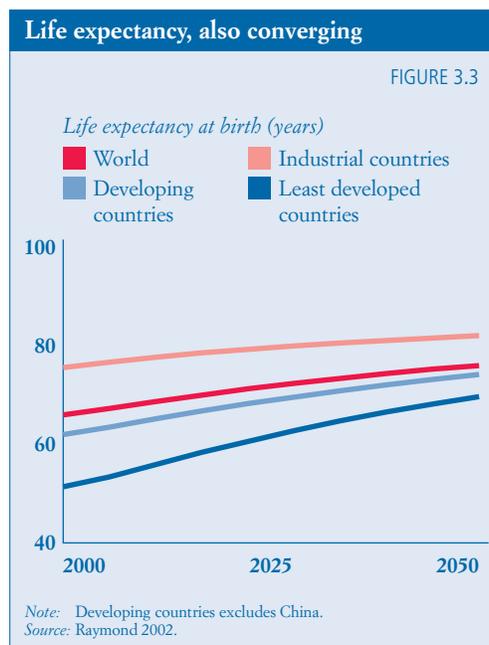
But prospects at birth provide only one perspective on expectations for life. At ages 35 and 45, people in developing countries face much higher mortality than their counterparts in even the less affluent industrial countries. Moreover, chronic diseases may occur earlier in developing than in industrial countries.

In the 35 African countries hit hardest by HIV/AIDS, life expectancy at birth is 48.3 years—6.5 years less than it would be without the disease. In the 11 countries where more than 13 percent of the population has HIV/AIDS,²⁶ life expectancy is 47.7 years—11.0 years less than without AIDS.²⁷ Projecting the demographic impact of HIV/AIDS is difficult because it is so dependent on varying assumptions and methodologies.²⁸ Thus the disease’s impact on population and health, over time and across countries, is still being studied.

AGING

Populations are aging in the 120 countries categorized by the United Nations as less developed. (Though not in the 48 countries categorized as least developed, 34 of which are in Africa.) By 2025 the percentage of the population under 5 in these countries will be smaller than that over 60 (figure 3.4).²⁹ According to one source, by 2020 the portion of the population over 65 will be higher in countries such as Sri Lanka and Thailand than in the United States today.³⁰

DEVELOPING COUNTRIES WILL HAVE MUCH LESS TIME TO ADAPT TO THEIR CHANGING AGE STRUCTURES THAN INDUSTRIAL COUNTRIES DID



**HIV/AIDS WILL
COMPOUND THE
CHALLENGES OF AGING
POPULATIONS**

Although the timing of the shift between the very young and the old differs across developing regions, the changes are similar. The crossover will occur in South America in 2005, in Southeast Asia in 2010, in Central America and South-central Asia in 2015, and in the Caribbean and North Africa in 2020. In Sub-Saharan African and other least developed countries this shift will not occur until 2050, but at that point only 18 countries will have more children under 5 than adults over 60. The precise impact of HIV/AIDS on this process has not been modeled, so these estimates are subject to change.³¹

The age shifts are also taking place in very populous countries. In China the shift occurred in 1995, and the pace of aging has gained striking momentum. In Indonesia the shift will occur in 2010, and in India in 2015.

Developing countries will have much less time to adapt to their changing age structures than industrial countries did in the past. In France it took 115 years for the population over 60 to double to 14 percent. In South America it will take 40 years—and that period began in 1980. By 2015 the median age in developing countries will be nearly 30 years, up from 19 in 1970. Moreover, by 2020 more than two-thirds of the world’s population over 60 will live in developing countries.³²

The implications of these changes extend far deeper into developing countries’ economic and

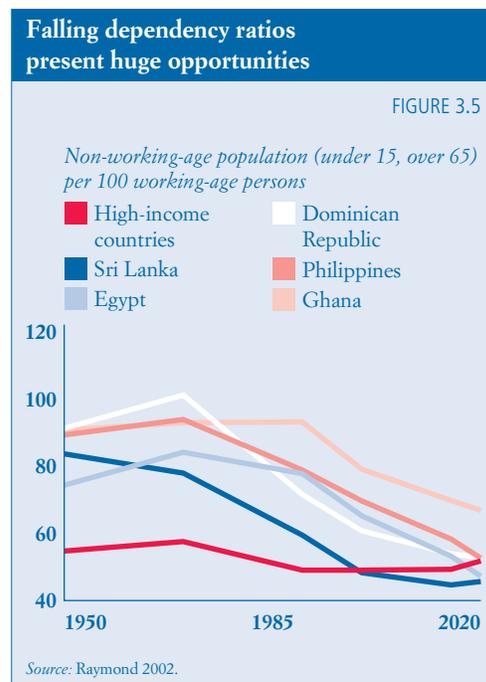
social structures than health indicators alone would suggest. Over the short term the changing age structure creates huge opportunities (figure 3.5). While Western European countries and Japan are graying (over the next decade Japan will suffer a 25 percent drop in the number of workers under 30),³³ developing countries will see their workforces expand, providing an opportunity for increased growth and productivity and perhaps absorbing jobs from more established economies. Although the composition of the non-working-age population may be different, by 2020 the dependency ratio—which compares the non-working-age population (young and old) with the working-age population—in many developing countries will equal that in industrial countries.³⁴

Over the next few decades most developing countries will be able to spend less supporting the young and the old, allowing larger investments in economic endeavors. But economic growth also requires a healthy, productive workforce—which requires identifying and preventing or managing the deadly and disabling diseases that affect this age group.

Over the long term, as the portion of populations over 60 increases, developing countries will face tremendous challenges. In Africa 70 percent of households headed by an elderly person live below the poverty line. Households containing one or more older people are also more prone to unemployment.³⁵ Despite the problems of elderly poor people, only two African countries have formal support programs for this age group.

HIV/AIDS will compound the challenges of aging populations. The adult children on whom the elderly depend will be dying faster and in larger numbers, leaving young children and elderly parents and grandparents to face economic and social uncertainty. In all countries, decisions about how to respond to the needs of the elderly must be balanced with the continued demand for disease control and public health care. In Africa these choices will be even starker given the resources drained by the battle with HIV/AIDS.

Recent work by the Organisation for Economic Co-operation and Development (OECD) examines the effect of aging on national resources in developing countries. By 2020 the direct costs of aging (pensions and labor force effects) are expected to absorb an additional 5 percent of



GDP on average, and in some cases as much as 7 percent.³⁶ Total costs, including for health care, could reach 9–16 percent of GDP—equal to 25–40 percent of workers’ taxable wages.³⁷

Even before 2020, changing demographics may pervade social and economic debates in many developing countries. The needs of the elderly will require difficult choices about how and where to spend public health dollars. The interests of the young will be weighed against those of the old, and responsibilities of public funding will need to be examined relative to individual and family resources,³⁸ which almost always exceed public funding as a source of elderly support.³⁹

Only a few developing countries, including Chile and Morocco, have begun to debate how to allocate resources in the face of changing population structures. The implications of these debates for public health policy cannot be ignored. Structuring the debates and agreeing on financial responses will be a major challenge.

HEALTH INDICATORS: ADVANCES AND OBSTACLES

With the sustained long-term effort of the global health community, people in developing countries have become much healthier. As a result remarkable changes are occurring in patterns of illness and death. Still, progress has not been even across developing countries and regions, and future improvements will require new approaches to health care and complementary efforts involving a range of other sectors.

INFANT AND CHILD MORTALITY

Over the past 20 years developing countries have also seen a near halving of child mortality, defined as deaths among children under 5. By 2020 under-5 mortality is expected to fall by another third in developing countries and by almost half in the least developed countries.⁴³

By 2020 the average infant mortality rate in developing countries will fall below 50 per 1,000 live births, surpassing the goal set at the United Nation’s Summit for Children (figure 3.6).⁴² In addition, more than a third of the least developed countries will have achieved this goal. Sustained improvements require national commitments to

past investments and continued progress on other important socioeconomic indicators, including education, employment, and governance.

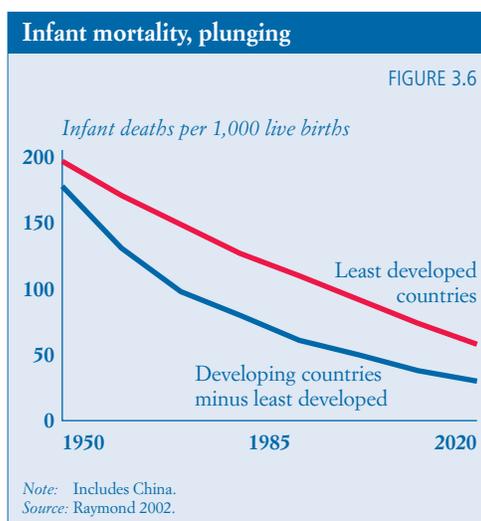
Impressive progress on infant mortality is expected to continue over the next two decades, except in countries with high HIV/AIDS prevalence. Over the past 50 years infant mortality rates have fallen by almost half even in the least developed countries, and by 2020 they are projected to drop by three-quarters.⁴⁰ In 1975–80 these countries experienced an average of 140 infant deaths for every 1,000 live births; by 2015–20 that rate will drop to 65.

Progress has been steady in nearly all developing countries—and in some, startling. During the 1990s alone infant mortality fell 38 percent in Indonesia, 36 percent in Jordan and Nicaragua, 30 percent in Peru, 28 percent in Morocco and the Philippines, and 26 percent in Egypt.⁴¹

Many reasons explain the declines in infant and child mortality. Better public health—especially more widespread immunization, supported by foreign assistance and the global health community—has been important. But other factors are also important. Regression analyses find that good nutrition, sanitation, and education are the most important predictors of falling infant mortality.⁴⁴

Some of the most extensive literature on the role of nonhealth variables focuses on women’s education, particularly for child mortality. Studies from a variety of settings indicate that women with about six years of basic education are less likely to see their children die—to some extent regardless of

FUTURE IMPROVEMENTS WILL REQUIRE NEW APPROACHES TO HEALTH CARE AND COMPLEMENTARY EFFORTS INVOLVING A RANGE OF OTHER SECTORS



IT IS HOPED THAT WHEN TODAY'S LITERATE MOTHERS BECOME TOMORROW'S LITERATE GRANDMOTHERS, CHILD SURVIVAL WILL INCREASE

their income, family size, or access to targeted services.⁴⁵ Women's education, therefore, is critical to infant survival in both developing and industrial countries.⁴⁶

Combined, aging and education could accelerate declines in infant and child mortality over the next 20 years. In developing countries women with primary education tend to maintain traditional roles (working at home and bringing goods to market) while having primary responsibility for their children.⁴⁷ With secondary education women take jobs outside the home, and illiterate grandmothers care for the children. But when that happens, mortality rates tend to rise. Thus it is hoped that when today's literate mothers become tomorrow's literate grandmothers, child survival will increase.

Recent progress does not mean, however, that infant and child mortality will continue to fall in all regions. As with many other indicators, Africa is a striking exception: infant mortality has been rising in countries hit hard by HIV/AIDS, reflecting the disease and its opportunistic infections.⁴⁸ Secondary effects of HIV/AIDS—such as changes in weaning or care-taking by infected mothers—can make infants more vulnerable regardless of their infection rates. Infant and child mortality also rise when infected parents suffer declines in their health, nutrition, and overall well-being. Elsewhere, infant and child mortality rates may also be rising in Central Asia and the southern part of Eastern Europe.⁴⁹

At the same time that food supplies and nutritional status are rising in most developing countries, nutritional deficiencies continue to afflict the least developed countries. Malnutrition takes different forms in different regions, but always affects infants and children most profoundly.⁵⁰

MATERNAL MORTALITY

Quantifying declines is harder for maternal mortality than for infant and child mortality. This is partly because measuring maternal mortality is methodologically difficult and susceptible to wide margins of error. It is also because maternal mortality requires data on causes of death, and such data are elusive in most developing countries. Where it has been tracked, maternal mortality appears to have fallen by as much as half since the 1970s.⁵¹ Still, in many countries initial mortality rates were so high

that even this progress results in startling differences. The lifetime risk of maternal death ranges from 1 in 4,085 in industrial countries to 1 in 61 in developing countries and 1 in 16 in the least developed countries (figure 3.7).⁵² And in some countries maternal mortality appears to be rising.⁵³

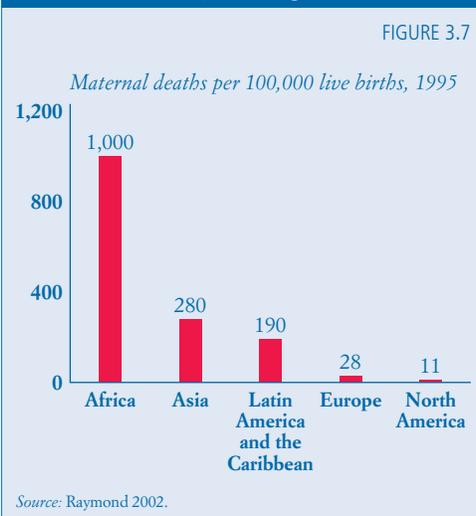
Given the scarcity of good data on maternal mortality, progress over the next 20 years will require better research and understanding of the source of the problem. A recent study reaffirms that maternal mortality does not result solely from poor health care at delivery or immediately after birth.⁵⁴ Further declines in maternal mortality will require diversifying approaches to caring for pregnant women and continuing to increase the presence of skilled attendants at delivery.⁵⁵

NONCOMMUNICABLE DISEASES

In all developing regions except Africa, noncommunicable diseases—including cardiovascular disease, circulatory disease, hypertension, stroke, diabetes, cancer, and injuries—have overtaken infectious diseases as the leading causes of disability and death.⁵⁶ Even countries with high child and adult mortality are well into this transition.⁵⁷ So are most tropical countries, though infectious diseases remain a concern.

By 2020 noncommunicable diseases will cause 7 of every 10 deaths in developing countries (box 3.1).⁵⁸ Given the aging of developing countries, these changing disease patterns are not surprising. Older populations have higher rates of noncommunicable diseases than infectious and parasitic diseases.

Maternal mortality, still high in Africa



Box 3.1. Some common communicable and noncommunicable diseases

<i>Communicable</i>	<i>Noncommunicable</i>
HIV/AIDS	Hypertension
Tuberculosis	Stroke
Hepatitis	Coronary disease
Sexually transmitted diseases	Diabetes
Diarrhea	Cancer
Measles	Chronic lung disease
Mumps	Depression
Malaria	Osteoporosis
Onchocerciasis (river blindness)	Rheumatoid arthritis
Sleeping sickness	Osteoarthritis
Schistosomiasis	Kidney disease

Few developing countries have systems for compiling comprehensive data on health events among their populations, separated by age, gender, type of illness, and cause of death. But data collected by the World Health Organization show that noncommunicable diseases strike earlier in life in developing than in industrial countries. For example, in 1990 people under 70 accounted for 27 percent of deaths from cardiovascular disease in industrial countries—and for 47 percent in developing countries.⁵⁹ With more intense mortality patterns, developing countries suffer much higher death rates among their working-age populations.

Thus developing countries face an enormous challenge in preventing and managing diseases that have not been the focus of global health efforts. Health programs have also not focused on the working-age population, which is essential to productivity and growth.

Consider diabetes. The World Health Organization estimates that by 2025 it will increase by 170 percent worldwide, with most of the growth occurring in developing countries. If correct, this means that 25–30 percent of India’s urban population could have diabetes by 2025. Egypt, Indonesia, Mexico, and Pakistan will also see large increases.⁶⁰ Future labor productivity in developing countries requires more research on the onset of diabetes, especially among women, and its implications for other health problems.

Noncommunicable diseases are also starting to affect younger populations. By 2020 injuries and noncommunicable diseases will likely account for 45 percent of the disease burden among children under 15 in developing countries, up from 28 percent in 1990.⁶¹

According to some analysts, projections of noncommunicable diseases in developing countries may seriously underestimate the problem, particularly for cardiovascular disease. External factors—such as new, higher-sodium diets—may cause much higher rates of cardiovascular disease as populations age. Diets also change as incomes rise, increasing risks for heart disease and diabetes.⁶² Low birthweight and stunted childhood growth also may increase the risk of cardiovascular disease later in life.⁶³

These new patterns of illness and mortality can undermine productivity and compromise economic progress. Moreover, chronic diseases can be more costly to treat than other diseases, jeopardizing fragile health budgets. As people live longer, treatment is required over longer periods. Such treatment also has implications for private health care initiatives and quality and safety standards.

For both infectious and chronic diseases, early diagnosis and prevention are crucial and can mitigate the need for expensive hospitalizations and surgeries. And because the causes of noncommunicable diseases are largely understood, prevention and management systems are fairly well developed. Unlike an entirely new disease such as HIV/AIDS, diseases such as hypertension, stroke, coronary disease, and diabetes follow clear patterns.

The challenge is to apply current knowledge to conditions in developing countries. For example, coronary disease and stroke are more common in Asia than in Western populations, while in Africa cardiovascular disease is falling despite no changes in behavior.⁶⁴ Where will such trends lead? How do they differ by region? And what

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levels of morbidity, mortality, and associated costs will ensue? These questions require careful examination.

INFECTIOUS DISEASES

Also requiring attention are countries—primarily African—still dominated by infectious diseases and projected to continue lagging behind over the next 20 years. This disparity is creating a growing divide between these and other developing countries, though within this lagging group there is wide variation. Still, among African countries identified by the World Health Organization as having very high child and adult death rates, infectious diseases account for 55 percent of deaths. Noncommunicable diseases account for just 20 percent.⁶⁵ Moreover, nearly half of the world's deaths from infectious diseases occur in Africa.⁶⁶

Infectious and parasitic diseases have long been a major concern of global health efforts. Humans are vulnerable to multiple types of infections (bacterial, viral, and parasitic) from multiple sources (people, vectors, water, soil) with varying epidemiological implications and effects that can change over time, especially as infectious agents mutate and develop resistance to known therapies. Thus infectious diseases involve many types of and responses to disease.

For example, ebola takes only days to kill its victims. Thus it requires a very different medical response than tuberculosis, which is both an infectious and a chronic disease. Meanwhile, preventing and managing malaria is less a matter of medicine than of environmental strategies, and so calls for yet another approach.

Moreover, infectious diseases have enormous potential to develop resistance to existing therapies or to mutate into new agents. New diseases can emerge, and “super diseases” can develop based on well-known infectious agents such as influenza. The probability of such change appears to be growing in line with increasing mobility, rapid pathogen resistance, and perhaps climate change.⁶⁷ The U.S. Centers for Disease notes that as long as microbes can evolve, new diseases will appear.⁶⁸

The news is not all bad: significant progress has been made on controlling infectious diseases in developing countries. In just five years, between

1993 and 1998, deaths from measles and diarrhea dropped by a quarter and deaths from lower respiratory infections fell by nearly a fifth.⁶⁹ Still, given the nature and diversity of diseases and overwhelming unknowns, the challenge is to develop global management capacity for infectious diseases. Priorities include:

- Controlling existing problems where they are significant.
- Developing mechanisms to signal changes in disease patterns and respond quickly and comprehensively.
- Fostering the scientific discovery needed to keep prevention and cure ahead in humanity's race against pathogens.

*HIV/AIDS.*⁷⁰ The ravages of HIV/AIDS require special attention. Around the world some 37.1 million people are infected with the disease—and nearly three-quarters are in Sub-Saharan Africa, which contains just 11 percent of the world's population. In seven African countries—Botswana, Lesotho, Namibia, South Africa, Swaziland, Zambia, and Zimbabwe—20 percent or more of the population is infected. Women have higher infection rates than men, with African rates peaking around age 25 in women and ages 35–40 in men.⁷¹

By 2010 AIDS is expected to have created 27 million African orphans⁷² and to have reduced life expectancy by 5–15 years in most countries on the continent and by as much as 40 years in some.⁷³ Elsewhere, HIV/AIDS will become more widespread in some very large countries—China, Indonesia, Nigeria—where it was once limited to high-risk groups.

The effects of AIDS are felt across the social spectrum, from farmers with reduced agricultural output to government employees with reduced capacity for service provision, including health care and education. In South Africa AIDS accounts for one-seventh of teacher attrition, and the number of pupils entering the first grade has fallen by one-quarter.⁷⁴ In Zambia HIV/AIDS is estimated to cause teacher losses equal to two-thirds of the annual output of the nation's teacher training colleges.⁷⁵

The World Health Organization estimates that the global health care costs of HIV/AIDS could total \$14 billion a year.⁷⁶ Economic impacts reverberate even more deeply in Africa. South Africa's economy is estimated to face a 0.4 percentage point annual decline in GDP because of

HIV/AIDS.⁷⁷ By 2010 nearly one-quarter of South African workers will be infected with HIV/AIDS, and benefit payments related to the disease will rise from 7 percent to 18 percent of payroll.⁷⁸ More and better estimates of the macroeconomic effects of AIDS are needed to fully understand and address its devastating impact.

HIV/AIDS also threatens political stability. Widespread infection among military and security forces is another concern. So too are the destabilizing effects of broken families, tattered economies, and losing significant portions of any nation's pool of young adults.⁷⁹

It is extremely difficult to make predictions about the future effects of HIV/AIDS. Much is known about how the disease is spread biologically, socially, and geographically. But many things about the disease are unclear, making it difficult to extrapolate from what is known. For example, new strains of HIV are emerging,⁸⁰ and continued mutations are expected over the next two decades—with unknown effects on the course of the disease, transmission rates, and the effectiveness of current treatments. And though there has been success in developing therapies, it is hoped that AIDS will evolve into a chronic but manageable condition over the next 20 years, but making this change will be difficult.⁸¹ New treatments are needed, and though new strategies are under way, their timeframe is unknown.⁸²

What is clear is that the process will be expensive. Developing a new medication of any type, from pre-clinical work through clinical trials, costs an average of \$800 million—2.5 times the inflation-adjusted cost in 1987.⁸³ Over the next 20 years there will likely be better treatments, and perhaps even some type of vaccine. But when, in what shape, and at what cost is unknown. The efficacy of any future vaccine will have profound implications for the spread of HIV. The main impact so far has been in Africa, but the disease is spreading rapidly in India, China, and Russia.

There is no certainty about the nature of the virus or about the solutions available over the next 20 years. Past experience offers little guidance: for example, early projections did not anticipate the extent of Africa's crisis. There is uncertainty about why infection rates stabilize at different levels in different countries and regions, and about the willingness of public leaders to aggressively tackle the problem. So, even without the

problems created by possible viral mutations, it is difficult to predict when prevalence rates will plateau. Moreover, there is intense debate about the likely pace and progress of the disease among countries and cultures, because behavioral determinants of infection differ.⁸⁴ Thus there is much debate about the ultimate size and pace of the disease's demographic impact.⁸⁵

Leadership, scientific innovation, and integrated prevention and treatment are essential for progress on HIV/AIDS. They will also help determine the utility of new technologies and strategies to combat it. Over the next few years it will be possible to learn from and improve prevention and treatment efforts.

Tuberculosis. Once thought to be well under control, tuberculosis has resurged around the world. Each year there are 8 million new cases and 2 million deaths from the disease, and infection rates are growing by 3 percent a year. Less than a quarter of patients receive proper treatment, and 1 case in 10 is resistant to at least one therapeutic drug.⁸⁶

Though 80 percent of new cases occur in just 23 countries, tuberculosis threatens all countries.⁸⁷ Thirty years have passed since a new drug was released for the disease, though new drug combinations and protocols have been developed. Successful treatment requires that patients comply with detailed therapeutic regimes and so demands close supervision. The rise of tuberculosis strains resistant to multiple drugs has made such treatment increasingly difficult in some settings. Tuberculosis control could be dramatically improved by a rapid test, a vaccine, or new drugs.

Malaria. Malaria is also a pressing health problem. Between 1970 and 1997 the number of infections increased 40 percent.⁸⁸ Traditional treatments such as chloroquine have become ineffective in 80 of the 92 countries where malaria is a major problem.⁸⁹ In some countries nearly half of malaria infections are also resistant to newer drugs, such as mephloquine,⁹⁰ and resistance is being acquired at a growing pace.

Though more than 40 percent of the world's people live where there is risk of malaria,⁹¹ Africa is the key global challenge. Malaria deaths have been rising there since the 1970s and are much higher than in other regions. Almost 90 percent of malaria deaths occur in Africa, and for small farmers treatment can cost 5–13 percent of annual household income.⁹²

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*THE PERSISTENCE,
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INFECTIOUS DISEASES
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CHOICES, AND
CHALLENGES AROUND
THE WORLD*

Technological innovations to control malaria are being aggressively sought, such as through the Global Roll Back Malaria program. But a country's health care system is a key element in the battle. Without striking technological breakthroughs, Latin America cut malaria deaths by 60 percent between 1994 and 1997 through coordinated treatment, vector control, and public education.⁹³ Even simple technology, such as insecticide-treated bednets, matters in interrupting transmission.

Related issues and responses. The persistence, resurgence, and emergence of various infectious diseases reflect changes, choices, and challenges around the world. These include:

- Aging populations—and so increased susceptibility.
- Increased travel, with more people moving within and between countries.
- Urbanization and the crowding that results.
- Inappropriate use of therapies, especially antibiotics.
- Underinvestment in public health and global surveillance.

Better understanding of infection's role in pathogen-host responses and chronic diseases will likely increase the attention paid to infectious diseases during epidemiological transitions.⁹⁴ Infectious disease pathogens are also receiving more attention because of their potential role in bioterrorism. Early global surveillance of infectious diseases and careful analysis of the resulting data are essential to isolating possible outbreaks related to terrorism. The related ability of health personnel to quickly diagnose infectious diseases with potential ties to terrorists, and to trace infections to their sources, is also essential to control communicable diseases of natural or bioterrorist origin.

**HEALTH SYSTEMS AND SERVICES:
PROGRESS, LAGS, AND A RISING
PRIVATE ROLE**

For the most part few comprehensive data are available on health care services over time and across developing countries. An exception involves data on services for children and mothers, which can be used to show general trends. Among the most important of these trends are changes in financing, with a clear shift toward private resources to provide and pay for services.

MATERNAL AND CHILD HEALTH SERVICES

Immunization rates show the progress made as part of long-standing global concerns for childhood health services. Twenty years ago less than one child in five was vaccinated against measles in developing countries. By 2000 nearly four out of five children received this immunization. As a result the number of measles cases has plummeted.⁹⁵ Similar progress has been made in immunization coverage for diphtheria, pertussis, and tetanus. But there is still a need for better coverage—particularly in Africa, which continues to lag behind other developing regions (box 3.2).

The challenge is to make developing countries self-reliant in their immunization efforts. After nearly half a century of effort, most decisionmakers (for health and nonhealth) understand the benefits of immunization. Systems for delivering and managing immunizations are also well understood. And in many countries resources are available for immunization programs, either domestically or from donors.

What country programs often lack is political leadership and public commitment. These shortcomings have also impeded progress on other health issues—as when some developing countries have ignored serious health problems or refused to use donor resources and foreign private philanthropy to treat serious infectious diseases.

Recent decades have seen a rise in public-private partnerships between multinational corporations, nongovernmental organizations, and international donors. Partnerships include efforts to develop new tuberculosis drugs, HIV/AIDS treatment and prevention programs, and malaria treatment and control efforts. Such collaboration has also occurred at the local level. For example, commercial soap manufacturers have served as financing and media partners in publicly sponsored hand-washing campaigns. The campaigns increased hand-washing and reduced diarrhea.⁹⁶ Such experiences offer a platform for innovative, collaborative efforts to control diseases and provide health services.

As in other areas, the least developed countries have seen much less progress on controlling diseases and providing services. In some African countries oral rehydration use has increased by several times in recent years. Yet in countries such as Burkina Faso and Mali, use hovers below 20

Box 3.2. Bringing new knowledge to technology: the example of vaccines

The new H influenza type B vaccine (Hib) was first licensed in the United States in 1989 and recommended by the WHO for routine childhood immunization in 1998. It is now among the safest of all vaccines. Hepatitis is also falling to the scientific sword. Hepatitis A (HAV) is highly endemic throughout the developing world. Until recently, prevention options were limited. A vaccine has been available since 1995 for long-term prevention of HAV in persons two years of age and older. It has not been widely used and is not recommended for use since Hepatitis A is not usually a fatal disease. In 2001, The U.S. Food and Drug Administration approved a new combined Hepatitis A and B vaccine. The remaining challenge is Hepatitis C, a viral infection of the liver whose causative agent was not identified until 1989, and whose genome is so highly mutable that vaccine development has been stymied.

For some diseases endemic in the developing world, particularly parasitic diseases, scientific knowledge remains inadequate to generate technological solutions in the near term. The examples of significant progress in filariasis and onchocerciasis hold out hope for broader parasitic solutions in the future. For others, such as pneumococcus vaccines for children under

two years of age, solutions have proved inadequate in children in the developing world due to differing serotypes. For others, such as the development of a vaccine for diarrheas caused by rotavirus, the cause of between 25 percent and 60 percent of all pediatric hospitalizations and 5 percent of child deaths, analysis is still under way.

Still, the next 15 years will see significant progress, standing on the shoulders of the genomic revolution and scientific advance. The Global Alliance for Vaccines and Immunization (GAVI) is focusing on three new vaccines within the next five to seven years, pneumococcal conjugate vaccines, rotavirus oral vaccines, and meningococcal A (or A/C) vaccines. The GAVI partnership, involving public, academic and industrial players, works at overcoming the financial problems of applying vaccine research and development to vaccines for high-risk populations in developing world markets. Private industry is pursuing independent research on vaccine delivery technologies based on protein carriers that will likely open new vistas for the specific problems of developing nations.

Source: Raymond 2002.

percent—even while it is 30–50 percent in countries like Ghana, the Philippines, and Thailand.⁹⁷

As noted, the presence of skilled attendants at delivery helps prevent maternal deaths. In Latin America and the Caribbean trained personnel are present for 75 percent of births. Yet in Asia only 50 percent of births are attended by skilled personnel,⁹⁸ and in Africa just 40 percent—and in some African countries, 20 percent.⁹⁹

CHANGES IN FINANCING

Financing has long been a central concern of global health efforts. Funding was traditionally seen as a matter of increasing and managing public health budgets, with most revenue coming from the state. But concerns about the adequacy of public budgets have grown as costs and public expectations have increased and as responsibilities of public health authorities have expanded.

More attention is being paid to the role of private resources in providing and paying for health ser-

vices in developing countries. Over the past 10 years middle-income countries have experimented with prepaid insurance and service fees. But private resources are also crucial in low-income countries. Surveys in Indonesia, Pakistan, and Sri Lanka have found that most consumers bypass free public services, choosing to pay for services at private facilities or through traditional sources.¹⁰⁰ In Burkina Faso just 17 percent of malaria patients were treated by professional public or private services. Most purchased treatments at pharmacies or paid traditional healers.¹⁰¹

Data collected by the World Health Organization show the enormous importance of private spending on health care in most countries—rich and poor, large and small. By 1998 more than 50 percent of health spending occurred in the private sector in most developing countries.¹⁰² Private funding exceeds 60 percent in countries as different as Bangladesh (63 percent), China (61 percent), Egypt (69 percent), India (82 percent), Indonesia (74 percent), Pakistan (76 percent), Morocco (70 percent), and Uganda (62 percent).¹⁰³ This spending is almost always out-of-pocket. In most systems

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WITH A CHANGING AGE STRUCTURE, THERE IS OPPORTUNITY FOR AN EXPANSION OF FOCUS TO THE FAMILY AS A UNIT THAT ENCOMPASSES BOTH TRADITIONAL AND EMERGING HEALTH CONCERNS

little or no role is played by risk-pooled payment mechanisms, which can enable individuals and employers to pay affordable health care premiums and receive quality care.

These trends have three main implications. First, people using their own resources are making choices that affect both the health sector and other sectors in developing countries (box 3.3). Their choices control the majority of health resources and will be the main drivers of future care. Understanding these choices is crucial to international health assistance strategies. Donors should study these trends to understand health care demand and to be able to monitor drug resistance problems and adverse reactions that can emerge from both private purchases and public distribution. Because of poor quality control in manufacturing, many drugs in developing countries are substandard or counterfeit.¹⁰⁴

Second, recipients of private spending are also likely to be private. Again, understanding this dominant pattern of supply and demand is essential to understanding countries' health status.

Third, health strategies and initiatives should take into account these private elements. If private revenues are not considered, health programs will miss a large portion of potential health resources,

undermining their ability to develop sustainable systems in developing countries.

TO REVIEW THE BIDDING: FUTURE TRENDS AND CURRENT FUNDING

The momentum of past health improvements will shift health patterns significantly in many developing regions.

A majority of developing countries will experience declining dependency ratios, the time when fewer children and elderly are dependent on the working age population for resources. These countries will have greater opportunity to invest in productive endeavors. The demographic shifts will be accompanied by changes in morbidity and mortality. Many countries have reached or will soon reach the Summit of Children goal for infant mortality reduction. For them, the key public health issues will include those which affect both the productivity of their labor forces and the health costs of the elderly. This disease profile is predominantly noncommunicable and chronic.

Even as the shift takes place, many traditional problems will persist, such as infectious diseases resurging because of resistance. The future pattern will be one of a growing chronic disease

Box 3.3. New technologies and health

Striking progress in technological innovation outside of the health sector will continue to create, new opportunities for developing more effective prevention and therapy services to populations, including the poor and those widely dispersed.

Of greatest note, of course, is the future technology for accessing the internet. The availability of wireless and solar powered Internet access technologies will bring communications technologies to even remote areas. In the more developed markets of Africa, some research suggests that market penetration for such services will exceed 25 percent of the population within the next five years.

Completely integrated touch-screen systems for web-based public access kiosk applications were unveiled in mid-2001. The kiosks have internal wire management systems and sealed ports and slots, making them adaptable to even

harsh conditions. Market targets include retail trade, banking, and health care in West Asia, North Africa and India. The technology exists to solar power such kiosks, equip them with everything from telephones to video recorders, and place them in pharmacies, clinics, examination offices, and even school classrooms for health education.

Improved telecommunications provides a range of opportunities for deepening health capacity without investing in physical infrastructure. Telemedicine, for example, extends the expertise of advanced diagnostics to paramedical personnel at remote sites. Distance learning can provide continuing education without the costs of transport and meeting space.

Source: Taylor, Shakoor, Behrens, and others 2001; *Hindu Business Line* 2001; Mayor and Daviss 1998.

burden overlaid on top of a persisting reservoir of communicable diseases.

Simultaneously, some countries, many in southern Africa, will continue to have demographic and disease patterns more characteristic of past trends—high infant mortality, low life expectancy, and epidemiology dominated by infectious diseases.

For both old and new problems, the central concern will be self-reliance so that economic progress can be tied to the maintenance of public health progress. In turn, a central concern of self-reliance will be financial diversity, including private finance that already represents over half of all health resources. Political commitment is also key. For many developing countries, self-reliance in such traditional concerns as immunizations is increasingly not a matter of inadequate resources. It is more a matter of political will, commitment, and management.

IMPLICATIONS OF TRENDS FOR FUTURE DIRECTIONS: SHIFTING OPPORTUNITIES

Opportunities in global health are a direct result of the changing demographics, epidemiology, and diversity in the populations of developing countries. The opportunities do not imply that humanitarian programs should be eliminated where such needs continue to dominate national landscapes.

Nor do they imply, in the majority of developing countries currently in the health transition, that core public health functions dealing with conventional problems do not need to be maintained. Clearly, the scaffolding of public and private services that supports progress is a pre-requisite to transition itself. In coming years, however, where economic progress and democratic governance advance alongside epidemiological change, the burden for maintaining that scaffolding can rest on the countries themselves.

INFECTIOUS DISEASES—HELP WANTED: GLOBAL PUBLIC HEALTH INFRASTRUCTURE

Much has been written about the importance of global systems for infectious disease surveillance.¹⁰⁵ The priority is for using technology to decentralize data collection and improve data sharing. An equal need is for improved clinical

and laboratory capacity to diagnose and study patients with potentially “new” diseases or syndromes, and to quickly disseminate findings,¹⁰⁶ as well as for the local personnel, skills, and systems needed to intervene.

Given the importance of nutrition to infectious diseases, the intersection between health strategies and nutrition and food security is also important. In contrast to surveillance strategies, however, nutrition linkages would need to be addressed at a variety of points within national development strategies, from households to agricultural strategies to national distribution and financial systems.

Increasing both the availability and quality of food will remain critical, especially in light of the World Health Report findings on the importance of undernutrition and micronutrient deficiency to child mortality. Future agricultural strategies should complement the current cadre of successful interventions to reduce micronutrient malnutrition, especially vitamin A deficiency. Agriculture has a role to play in addressing health and nutrition issues, not only through the production of food supplies, but also in generating the incomes of poor rural populations. New agricultural approaches, such as biofortification of staple crops, should continue to be explored. Using crop breeding techniques to improve the density of three key nutrients (iron, zinc, and beta-carotene) in staple crops primarily consumed by the poor—for example, rice, wheat, maize, cassava, and common beans—agricultural researchers could provide a relatively cost-effective and sustainable means of delivering micronutrients to the poor.¹⁰⁷

Box 3.4. Malnutrition and child mortality

“In poor countries today, there are 170 million underweight children, over three million who will die this year as a result. All ages are at risk, but underweight is most prevalent among children under five years of age, and WHO estimates that approximately 27 percent of children in this age group are underweight. This caused an estimated 3.4 million deaths in 2000, including about 1.8 million in Africa and 1.2 million in countries in Asia. Significantly, it was a contributing factor in approximately 60 percent of all child deaths in developing countries.”

Source: The World Health Report 2002. Geneva: World Health Organization.

BIOFORTIFICATION TO IMPROVE THE NUTRIENT DENSITY OF STAPLE CROPS COULD PROVIDE A RELATIVELY COST-EFFECTIVE AND SUSTAINABLE MEANS OF DELIVERING MICRONUTRIENTS TO THE POOR

IMPROVING
PEOPLE'S HEALTH

*DISEASE MANAGEMENT
CONVERTS CHRONIC
DISEASE FROM A
THERAPEUTIC, ACUTE-
CARE MODEL TO A
PREVENTIVE MODEL*

**FAMILIES: KEEPING BREAD-WINNERS
HEALTHY AND TAKING CARE OF PARENTS**

With a changing age structure, there is opportunity for an expansion of focus from “women of reproductive age and children under five” to the family as a unit that encompasses both traditional and emerging health concerns.

The absolute number of under fives will decline in the first (and larger) group of developing countries with improved health care. In many regions, the numbers of youth will rise, at least until 2020, when the demographic “bulge” of this group will move into mid-adulthood. Grandparents and great aunts and uncles will survive middle age.¹⁰⁸ Whether they live independently or with their mature children, their health problems will become a concern for family bread-winners. The health problems of the mature, productive age populations will impact family life and economic viability. The elderly will live longer and develop their own health care needs and demands. When both aging dependents and productive bread-winners are chronically ill, then a family’s future is bleak indeed. Hence, the importance of health strategies that aid economic growth.

A full picture of resource flows also makes clear that families finance health care. Their choices about sources of care and therapeutics influence the health care “market.” Their expenditures power the directions of both content and availability of services.

The near-term challenge is to learn more about families including the problems they face, their aspirations and how they are adapting to changes in living patterns and health status. How are they allocating their resources to meet changing demands and how can foreign assistance help that process?

**FINANCE: WHO WILL PAY, HOW, AND FOR
WHAT?**

Private payments for health care now represent a larger part of the health care dollar than public funds. This is true for large countries and small, advanced and poor. Linkages to private resources will be essential in virtually all health programs.¹⁰⁹

In addition to this trend, health in the future will become more expensive, as measured by health

care costs, economic impacts, and social support costs. As the causes of morbidity and mortality shift to those more common in industrial countries, unit costs will rise. The estimated cost of vaccinating a child with five antigens is estimated to be on the order of \$20, all costs included.¹¹⁰ Of that cost, the vaccines themselves cost between \$2 and \$3. In contrast surgery for breast cancer in the United States costs on average \$14,000 per case.¹¹¹

Assuming that the cost of first generation generic anti-hypertensives is about \$1 per month,¹¹² but must be continued indefinitely, it would cost a total of \$240 in drug costs for a patient living 20 years with managed hypertension to prevent more serious disease onset. This is more than 10 times the cost of an immunized child and 120 times the cost of the vaccine.

Although the comparable numbers are not available for many developing countries, in the U.S. health care costs per capita for those over age 65 are 3 to 5 times the costs for those under age 65.¹¹³ For developing countries in demographic and epidemiological transition, the future will mean that health sectors face complex choices.

**DISEASE MANAGEMENT: TOO LITTLE TO
WASTE PART I**

As epidemiology changes to chronic diseases patterns in developing countries, there are disease management lessons from the more advanced health care systems. These systems are focused on improving outcomes, eliminating waste, and increasing quality. In effect, disease management converts chronic disease from a therapeutic, acute-care model to a preventive model. Disease management combines public awareness, early identification, risk-factor management and patient behavior change, with intense patient monitoring, especially regarding preventive and therapeutic compliance.

The key to quality management for noncommunicable diseases is the recognition that many of these conditions are not binary. In infectious diseases, for example, one has or does not have diarrhea. One has or does not have measles. But vascular disease is much more complex. One may, indeed, have genetic predisposition to vascular disease, and even initial stages of vascular disease, without overt symptoms. And the disease may

persist for a long period of time. The key is to manage the disease so that its more serious binary incident, stroke, does not occur.

Even now, the problem of quality in service provision and disease management is a significant one in developing countries. The quality issue is crucial *both* to lagging countries and to the majority of developing countries.

- In a study of 125 deceased children in Guinea-Bissau, 93 percent of the children had been seen at a hospital or health clinic during the two weeks before death. A previous study in the same geographic area had found that 78 percent of child deaths had occurred soon after consultation at a health facility.¹¹⁴ The analysis indicated that quality assurance in diagnosis and better discharge criteria were essential.
- In Bangladesh, a study of infant deaths upon discharge after diagnosis of diarrhea indicated that 7 percent of the discharged infants died within 6 weeks, and the median survival time was 11 days.¹¹⁵
- In a study of diagnosis and treatment of all non-surgical general consultations in six health centers in Burkina Faso, only 2 percent received treatment that was compliant with medical guidelines.¹¹⁶ This level was based on observed treatment; actual treatment behavior absent third-party observation may be even lower.
- Examination of 21 hospitals in Bangladesh, Dominican Republic, Ethiopia, Indonesia, Philippines, Tanzania, and Uganda found that 14 lacked quality monitoring systems, and 76 percent of children seen were inadequately assessed, treated and monitored.¹¹⁷
- Studies in Cambodia and Uganda indicate that health workers trained in the evidence-based practice guidelines “Integrated Management of Childhood Illness” provided full assessment and treatment services to between 80 percent and 100 percent of children visiting health clinics, compared to 5 percent to 30 percent of those without such training. However, one year later, the diagnosis and treatment behavior of trained workers had deteriorated by about 50 percent on some measures, indicating that quality enhancement is a system problem.¹¹⁸

Tragically, the result of failed quality is illness and death. It is also a tremendous waste of resources. Higher quality means lower costs. For even the

poorest countries, such assessments of quality argue for new approaches. And especially for the poorest, they testify to levels of waste that are insupportable on constrained budgets.

SYSTEMS MANAGEMENT: TOO LITTLE TO WASTE PART II

The diversity of epidemiology, broadening of demand in an aging of the population, and raised expectations will make the management of health services more complex in the future. Decentralization of responsibility, which has often accompanied democratization and economic liberalization, will bring about new challenges in the public sector, including in health.

A second management issue of decentralization and economic reform will be the evolution of public roles in health. With the rise in private provision alternatives and more diverse financing schemes, the role of public ministries will change from service provision to standard-setting, and oversight. How well such systems are developed will affect the overall quality and sustainability of national health systems, both public and private. Deepened capacity, in both the public and private health sectors, to manage dispersed networks of health care delivery, rather than centrally controlled systems of health services, will be required.

With the demographic and epidemiological transition, one significant area of management change may be in pharmaceuticals. For many noncommunicable diseases, prevention and treatment combine in disease management. Indeed, many of these diseases entail continuous lifelong pharmaceutical use compared to communicable diseases, with the exception of HIV/AIDS therapies, for now. Rising literacy, education, access to information, and globalization, will also spur demand for pharmaceuticals. Given the effectiveness of modern medications, rising access to therapeutics can contribute to a more productive workforce at all ages.

Quality and safety concerns are important for pharmaceuticals since studies show that some one-third of drugs being sold in developing country markets are sub-standard. These issues of sub-standard and counterfeit drugs are particularly relevant to least developed countries where inadequate treatment of HIV/AIDS and TB can result in the development of multi-drug resistant disease strains.

DECENTRALIZATION OF RESPONSIBILITY WILL BRING ABOUT NEW CHALLENGES IN HEALTH

*THE NEWEST MODEL IN
INTERNATIONAL
COOPERATION IS THE
GLOBAL FUND TO FIGHT
AIDS, TUBERCULOSIS,
AND MALARIA*

Quality management systems, of course, are intimately tied to quality service provision. Where diagnoses are wrong and prescribing patterns are inappropriate, the best-managed systems cannot be efficient. A study in Ecuador, for example, found that failure of diagnosis and inappropriate prescriptions nearly doubled the costs of pharmaceutical inputs for childhood illnesses.¹¹⁹

**COMMUNICATION AND PUBLIC HEALTH
EDUCATION**

Changing demography, rising urbanization, and spreading literacy may provide opportunities for pursuing comprehensive approaches to public health education using new communications technologies. Indeed, such strategies may be essential. Many noncommunicable diseases, especially cardiovascular conditions and cancer, have deep roots in behavior. Encouraging prevention through health-promoting behaviors brings prevention to the forefront for these diseases and can be incorporated into existing primary health care initiatives for infectious diseases.

The future will see greater opportunities for health education for more people. Research in industrial countries indicates that as people age, they begin to be more attentive to health problems and their consequences.¹²⁰ The absorptive capacity of the population for health information deepens. Technological innovation will make reaching people easier. Even now, solar-powered, satellite-based Internet connectivity is spreading to rural areas in many developing countries.¹²¹ Cell phone market penetration is greater than in some areas of the United States.¹²² Distance learning methods and technologies are becoming widespread even now. The evolution of bottom-up wireless mesh routing (known as Wi-Fi or 802.11) is rapidly becoming a low-cost method for weaving networks of wireless telecommunications capacity without major investments.¹²³ Anticipated extension of such networks into developing countries will significantly increase the capacity to deliver health care messages and consultation to larger populations for lower costs than ever before.

Moreover, economic growth and the strengthening of the private sector will generate a change in capacity not normally associated with global health in developing countries. As economic growth proceeds, developing countries will see a deepening of their own advertising, public relations, media,

and communications industries. This capacity will provide a powerful future partner for public health education messages that benefit from new understandings of what motivates in the marketplace, including what motivates the very behaviors public health may seek to change.

**COLLABORATION: GLOBAL IMPERATIVE
AND NATIONAL OPPORTUNITY**

As epidemiology changes and more diverse health challenges spread across economies and population segments, the future will see both the opportunity and the imperative to broaden and deepen partnerships and coalitions. The interests of business, voters, government, of labor and management, of patients and providers can be aligned to create new opportunities for health leaders to be seen as partners across national economies.

There is, of course, significant international precedent for cooperative approaches to health, especially as regards infectious diseases. Formed in 1999, the Global Alliance for Vaccines and Immunization (GAVI) is a collaborative effort of international organizations, bilateral agencies, governments, research institutes, philanthropy, and the pharmaceutical industry to expand vaccine and immunization research and provision. GAVI is focused on using collaboration to expand immunization commitment and availability in developing countries.

Similarly, the Global Alliance for TB Drug Development combines the expertise and resources of private industry, academic research, philanthropy, professional and disease associations, and public agencies in an attempt to spur the pace of discovery and development of a new generation of drugs to address the global tuberculosis resurgence. The approach of the TB Alliance is to invest resources as an incubator rather than a grant maker, to take advantage of scientific advances and array its resources to ensure continued momentum toward drug development, rather than acting as an initial source of research funding.

Vaccines and tuberculosis do not stand alone, of course. Similar partnerships have been developed for malaria, trachoma, guinea worm, onchocerciasis, leishmaniasis, polio, maternal and neonatal tetanus, lymphatic filariasis, and sleeping sickness. All are problems with complex causes whose

resolution requires more skill, expertise, and resources than any one organization can bring to bear. Multinational pharmaceutical companies are part of all of these efforts, in tandem with non-profits, academic medical centers, professional associations, and public agencies. The newest model in international cooperation is the Global Fund to fight AIDS, Tuberculosis, and Malaria.

Within countries, there is promise for creating such collaborative arrangements that attract professions, industry, and government within health sectors, and those who also share health care stakes in other sectors. In transition countries particularly, changing demographics and disease patterns create long-term stakes for a spectrum of organizations and leaders. The power of health care as a convening issue where noncommunicable disease mortality is overlaid on continued concern for infectious disease is great because no one is spared risk. Mutual interests in defining better approaches to risk management and, in creating financing mechanisms for those approaches, may be more easily identified than in the past. Program portfolios based on collaborative strategies between the U.S. and its partner countries can be the center of gravity for drawing wide-ranging networks of institutions within countries to the health tasks at hand.¹²⁴

IMPLICATIONS FOR THE PHILOSOPHY AND PURSUIT OF “FOREIGN ASSISTANCE”

After more than four decades, foreign assistance programs in health, focused largely on public health endeavors aimed at women of reproductive age and children under five, look out on a changed health landscape. Decisions about how to allocate and manage “aid” on that landscape can be guided by various considerations.

First, resources confront a growing diversity of complex problems many of which will be of increasing seriousness. The world is very different than it was even 20 years ago; it will be different still 20 years hence. What is striking is the progress that has been made, albeit with continued serious lags in the least developed countries. Entirely new generations of public health problems require entirely new portfolios. Health conditions not previously considered part of a “foreign assistance” portfolio are increasingly worthy of attention. New skills, such as finance, become as important as public health credentials.

Second, progress in health is not just in health programs. Health portfolios must be interdisciplinary, combining the best of health and medical innovation with simultaneous attention to problems as diverse as capital investment capacity, biofortification in agricultural systems to correct micronutrient deficiencies, wireless communication distribution systems, and women’s education. In turn, this will mean that portfolios will need to be fairly slim; one cannot undertake multiple complex partnerships in one place (let alone many places) at once. Limited resources means being selective about investments with an eye to their economic contributions, staying rigorous and brutally honest about measuring impact, and being insistent on the long-term self-reliance of partners.

Third, public health challenges of tomorrow argue for flexibility. No longer are there simple categories of health challenges, if there ever were. Nor are the challenges defined by narrow age categories or by gender. Achieving equality in partnerships means that the U.S. must have the flexibility to adapt the discussion to priorities as defined by the emerging health conditions. Accelerating the progress of some countries still in the grip of conventional global health and disease problems must be combined with the ability to help other countries address new challenges not conforming to old categories.

Fourth, despite 40 years of effort, health progress in some countries continues to lag and only slow progress is projected for the future. Clearly quality, impact and sustainability have remained elusive. The prospect of continuing need for future investment in conventional problems argues for frank and open discussion with partners on new approaches to achieving results. Newly recognized problems with impact and sustainability suggest that money is not at the heart of the matter. The partnership dialogue with countries still struggling to make health progress requires that entirely new strategies be explored and developed.

NOTES

By way of caveat, all projections depend on assumptions about the present situation, about cause and effect, and about the continuation of past trends at future times. So, the farther out the projections, the more vulnerable they are to error.

1. Raymond 2002.
2. Freedom House 2002. Infant mortality reports are from the World Bank (1999).
3. Kaufman, Kraay, and Zoido-Lobaton 1999.
4. Pritchett and Summers 1996.
5. WHO 2001d. The report acknowledges, “Although all of

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the studies mentioned in this paragraph attempt to separate direct effects of health from a poor institutional, policy and governance environment more generally, we recognize that further research with more refined data ...will shed further light on the specific effects of health versus other social conditions that may be correlated with health.”

6. UNESCO, various years.
7. UNESCO, various years.
8. Unless otherwise specified, demographic data are taken from the United Nations' 2000 estimates. See United Nations (2001). All projections are from the Medium Variant model. The assumptions behind this model include: that fertility in high fertility countries declines at an average pace of nearly one child per decade starting in 2005 or later; that fertility in medium-fertility countries reaches replenishment before 2050; and, that fertility in low-fertility countries remains below replacement during much of the projection period, reaching by 2045-50 the fertility of that cohort of women born in the early 1960s or, if that information is lacking, reaching 1.7 children per women if current fertility is below 1.5 children per woman or 1.9 children per woman if current fertility is equal to or higher than 1.5 children per woman.
9. UN 2001. Unless otherwise noted, data for fertility analysis is taken from *World Population Prospects 2000*.
10. UN 2002.
11. UN 2002.
12. UN 1999.
13. UN 2002.
14. Sinding 2000.
15. Bulatao 1998.
16. Merrick 2002.
17. Freedman 1997.
18. For further summaries of alternative views, see Sinding (2000), Eberstadt (2000), and Hernandez (1981).
19. National Research Council 1986.
20. Birdsall and Sinding 2001.
21. Merrick 2002.
22. Freedman 1997.
23. Raymond 2002.
24. Stanecki 2002.
25. UN 2001.
26. The 11 countries are Botswana, Central African Republic, Kenya, Lesotho, Malawi, Mozambique, Namibia, South Africa, Swaziland, Zambia and Zimbabwe.
27. UN 2001.
28. See Kault (2000) for an example.
29. See Kault (2000) for an example.
30. Smith and Ebrahim 2001.
31. Raymond 2002.
32. Ebrahim 2000.
33. UN 2001.
34. Raymond 2002.
35. Walker 2001.
36. OECD 2001.
37. CSIS 1999.
38. Mason, Lee, and Russo 2000.
39. George 1998.
40. Projections based on the Medium Variant models of the United Nations' *World Population Prospects 2000*. UN 2001.
41. UN 2001.
42. UN 2001.
43. Projections based on the Medium Variant models of *World Population Prospects 2000*. United Nations 2001.
44. See for example, Hertz, Hebert and Landon 1994.
45. Rao and others 1996; Vitora and others (1992); Bender and McCann (2000); Adentunji (1995); Kiros and Hogan (2001); Mahalanabis (1996). An alternative analysis is presented by Pena (1999) looking at 30-year influences. Maternal education was important in fertility decline, which in turn contributed to infant mortality decline, but direct health interventions in poverty

groups had an important independent influence.

46. The education effect is pervasive around the globe. In Norway, for example, infants of women with less than 9 years of education are three times more likely to die of neonatal causes compared to those of women with 12 years or more of education. Cnattingius and Haglund (1992).
47. Adentunji 1995.
48. USAID 2001.
49. Data from UNICEF (Raymond 2002) and the U.S. Census Bureau (2000) point in opposite directions, with the former showing improvement and the latter deterioration. Possible reasons for the rise in mortality may involve changes in social safety net and care giving patterns. The may also, however, reflect changes in data collection. Under the Soviet system, a child was not declared alive unless it weighed 1500+ grams. At a lesser weight, or if the child did not survive 7 days, it was classified not as a death but as a still birth. These data collection differences are unlikely to fully explain the mortality patterns, however, as new definitions and registration systems are not universally applied in the region.
50. Gillespie and others 2002.
51. Kobinsky and others 2000.
52. USAID 2001.
53. Ahmed and others 1999.
54. Ahmed and others 1999.
55. Inter-agency Group for Safe Motherhood. 1998.
56. Though the trends analyzed in this section are clear, they should be seen as orders of magnitude in causes of death rather than as reliable data points. Only 77 countries worldwide collect data on causes of death, often for just 5–20 percent of their populations. Moreover, health systems often have limited diagnostic capacity. And, absent autopsies or examinations of underlying causes, multiple diseases make it difficult to attribute deaths to a single cause.
57. World Health Statistics for 2000 contains data based on new life tables for 191 countries, and mortality data are calculated for 5 “mortality strata.” Not every stratum is present in every country; the data presented here utilize the lowest (i.e., highest mortality pattern) stratum common to all regions.
58. WHO 2001b.
59. Murray and Lopez's data is presented in Seedat (2001).
60. WHO 1998.
61. Deen and others 1999.
62. See for example, Reddy (1993); Enas, Yusuf and Mehta (1992).
63. Pearson 1999.
64. Walker and Segal 1997.
65. From WHO, World Health Statistics Quarterly, various years.
66. National Intelligence Council 1999.
67. Patz, Engelberg and Last 2000.
68. MMWR 1999.
69. MMWR 1999.
70. Stanecki 2002.
71. Stanecki 2002.
72. Morrison 2001.
73. Collins and Rau 2000; Stanecki 2002. See also Stover and Way (1998).
74. Estimate from the Health Economics and HIV/AIDS Research Division of the University of Natal, Durban in 2001.
75. Kelly 1999.
76. Fauci 1999.
77. Estimate by ING Barings. Raymond 2002.
78. Estimate from the Health Economics and HIV/AIDS Research Division of the University of Natal, Durban. 2001.
79. In 2000, the UN Security Council began to take up this issue. See also Sepkowitz 2001
80. Fauci 1999.
81. Steinbrook and Danzen 2001.
82. Steinbrook and Danzen 2001.

83. Harris, Gardiner 2001. "Adverse Reaction: AIDS Gaffes in Africa Come Back to Haunt Drug Industry at Home." *Wall Street Journal*, 23 April. Harris's article is about a study of drug costs by Joseph MiMasi of Tufts University.

84. Raymond 2002.

85. See Kault 2000.

86. Raymond 2002.

87. WHO 2001c.

88. NIC 1999.

89. NIC 1999.

90. NIC 1999.

91. WHO 1999.

92. WHO 1999.

93. WHO 1999.

94. Cohen 2000.

95. WHO, Vaccine Surveillance, 1980–1999.

96. Saade, Bateman, and Bendahmane 2001.

97. Raymond 2002.

98. Inter-agency Group for Safe Motherhood 1998.

99. USAID 2002.

100. Filmer, Hammer, and Pritchett 1998.

101. Phillips and Phillips-Howard 1996.

102. Data calculations based on World Health Status Report, 2000. Raymond 2002.

103. Raymond 2002.

104. Taylor, Shakoor, Behrens, and others 2001.

105. Raymond 2002.

106. Morse 1996.

107. WHO 2002.

108. Raymond 2002.

109. Schieber and Maeda 1999.

110. Estimates vary depending on setting. A four country study found that \$20 per fully immunized child is an approximate average. See Kaddar, Levin, Dougherty and others (2000). The cost of adding Hib to the mix will be about \$10 for the 3-dose regime.

111. U.S. Congress Joint Economic Committee, as reported in Morton Kondracke, "Investing Billions in Health Research Can Save Trillions," *Roll Call*, 6 May 2000.

111. This is approximately the public procurement cost in Russia. Choosing a higher unit cost for anti-hypertensives, of course, would only magnify the illustration of the life-time costs of chronic disease management relative to immunization.

113. Peterson 2001.

114. Soderman and others 1997.

115. Islam 1996.

116. Krause 2000.

117. Nolan 2001.

118. Black, Bryce, Burnham, and Troedsson 2001.

119. Raymond 2002.

120. Raymond 2002.

121. Mayur and Daviss 1998.

122. *Tri-State Trends* 2000.

123. See Harmon, A. 2002. "Good (or Unwitting) Neighbors Make for Good Internet Access." *New York Times*. 4 March. Also see Markoff, J. 2000. "The Corner Internet Network vs. the Cellular Giants." *New York Times*. 4 March.

124. An interesting example of such collaboration among professional societies across borders is the Renal Sister Centre Programme of the Commission to Advance Global Nephrology of the International Society of Nephrology which is developing collaborative relationships for kidney disease between Bolivia, whose domestic resources are virtually non-existent, and nephrology centers in developed countries, with an emphasis on developing protocols which are appropriate to Bolivia and which also focus on elements of kidney disease which are known risk factors for cardiovascular morbidity and mortality. See Schieppati, Remuzzi, and Garattini (2001).

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MITIGATING AND MANAGING CONFLICT

CHAPTER 4

SINCE PEAKING IN THE EARLY 1990s, THE NUMBER of new internal conflicts has been declining around the world—reason for cautious optimism.¹ Although violence can always reappear or emerge along new lines in many parts of the world, the politics of violence appear to be slowly giving way to the politics of accommodation. Much can be learned from places where this change has occurred and from places where violence should have occurred but has not.

Consider the Russian Federation, where the central government has negotiated autonomy agreements with 40 of the country's regions. Though far from perfect, these agreements may have helped avert the kind of ethnic and religious violence seen in Kosovo and Chechnya. They should serve as models for other countries and regions grappling with ethnic diversity and secessionist bids.

A peaceful, stable world order is a top priority for U.S. foreign policy, as President Bush described in the National Security Strategy, and foreign assistance can help achieve it. But before assessing the many programs that might be effective in addressing this challenge, it is crucial to first understand the issues involved. Otherwise, responses risk being ineffective at best—and harmful at worst.

Conflict is complex. It does not happen just because people are unhappy or greedy, because a country has resources to sustain it, or because state and social institutions are weak or perverse. It happens when causes at multiple levels come together and reinforce one another. It is the product of deep grievances, political and economic competition, irresponsible leadership, weak and unaccountable institutions, and global and regional forces.

Thus interventions to contain conflict cannot focus on a single dimension of it, such as ethnic tension or political exclusion. Nor can they be based at a single level, such as the community level or national level, because gains in one area can easily be undermined by setbacks in another. It is important to think about how problems emerge at multiple levels—and how solutions can be developed or strengthened at each level.

Such efforts are not a task solely for foreign assistance. They require close collaboration between diplomacy, the military, international financial institutions, the international business community, and

donors. And to support the collective crafting of effective and sustainable solutions, there first needs to be common understanding of the problem.

CONFLICTS SINCE THE COLD WAR

During the 1990s there were 111 armed conflicts in 74 locations. Half of these were major conflicts, defined as involving more than 1,000 battle-related military deaths. All but three of the major conflicts were internal—driven by clashes over control of a state’s government or territory.²

In recent decades internal conflicts have killed hundreds of thousands of people in direct fighting. Many more have been internally displaced or forced into refugee status. Moreover, these conflicts fuel religious and ethnic intolerance, creating hatred and fear that can take generations to overcome.

Civil conflicts have also blunted and reversed economic growth, destroyed investments, and slashed living standards. Violence takes a heavy economic toll not only on the countries that experience it but also on their neighbors. These wars also place a staggering financial burden on the international community. In the 1990s donors pledged more than \$60 billion to support recovery in war-torn countries—with World Bank lending for this purpose increasing by almost 10 times.³ International spending on peacekeeping jumped from \$464 million in 1990 to a high of \$3.6 billion in 1995. In 2001 such spending was estimated at \$2.5 billion.⁴

Although most recent conflicts are internal, their causes and consequences are increasingly global. Recent events in Central Asia, Central Africa, and the Balkans show that internal conflicts can spill across borders, sparking regional wars. Among the most intractable and worrisome are conflicts that create failed states—anarchic, lawless countries such as Afghanistan, the Democratic Republic of Congo, Liberia, Somalia, and Sudan. The National Security Strategy has identified failing or failed states as a serious threat to U.S. security interests.

Such settings have enabled transnational criminal organizations, terrorist networks, and local warlords to amass enormous power and wealth, blurring the distinctions between criminal and politi-

cal violence. Indeed, many of these groups’ activities—smuggling drugs, trafficking in humans, defending embattled ethnic and religious brethren, trading arms—require conflict to exist and to be profitable. Solving mass violence requires understanding that for these groups and individuals, violence is not a problem but a solution: a political and financial step up.

No single definition captures the many forms that deadly conflict has taken in recent decades. It can be explosive and short—in Rwanda genocide occurred in just a few months. Or it can drag on for years, as in Afghanistan, Angola, and Sudan. It can follow a traditional path, pitting military factions against each other as in Mozambique and Tajikistan. Or it can spill up from local or regional violence where institutions are weak and eroding, as it did in Somalia and threatens to do in Indonesia and Nigeria. Violence can take an explicit ethnic or religious form, as in Burundi and the Balkans. It can have a strong ideological component, as with the Maoist insurgency in Nepal. It can be nationalist or secessionist, as in Chechnya (Russia) and Aceh (Indonesia). Or it can be criminal violence on a new and devastating scale, as in Colombia and Sierra Leone.

UNDERSTANDING CONFLICT

Many in the development community believe that successful interventions in civil conflict, such as those in Mozambique and Namibia, have reflected better understanding of the underlying conflict dynamics than have unsuccessful ones, as in Angola and Somalia. Yet in many countries where the international community has intervened, careful attention to underlying causes has been missing.

Indeed, interventions by the development community are often criticized for addressing the symptoms of conflict—refugee flows, famines, ethnic riots—rather than the causes. This charge is exaggerated, not least because such factors often contribute to the resurgence or expansion of conflict. But it is true that development agencies have fallen short in their efforts to understand and address the issues that induce and sustain violence.

Understanding the mix of root causes in a country can yield important information about the potential for conflict, what conflict might look like if it

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WITHOUT RESOURCES TO FACILITATE THE MOBILIZATION AND EXPANSION OF VIOLENCE, MOTIVES FOR CONFLICT CANNOT FIND EXPRESSION

emerges, and how its effects will linger once fighting ends. Motives for violence can indicate which types of groups might mobilize, along what lines of division, and in what numbers. They can also suggest the likely location, scope, and nature of violence. Attempts to capture and control areas containing alluvial diamonds, for example, will look different from attempts to capture and control a state, which will look different from attempts to secede by an ethnic group. Thus root causes can provide information about the goal of violence, which can provide information about the resources needed to achieve that goal (box 4.1).

But motives are not enough. While root causes can generate enormous suffering or ambition, they cannot tell the full story about conflict. As long as people motivated by grievance or greed do not organize and mobilize along lines of division, incentives for conflict will likely remain local or dormant.

Without resources to facilitate the mobilization and expansion of violence, motives for conflict cannot find expression—no matter how deeply felt the grievance or strong the desire for economic or political gain. And even if a nation has such resources, the number of places where these conditions are met far outstrips the number where conflict actually occurs.

State institutions can address tensions and be responsive to the needs of citizens—or they can fuel discontent through repression, poor governance, corruption, and inefficiency. Civil society

groups can bridge lines of division—or they can exacerbate them by aligning with either side. Institutions can block access to resources for conflict by controlling the flow of arms or finding economic alternatives for potential recruits—or they can contribute to conflict by providing these resources to different factions. Perhaps most important, institutions can constrain the behavior of elites who see violence as a strategy for gaining power and wealth—or they can create conditions that foster their emergence, appeal, and room for maneuver.

In many ways it no longer makes sense to talk about internal conflicts using an exclusively state-based framework (box 4.2). National borders are extremely porous in most parts of the world, and many of the networks that sustain conflict—economic, ethnic, religious, political, criminal—are transnational.

A number of dynamics and trends have played critical and growing roles in recent violence:

- The politics of identity.
- The economics of violence.
- State and social (in)capacity.
- Predatory states and failed states.
- Regional and international causes.

THE POLITICS OF IDENTITY

The growing importance of ethnic and religious intolerance and extremism is one of the most dramatic features of conflict in the post-Cold War order. In the former Yugoslavia, throughout

Box 4.1. Transmigration to spontaneous uprisings

In Indonesia the transmigration program launched by the Suharto government was one of the root causes driving recent massacres of migrant Madurese by local Dayaks. Traditionally the majority in Central and West Kalimantan, Dayaks have seen their political and economic position erode since the program was launched in the early 1980s. Although the massacres have been painted as “spontaneous” uprisings in many accounts, there is evidence to suggest that local Dayaks used anti-Madurese rhetoric to garner support for their political ambitions.

Source: Morris 2002.

Box 4.2. Coffee and conflict—forcing producers to sell at depressed prices

In eastern Congo, long-standing, informal trading routes between Uganda, Rwanda, Burundi, and the Congo have been brought under the control of various rebel factions. These groups have used their local monopoly on violence to intimidate trading rivals, such as the Nande in Eastern Congo, and to force local producers to sell at substantially depressed prices. In some rebel-held zones, coffee producers have been forced to sell only to the leadership of the Mouvement de Liberation du Congo (MLC) and designated Ugandan buyers.

Source: Morris 2002.

Africa, and in many parts of Asia and the Middle East, identity has become more salient, not less.

A number of observers have tried to explain the resurgence of violent identity politics by referring to ancient animosities or tribal hatreds.⁵ This view, known as the primordialist view, holds that conflict between certain ethnic and religious groups is inevitable because of deep-seated, enduring historical antipathies. Essentially conflict was there all along—between Serbs and Croats, between Somali clans—but it exploded in the early 1990s because the lid was taken off ancient hatreds through the rollback of superpower control and the erosion of an artificial unity imposed during the Cold War.

Despite the devastating role of ethnic and religious hatred in recent conflict, most analysts reject the primordialist approach in favor of one that views identity as inherently flexible—something created by leaders and shaped by circumstance. These analysts point out that many groups who have fought recently, such as Muslims and Christians in Indonesia, have lived in relative peace for generations and that many others who have deeper histories of tension choose not to take up arms. They argue that even categories that seem as permanent as “Islamic” or “Serb” have changed over time and, critically from the perspective of understanding conflict, have adopted different definitions of threats and enemies. Finally, they point to the fact that while some ethnic myths used to justify violence are centuries old, others have been created in short order, often just before or after violence broke out.⁶

In trying to understand how and when identity turns violent, research has focused on competition, inequality, and discrimination between groups. If ethnic or religious differences overlap with other forms of real or perceived grievance, such as political or economic exclusion, it creates a volatile mix.⁷ The existence of a large, distinct ethnic or religious group in a country also raises the risk of violence.

If the largest identity group accounts for 45–90 percent of the population, a country’s risk of conflict doubles. Similarly, the higher is a country’s ethnic or religious diversity, the lower is its risk of conflict.⁸ Thus violence seems to be driven by the actual or potential dominance of one group over another rather than by difference alone.

Erosion of state authority and legitimacy also appears to increase the salience of identity. If state authority is weak or collapsing, many people turn to more immediate and local forms of legitimacy such as those based on clan, ethnicity, or religion. Moreover, membership in a group can provide benefits—food, protection, justice and order, social support—that become even more important when the state is no longer able or willing to provide them.⁹

If there is one dominant view on how identity becomes polarized and leads to widespread conflict, it is that elites foment ethnic or religious violence in an effort to gain, maintain, or increase their political or economic power.¹⁰ In the former Yugoslavia Slobodan Milosevic exploited anti-Albanian sentiment and Serbian nationalism in his efforts to topple Ivan Stambolic, his former mentor and leader of the Serbian League of Communists. Ethnic or religious scapegoating and “playing the ethnic card” have become among the most lethal, effective tools for gaining power. This development highlights the complexity of the relationship between different incentives for violence, as ambitious elites tap into deep-seated frustrations to advance a political or economic agenda—one that often serves their ends more than those of the group they claim to represent.

One reason ethnic and religious conflicts are so common is that ethnic and religious groups are extremely effective at mobilizing violence, providing both motives and means (box 4.3). Such groups can not only forge a sense of solidarity and articulate group goals, they can also monitor group members. Participation in violence carries heavy physical, economic, and emotional costs. No matter how strong the incentives for it, most people would rather have others do the dirty work. People in the same ethnic, religious, or regional group know each other. They are embedded in dense social and economic networks in which behavior can be easily monitored, information quickly gathered and shared, and sanctions for not participating put in place.

For example, genocide in Rwanda appears to have been facilitated by the country’s dense, hierarchical network of associations. Nearly every aspect of life, from the highest levels of government to hillside villages, is organized in a set of overlapping associations and voluntary groups. When Hutu extremists decided to launch the

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MANAGING CONFLICT*

Box 4.3. Holding on to power at any price

In 1983 President Numeiri unilaterally abrogated the 1972 Addis Ababa Agreement leading to a resumption of civil war. But conflict between northern factions rather than religious differences appears to be the main factor driving the resumption of civil conflict.

Because Numeiri had decimated the Communist party after its abortive coup in 1971, by the early 1980s radical Muslims were the only viable anti-government opposition. Young northern university students, together with other radical Muslims, formed the Muslim Brotherhood and became the principal threat to Numeiri's rule. While interviews among northerners showed that most supported Numeiri's moderate policy toward the south, he abandoned this moderate

position as the power and strength of the Muslim Brotherhood grew, helped by generous financial support from Saudi Arabia.

Numeiri, under threat from his right flank and forced to negotiate, began to stress his Islamic credentials by dressing in Arab garb and pressing for the shari'a. Moderate Muslims who protested, such as the long-time leader of the Muslim Republican Brothers, were executed to appease the fundamentalist challenge to his rule. So, fear of his own radicals rather than the desire to Islamize the south initially drove Numeiri to intimidate the south, driving Sudan into its second civil war.

Source: Morris 2002.

genocide, these groups made it easy to convey information about what was to be done and when, who was to be killed, and, most important, who was and was not participating in the killings. When the price for not participating was the threat of punishment by neighbors, officials, or, worse, roving gangs of Interahamwe (the Hutu extremists), many people had little real choice. This is not to excuse or justify what happened, but merely to point out the importance of local knowledge—that is, the ability to monitor and sanction behavior at the micro level.¹¹

In turning away from simplistic notions of ethnic or religious rage, current research on identity presents a more optimistic assessment of the potential for conflict. By looking at the benefits that membership in an identity group provides and at how elites can use ethnic organizations to advance political and economic agendas, the research also points to a broad range of possible interventions for donors. It does not minimize the power and appeal of ethnic and religious extremism. It recognizes that once identity is activated or people are targeted for belonging to a certain ethnic or religious group, relationships become more rigid and antagonistic, leaving little room for moderation or compromise.

THE ECONOMICS OF VIOLENCE

Economic factors can help cause and sustain violence. New research is examining not only how factors such as economic decline and corruption fuel discontent, but also how violence and insta-

bility are used to gain access to scarce economic resources and how war economies sustain violence and undermine efforts to build peace long after the cessation of hostilities.

Among the strongest findings in recent research is that stagnant and negative economic growth are highly correlated with civil conflict. An economy growing by 5 percent a year is about 40 percent less likely to see conflict than an economy declining by 5 percent a year.¹² Several factors explain this link. Economic collapse and deep poverty, particularly when tied to severe economic inequality between groups, can feed into a strong sense of grievance. They also imply limited state capacity to make economic concessions to opposition groups and, on the coercive side, to exert military or police control over violent opposition or criminal elements. Among the most destabilizing effects of economic decline is that it can generate incentives—particularly among young unemployed people—to participate in violence for financial gain.

If corruption or patronage is added to the mix, particularly if corruption flows along ethnic or other group lines, economic decline and deep poverty also imply that competition for political and economic power will be increasingly zero-sum. If state power is the only route to wealth and exclusion from these institutions means abject poverty, competition for control of these institutions will likely be intense, protracted, and deadly.

Shadow economies, war economies, and greed. As countries slide closer to conflict, economic activities

emerge that feed into and sustain it. Often referred to as war economies or shadow economies, these include activities such as smuggling drugs, trafficking in humans, illegal logging and mining, looting and banditry, and providing security in an insecure environment (box 4.4).

At a minimum, these activities require weak or no state control over territory and economic activity. At a maximum, they require overt violence to be profitable. As noted, some individuals do extremely well from war. Between 1992 and 1996 President Charles Taylor made more than \$400 million a year from the war in Liberia. Since the early 1990s UNITA (National Union for the Total Independence of Angola) and its network of local traders, middlemen, and regional commanders have controlled 70 percent of Angola's diamond trade, generating up to \$3.7 billion in revenue.¹³

Apart from the high stakes associated with controlling valuable lootable commodities such as coca or diamonds, micro-level economic incentives are also critical components of conflict. Separate studies of the Balkans point to a common development in many recent conflicts: the participation of young men who, with few economic options, view the theft, smuggling, and banditry that accompany violence as a route to status and personal enrichment. These goals, far

more than ardent beliefs in the nationalist appeals of ethnic demagogues, were the true motivation for much of the violence in the Balkans.¹⁴

Meanwhile, in Indonesia extremist Christian and Muslim militias quickly sprang up to defend their embattled brethren across the archipelago. But many of these groups have been implicated in predatory economic activity in conflict zones, from extorting money from refugees fleeing the violence to smuggling arms. Where the economy is no longer able or willing to provide legitimate economic opportunities, many ordinary people turn to such activities as a survival strategy.

While these activities can trigger violence as groups compete over valuable commodities or try to capture income from illegal businesses or corruption, they also play a powerful role in sustaining violence once it is under way. In many recent conflicts the income from these resources has been used to buy weapons, pay recruits, and bribe government officials. For example, the Armed Revolutionary Forces of Colombia (FARC) has collected substantial revenue by imposing taxes on coca producers operating in areas under its control. This revenue is then used to support the war effort.¹⁵ It is also increasingly apparent that diamonds helped finance the Revolutionary United Front's bloody reign in Sierra Leone and have been a major source of income for Osama bin-Laden's al Qaeda network and other terrorist organizations.¹⁶

Financing also comes from diaspora communities—particularly those in the West, who are better off than their counterparts in developing countries.¹⁷ One compelling example concerns the Tamil separatists in Sri Lanka. The rebellion has been concentrated in the northern and eastern parts of the country, areas with few valuable natural resources. As a result the decades-old conflict has been sustained through an extensive network of Tamil communities in North America, Europe, and Asia who provide funds for weapons, communications equipment, and other supplies.¹⁸

Competition for and control of natural resources. Natural resources—renewable or not, degraded or not, scarce or not—represent an important source of wealth and power in developing countries. In looking at recent conflicts in Kenya, South Africa, and Zimbabwe, land represents a lucrative prize in an elite competition driven by political factors.¹⁹ Land is also an important tool for elites seeking to mobilize support. It can be used to buy support,

*YOUNG MEN WITH FEW
ECONOMIC OPTIONS VIEW
THEFT, SMUGGLING, AND
BANDITRY AS A ROUTE
TO STATUS AND
PERSONAL ENRICHMENT*

Box 4.4. Opium for conflict

Drug trafficking has proven to be a crucial source of revenue for rebel groups, terrorist networks, and governments in dire economic straits. In Afghanistan revenues from opium helped to finance the war against the Soviets in the 1980s. And opium has been identified as a main source of revenue for both the Taliban and Al Qaeda.

Afghanistan is home to an elaborate global system of trade and production, making it the largest source of opium in the world. Although the ban led to an increase in opium prices within Afghanistan, the distribution of opium from stockpiles controlled by independent drug traffickers along the borders of Afghanistan ensured ready availability and low prices outside. This dynamic enabled the Taliban to continue to finance their control of the country and support terrorist activities through selling opium.

Source: Morris 2002.

**MITIGATING AND
MANAGING CONFLICT**

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as in Zimbabwe, or as a powerful psychological weapon, as in the hands of Milosevic, who gained strong support among Serbs for his stance on sacred Serb spaces in Kosovo.

Environmental scarcity has an indirect link to violence by heightening tensions between groups forced to compete over dwindling resources, causing chronic poverty and eroding the state's capacity to respond (box 4.5). But elites foment violence through their attempts to control access to natural resources.

Population, migration, and urbanization. There is little evidence that population growth is a cause of widespread violence. But several demographic shifts have clear links to conflict.²⁰ These include:

- An expanding agrarian population where land is scarce or controlled by large landholders.
- An expanding urban population in the context of economic stagnation or decline.
- Rapid increases in young, educated professionals who have no opportunities for political or economic advancement.
- The presence of a large youth cohort, or a disproportionate share of 15–25-year-olds in the population.
- The migration of distinct groups into regions already settled by groups with a strong sense

Box 4.5. Cows and guns

It took five cows to buy an AK-47 in northwest Kenya, down from 15 in 1986. This drop in price reflects a dramatic increase in the availability of small weapons worldwide, with massive surpluses in some bad neighborhoods, such as the Horn of Africa, the Balkans, and Central Asia. These weapons are changing the social and political fabric of many small communities.

Among the Pokot of northwest Kenya power used to be vested in village elders. It now belongs to young men with guns, and traditional rules of engagement no longer apply. For example, when a neighboring village used its new found guns to capture Pokot cattle, the Pokot, also heavily armed, retaliated by killing women and children, breaking a long-standing taboo. The lethal response has made it very difficult, if not impossible, to return to traditional and more peaceful ways of conflict resolution.

Source: Morris 2002.

of identity, or demographic shifts between these groups.

Common to all these shifts, and what makes them so destabilizing, is that population growth or demographic change is not matched by an increase in the absorptive capacity of the state, markets, or society. While this imbalance is likely to fuel anger among people denied access to political or economic opportunities, many of these demographic shifts also provide a ready pool of recruits—landless, jobless, young, and uprooted—to movements seeking to mobilize violence.

Widespread political upheaval is often preceded by a rapid increase in the number of young people with an advanced education but few opportunities for economic or political advancement.²¹ A large portion of young people in a society, separate from the question of education, also appears to be a critical risk factor in terms of a country's vulnerability to conflict.²² This demographic group appears to be a particularly easy target for religious, ethnic, or political ideologues seeking to mobilize violence—and the larger is the group with no hope for the future, the easier it will be to find recruits.

Another salient demographic shift is the rapid transfer of rural populations to urban areas. In 1950 less than 30 percent of the world's people lived in urban centers.²³ But by 2006 a critical threshold will be crossed, when half the world's people will reside in urban areas. Polluted air, filthy water, and inadequate sanitation affect hundreds of millions of the world's poorest urban inhabitants. Infant mortality rates are four or more times higher in poor or marginal urban areas than in more affluent neighborhoods.²⁴ A host of psychosocial ills also accompany rapid urbanization, including high crime and violence among young adults.

Whether rapid urbanization is linked to conflict depends on a state's ability or willingness to implement municipal policies that improve public welfare and economic growth. Where urban growth is not matched by an increase in economic growth, the risk of conflict increases. For example, Sub-Saharan African countries with high urbanization and below-average GDP growth are at twice the risk of political conflict as African countries with above-average per capita GDP growth. Particularly troubling from this

perspective is the fact that the two megacities in Sub-Saharan Africa, Lagos and Kinshasa, are among the world's poorest—yet rank near the top of global megacities in their population growth.

STATE AND SOCIAL (IN)CAPACITY

The strength and health of political, economic, and social institutions are a critical—perhaps the most critical—factor in determining whether conflict will emerge. Institutions mediate internal and external pressures. They can either do so well, or they can fail spectacularly.

The institutions of healthy democracies are able to engage with many causes of violence, whether or not they are always able to find solutions to these problems. A robust and inclusive civil society can articulate group goals, monitor abuses of power, and propose effective solutions to many of the grievances discussed earlier. In a democracy, even if a particular ethnic or economic group is not able to immediately resolve its most pressing issues, political inclusion and effective participation guarantee that it can continue to engage in a political search for solutions. Finally, a strong and accountable security sector and an equitable and impartial rule of law can guarantee personal security and property rights, leaving little room for the opportunistic behavior favored by those focused on gaining from conflict.

These institutional features of democracies have a powerful dampening effect on civil conflict. They keep a country peaceful through more than the mere absence or elimination of causes; they also promote nonviolent solutions to difficult problems. Conflict is a normal part of political life and social transformation. Maintaining a legitimate space for opposition and protest can help keep societies from resorting to violence.

Good governance is a critical component of this strength. Hugh Miall examines the relationship between good governance and the emergence of civil conflict.²⁵ Using measures of good governance derived by the World Bank for 113 countries, he finds that 70 percent of countries that score well in terms of good governance experience no violence—while just 37 percent of countries with bad governance remain free from conflict.

But even if consolidated democratic institutions are good at managing conflict, the path between

authoritarian regimes and democracy can be dangerous.²⁶ A large and growing body of evidence shows a relationship between political change and conflict. Many of the internal conflicts that erupted at the end of the Cold War occurred in nations poised on the brink of moving away from authoritarian rule. In places from Rwanda to Tajikistan, opening the political system to new voices and demands led to violent backlashes from the elite and widespread conflict.

There are inherent political contradictions in most partial or transitional democracies: tensions between demands for more effective participation and the desire of political elites to maintain or enhance their control. Any change in the distribution of power creates new channels for competition, draws in new actors, creates new threats or heightens old ones, leads to new systems of incentives and rewards, opens up new possibilities for resource allocation and patronage, and often leads, at least in the short term, to the erosion of institutional constraints governing the behavior of powerful actors. In this fluid environment elites will often try to use violence to advance their political or economic agendas.

In the context of political transition, elites often view violence as the best strategy for achieving political or economic objectives—and in this sense it is a rational response to certain configurations of threat and opportunity. For example, there are strong reasons to believe that Milosevic viewed conflict as inherently useful. Violence directed against other ethnic groups in the former Yugoslavia not only rallied faltering domestic support by deflecting attention from pressing political and economic issues, it also provided a “legitimate” pretext for suppressing the media and elements of the opposition. And it strengthened, at least temporarily, his base of support in his ruling coalition.

In addition to the political benefits of violence, conflict can also lead to financial benefits that can be used to buy the support of key participants in a conflict. For example, international sanctions made the control of illicit trade by a small circle around Milosevic extremely profitable.²⁷ Similarly, much of the motivation for the continued presence in the Democratic Republic of Congo of Rwanda, Uganda, and Zimbabwe is the need to buy off key elites with resources derived from the conflict.²⁸ The greater is a regime's vulnerability to political challenges from within the

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MITIGATING AND MANAGING CONFLICT

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ruling coalition, the stronger is the incentive to contain, neutralize, or buy off these challenges.

PREDATORY STATES AND FAILED STATES

A special category of political change is the case of institutional erosion or collapse that manifests in weak or failed states. In much of Asia, the Middle East, and Africa, internally divided states, often lacking political legitimacy, are unable or unwilling to provide even the most basic services and security for their citizens, let alone adhere to democratic principles.²⁹ These states are not transitional in the usual sense of moving from autocracy to democracy or the reverse. Instead, they are moving toward chaos—but chaos with its own peculiar logic and structure.

The erosion of institutions may be due to many different things, but—returning to the notion that instability can be a powerful tool in the hands of elites—there may be groups and individuals in a society that will deliberately undermine institutions if by so doing they strengthen their political or economic position. A key tactic of leaders in shadow states, with Nigeria’s Sani Abacha a prime example, is to foster conflicts within and between local communities and factions.³⁰ These divisions, which consolidate elite power, can easily become the fault lines of future conflict.

The weakening of institutions that safeguard property rights, collect taxes, provide security, mobilize in response to natural disasters, and ensure economic growth not only feeds societal grievance, it also leaves room for the emergence of autonomous and competing centers of power and predatory economic dynamics. As discussed earlier, as the state retreats, people often turn to smaller, closer-knit groups—family, clan, religious, ethnic, or militia—for security and survival. These groups then become involved in conflict as they compete over access to scarce resources.

While many risk factors may be in place—ethnic or religious tension, poverty, environmental scarcity—whether violence emerges is largely a function of how well leaders and institutions deal with these risks. Ethnicity need not become polarized, but it will be if ethnic criteria are used as a basis for political or economic discrimination and if elites see ethnic outbidding as an effective tool for gaining or maintaining power. Environmental degradation or competition over

land does not have to lead to poverty or destabilizing population transfers, but it probably will unless political institutions can provide economic alternatives that do not rely on the exploitation of scarce resources or can mediate between groups seeking to use the same resource. State structures can either be flexible enough to incorporate emerging elites or, through inflexibility and a narrow base of support, can turn these elites away from engagement with the political system and toward extrasystemic violence. And even if there are elites committed to overturning the existing system no matter its form, effective institutions can undercut their effectiveness and appeal.

REGIONAL AND INTERNATIONAL CAUSES

As noted, there are clear limits to using a purely state-centric framework, even when dealing with something traditionally defined as “internal” conflict. The past decade has seen an exponential increase in the number of transnational actors. Many pursue laudable goals of protecting human rights or monitoring environmental abuses. But many others are classic conflict entrepreneurs who feed on instability.

Hernando de Soto, in his most recent book, *The Mystery of Capital*, argues that, by not giving the majority access to expanded markets, a fertile field is being seeded with the potential for confrontation between the privileged few able to take advantage of globalization and those left in poverty.³¹ Globalization certainly did not cause conflicts in places like Colombia and Sierra Leone, but it has made it easier for warring parties to establish the transborder economic networks they need to survive. War economies are rarely autarkic; they depend on global networks and markets. To the extent that globalization, intensification of transnational commerce, and information technology have made such access easier, they have also increased the ability of elites to derive economic benefits from violence and conflict. While a great deal of international attention has focused on how the global trade in illegal goods has fueled conflict, such as the drug trade in Afghanistan and Colombia, trade in legal commodities bears greater responsibility for sustaining conflict. In the early 1990s, for example, Liberian warlord Charles Taylor was supplying, among other things, a third of France’s tropical hardwood requirements through French companies.³²

Another factor linked to conflict is whether a state is in a “bad neighborhood,” meaning one where other conflicts are occurring or have recently occurred. These regions—the Balkans, the Horn of Africa, and parts of Central Asia, for example—are awash in transboundary risk factors. These include refugee flows, small arms and light weapons, porous borders, and weak states that can provide sanctuary and serve as a base of operations for both military and economic activity. The easy availability of small arms has had a particularly devastating effect on the scope and lethality of recent conflict. The end of the Cold War freed up massive surplus arsenals in many states, and the black-market trade in weapons is thriving.³³

Kosovo is a compelling example. While not dismissing the underlying causes of the conflict, one explanation for the timing of the violence is that during the 1997 riots in Albania a large number of armories were looted, dramatically increasing the availability of weapons in the region. The glut of weapons in the region made a massive buildup by the KLA much cheaper and easier than it otherwise would have been, and may have triggered the outbreak of a more substantial military effort.

In these war-torn regions refugee or exile populations can play an extremely destabilizing role. At a minimum, refugees pose heavy economic burdens on host countries. At the extreme, they can bring political, ethnic, or religious ideas with them that threaten the governments of their host nations. Their plight can inflame tensions between communities in host nations by radicalizing populations who share the same ethnicity or religion. The transboundary character of many of these problems requires a focus on solutions at the regional or even global level. Foreign assistance, as currently structured, is not well equipped to deal with these problems.

WINDOWS OF VULNERABILITY AND OPPORTUNITY

If all these causes exist, there will be periods of vulnerability when certain events—elections, natural disasters, riots, assassinations—can trigger full-scale violent conflict in a region, country, or group of countries. Unlike, say, economic decline or ethnic outbidding, such events are not causes of conflict. Instead, they are moments when underlying causes can come together in a brief window, a window ideally suited for mobilizing

broader violence. But such events can also have extremely positive outcomes if the tensions that tend to emerge are recognized and handled well.

Many of these windows are random or unpredictable, such as economic shocks or natural disasters. Others, like elections, can be seen in advance. But while the international community may never be able to pinpoint the precise election or political assassination that finally tips a country over the threshold, it is certainly possible to tell that some places are ripe for conflict and that it is probably only a matter of time before it occurs. For example, if President Habyarimana’s plane had not been shot down in Rwanda, Hutu extremists would probably have found another pretext to launch the genocide.

Many of the more predictable windows of vulnerability involve events, or anticipated events, that threaten to rapidly and fundamentally shift the balance of political or economic power. Elections are the most obvious example. By definition, elections are competitive events with unpredictable outcomes, and conflict is inherent to the process. So, under certain conditions elections may catalyze rather than prevent widespread conflict. This is particularly likely if political power is the only route to economic power or if demographic or other changes threaten to upset a monopoly on power at the local or national level.

While elections are the most obvious example, any policy change that threatens to alter established patterns of political or economic control in high-risk environments could lead elites to mobilize violence. Decentralization is an example, as are legislative changes that govern the power of key players such as the military, or anticorruption programs that threaten to strip incumbent elites of their main source of income.

Other events that are less predictable but equally destabilizing are those that point out, in a dramatic fashion, the weakness, inefficiency, or corruption of the ruling regime. For example, political unrest often increases sharply after a large natural or human-made disaster, such as a hurricane, drought, flood, earthquake, or industrial accident that affects the environment.

What turns disasters into events triggering political unrest is the amount of blame that can be placed on the regime for causing a disaster or for

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having a particularly weak or corrupt response to one.³⁴ For example, because Nicaragua's Anastasio Somoza regime treated international aid flowing into the country after the 1972 earthquake as personal income rather than as resources for reconstruction, key business elites withdrew their support from the regime—a critical factor in its demise. Economic shocks can serve much the same role, as the events leading to Suharto's overthrow in Indonesia make abundantly clear.

FOREIGN ASSISTANCE, CONFLICT MANAGEMENT, AND CONFLICT MITIGATION

In thinking about how foreign assistance can influence the causes of conflict discussed above, it is useful to think about overt violence or open conflict as the middle part of a continuum dividing the stages of conflict, from before to after. At either end of the continuum is relative stability, not perfect harmony. Disagreements, divisions, and disputes still exist, but institutions can manage and channel them.

The closer a country moves toward conflict, the less able or willing leaders and institutions are to manage sources of tension and strain and the stronger those sources become. Factors that facilitate the mobilization and expansion of violence—large pools of unemployed young men, financial flows from diaspora communities, extremist ethnic militias, hate campaigns in the media—become more visible and important. In addition, elite manipulation of identity is likely to become more pronounced, as is opportunistic economic behavior.

The following activities show several ways that foreign assistance can break into the chain of events that fuel conflict.

YOUNG PEOPLE AND VIOLENCE

While research has shown a link between large youth cohorts and violence, large numbers of young people need not be destabilizing—and in fact, can be an extraordinary resource for positive change. At the heart of whether this group is an easy target for those seeking to mobilize violence is whether the existing system can offer them hope for a viable future. In this respect, working with local governments and business groups to

generate youth employment may be among the most important contributions that foreign assistance can make to conflict management and mitigation—particularly if these efforts are targeted to extremely vulnerable populations of young people, such as young men in urban areas.

Gearing education to available job opportunities and relevant skills training is another important intervention. And outside the economic realm there are a broad range of activities—sporting events, health programs, cultural events, environmental activities, democratic education, political participation—that can draw out the constructive rather than destructive potential of young people.

EDUCATION, TOLERANCE, AND CRITICAL THINKING

Recent events have brought home in a dramatic way how schools can be used to instill intolerance, ethnic and religious hatred, and blind obedience to authority. Curriculum reform and civic education programs geared to primary and secondary education can make an important contribution in this regard by teaching values such as tolerance and the importance of critical thinking. Innovative civic education programs in the Balkans and elsewhere have taught students the benefits of democratic participation by helping them identify pressing community problems, develop possible solutions, and take those solutions to local government officials. To the extent that these activities are explicitly designed to bring students from different groups together, they can help bridge lines of division by showing in a clear and direct way the benefits of cooperation in pursuit of common goals.

MEDIA PROGRAMS

If boundaries of group identity are flexible, then the way ethnicity and religion are portrayed by the media will shape how people view disagreements between groups. The Rwanda genocide shows how the media can fuel hatred and ethnic intolerance. But the media also have enormous power to bridge divides. For example, programs that train journalists to report on issues in ways that do not inflame intergroup tensions can be an essential component of assistance in high-risk settings, as is support to civil society groups that monitor the media for intolerant or exclusive rhetoric.

Model legal frameworks that address hate campaigns in the press can provide civil society groups, moderate political leaders, and international actors with the means to oppose inflammatory reporting on legal and ethical grounds. Finally, people in the midst of conflict have a pressing need for information, and the media can provide information about humanitarian assistance or disseminate accurate information to counteract the damaging rumor mills that inevitably start to churn during crises.

BRIDGING INSTITUTIONS

Deeply divided societies suffer from a dearth of institutions that transcend ethnic or other lines of division. But foreign assistance can strengthen organizations and associations that bridge—rather than reinforce—differences in a society. This can occur at many levels. For example, at the community level foreign assistance can strengthen cooperation by bringing ethnic groups together around shared goals, such as building a school. At regional and national levels donors can encourage the growth and reach of more formal institutions that cut across ethnic and religious lines, such as business associations, trade unions, or secular political parties.

Religious institutions can also do much to help in resolving conflict, the more so now that political leaders in developing countries hold less sway over their electorates. True, religious institutions can make conflicts worse. To be tapped, however, is their role as mediator and conciliator, as argued in the path-breaking work, *Religion: the Missing Dimension of Statecraft*.

BUSINESS PARTICIPATION

One underexplored but potentially important area for foreign assistance is the contribution that the business community can make to building peace. Legitimate business groups have a strong interest in maintaining stability and are often in a far better position than civil society groups to pressure actors in government or the security sector. Recent breakthrough in the decades-old conflict between the Sri Lankan government and the Tamil Tigers is a case in point, where the business community appears to have led the charge to bring the two groups back to the negotiating table.³⁵

GUIDING PRINCIPLES FOR ENCOURAGING STABILITY

Several principles must guide donors' work in high-risk settings. The first is that there are limits to what the international community can do to encourage peace and discourage violence. In severely divided societies it may be possible to reduce or manage tensions, but it is not possible to eliminate them—and policymakers should not pretend that it is. A durable peace cannot be imposed from abroad. Outside actors can raise issues that internal actors might not be able to, they can monitor events, and they can exert diplomatic, financial, and military pressure on leaders walking down a dangerous path. But conflict is ultimately the product of deep grievance and ambition, reckless leadership, zero-sum competition over political and economic power, weak or unaccountable institutions, and regional and global pressures. What is required is a change in attitudes and power inside a country and the will to address these issues. The international community has a range of policy tools that might help, but most of its influence occurs at the margins and takes years to accomplish.

Still, donors should recognize that their efforts matter a lot. All aid is political, particularly in countries at high risk for conflict. Foreign assistance represents a valuable resource in a highly competitive environment. It feeds into complex internal dynamics and often produces explicitly political results. These results can be positive but—intended or not—they can just as easily be negative. Donors need to accept and manage the heightened risks encountered in these types of environments. To some extent this means being more aware of the political aspects of any project and understanding how its design, implementation, and aims interact with underlying conflict dynamics. It also means consciously attempting to minimize the potential negative consequences of any project. But doing no harm does not mean avoiding all action. Rather, it means adopting a strategic framework that has at its core an understanding of conflict, then taking considered risks within that framework.

Among the most important things that donors can do is develop a deeper, context-specific understanding of what drives conflict. This will require a significant investment in research and

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analysis, both among donors and in countries where conflict programs are being considered. Much of foreign assistance's success in its work on health and population concerns, for example, stems from close collaboration between practitioners and researchers. But in conflict there is still a strong belief among many development practitioners that it is inherently random, driven by passion rather than calculation, and so not amenable to rigorous analysis or subject to outside influence. While there is still a long way to go on conflict research, since the mid-1990s scholars have made great strides in identifying the forces that cause and sustain widespread violence. If donors wish to emerge as leaders in this area and to expand the range of programs at their disposal, they need to base their work on the best available research.

As important as it is for donors to be aware of and use this research, it is even more critical that they invest in strengthening the capacity of local institutions to conduct research on conflict, and support local discussions on these issues. Unless all the major actors in a society are able to discuss what they believe to be the central causes of conflict, it will be extremely difficult to set priorities and devise effective solutions.

Many donors have programs that take this basic approach to identifying problems at the local level. While these local and subnational initiatives are an essential component of efforts to address conflict, national and regional efforts should be pursued as well, because local peace initiatives can easily be undermined by elites at higher levels.

Donors need to focus as much on engaging groups and individuals with incentives to engage in violence as on those committed to peace. Because of the difficulty of working in environments of conflict, donors tend to seek out like-minded groups: human rights organizations, religious groups, and women's groups committed to dialogue and peace. These groups have an important role to play in the search for solutions, but civil society groups have been asked to carry far too much of the burden in addressing conflict. Donors need to focus on the institutions and actors driving the violence, whether political elites and their followers, religious leaders, or the police. Arguing that most political elites are corrupt, for example, is not adequate justification for turning away from reformist elements in these institutions and working with them to find ways to constrain the behavior of

their colleagues—either by raising the costs of using violence or lowering the costs of nonviolent political participation.

Finally, a cross-sectoral, multidisciplinary perspective is crucial when designing programs in environments of conflict. Every major focus area in foreign assistance—from economic growth to agriculture to democracy and governance—has some bearing on the causes of conflict. A conflict lens should be applied to every active area in high-risk countries, rather than assuming that some areas are more relevant to conflict than others. This is probably the most important principle to keep in mind when designing a country program. Indeed, unless all the different sectors in a country work together, they often pursue programs that work at cross-purposes and undercut many of the important gains of recent decades.

NEW APPROACHES TO CONFLICT

New approaches to humanitarian aid have moved well beyond traditional “commodity-based” activities. Two such approaches are developmental relief and broader programming. In addition, the special requirements of pre- and post-conflict settings have resulted in a new form of transition assistance. These three approaches involve a broad array of activities, and debates on their merits are often limited by lack of common understanding of what they entail. Moreover, project implementation has been constrained by many obstacles, including:

- Limited donor resources for nontraditional programs.
- Insufficient staff with the skills and mindsets to conduct the more subtle political analysis that these approaches require.
- A tendency to rely on quick, high-visibility programming in emergency settings—neglecting the more far-reaching but less visible interventions that can flow from non-traditional analyses.

More research and detailed case studies are urgently needed to determine the effects of these new approaches.

Developmental relief. A 1995 workshop defined developmental relief as an effort to ease people's vulnerability to the cyclical effects of disasters and conflicts by providing aid in ways that build for the future. Focus areas include:

- Ensuring that relief strategies are tailored to the situation at hand, rather than relying on

- standard approaches or ideas.
- Identifying the capacities and vulnerabilities of disaster survivors and using the capacities in the relief process.
- Sustaining the livelihoods of affected groups in addition to saving lives.
- Strengthening local institutions rather than undermining or overwhelming them.³⁶

The concept of developmental relief has expanded dramatically since 1995. In a 2001 review of nine U.S. NGOs, the U.S.-based NGO consortium InterAction describes developmental relief as aid activities that “in addition to addressing immediate needs, also contribute to sustainable development *and peace*” (emphasis added).³⁷ With an expressed commitment to addressing the root causes of conflict, the NGOs interviewed describe a wide range of activities aimed at revitalizing economic and agricultural development, strengthening local participation, increasing the capacity of local partners and civil society organizations, and building peace and promoting reconciliation.

Developmental relief often involves improving understanding and making more creative use of market forces, ensuring that relief interventions are well timed (to avoid creating disincentives for harvesting or planting, for example), discouraging people from migrating away from their homes and livelihoods, distributing seeds and tools rather than food, providing cash for work activities that jumpstart the local economy and invigorate local markets, and supporting programs that build and expand on a community’s self-help capabilities. Some of these approaches have been so well incorporated into agency programs that they are now considered sound relief practices.

Peacebuilding efforts range from direct stand-alone interventions (such as peace education, provision of meeting space to bring together parties in conflict, and psychosocial work to promote individual healing as a step toward reconciliation) to programs that indirectly strive for interaction, collaboration, and interdependence among groups in conflict. An example of such a program is the creation of farmers associations that bring together formerly warring ethnic groups to buy seed and fertilizer at cost and sell their products on the market.³⁸

New program design tools involve “lenses” to better understand the local dynamics of conflict. Three of the largest U.S. NGOs (among others)

are experimenting with a “local capacities for peace” framework developed by the Collaborative for Development Action. The framework helps aid workers strengthen existing connections in a society, bringing people together, and avoid reinforcing divisions that perpetuate conflict.³⁹

Some critics consider developmental relief to be antihumanitarian in conflict settings. This criticism partly derives from concern that developmental relief places other objectives (such as capacity building) above lifesaving assistance and that its multifaceted programming approach undermines principles of neutrality and impartiality.⁴⁰ Capacity building and peacebuilding in conflict settings imply political (non-neutral) choices on whose capacity will be built and who will benefit from peace.

Though some aspects of developmental relief (such as stand-alone peacebuilding activities) may be more appropriately funded through nonhumanitarian accounts, rejecting this approach in conflict settings risks throwing the baby out with the bathwater. The seeds of many good ideas are still germinating under the rubric of developmental relief and bear continued nurturing and analysis.

Broader approaches. While great strides have been made in delivering material assistance under extraordinarily difficult conditions, little progress is evident on providing even the most rudimentary physical security for war-affected populations.⁴¹ Many aid agencies have traditionally sidestepped human rights issues, out of fear that such involvement would interfere with the provision of urgently needed supplies. But many conflicts of the past decade have brought aid workers face to face with human rights abuses, forcing reconsideration. “Aid officials are now more willing to concede the limited utility of sustaining life only to have it jeopardized by repressive governments or renegade non-state actors. The imperative to assist, framed in isolation from the concomitant commitment to protect, is now understood to produce humanitarian action of a short-sighted and threadbare variety.”⁴²

Like developmental relief, the broader approaches come in many forms. They might include diplomatic intervention, advocacy with politicians, programs that evacuate people at risk, programs that use the presence of international staff to reduce local violence, programs that help

DONORS NEED TO FOCUS AS MUCH ON ENGAGING GROUPS AND INDIVIDUALS WITH INCENTIVES TO ENGAGE IN VIOLENCE AS ON THOSE COMMITTED TO PEACE

protect women from sexual abuse and other forms of violence in refugee camps, and livestock programs that provide livelihood options to fighters who might otherwise engage in violence against civilians.⁴³

Some major U.S. NGOs as well as UN agencies like the United Nations Children’s Fund are reorganizing themselves to implement the new programming. Other humanitarian aid groups are forging partnerships with human rights groups to create strategies that draw on the strengths of each. This new collaboration reveals the asymmetry between the relief and human rights communities—with rights groups far fewer and less well funded.⁴⁴

As with developmental relief, some fear that the broader approaches are antihumanitarian because they elevate rights over access and the immediate alleviation of human suffering.⁴⁵ Placing conditions on humanitarian aid (such as respect for human rights) can lead to the denial of aid if governing authorities do not respect human rights, as in Afghanistan under Taliban rule. Still, human rights and humanitarianism are two sides of the same coin, and ending the “false distinction between assistance and protection (relief and rights) within NGO practice must be one of the great challenges” of the future.⁴⁶

Transition assistance. Transition assistance is directed toward countries that are either moving into or emerging from violence. In post-conflict settings transition assistance focuses on such key issues as:

- Improving security—for example, by reestablishing local police forces and reintegrating former combatants.
- Assisting with the return and reintegration of refugees and internally displaced persons.
- Improving food security through cash for work or agricultural programs.
- Restoring livelihoods and converting a war economy back to a peacetime profile.

In most cases no pretense is made that transition assistance is apolitical. Thus it is often disbursed through donor government contractors and local government entities rather than NGOs. It is designed to reinforce prospects for peace by raising people’s confidence that peace will bring tangible benefits. USAID and World Bank documents indicate that the process of disbursing aid—and its potential for unifying and giving hope to destroyed

communities—is as important as the end product (say, the school built or well rehabilitated). For example, community-driven development funds that require individuals in war-torn communities to identify needs, allocate resources, and work together can shift people’s mindsets away from revenge and toward a more hopeful future. Such an approach subtly but effectively facilitates “reconciliation through reconstruction.”⁴⁷

While transition assistance usually occurs after conflicts, there is growing interest and experimentation in delivering it to countries in the pre-conflict stage. Indeed, the World Bank has renamed its post-conflict unit the Conflict Prevention and Reconstruction Unit, and the United Nations Development Programme’s emergency office is now part of a bureau for Crisis Prevention and Recovery.

Increasingly, relief, development, and transition assistance are being implemented simultaneously. This approach reflects the fact that progress from relief to development is not linear and that diverse strategies are required in different sectors and regions of affected countries to maintain progress toward peace. This welcome approach essentially dismisses the traditional concept of a continuum from relief to development, which suggests exclusive applications of different types of aid. The simultaneous provision of different kinds of assistance has created opportunities for integrated strategies in donor programs and with host governments.

NOTES

1. Current data on conflict trends can be found at the SIPRI Project on Armed Conflict website <http://projects.sipri.se/conflictstudy/> or the Uppsala Conflict Data Project website. <http://www.pcr.uu.se/>. See also Peter Wallensteen and Margareta Sollenberg 2001.
2. Wallensteen and Sollenberg 2001.
3. Semerad and Hawkins 2001.
4. Figures are from the Global Policy Forum (2002). [http://www.globalpolicy.org/finance/tables/pko\\$\\$\\$.htm](http://www.globalpolicy.org/finance/tables/pko$$$.htm)
5. For an example see Kaplan (1993) and Huntington (1996).
6. A good summary of these two approaches can be found in Fearon and Laitin (2000). Also see King (2001).
7. Gurr 2000.
8. Collier and Hoeffler 2001.
9. Zartman, ed. 1995.
10. Brass 1997; Goldstone 1998.
11. Fearon and Laitin, 2000.
12. Collier and Hoeffler 2001.
13. Berdal and Malone 2000.
14. Mueller 2000; Woodward 1995.
15. Estimates are that the FARC makes at least \$300m from

the drug trade every year, in addition to their income from kidnapping and extortion. McDermott, Jeremy 2002. "Colombia's Most Powerful Rebels." BBC World News. January 7.

16. Farah, Douglas. 2001. "Al Qaeda Cash Tied to Diamond Trade: Sale of Gems From Sierra Leone Rebels Raised Millions, Sources Say" Washington Post November 2.

17. Collier and Hoeffler 2001.

18. Rotberg 1999.

19. A good overview and discussion of these trends can be found in Goldstone (2001).

20. Goldstone 2001.

21. Goldstone 2001.

22. Esty and others 1998.

23. Brennan 1999.

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25. Miall 2001.

26. Håvard and others 2001.

27. Morris 2002.

28. Reno 2000.

29. Ayob 1996.

30. Reno 2000.

31. De Soto 2000.

32. Duffield 2000.

33. Boutwell and Klare 1999.

34. Goldstone 2001.

35. Friedman, Thomas L. 2002. "Lessons From Sri Lanka." *New York Times*. 7 August.

36. Danish Red Cross 1995.

37. Mancino, Malley, and Comejo 2001.

38. Mancino, Malley, and Comejo 2001.

39. Anderson 1999.

40. Fox 2001.

41. Minear 2001.

42. Minear 2001, p. 72.

43. Minear 2001.

44. Minear 2001.

45. Fox 2001.

46. Slim 1997.

47. World Bank 2002.

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THE INTERNATIONAL COMMUNITY'S EXPERIENCES with conflicts and natural disasters in the 1990s led to big changes in the scope, funding, and profile of humanitarian aid—making it much more controversial. During the decade just over 3 million people lost their lives to these events.¹ Conflicts were far more lethal than natural disasters, killing three times as many people. But natural disasters were far more widespread than conflicts, affecting seven times as many people.² In response, official development assistance for humanitarian aid nearly tripled, from just over \$2 billion in 1990 to almost \$6 billion in 2000. In most of those years the United States provided three to four times more humanitarian aid than any other donor.³

HUMANITARIAN AID IN THE 1990s: HIGHER STAKES, HIGHER PROFILE

There is no reason to believe that the disaster pattern of the 1990s was exceptional, with natural disasters being more numerous and affecting more people but conflicts being more deadly. Natural disasters will likely become even more devastating as populations at risk increase. And most of today's conflicts are internal—occurring within states. Both trends guarantee that humanitarian aid will remain enormously important for the international community and for the United States. They also guarantee that the controversies over this aid will continue.

NATURAL DISASTERS

Famines and other natural disasters continued to take a tremendous toll worldwide. But natural disasters are neither simple nor purely nature-induced. And their devastation in global economic terms and for affected populations far outstrips the damage caused by conflicts.⁴

For the 1990s the number of deaths due to natural disasters is estimated at 665,000.⁵ This, despite the benefits of early warning and disaster preparedness measures as well as advances in such basic services as clean water and sanitation.⁶

The number of reported disasters has skyrocketed, with three times as many in the 1990s as in the 1960s.⁷ Earthquakes and volcano eruptions have held fairly steady in number, but disasters related to water and weather have increased dramatically

PROVIDING HUMANITARIAN AID

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(figure 5.1). During 1991–95 there were three El Niño-Southern Oscillation phenomena, causing devastating droughts in Southern Africa in 1991–92, 1993–94, and 1994–95. In 1997–98 this weather pattern struck again, affecting temperatures and rainfall around the world. South and Central America experienced devastating floods and landslides in some areas, droughts in others.⁸ Southeast Asia experienced droughts and fires, while East Africa suffered heavy rains and floods.

In 1998 Hurricane Mitch swept across Central America, killing 10,000 people and setting development in the region back by decades.⁹ The 1999 Orissa cyclone in India killed 10,000–40,000 people and devastated the lives of millions.¹⁰ And the 2000 floods in Mozambique were the most devastating to hit the country in 150 years, generating the largest air rescue operation (by nine national air forces) ever mounted in a short period.¹¹

While estimates vary widely, a report by the United Nations Intergovernmental Panel on Climate Change estimates losses from natural disasters at \$400 billion for the 1990s—10 times the amount in the 1960s.¹² The International Federation of the Red Cross and Red Crescent Societies puts losses for the decade even higher, at \$780 billion.¹³

Hurricane Mitch inspired the creation of an equation with logic that applies to most natural disasters: rapid population growth plus urbanization plus mass poverty plus high inequality plus deforestation plus other environmental degradation plus a lack of land use and building standards plus institutional weaknesses equal increasing vulner-

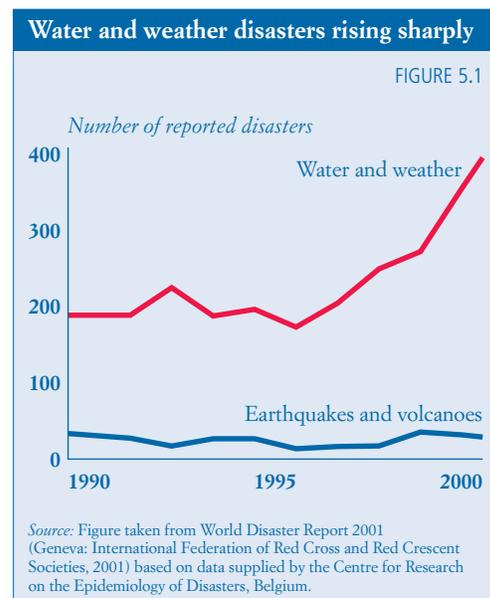
ability and eventual catastrophe.¹⁴ This equation emphasizes how decisions (or nondecisions) on development and institutions transform natural hazards into natural disasters.

CONFLICTS

Conflict was the defining disaster type of the 1990s, with the decade-long growth in humanitarian aid driven by the devastation that accompanied the increase in internal (within-state) conflicts. Between 1985 and 1989 an average of five manmade humanitarian emergencies were declared each year. In 1990 there were 20. After peaking at 26 in 1994, new manmade emergencies averaged 22 a year through the late 1990s.¹⁵ Most of these emergencies were directly related to conflict or severe government repression. Countries from every region made the list, including Afghanistan, Angola, Bosnia and Herzegovina, Burundi, Colombia, the Democratic Republic of Congo, Eritrea, Ethiopia, Haiti, Indonesia, the Democratic People's Republic of Korea, Liberia, Rwanda, Sierra Leone, Somalia, Sudan, Tajikistan, Uganda, and Yugoslavia (Serbia/Montenegro).

By the end of 2000 internal conflict and repression had generated 14.5 million refugees and asylum seekers worldwide—and nearly 25 million people displaced within their own countries (figure 5.2).¹⁶ The number of refugees, just below 10 million in 1984, peaked at 16.3 million in 1993–94, then began to fall.¹⁷ Significant refugee repatriations from peace agreements in Cambodia, Mozambique, Namibia, and Central America contributed to the decline. But continued conflicts in Africa (especially in the Great Lakes region) and elsewhere partly offset these gains. At the end of 2000 the three largest refugee populations—Palestinians (4.0 million), Afghans (3.6 million), and Sudanese (460,000)—made up more than half the total. In addition, 6 of the top 10 refugee-generating countries were in Africa.¹⁸

The number of internally displaced persons has increased even more dramatically (see figure 5.2). From an estimated 1.2 million in 11 countries in 1982, the number rose to 11–14 million in 20 countries in 1986 and to more than 20 million in 40 countries in 1997.¹⁹ Sudan and Angola have the most internally displaced people, followed by Colombia and the Democratic Republic of Congo.²⁰ This increase reflects the growing



number of internal conflicts in the 1990s as well as more accurate counts of displaced populations. It also reflects the world community's efforts to limit refugee flows through assistance models that try to keep people within their own countries.²¹

MONEY MATTERS

In 2000 the United States provided \$1.6 billion in official humanitarian aid—more than the combined total of 12 other OECD donors.²² Moreover, in 1998–2000 the United States provided about a third of all official humanitarian aid, up from about a fifth in 1995–97 (figure 5.3). In addition, in 2000 the United States provided more than half of all resources for the relief operations conducted by the World Food Program.²³

Although official financing for humanitarian aid nearly tripled in the 1990s, this growth did not keep pace with economic growth in OECD countries. In fact, between 1990 and 1998 global donor spending on humanitarian aid dropped from 0.03 percent of these countries' GDP to 0.02 percent—or to 20 cents of each \$1,000 in GDP.²⁴ Looking at UN agency budgets, in 2000 donors provided less than 80 percent of World Food Program requirements for long-term relief and 84 percent of requirements for immediate

relief. Resources for the United Nations High Commissioner for Refugees peaked in 1992 but have since fallen by 60 percent.²⁵

Given the differences between the funds required and provided, some triage occurs. Highly visible, geopolitically important crises in places such as the former Yugoslavia are often oversubscribed while “silent” emergencies such as those in Angola, Burundi, and Somalia (in the late 1990s) remain significantly underfunded.²⁶

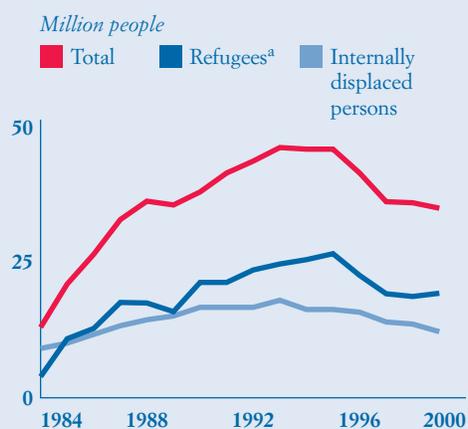
In addition, the dollar amounts of humanitarian aid mask the fact that large portions of donor resources are in kind—primarily food. The failure to provide cash for nonfood needs (such as clean water and sanitation) in emergencies seriously limits the benefits of food in many emergencies. During the 2000–02 drought in the Horn of Africa, seeds, veterinary assistance, health, water, and sanitation programs were more than 70 percent underfunded, impeding recovery.²⁷

By the late 1990s donors were funneling at least a quarter of their humanitarian aid through non-governmental organizations (NGOs)—and for the United States, estimates are much higher.²⁸ Donors' decisions to provide funds through NGOs or multilaterally through UN agencies will

IN 2000 THE UNITED STATES PROVIDED \$1.6 BILLION IN OFFICIAL HUMANITARIAN AID—MORE THAN THE COMBINED TOTAL OF 12 OTHER OECD DONORS

Estimated number of the world's people in need of emergency humanitarian assistance, 1984–2000

FIGURE 5.2



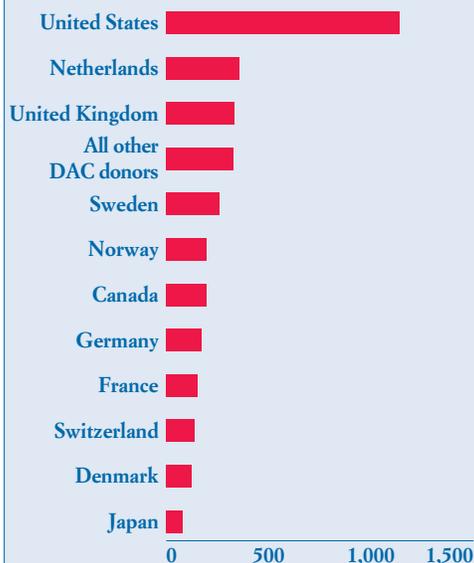
a. People who fear persecution or harm if returned to their home countries but are not recognized by governments as refugees. Some are given temporary refuge or allowed to remain undocumented. Information on these groups is fragmentary, and estimates of their numbers often vary widely.

Source: NIC 2000.

The United States provides the most humanitarian assistance by far

FIGURE 5.3

*The major donors of bilateral humanitarian assistance, 2000
US\$ million*



Source: Randel and German 2002.

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continue to be a source of tension in the humanitarian relief community. Some argue that the “bilateralization” of this aid makes NGOs less independent, ties humanitarian goals too closely to donor geopolitics, and reduces resource allocations based on need. Others charge that UN agencies lack the speed, flexibility, and operational skills to get the job done, making NGOs essential to improving operational efficiency and effectiveness in the field.

Finally, it is worth noting that humanitarian aid grew in the 1990s—while overall development assistance fell. Since 1991 official development assistance has dropped 11 percent in real terms.²⁹

NEW HUMANITARIAN ACTORS

Lacking support from superpowers, armed groups have turned to exploiting the natural resources around them and stripping civilian assets to finance their operations.

Killing, injuring, and kidnapping aid workers is also part of the “new war” scenario, as are child soldiers and gender-specific atrocities (raping women, executing men). This brutality is facilitated by the greater availability and low cost of a wide variety of weapons.³⁰

The 1990s saw not only vast human suffering generated by “new wars” and other global threats, but also a greater interest in addressing them on humanitarian, human rights, and security grounds. Humanitarian actors had new opportunities to intervene—their mission to save lives and reduce human suffering merging with the larger security interests of the international community, at times making them an element of larger political and military strategies.³¹

COMPLEX EMERGENCIES, COMPLEX RESPONSES

Humanitarian relief workers often refer to conflict settings as complex humanitarian emergencies, defined as “internal conflicts with large-scale displacement of people; fragile or failing political, economic and social institutions; random and systematic violence against non-combatants; infrastructure collapse, widespread lawlessness and interrupted food production and trade.”³² This term reflects the human suffering caused by these

conflicts—though the emergencies are, at heart, political, with real solutions lying outside the humanitarian realm.³³

The complexity has as much to do with the nature of responses as with the intricacies of conflicts. Responses in war settings were once the responsibility of the International Committee of the Red Cross, as the custodian of the 1949 Geneva Convention and 1977 Additional Protocols. But today UN agencies, NGOs, and a range of military actors are on the scene. The relationships within and between these entities differ in each case, and coordination among them has become more difficult with the growing number and type of actors.³⁴

The United Nations Office for the Coordination of Humanitarian Affairs was created to address coordination, but for many reasons (including insufficient authority, financial resources, and qualified staff), it has been unable to meet the challenges of complex emergency responses. Without radical restructuring of the humanitarian architecture (say, by creating a central response agency or pooling donor resources into a single response fund in or out of the UN—options unpopular with both donors and UN agencies), prospects are poor for resolving the coordination conundrum in the near term.

INTERNATIONAL AGENCIES

On the civilian side, the International Committee of the Red Cross has been joined by a large contingent of other actors. Three operational UN agencies (autonomous and funded through voluntary contributions and reporting to separate governing boards) take the lead in responding to complex humanitarian emergencies. The United Nations High Commissioner for Refugees is responsible for protecting and assisting refugees, the United Nations Children’s Fund focuses on the needs of women and children, and the World Food Program emphasizes food movements and logistics. The United Nations Development Programme’s role has been limited by its traditional ties to country governments, but at times it has played an important coordination function at the field level. It is also playing new roles in crisis prevention and recovery. The Food and Agriculture Organization and World Health Organization, though not central players, are also positioning themselves to become more involved in emergency settings.

These agencies have changed over the last decade.

- The United Nations High Commissioner for Refugees is doing more to help people in refugee-like situations. In Bosnia and Herzegovina it mounted a relief operation during a war for the first time in its history, aiding refugees, internally displaced persons, and other war-affected groups. But while its assistance capacity has expanded to address conflict settings, its protection abilities have failed to keep pace. Thus it is working to improve both legal protection for refugees and physical protection for all the populations it serves.
- The World Food Program has evolved from a predominantly development agency to one focused on emergency responses. In 1990 development programs absorbed about 70 percent of the agency's resources—but today, just over 10 percent. New strategic priorities include a strong commitment to ensuring that women play a central role in gaining access to and managing the distribution of food.
- The United Nations Children's Fund has taken steps to mainstream emergency responses throughout its systems.

Almost all organizations have expanded their operational ties to each other and to local and international NGOs, the primary implementing partners for the United Nations. Two other inter-governmental bodies—the International Organization for Migration and the International Federation of Red Cross and Red Crescent Societies—are often also important responders and UN partners.

THE RISE OF NONGOVERNMENTAL ORGANIZATIONS

Like UN agencies, in the 1980s bilateral donors such as the U.S. government began to rely increasingly on NGOs to deliver humanitarian aid in conflict settings, primarily because NGOs generally have a grassroots orientation and a flexible, results-oriented approach.³⁵ NGOs used to work at arm's length from donor governments, but over time the relationship has become more intimate.³⁶ Interest in increased impact and accountability has led to more intense donor involvement in NGO program designs, while increased funding has made some NGOs donor-dependent. For example, three of the five largest aid programmes in the United States—CARE,

Catholic Relief Services, and Save the Children—receive around half their funding from the U.S. government.³⁷

Reflecting this close relationship, the USAID Office of U.S. Foreign Disaster Assistance channels 60–70 percent of its funds to NGOs. Other donors also exhibit close relationships with NGOs.³⁸ Increased bilateral funding has heightened the danger that NGOs will be perceived as agents of Western governments rather than as independent, nongovernmental actors. As one NGO executive has noted, “availing oneself of government resources to the fullest while retaining independence and remaining true to the [humanitarian] ethos can be very difficult.”³⁹

With donors and UN agencies increasingly dependent on them, NGOs have at times become the heart and soul of relief operations. Working in nearly every crucial intervention area (including food, shelter, water, sanitation, health, agriculture, and microenterprise development), they have provided services in situations where governments and other members of the international community have been unable or unwilling to do so.

With hefty resources available from UN agencies and donor governments, the number of NGOs exploded in the 1980s and 1990s. To illustrate, some 100 NGOs operated in Rwandan refugee camps in eastern Zaire (now the Democratic Republic of Congo), 170 in Rwanda, 150 in Mozambique, and 250 in Bosnia-Herzegovina.⁴⁰ While these NGOs have addressed critical needs, their proliferation has at times led to duplicated efforts and projects working at cross-purposes, hampering the development of an overall strategic vision in the field.

Complicating matters is the enormous organizational and philosophical diversity in this growing sector. Some NGOs are secular, others are faith-based, and many are increasingly international, with multiple national headquarters for fundraising and advocacy and diverse headquarters-field relationships. Some strictly adhere to humanitarian principles of neutrality and impartiality. Others openly side with those most severely affected by emergencies.

These diverse groups often compete intensely for financial resources and local staff. NGOs' access to resources makes them powerful local players, and they can undermine the authority of

ALMOST ALL ORGANIZATIONS HAVE EXPANDED OPERATIONAL TIES TO EACH OTHER AND TO INTERNATIONAL NGOS

PROVIDING HUMANITARIAN AID

*CIVILIAN-MILITARY
COLLABORATION OCCURS
WHEN HUMANITARIAN
AID IS AN “ADD ON” TO
PEACEKEEPING
OPERATIONS*

governments—siphoning off not only legitimate government duties but also staff and resources. In Afghanistan, for example, NGOs are paying skilled workers far more than what the transitional government can afford.

Other recent NGO trends include the growth in (and growing donor preference for) local and national NGOs and the growing number of other NGOs with which humanitarian NGOs increasingly collaborate. These include human rights NGOs, conflict resolution NGOs, and women’s groups. In today’s “new war” settings, the lines between these various entities are increasingly blurred, with women’s groups taking up peace issues, human rights groups concerned about violations of humanitarian law, humanitarian groups concerned about peace and justice issues, and so on.⁴¹

MILITARY INVOLVEMENT

While logistical military support has been common in natural disasters over the past half-century, the end of the Cold War prompted the military to reconsider its role in nonwar settings (operations other than war).⁴² As with agencies that provide humanitarian aid, militaries have been asked to address emerging threats to human security. This trend is reflected in the enormous increase in UN peacekeeping operations. In the early 1990s there were 8 peacekeeping operations involving 10,000 troops—while by 2000 there were 15 operations involving 38,000 troops. (UN peacekeeping operations peaked in 1993, when 78,000 troops were deployed.)⁴³

Three types of civilian-military collaboration have occurred in the past decade.⁴⁴ In the first, ongoing humanitarian operations, the military deploys assets to help civilian agencies quickly deliver life-saving aid. Support usually comes in the form of logistics, as in the aftermath of the 1994 Rwandan genocide. After failing to stop the genocide, 11 countries provided military resources in response to the initial outflow of refugees and resulting cholera epidemic in eastern Zaire (now the Democratic Republic of Congo).

Civilian-military collaboration also occurs when humanitarian aid is an “add on” to peacekeeping operations. In these cases, as in Cambodia and Mozambique, humanitarian operations are usually part of a comprehensive peace settlement

in which political objectives remain foremost. In such operations military involvement is consensual and based on principles of neutrality, impartiality, and nonuse of force. Military-civilian collaboration on humanitarian aid is greatly facilitated when these parameters are established beforehand.

The third type of civilian-military collaboration is forceful humanitarian intervention: when the military is used to protect, through force if necessary, the delivery of humanitarian aid and sometimes the civilians receiving that aid. Until the 1990s this approach was largely theoretical. But no longer. Forceful humanitarian interventions were widespread in the 1990s, the most visible reflection of the weakening of the sovereignty principle and the merging of security and humanitarian concerns. Perhaps the most vivid example was the “humanitarian war” in Kosovo, undertaken by the North Atlantic Treaty Organization (NATO) without authorization from the United Nations Security Council.

Other examples of forceful humanitarian interventions include Operation Provide Comfort in northern Iraq (1991), Operation Turquoise in Rwanda (1994), INTERFET in East Timor (1999), and UN-sponsored operations in Somalia (1992), Bosnia (1992–95), and Sierra Leone (2001). As Kaldor notes, “starting with the establishment of a safe haven in northern Iraq in 1991 and culminating in the NATO air strikes in Yugoslavia in 1999, the presumption that there is a right to use armed force in support of humanitarian objectives has become widely accepted.”⁴⁵

PRIVATE ACTORS

Private, for-profit entities are becoming more active in disaster responses. Examples include:

- Companies like Microsoft, which help apply advanced technologies in emergency settings.
- Military contractors, which provide operational support to the armed forces.
- Private security firms, which offer their services to aid workers and governments.

The role of multinational corporations in generating conflict—say, by buying diamonds and valuable minerals from belligerents—has led to growing calls for them to be more socially responsible and abide by international humanitarian and human rights laws. Indeed, it calls for increased

corporate responsibility are heeded, these powerful entities could play a much larger role in humanitarian aid.

INNOVATIONS, FAILURES, AND THE CRISIS IN HUMANITARIAN AID

Initiated in 1989, Operation Lifeline Sudan was the first UN access agreement negotiated with both a government and a rebel movement to ensure lifesaving assistance in the midst of a war. Negotiated access agreements have become a basic model for delivering aid in conflict settings, and have been used in countries such as Angola, Ethiopia, and Mozambique. In a variation on the theme, the United Nations has also negotiated “days of tranquility” and “humanitarian cease-fires” to deliver lifesaving aid.

In Bosnia, eastern Zaire (now the Democratic Republic of Congo), and northern Iraq logistics operations reached new heights. The United Nations High Commissioner for Refugees described its humanitarian operations in Bosnia as unprecedented in “scale, scope and complexity.”⁴⁶ They included the Sarajevo airlift, the longest-running humanitarian airlift ever—surpassing even the 1948–49 airlift in Berlin. Civilian-military collaboration allowed for impressive new logistical feats as well as new security models. The idea of safe havens was born, where protection and assistance are provided within a war-affected country.

Despite (and perhaps partly because of) these innovations, by the mid-1990s humanitarian aid was widely considered to be in a state of conceptual crisis. As political analyst William DeMars has observed, “In the modern history of humanitarian action dating from civilian relief during the Second World War, never before has the legitimacy of the enterprise been so profoundly and publicly challenged, while at the same time never have the services of humanitarian organizations been more in demand.”⁴⁷ Why?

POSSIBLE NEGATIVE EFFECTS OF ASSISTANCE

Part of the answer lies in the unintended negative aspects of relief, so evident during the 1990s and now well documented.⁴⁸ Operation Lifeline Sudan is a case in point. This remarkable structure has averted and reduced famine in Sudan for more than a dozen years—but it is also thought to

have prolonged the conflict. Warring parties, especially the government, deny access to some locations, and all sides use aid to finance the war. Military forces use days of tranquility and humanitarian ceasefires to regroup for the next round of fighting. In addition, aid supports belligerents who impose “taxes” or steal to obtain relief assets; makes civilians targets for militias that strip them of their assets; empowers belligerents by allowing them to control civilian access to resources; and absolves ruling parties from their welfare responsibilities by meeting local needs. Finally, introducing relief supplies into a resource-scarce environment may dramatically fuel a war economy in which many have a continuing, vested interest.

Development economist Mary Anderson describes two kinds of negative aid impacts: tangible ones related to resource transfers that empower belligerents and reinforce a war economy, and intangible ones that convey unintended messages. Negotiating access, for example, unwittingly elevates the status of armed groups and confers legitimacy on conflict.⁴⁹

THE RELATIONSHIP BETWEEN AID AND POLITICS

The conceptual crisis of humanitarian aid also derives from its occasional failure to be complemented by effective political and military strategies. Operation Lifeline Sudan shows how aid can become a substitute for more concerted action to address the causes of humanitarian need. Although at its inception Sudanese relief groups called for Operation Lifeline Sudan to lay the foundation for a broader peace agreement, that did not occur. Much political muscle has been flexed on access for aid—while little progress has been made on peace.

Nowhere was this substitution of aid for aggressive diplomatic action more evident than in Bosnia. The groundbreaking airlift operations there (as well as in Somalia and Sudan) reflected the new heights to which the international community would go to deliver lifesaving aid. But they also showed its inability to prevent the need for such aid in the first place. The Sarajevo airlift became a symbol of the international community’s resolve to provide aid but little else in the context of the war.

PRIVATE, FOR-PROFIT ENTITIES ARE BECOMING MORE ACTIVE IN DISASTER RESPONSES

PROVIDING HUMANITARIAN AID

*INTRODUCING RELIEF
SUPPLIES INTO A
RESOURCE-SCARCE
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WAR ECONOMY*

This focus on aid in the absence of concerted action to stop aggression gave rise to the expression, “the well-fed dead.” That is, relief efforts kept “vulnerable civilians alive only to have them brutalized by war, human rights violations, and other forms of abuse.”⁵⁰

SAFE HAVEN FAILURES

The international community’s willingness to address the material needs but not the physical safety of civilians in the midst of war has also been grimly evident in strategies for so-called safe havens. The safe haven concept brought with it some of the most profound tragedies of the 1990s, largely because the civilian nature of safe havens was not maintained and because the international community designated “safe” areas that it was unwilling to defend.

Only in northern Iraq was this concept initially well implemented, because Operation Provide Comfort was backed by sufficient force to protect hundreds of thousands of returning refugees. But even there the safe haven concept failed Iraqi Kurds five years later, in 1996, when the United States proved unwilling to thwart the Iraqi army from invading Kurdish areas.⁵¹ While the safe haven created by French troops in Rwanda in 1994 is widely credited with stemming further destabilizing outflows of refugees into neighboring countries and allowing for the delivery of urgently needed relief, it also protected some of the architects of the 1994 genocide. Their presence in the Kibeho camp led to a Rwandan Patriotic Front assault in which several thousand people were killed. (Though not in a declared safe haven, the failure to separate civilian and military groups in camps in eastern Zaire (now the Democratic Republic of Congo) led to similar disastrous results.)

The most poignant failure was the Bosnian safe haven of Srebrenica. Lacking military means to stop the advance of Serb troops, UN peacekeepers stood by while Serb troops executed 7,000 men and boys—the largest massacre in Europe since World War II. The Srebrenica debacle raised profound moral questions for many in the international community. The question was inescapable: how can those who claim to protect and help war victims be held accountable when they fail, egregiously, to fulfill their mandate? In a stunning recent development, the government

of the Netherlands, including the prime minister and his cabinet, stepped down from office as a result of a damning report on its role in the Srebrenica tragedy.

MILITARY ENGAGEMENT, SECURITY, AND HUMANITARIAN VALUES

The expanded use of military assets in conflict settings has created new dilemmas. For some analysts the use of force is inconsistent with humanitarian values, making the idea of a forceful humanitarian intervention an oxymoron. Still, there is little doubt that a military presence was stunningly effective in northern Iraq and allowed relief to be delivered to large, previously inaccessible parts of Somalia. Military forces also made crucial contributions in eastern Zaire (now the Democratic Republic of Congo) in rapidly responding to a cholera outbreak among Rwandan refugees, and they allowed safe passage of relief supplies in parts of Bosnia. But the use of military forces has compelled the relief community to examine the extent to which traditional tenets of humanitarian aid—rooted in principles of impartiality and neutrality—can be maintained. For some these principles are negated by alliances between relief workers and external military forces intervening without the consent of warring parties.

On a more practical level, relief agencies recognize that military escorts raise serious risks for their workers, sometimes drawing fire from belligerents who view military-protected convoys as legitimate targets. In addition, where military officers implement aid activities (as currently in Afghanistan), the concern is that their encroachment on humanitarian space melds political and military objectives with humanitarian ones.

Military protection also means that relief workers can stay in war zones to provide humanitarian assistance, but that as a result they witness atrocities they are powerless to stop. This presents a new moral dilemma for humanitarian agencies: does speaking out about such atrocities further jeopardize war-affected populations through retribution or denied access to relief, or does it help them by raising awareness about their plight? Even more poignantly, does failing to speak out—in an effort to remain neutral and retain access rights—make a relief worker complicit in some way? Faced with such dilemmas, aid agencies have made different choices depending on

realities in the field and their views on the relationship between human rights and humanitarian aid.

In sum, the humanitarian innovations of the past decade brought impressive successes in some cases and deadly consequences in others—and more often than not, a bit of both. These experiences have led to evolving practices that point to future challenges in the field.

EVOLVING PRACTICES AND FUTURE CHALLENGES

In response to the perceived crisis in humanitarian aid, a set of initiatives is redefining the nature of humanitarian responses. Efforts are being made to:

- Improve standards and accountability.
- Improve protection for relief workers seeking to help civilians caught in conflicts.
- Strike a balance among political, military, and humanitarian strategies.
- Address the links between disasters and development efforts.

IMPROVING STANDARDS AND ACCOUNTABILITY: PROFESSIONALIZING THE INDUSTRY

For better or worse, humanitarian aid has become big business. Concerns about uneven performance among aid agencies, the potential negative effects of aid, and the blurring of the distinction between humanitarian and military operations has led to efforts to root aid more firmly in international humanitarian law and to set higher standards for performance and accountability.

In 1994 the International Red Cross and Red Crescent Movement and Non-governmental Organizations in Disaster Relief issued a code of conduct for disaster assistance organizations. The code emphasizes the rights of disaster victims to assistance and affirms the independence of humanitarian actors from governments. But it has internal inconsistencies: for example, local societies must be respected, even if their values and practices violate human rights and humanitarian law. And more violated in the breach than the practice, it ignores the existence of predatory political actors in most complex emergencies.

Building on the code, the Sphere Project—established in 1997 by a consortium of aid agencies—

seeks to recommit agencies to principles flowing from international humanitarian, refugee, and human rights law and to set minimum standards in five core sectors: water supply and sanitation, nutrition, food, shelter and site planning, and health care.⁵² The resulting framework allows for more formal, consistent evaluations of aid agencies' performance.

The code of conduct and the Sphere Project documents refer clearly to the rights of people affected by conflicts and disasters and reflect a shift in the philosophy of many aid organizations: assistance and protection are now seen as rights due, not privileges granted. From this perspective, countries and the international aid community must be held accountable not just for but actually to crisis-affected populations. Two recent initiatives, the Humanitarian Ombudsmen Project and the Humanitarian Accountability Project, take the rights of aid recipients to new levels. Both seek to create accountability mechanisms that empower humanitarian “claimants” and give them greater say in the aid process.⁵³

A recent, deeply disturbing report by the United Nations High Commissioner for Refugees and Save the Children UK on sexual violence and exploitation of refugee children in Guinea, Liberia, and Sierra Leone makes clear the ease with which personnel of powerful relief organizations can prey on the populations they are intended to assist and highlights the importance of making aid agencies more accountable to aid recipients. Aid organizations need to make explicit to their workers how principles must be embraced and translate them into organizational policies, operational guidelines, and rules of behavior. Better assessment and monitoring will necessarily follow. Absent an independent body with the authority to determine compliance with principles or minimum standards and to impose sanctions, new and more rigorous self-policing will be required. Donor agencies that control substantial funding flows have an ethical duty to insist on high standards, whatever the attempts at self-regulatory codes.

IMPROVING PROTECTION FOR CIVILIANS CAUGHT IN CONFLICTS

This new code of conduct is just one component of the international community's search for better protection measures for refugees, internally displaced persons, and other civilians affected by

HUMANITARIAN INNOVATIONS OF THE PAST DECADE BROUGHT IMPRESSIVE SUCCESSES IN SOME CASES AND DEADLY CONSEQUENCES IN OTHERS—AND MORE OFTEN THAN NOT, A BIT OF BOTH

PROVIDING HUMANITARIAN AID

conflicts. The UN Millennium Declaration's pledge to "strengthen the protection of civilians in complex emergencies" is playing out in many ways. Proposals for rapid deployment forces to thwart violence against civilians, peacekeeping operations with more robust civilian protection components, greater use of international, regional, and local police forces, and engagement of private security firms to protect civilians are outgrowths of past protection failures. And the creation of war crimes tribunals for Rwanda and the former Yugoslavia and the ratification of the Rome Statute for an International Criminal Court reflect determined efforts to punish those who violate internationally recognized standards of protection.

These initiatives bear special relevance for internally displaced persons, who suffered many protection violations over the past decade. Their number has grown exponentially as a result of internal conflicts, and their needs are often more pressing than those of other war-affected groups. They are less likely to have adequate shelter, less likely to be able to earn a livelihood, less accessible to relief workers due to insecurity, more vulnerable to assault, and less likely to carry the documentation needed to receive benefits.⁵⁴ Because no single international organization has a mandate to protect and assist them, their needs are usually addressed on an unsystematic basis by various international organizations and NGOs. In addition, no binding legal framework specifically addresses internally displaced persons (unlike for refugees), though the 1998 UN Guiding Principles on Internal Displacement are an important step forward.

UN restructuring to create a lead agency to address the needs of internally displaced persons has essentially been dismissed, but efforts are being made to heighten awareness of their problems and to improve coordination among responders. Improving assistance and protection of such populations will be an important test of the humanitarian aid architecture over the next decade. Much will depend on donor's political will to take on the relevant security issues and provide the resources needed to improve both assistance and protection.

IMPROVING SECURITY FOR RELIEF WORKERS

Humanitarian aid workers continue to face grave security threats. Since 1992, 200 UN civilian staff have been killed, most during humanitarian oper-

ations. Similarly, since 1997 the International Committee of the Red Cross has experienced 120–135 security incidents a year.⁵⁵ The increase in the number of workers killed reflects the rise in the number of conflict settings and of relief personnel working in these dangerous environments. Less clear is the extent to which relief workers are being targeted for political reasons (as opposed to being victims of crime) and why. The central question is, does perceived neutrality protect relief workers from attack and improve agency access (as is the standard refrain)? Understanding the security threat will better inform debates on neutrality and impartiality in these contexts.

UN agencies and NGOs, with strong donor support, are trying to minimize their vulnerability to security threats while maintaining their presence in insecure areas. Efforts include better security training, regular field reporting on security, coordination structures that serve as a locus for exchanges of security information, more hardware (radios, satellite phones), more security personnel (such as guards), increased insurance premiums, and more secure housing for staff.

Increased protection for aid workers has significantly raised the costs of humanitarian relief. Interestingly, donors are willing to provide the resources to cover these costs, allowing aid workers to take risks that donors are unwilling to take. Many donors cannot even monitor the relief programs they fund (as in Afghanistan). What does it mean when donor governments are willing to train and pay aid organizations to go where their civilian personnel will not? The growing number of deaths in the aid community is another reflection of the substitution of aid in environments that really require more aggressive political—and perhaps military—interventions.

STRIKING A BALANCE AMONG POLITICAL, MILITARY, AND HUMANITARIAN STRATEGIES

Events in Bosnia, Rwanda, and Sudan show what happens when relief is delivered in the absence of effective strategies. These experiences have led to calls for closer links among humanitarian, political, and military strategies, but such integration requires careful consideration. Combining political, military, and humanitarian efforts can subordinate relief goals and politicize them to the point that they are no longer acts of humanity, but instead exclusively political or military tactics.

AID ORGANIZATIONS NEED TO MAKE EXPLICIT THEIR ORGANIZATIONAL POLICIES, OPERATIONAL GUIDELINES, AND RULES OF BEHAVIOR

Donor efforts to selectively provide emergency fuel to Serbia in the winter of 1999–2000⁵⁶—focusing on areas opposed to former President Slobodan Milosevic—and to make food aid to the People’s Democratic Republic of Korea conditional on political negotiations are examples of strategies that threaten to equate humanitarian aid less with reducing human suffering and more with achieving governments’ political and military objectives. Many aid agencies and aid scholars properly call for political and military solutions to complex emergencies—but then insist on distance, not always practical, between these efforts and their humanitarian aid efforts.

Striking a balance between aid and politics will involve not so much merging the two but rather running them on parallel tracks, “reinforcing but not preempting the other.”⁵⁷ Some political objectives can be met while achieving humanitarian goals of saving lives and reducing suffering. Relief programs have been used to build confidence in political negotiations, protect democratic and economic reforms in countries experiencing instability, and support implementation of peace accords.⁶⁰ But some mixes of politics and aid are better than others. Where political and humanitarian ends do not meet, humanitarian aid agencies must vigorously defend the preeminent humanitarian principle of saving human life and reducing suffering, fiercely resisting incompatible geopolitical agendas.

ADDRESSING THE LINKS BETWEEN DISASTERS AND DEVELOPMENT EFFORTS

In 1983, far ahead of his time, Fred Cuny (later tragically murdered on a humanitarian mission to Chechnya) identified the close connection between disasters and poorly designed development efforts.⁵⁹ He argued that the two are interdependent: disasters affect development, and development efforts often provide the preconditions for further disasters. This perspective was not well received at the time because embracing it would have required political and economic elites in disaster-prone countries to fundamentally alter how they planned, guided, and allowed development to occur. That is, they would have had to consider hazard and vulnerability in nearly every development project.

Not much had changed by 1999, when James Lewis offered the metaphor of the “disaster bicycle.”⁶⁰ One wheel is a cycle of disaster, emer-

gency relief, rehabilitation, reconstruction, and preparedness—but circling back to disaster. The other wheel, completely separate, is development. The bicycle metaphor highlights that, institutionally and otherwise, international efforts to address disasters and development are not connected—precluding “the possibility of a necessarily wider view to take account of crucial political, institutional, social, cultural, economic and physical factors that are the root causes of vulnerability to ‘natural disasters.’”⁶¹ That separation removes disasters from other fields, particularly development planning, absolving them of their responsibilities to help prevent and respond to disasters.

Those who work on natural, technological, and conflict-related disasters are pushing development experts to recognize that many development projects cause or at least increase countries’ vulnerability to disasters. But enormous obstacles—mainly political—remain. In effect an entire paradigm has to be changed, because the fix is not technical. Rather, it is rooted in systemic factors that lie at the heart of development thinking.

In sum, it has been hard to banish the traditional view that conflicts and natural disasters are interruptions in—but separate from—the development process. But a clearer understanding is emerging that development efforts create vulnerabilities that enable conflict to take root and that transform natural and technological hazards into disasters. (See chapter 4 for further discussion of the relationship between conflict and development.) Still, achieving this change in consciousness remains an uphill battle because of the formidable political and economic forces resisting it. But it is a battle that must be waged, because the type, number, and severity of future disasters will partly depend on the outcome of efforts to change the current development mindset.

LOOKING AHEAD

As late as the mid-1980s, only a few—and not at all well-received—pessimists were discussing the potential for religious nationalism, ethnic conflict, and intrastate wars that would soon so profoundly affect the world. Still, we must look ahead as best we can. With that in mind, consider the following:

- In some areas, such as southern Africa, Central Asia, and countries around the Mediterranean

COMBINING POLITICAL, MILITARY, AND HUMANITARIAN EFFORTS CAN SUBORDINATE RELIEF GOALS AND POLITICIZE THEM

PROVIDING HUMANITARIAN AID

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Sea, lack of rainfall and higher temperatures are predicted to dramatically increase water stress, with concomitantly lower harvests. By 2010 an additional 50 million people will be at risk of hunger (box 5.1).⁶²

- Economic migrants will continue to swell urban ghettos, with many in poor housing lacking water and sanitation. Flood-induced cholera outbreaks in urban slums will become more common, requiring emergency responses.
- Population pressures will force more people to move onto marginal lands where human activity has already caused deforestation, water shortages, and desertification—or into lowland areas more prone to floods or hurricanes.⁶³
- Health emergencies are expected to proliferate, further taxing public health systems. Mosquito-transmitted diseases such as malaria and dengue fever are expected to spread well beyond their current geographic limits.⁶⁴
- Infectious diseases such as AIDS, tuberculosis, and malaria, already health emergencies, are significantly deepening the impacts of conflicts and natural disasters. HIV/AIDS among drought-affected populations, for example, is making many people more susceptible to health problems associated with food shortages (and other infectious diseases). Related illnesses (and death) deeply affect food security and will render many families less able to recover from conflicts and natural disasters.
- Technological accidents and disasters are projected to increase in number and severity because of spreading industrialization, aging plants and technologies, declining resources for safety and monitoring, and increasing vulnerability caused by ill-informed development decisions and nondecisions. The consequences of such accidents will not be border sensitive—entire regions could be affected.⁶⁵
- Domino effects are also possible, where a natural disaster triggers a technological accident in an urban area, creating unforeseen and uncontrolled population movements and generating conditions for conflict.
- Challenges remain in meeting the needs of today's war-affected populations. While

Box 5.1. Five principles for addressing famine

The U.S. government bases its policies to address famine on five core principles:

A hungry child knows no politics. Food aid will not be used as an instrument of diplomacy in a nutritional emergency.

Target the vulnerable. Immediate responses include food aid to targeted populations. Companion responses are general immunization of children under 5, water and sanitation interventions, equitable market interventions to stabilize skyrocketing prices, and heightened attention to the most vulnerable, such as the landless poor and women-led households. Interventions to support livelihoods and coping systems are also undertaken by targeting families living in poor, vulnerable areas.

Develop local capacity and support livelihoods. U.S. food aid programs develop local capacities in famine prevention, mitigation, and preparedness so that famine-prone countries can withstand episodic shocks without international help. Some immediate actions can be adjusting agriculture and livestock practices (planting alternative famine crops, improved pastoral practices), building food stocks (better post-harvest storage practices, lending

programs for purchase of food) and changing food habits (identifying and harvesting wild foods).

Make early warning information available. U.S. policy is to build commitment among senior political leaders in affected countries and to disseminate information to help communities respond to early signs of conflict and famine. This is done by connecting early warning systems to the political system and to decision-makers. Incentives are also provided for affected governments to take more responsibility for reducing vulnerability and the likelihood of future emergencies.

Transparent accountability. Democratic systems of government are the most effective measures to reduce the risk of famine. And as Nobel economics laureate Amartya Sen has noted, no country with a free press has had a famine. One common characteristic of famines is an authoritarian system of government. Famines are not identified with democracies. That is why democratic government, transparency, and accountability are priorities for the U.S. government effort to stop or avert famines.

Source: USAID staff.

expert opinions vary on whether new internal conflicts will emerge, ongoing ones are increasingly intractable and lethal—with growing numbers of civilian casualties and increasingly global consequences.

- Potential chemical, biological, radiological, nuclear, and explosive disasters loom large in the aftermath of the September 11, 2001, terrorist attacks, with unknown implications for humanitarian aid.

Thus needs for humanitarian assistance show no signs of abating. Moreover, new dimensions of disasters will create new exigencies. These trends indicate an even larger, more complex role for humanitarian aid in the next few decades. The United States—the last remaining superpower with truly global reach—has a crucial role in addressing today’s challenges and shaping future trends in disaster assistance.

ACKNOWLEDGING THE U.S. GOVERNMENT’S UNEVEN RECORD

The United States was at the fore in shaping the “new humanitarianism” of the 1990s. In 1991 its military led the effort to send home Iraqi Kurds trapped in the mountains of northern Iraq, and in 1992 it landed in Somalia to break the famine that killed 500,000 people. But this warm embrace of “assertive multilateralism” by President Bill Clinton’s administration was transformed after the 1993 deaths of 18 U.S. soldiers in Somalia. In 1994 Presidential Decision Directive 25 narrowly reinterpreted conditions for U.S. engagement in peace operations abroad.⁶⁶

Yet even more tragic results followed, with the United States failing to aggressively address the genocide in Rwanda in 1994 and taking cautious approaches elsewhere in Africa—including Angola, Liberia, and Zaire (now the Democratic Republic of Congo).⁶⁷ The policy tide turned again later in the decade with NATO’s “humanitarian war” in Kosovo, epitomizing the close new relationship between humanitarian, political, and military interests. But this effort raised suspicions that the West favored the needs of Europeans over those of Africans.⁶⁸

So, U.S. responses to conflict-related humanitarian emergencies were disturbingly uneven in the 1990s. At one extreme, humanitarian responses were overriden by political concerns (as with the famine in

the People’s Democratic Republic of Korea and the genocide in Rwanda), leading the United States to do too little, too late. At the other extreme, the United States engaged in “cure all” humanitarianism,⁶⁹ substituting large amounts of aid for robust political action (as in Bosnia prior to the Dayton Accords, Rwanda after the genocide, and Sudan until recently).

DEVELOPING A COHERENT STRATEGY FOR U.S. HUMANITARIAN AID

The sole remaining superpower has a moral obligation to take a stand against human atrocities whenever and wherever they occur. But humanitarian interventions are also in the national interest: failed and failing states are by definition dangerous to the United States and to global security. They have destabilized entire regions and provided recruiting grounds and safe havens for criminals, extremists, and terrorists—a point that takes on new salience in the aftermath of the September 11 attacks.

Forging a coherent strategy for U.S. humanitarian aid calls for efforts on several fronts. The relationship between humanitarian aid and foreign policy objectives needs to be more carefully assessed and, to the extent possible, more mutually reinforcing. This will require elevating and more fully exploring the humanitarian dimensions of political and military strategies.

PROTECTING WAR-AFFECTED POPULATIONS —ESPECIALLY THE INTERNALLY DISPLACED

While the United States has played an important role in improving relief operations over the past decade, it must now place special emphasis on protecting war-affected populations, especially internally displaced persons. The U.S. commitment to better security for relief workers and relief goods is clear. Less clear, or at least less reliable, is its commitment to physical protection of people receiving relief. While discomfort lingers in the humanitarian community over mixing human rights and humanitarian aid programs, and over using military and other security forces to enforce protection, the problem of the “well-fed dead” must be addressed.

Though not the only war-affected population, internally displaced persons have unique assistance and protection needs. Yet even though they

U.S. RESPONSES TO CONFLICT-RELATED HUMANITARIAN EMERGENCIES WERE DISTURBINGLY UNEVEN IN THE 1990s

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are often among the most vulnerable populations in conflict settings, they have not received the attention from donors that their number and plight demand. But without strong leadership and sufficient resources from the United States, local and international responses to internal displacement will remain inconsistent and inadequate. Today no U.S. financing, government entity, or authoritative policy document is exclusively dedicated to the problem of internal displacement.⁷⁰ Addressing the broader issue of protection will require a far more rigorous, systematic approach to internal displacement.

ADDRESSING OTHER EMERGING PRACTICES AND FUTURE TRENDS

The emerging practices and future trends outlined in this chapter point to a number of other clear directions for the United States:

- It should not only support NGO and UN initiatives to improve standards and accountability, it should insist on them (and link financial support to them). This strategy should be mirrored by internal reviews of U.S. accountability measures. At the extreme, the extensive review by the Netherlands of its role in the Srebrenica massacre should be taken to heart.⁷¹
- On the development side, the U.S. government should review all of its development programs with an eye toward creating a culture of “development for disaster prevention.” For too long, development efforts have ignored the fact that they have often increased vulnerability to disaster, either through ignorance or misinformation.
- Reflecting the growing complexity of relief contexts and operations, USAID should expand its staff to include human rights experts, economists, and other social scientists to work alongside technicians on field-based disaster responses and in its headquarters and regional offices.

When should aid be ended? When it has the potential to do harm. But that does not mean doing nothing. As the United States learned in Sudan, Somalia, Ethiopia, and Angola, aid agencies have to ensure that food aid is not providing the wherewithal to fund the conflict or sustaining the conflict in other ways. And in the Rwanda genocide, donors supported refugee camps in Tanzania, Uganda, and (then) Zaire—camps that provided a haven for *genocidaires* and became sources of instability for

the fledgling government and the region. Aid clearly has to be conditional of the assurance that such insidious conditions do not exist.

The same is true for U.S. contributions to multi-lateral efforts. To deliver effective humanitarian aid in situations of chaos requires understanding the great operational constraints and the bureaucratic, security, and political subtleties. Overcoming those constraints and dealing with these subtleties demands leadership of the type the United States is equipped—and prepared—to give.

NOTES

1. IFRC 2001.
2. IFRC 2001.
3. Randel and German 2002. Official development assistance is money given by members of the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD). Members include Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, the United States, and the Commission for the European Union. ODA for humanitarian aid includes (but is not limited to) food aid, and aid to refugees abroad and in the donor countries for their first year of assistance. This latter piece distorts the statistics somewhat since some of the funds counted are spent in donor countries. See ODI report for fuller discussion of what is comprised in the humanitarian assistance statistics. The dollar figures are in 1999 prices and exchange rates.
4. IFRC 2001.
5. IFRC 2001.
6. Abramovitz 2001.
7. OFDA 2000.
8. OFDA 1998.
9. Abramovitz 2001.
10. IFRC 2001.
11. Christie and Hanlon 2001.
12. OFDA 2000.
13. IFRC 2001.
14. Olson 2001, p. 1, 6.
15. NIC 1999. NIC used a combination of USAID and UN data. USAID assistance is triggered by a formal “declaration of disaster” by the U.S. Ambassador or the U.S. Department of State. Thus, the reference to “declared” emergencies.
16. USCR 2001.
17. NIC 1999.
18. USCR 2001.
19. Deng and Cohen 1998.
20. USCR 2001.
21. Deng and Cohen 1998. Consider, for example, Iraq and Bosnia-Herzegovina, where the international community created “safe havens” to protect and aid people within their own countries and limit refugee flows.
22. Randel and German 2002.
23. Randel and German 2002.
24. UNHCR 2000.
25. Randel and German 2002.
26. Randel and German 2002.
27. WFP 2002.
28. Randel and German 2002.
29. IFRC 2001.

30. NIC 1999.
31. Macrae and Leader 2001.
32. Kracht 2000.
33. Concurrent natural disasters often exacerbate conflicts, with food insecurity at times so severe that widespread malnutrition and famine result, as in Somalia in 1992 and Sudan in 1998.
34. For a discussion of this issue see Lautze, Jones, and Duffield (1998).
35. Weiss 1999.
36. Duffield 2001.
37. Stoddard 2002.
38. For more information on this trend, see Randel and German 2002.
39. Finucane 1999.
40. UNHCR 2000.
41. Kaldor 2001.
42. Weiss 1999.
43. Kaldor 2001.
44. OECD 1998.
45. Kaldor 2001.
46. UNHCR 2000.
47. DeMars 2000.
48. See for example, Anderson (1999), Prendergast (1996), and Macrae and Zwi (1994).
49. Anderson 1995.
50. Minear 2001, pp. 70–71.
51. Natsios 1997.
52. The Sphere Project 2000.
53. For more information, see the following websites:
<http://www.oneworld.org/ombudsman> and www.hapgeneva.org.
54. Kunder 1999.
55. NIC 2000.
56. Macrae 2002.
57. Minear and Weiss 1995.
58. Natsios 1997
59. Cuny 1983.
60. Lewis 1999, p. 129.
61. Lewis 1999, p. 130.
62. UN 2001.
63. Kent 1997.
64. Kent 1997.
65. Kent 2001.
66. Minear and Weiss 1995.
67. Borton and Tanner 2001.
68. Borton and Tanner 2001.
69. The phrase “cure all” humanitarianism is drawn from Minear and Weiss (1995).
70. Kunder 1999.
71. Samantha Power, “Bystanders to Murder,” *The Washington Post*, 21 April 2002, p. B7.

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UNITED STATES AID TO DEVELOPING COUNTRIES IS generally measured solely in terms of the official development assistance that the government provides to the U.S. Agency for International Development (USAID), Peace Corps, multilateral institutions, and certain programs sponsored by the State Department and Department of Defense. But the U.S. government also provides considerable resources for international assistance not included in measures of official development assistance. Moreover, many nongovernment U.S. sources—including foundations, corporations, private and voluntary organizations, colleges and universities, religious organizations, and individuals—provide direct assistance to people in developing countries. All these sources must be taken into account to plan aid effectively.

Better understanding of private giving is needed to accurately assess American generosity toward poor people overseas. Such knowledge can also help USAID use private funds to leverage additional official development assistance. Private investment and lending have transformed the economies of many developing countries over the past 20 years. Less attention has been paid to private philanthropy—but it too plays an important role. Indeed, this “silent” private financing has become the dominant expression of U.S. concern for poor people abroad.

To help understand how these trends will affect development assistance over the next 15 years, this chapter first reviews the origins and purposes of the U.S. government’s foreign aid. It then examines the effectiveness and public perceptions of this aid—information essential to planning support for economic and political growth in developing countries. Finally, the chapter assesses the many nongovernment forces involved in U.S. aid. Understanding these forces is essential to shaping future U.S. assistance efforts. Taking into account both government and nongovernment sources, the chapter concludes by providing a full measure of U.S. aid to foreign countries.

OBJECTIVES, OUTCOMES, AND AMOUNTS OF GOVERNMENT AID

Although early programs focused on supporting the Cold War and providing targeted humanitarian relief, foreign aid has long been seen as a tool for promoting economic growth in developing countries. In 1961 U.S. President John F.

THE FULL MEASURE OF FOREIGN AID

CHAPTER 6

*AID REDUCES POVERTY
ONLY WHEN ECONOMIC
POLICIES SUPPORT
SUSTAINED ECONOMIC
GROWTH AND WHEN THE
BENEFITS OF GROWTH
ARE WIDELY SHARED*

Box 6.1. Gauging public support for government aid

Public perceptions of foreign aid reflect U.S. values and principles. In public opinion polls Americans have always ranked domestic affairs higher than international ones. Even before the September 11 terrorist attacks, the U.S. public named as its top five priorities reducing the threat of international terrorism, stopping international drug trafficking, halting the spread of AIDS around the world, protecting the global environment, and getting Saddam Hussein out of Iraq.

Until the mid-1990s, 65–75 percent of Americans believed that the country was spending too much on foreign aid. But in 2000 several surveys found that only 40–47 percent of Americans still held that view. A study in the early 1990s, after the end of the Cold War, found that Americans were becoming more interested in aid for humanitarian than for security purposes. Whether that has remained true since the September 11 attacks is unknown. But in general, Americans have never strongly supported economic aid to other countries. For example, three surveys conducted by the Chicago Council on Foreign Relations since

the end of the Cold War have found that the U.S. public is divided on whether to give economic aid to other countries. In the most recent survey, in line with the previous two, only 13 percent of Americans favored increasing federal spending on foreign economic aid—while 48 percent favored reducing it.

Americans strongly endorse supporting the United Nations, ending world hunger, and alleviating human pain and suffering worldwide. Yet they historically have had doubts about the effectiveness of foreign aid, including concerns about corrupt foreign governments. These misgivings may be related to general distrust of the federal government and international organizations, which consistently rank near the bottom in U.S. surveys on confidence in institutions. Much as they advocate self-reliance in welfare programs, Americans want foreign aid that shows results in countries with honest and compassionate governments.

Source: Bostrom 2001; PIPA 2001; Belden and Russonello 1994; Rielly 1999; Independent Sector 1999.

Kennedy said that to productively absorb external capital, recipient countries first had to—on their own—mobilize resources, implement reforms, and pursue other self-help measures.¹ Yet the Marshall Plan's success in rebuilding European nations misled some analysts into believing that similar capital assistance could be used to build developing nations.

OBJECTIVES AND OUTCOMES

Since 1951 Western countries have given developing countries more than \$1 trillion in economic and humanitarian aid.² How has this money improved the lives of people in these countries? The different types of U.S. foreign aid—humanitarian relief, security assistance, and economic development—have had varying success. Disaster relief and humanitarian aid have been successful and have also drawn the strongest support from the American public (box 6.1). The United States has been a leader in delivering goods, coordinating disaster relief, and leveraging vast resources from private contributors. USAID has helped countries implement immunization campaigns, feeding programs, and public health emergency

measures that have saved countless lives around the world.

Foreign aid has also been used for security assistance in countries where the United States has had strategic interests in combating communism, promoting peacekeeping, maintaining military bases, and controlling nuclear weapons and narcotics. During initial peace talks and in sudden crises—such as the Gulf War and the U.S. war on terrorism—this assistance has contributed to stronger alliances and agreements.

But since the terrorist attacks of September 11, 2001, intense scrutiny has focused on the effectiveness of foreign aid in influencing developing country policies and protecting Americans from terrorism. In some instances terrorism has been nurtured by countries that are among the top recipients of US assistance.³

The emerging consensus in the development community is that aid reduces poverty only when economic policies support sustained economic growth and when the benefits of growth are widely shared.⁴ But economists and scholars have also concluded that countries implement

economic reforms when they choose to—not because of aid offered or withheld.⁵ Recent efforts to provide debt relief and to tie aid to country policies have also not achieved their intended results.⁶ These approaches do not create incentives for growth. Instead, many governments have strangled growth by allowing high inflation, black markets, negative interest rates, corruption, excess regulation, and failed public services.

AMOUNTS

U.S. foreign aid goes far beyond official development assistance (ODA)—the “donor performance” measure developed by the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD). The OECD is made up of industrial countries that provide the bulk of development aid to developing countries, and every year the DAC publishes a report comparing the generosity of donors based on their ODA as a percentage of their GNP.⁷

At \$9.9 billion, ODA accounts for just 18 percent of total U.S. assistance—public and private—to developing countries (table 6.1). Private international assistance, by contrast, is \$33.6 billion—60 percent of the U.S. contribution, and projected to grow to 65 percent by 2010. Every year the publication of the DAC report results in press reports and statements by academics and opinion leaders disparaging America’s “stinginess,”⁸ asserting that U.S. foreign policy will be ineffective without more ODA,⁹ and claiming that U.S. foreign aid programs collapsed after the Cold War.¹⁰ But ODA is a limited and outdated way of measuring a country’s giving. Given the enormous growth in the private sector around the world, donors should reevaluate the measure.

Although the United States consistently ranks first or second in absolute amounts of foreign aid, it falls last among industrial countries when aid is measured as a percentage of GNP. The DAC has set an annual target for foreign aid of 0.7 percent of GNP. But this target has no bearing on the quality of aid projects, their effectiveness, or their impact on economic development. The idea of a fixed percentage dates to 1958, when the Central Committee of the World Council of Churches called for countries to devote 1 percent of their national incomes to international development.¹¹ Over time the target was modified, but there was little discussion of why a

More assistance than meets the eye

	US\$ billions	Share of total (%)
U.S. official development assistance	9.9	18
All other U.S. government assistance	12.7	22
U.S. private assistance	33.6	60
Foundations	1.5	
Corporations	2.8	
Private and voluntary organizations ^a	6.6	
Universities and colleges	1.3	
Religious congregations	3.4	
Individual remittances	18.0	
Total U.S. international assistance	56.2	100

a. Including volunteer time.
Source: OECD 2002; OMB 2002; USAID 2002; various private sources.

fixed 0.7 percent contribution is preferable to a strategic approach designed to provide aid for the right projects in the right countries at the right time. Denmark, Luxembourg, the Netherlands, Norway, and Sweden are the only countries ever to have achieved this target.

In an official DAC report one concerned non-governmental organization (NGO) argues that the further countries are from meeting the 0.7 percent of GNP target, the less committed they are to development. Declaring a “crisis in development policy and financing” and highlighting the 0.09 percent contribution by the United States, the critique adds, “Amidst the longest boom in a generation, it stands as an indictment of the governments of the developed countries, and a source of shame for their citizens.”¹² But the same report offers a more realistic view: “Despite some calls for a doubling of aid volume and for bilateral donors to meet the United Nations 0.7 percent ODA/GNP target . . . the political reality of aid suggests that, at the aggregate level, expectations of these magnitudes will not be met. Even if they were, it would not solve the problem, nor could many developing countries deal effectively with any such surge.”¹³

Moreover, the U.S. government budget for international affairs contains many items not included in ODA (table 6.2). In 2000 the international affairs budget totaled \$22.6 billion—so at \$9.9 billion, ODA accounted for less than half. ODA consists primarily of allocations to USAID, the Peace Corps, most multilateral institutions, and certain programs sponsored by the State Department and Department of Defense. The

IN 2000 THE INTERNATIONAL AFFAIRS BUDGET TOTALED \$22.6 BILLION—SO AT \$9.9 BILLION, ODA ACCOUNTED FOR LESS THAN HALF

THE FULL MEASURE OF FOREIGN AID

DEPARTMENT OF
DEFENSE SPENDING ON
HUMANITARIAN AND
DEVELOPMENT ACTIVITIES
IS PROBABLY MUCH
HIGHER THAN
CURRENTLY REPORTED

Nearly \$23 billion in all: U.S. government international assistance

Total U.S. government international assistance by agency, classification, and selected programs, 2000

TABLE 6.2

Official development assistance—\$9.9 billion		Other government assistance—\$12.7 billion	
USAID			
Operations			Israel
Development assistance			Newly independent states
Child survival, humanitarian			Eastern Europe and Baltic States
Disaster relief, food aid			
State Department			
Refugees, narcotics			Operations
Asia Foundation			Broadcasting (Voice of America, Radio Marti)
International organizations			Peacekeeping
			Educational and cultural exchanges
			International organizations
			National Endowment for Democracy
Department of Defense			
Humanitarian			Military education and training
Peacekeeping development			Foreign military loans
			Antiterrorism, nonproliferation
Other agencies			
Peace Corps			Export-Import Bank
U.S. Trade and Development Agency			Overseas Private Investment Corporation
Multilateral institutions			Inter-American Foundation
Security assistance (Egypt and others)			

Source: U.S. Office of Management and Budget.

other \$12.7 billion spent on international affairs represents all other contributions, including those to “part 2” countries, the International Monetary Fund (IMF), Export-Import Bank, Overseas Private Investment Corporation, State Department operations and other items, and Department of Defense international security assistance. Part 2 countries, as defined by the DAC, are excluded from ODA data because they have graduated from developing country (or part 1) status. These countries include all of Central and Eastern Europe, Belarus, Israel, Russia, Ukraine, and a variety of island states such as Cyprus. In 2000 the United States provided \$2.5 billion in aid to part 2 countries, accounting for 37 percent of their official aid from DAC donors.¹⁴

ODA also does not fully include humanitarian and development activities sponsored by the Department of Defense. International food drops, earthquake relief, and medicine deliveries have been counted since 1991, and these totaled \$2.3 billion through 2000.¹⁵ DAC reporting also allows

the inclusion, when possible, of military costs related to monitoring elections, rebuilding infrastructure, supporting in-country narcotics control, reducing security threats and demobilizing armies, and postconflict peacebuilding.

But Department of Defense spending on humanitarian and development activities is probably much higher than currently reported. For example, in 1999 the department spent \$6.2 billion on contingency operations related to foreign military crises and peacekeeping, including in Bosnia and Herzegovina and East Timor.¹⁶ These operations involved humanitarian and development activities such as building schools, hospitals, and roads. But because the costs of these activities are not broken out from the \$6.2 billion, they are not included in ODA.

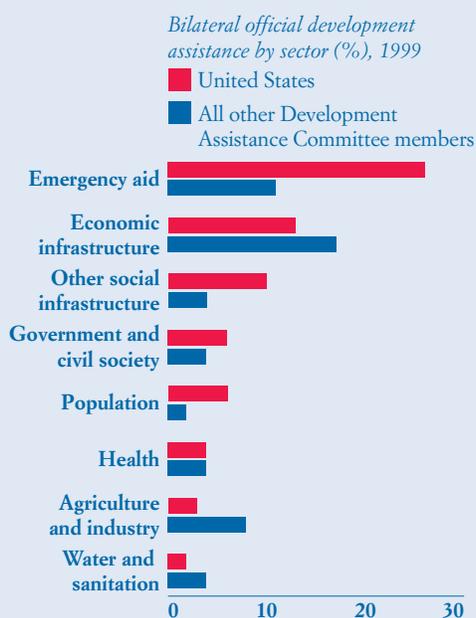
If the Department of Defense better identified these budget items, the U.S. government could include them in its ODA calculations. Included would be more efforts like those of the hundreds

of U.S. Marines called into Honduras after Hurricane Mitch to distribute donated goods.¹⁷ Even if humanitarian activities accounted for just 15 percent of the department's contingency operations in 1999, their inclusion would have raised U.S. ODA by \$1 billion.

DAC donors devote different percentages of their ODA to different development activities. For example, the United States allocates 20 percent of its ODA to basic social services such as education, health, population, and water and sanitation (figure 6.1). Only the United Kingdom, Ireland, and Luxembourg devote larger percentages of ODA to basic social services. Compared with the average for all donors, the United States spends more of its ODA on emergency, humanitarian, and government and civil society programs. Other DAC donors invest larger portions of their ODA in economic infrastructure, agriculture and industry, and water and sanitation systems. In the two-year period 1997–98 the United States gave developing countries an average of \$570 million a year for population programs, or two-thirds of the total ODA from all other countries for this purpose. The United States provided a considerably smaller percentage for health (15 percent of the total ODA from all other countries for this purpose), education (10 percent), and water and sanitation (0.03 percent).¹⁸

U.S. official aid—weighted toward basic social services

FIGURE 6.1



Source: OECD 2001, table 19.

SOURCES AND AMOUNTS OF PRIVATE INVESTMENT AND LENDING

Over the past 20 years private capital flows have had a dramatic effect on developing countries. Until the early 1990s most international resource flows to developing countries came from governments. Now these flows are primarily private. The shift began in 1992, when foreign direct investment and financial markets took off in emerging economies—and private flows exceeded official development finance for the first time (figure 6.2).

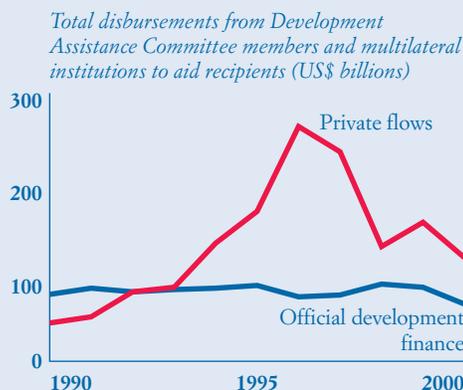
Private capital flows peaked in 1996 at \$273 billion, or 78 percent of resource flows to developing countries. Although this level was not sustainable, especially for bank and bond lending, foreign direct investment proved resilient, reaching a high of \$188 billion in 1999. Growth in private investment and lending meant that emerging economies were attracting the kind of capital that creates and sustains development. Progress has been made in improving trade, governance, financial systems, and political and macroeconomic stability and in creating a receptive environment for private business.

In 2000 resource flows to developing countries dropped sharply, reflecting the global recession. ODA fell 5 percent, though ODA to the least developed countries rose slightly to 22 percent of the total. But net private flows from DAC

COMPARED WITH THE AVERAGE FOR ALL DONORS, THE UNITED STATES SPENDS MORE OF ITS ODA ON EMERGENCY, HUMANITARIAN, AND GOVERNMENT AND CIVIL SOCIETY PROGRAMS

Private flows outstrip public flows

FIGURE 6.2



Note: Private flows include direct investment, international bank and bond lending, and grants by nongovernmental organizations. Official development finance includes official development assistance, official aid, and other official flows. The data for multilateral flows refer to the disbursements by multilateral institutions, not contributions to these institutions by Development Assistance Committee members.

Source: OECD 2002.

The United States leads the world in total flows

Net aid flows from selected Development Assistance Committee members (US\$ millions), 2000

TABLE 6.3

	Total ODA	Total ODA as % of GNP	Bilateral ODA	Multilateral ODA	Other official flows	Grants by private voluntary agencies	Private flows	Total flows	Total flows as % of GNP
Canada	1,744	0.25	1,160	583	5	113	4,621	6,483	0.95
Denmark	1,664	1.06	1,024	641	-3	32	482	2,176	1.39
France	4,105	0.32	2,829	1,276	14	—	1,439	5,557	0.43
Germany	5,030	0.27	2,687	2,343	-456	846	7,000	12,420	0.67
Italy	1,376	0.13	377	999	-103	37	9,537	10,846	1.01
Japan	13,508	0.28	9,768	3,740	-5,200	231	2,725	11,264	0.23
Netherlands	3,135	0.84	2,243	892	38	306	3,469	6,947	1.85
Norway	1,264	0.80	934	330	—	179	-5	1,437	0.91
Spain	1,195	0.22	720	475	3	—	22,272	23,471	4.25
Sweden	1,799	0.80	1,242	557	0	26	2,127	3,952	1.76
United Kingdom	4,501	0.32	2,710	1,792	-72	536	2,093	7,058	0.50
United States	9,955	0.10	7,405	2,550	562	4,069	10,666	25,252	0.25

— Not available.

Note: Total official development assistance (ODA) includes net flows to developing countries (bilateral ODA) as well as contributions to multilateral institutions (multilateral ODA).

Source: OECD 2002.

**THE UNITED STATES IS
THE CLEAR LEADER IN
ALL MEASURES OF
PRIVATE ASSISTANCE TO
THE DEVELOPING WORLD**

donors were \$117 billion, down dramatically from 1999 and the lowest since 1993. As investors pulled out of foreign markets, equity flows plunged by \$50 billion. Foreign direct investment fell somewhat but remained the largest transfer. Despite the downturn in 2000, private investment and lending to developing countries still far exceeded government aid. Even at their lowest level since 1993, private capital flows are still more than twice government aid to developing countries.¹⁹

U.S. investors have channeled enormous amounts to developing countries, especially since the early 1990s. When these private investment and lending flows are added to ODA and other flows, the United States moves into first place among bilateral donors (table 6.3). While the United States ranked lowest in terms of ODA as a percentage of GNP in 2000, it had the largest total resource flows, at \$25.3 billion. The United States is the clear leader in all measures of private assistance to the developing world. Again, ODA fails to reflect the full measure of U.S. commitment, because it does not include private capital flows—the most important measure of sustainable development. Most significantly, ODA does not include private aid from U.S. foundations, private and voluntary organizations (PVOs), corporations, churches, and individual remittances. This

giving is much higher than in other countries because of the unique U.S. tax structure and the country's strong tradition of private giving.

SOURCES AND AMOUNTS OF PRIVATE AID

Despite their reservations about government aid, Americans have a long tradition of domestic and international generosity. U.S. private giving for international assistance predates government aid programs, and over the past 25 years such giving has grown significantly.

Churches and other religious congregations initially played the largest role in U.S. international giving, through relief and humanitarian assistance as well as overseas missions. Then colleges, universities, and foundations began responding to international development needs with scholarships and support for foreign universities and research centers. The number and budgets of PVOs and private charities have grown as Americans have increasingly offered their money and time to international causes. With globalization and changing immigration patterns, U.S. corporations have also increased their philanthropy to developing countries. And U.S. immigrants, increasingly from developing countries, have been sending more and more money back to their homelands.

**THE FULL MEASURE OF
FOREIGN AID**

Box 6.2. Building democratic and market institutions

The Eurasia Foundation has awarded over 6,500 grants, totaling more than \$130 million, to foster democracy and free markets and to popularize community foundations. Awarding its first grants in Eastern Europe and the former Soviet Union in 1993, the foundation funds programs in Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, the Kyrgyz Republic, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan. The foundation receives \$20–30 million a year from USAID, but it has also raised more than \$40 million from non-U.S. government sources. The Russian government now gives it funds as well.

Multinational firms operating in the region want to be good corporate citizens, but as Citigroup said to the foundation, “We need to be bankers first.” To help bridge that gap, the foundation, operating at the grassroots, finds both business partners and worthy philanthropy projects for foreign firms.

To sustain its work, the Eurasia Foundation is financing a trust fund of \$100 million—half from private sources and half from public—that will establish indigenous, professional, and privately managed philanthropic institutions.

Source: Rutledge 2002.

In 2000 nearly 9 of 10 U.S. households gave to domestic or foreign charities. Americans also give generously of their time: in 1999 a record 56 percent of U.S. adults over 18 volunteered at home or abroad. In 2000 that share dropped to 44 percent because the revised survey considered only adults over 26. Still, volunteers provided work equal to more than 9 million full-time employees, with a value of \$239 billion.²⁰ In 2000 U.S. universities and colleges gave more to developing countries in foreign scholarships than Australia, Belgium, Norway, Spain, and Switzerland each gave in ODA. Remittances from U.S. immigrants to their homelands exceeded ODA from Japan—the largest provider (in dollar amounts) of government aid to developing countries.²¹

Political and economic forces driving the increase in U.S. private giving include the end of the Cold War, fall of communism, growth in market economies, and explosion in information and communications technology.²² New democracies have given rise to indigenous PVOs and private entrepreneurs with sources of wealth outside of central governments. International issues are the focus of new “mega donors”—such as the UN Foundation (with funding from Ted Turner), David and Lucille Packard Foundation, and Bill and Melinda Gates Foundation—and increasingly of other U.S. grant-makers. In the 1990s low inflation, growth in personal fortunes, and a strong stock market nearly doubled the assets held by foundations. In addition, new community foundations in the United States and abroad have created new sources of funding with closer ties to people and communities in developing countries.

Although private giving far exceeds official government aid, data on such giving are weak, and the development community knows little about its nature, its flows, and the full amounts involved. Donors understand that private international assistance no longer means only relief efforts or missionaries working in isolated villages. Today this assistance means dollars transferred directly to Salvadoran families from their relatives in the United States so they can afford good health care and education. It means dollars spent to create indigenous foundations in Kenya that involve community members in creating grants. And it means going online in Hartford, Connecticut, and sending mooncakes to a sister in Hanoi for the mid-autumn festival in Vietnam. The size and impact of private international giving create new opportunities for development agencies. By learning about and working with the many providers of private assistance, foreign assistance can enhance its effectiveness and define its comparative advantage and its role in the 21st century (box 6.2).

INDEPENDENT, CORPORATE, AND COMMUNITY FOUNDATIONS

The number of U.S. foundations—independent, corporate, and community—jumped from 32,401 in 1990 to 46,832 in 1998. In 1998 these foundations gave \$1.6 billion to international activities, two-thirds more than in 1994.²³ Because the latest surveys are from 1998, they do not reflect large international grants made by the Bill and Melinda Gates Foundation and the UN Foundation for 1999–2001. Together, these foundations provide

NEW COMMUNITY FOUNDATIONS IN THE UNITED STATES AND ABROAD HAVE CREATED NEW SOURCES OF FUNDING WITH CLOSER TIES TO PEOPLE AND COMMUNITIES IN DEVELOPING COUNTRIES

THE FULL MEASURE OF FOREIGN AID

*MORE THAN A THIRD OF
INTERNATIONAL GIVING
BY U.S. FOUNDATIONS
GOES FOR HEALTH,
EDUCATION, AND SOCIAL
SCIENCES PROGRAMS*

some \$350 million a year to international projects. In addition, in 2000 U.S. foundations announced two major international funding initiatives totaling some \$430 million over a five-year period.²⁴

More than a third of international giving by U.S. foundations goes for health, education, and social sciences programs. About 30 percent is spent on international affairs and development activities. Together, the arts, the environment, and human rights activities receive 25 percent, divided fairly evenly. During the 1990s human rights, public and social benefits, arts and culture, and religion experienced the largest growth in dollar amounts.²⁵

Breaking down U.S. foundation aid by recipient region is not easy. It is estimated that Western Europe and Latin America each receive about 22 percent of the total, and Asia and the Pacific and Sub-Saharan Africa each about 19 percent. But much of the aid to Western Europe goes to organizations that conduct programs in other countries and regions. For example, among non-U.S. recipients the World Health Organization, based in Geneva, Switzerland, receives the most money from U.S. foundations.²⁶

Independent foundations account for 90 percent of international giving by U.S. foundations, corporate foundations for 5 percent, operating foundations for 3.8 percent, and community foundations for less than 1 percent. Corporate and community foundations experienced the fastest growth in giving in the 1990s.²⁷

In the 1980s international activities accounted for just 5 percent of U.S. foundation giving. This share grew with the end of the Cold War and surged in the 1990s, reaching almost 11 percent by 1998. In addition, more small and medium-size foundations are giving international grants. Nevertheless, the 10 largest U.S. foundations give 60 percent of international grants, and the 25 largest, 74 percent. Foundations must address several issues as they globalize, including their openness to outside proposals, their accountability for results, and their organizational structures, to link private efforts to the needs of developing countries.

Independent foundations. Independent foundations include some of the oldest and largest U.S. foundations—organizations that helped transform tropical health and agriculture and expand foreign scholarships and academic research in

developing countries. The Rockefeller, Ford, Kellogg, and MacArthur foundations are continuing this long tradition, including through massive funding for higher education in Africa.

With \$22 billion in assets in 2000, the Bill and Melinda Gates Foundation is the world's largest foundation. Awarding more than half its grants to international health projects, it is transforming health services in developing countries. In its quest to establish standards and accountability in development projects, the Gates Foundation requires countries to develop detailed applications and meet inoculation targets under its Global Alliance for Vaccines and Immunization, which it launched in 1999 with a grant of \$750 million.²⁸

The number of U.S. independent foundations has grown, with an estimated 24,000 created in the 1980s and 1990s. Though most are small, 8,200 have at least \$1 million in assets. Of these, more than 500 have at least \$25 million.²⁹ Giving has not necessarily grown in line with assets, with foundations consistently giving about 5 percent of their assets a year regardless of asset growth. Many new small and medium-size foundations are among the most active in international giving. Among U.S. foundations that give at least half their money to international activities, 60 percent were created after 1970.³⁰

Corporate foundations. Corporate foundations accounted for just 13 percent of international giving by U.S. corporations in 1998. Many international donations are made through corporations' foreign affiliates and matching grants programs for employee donations. Although corporate foundations account for 20 percent of U.S. foundations making international grants, they provide just 5 percent of foundation giving.³¹

International contributions from U.S. corporate foundations rose considerably in 1997 and 1998 as companies entered more partnerships with governments, nongovernmental organizations (NGOs), and international organizations. These partnerships reflect increased corporate social responsibility, employee volunteerism, and cause-related marketing.

In 1998 six U.S. corporate foundations gave at least 25 percent of their grants to international programs, including the Bechtel Foundation (40

Box 6.3. Exporting community foundations

Following a long tradition of strengthening international philanthropy, U.S. foundations, including the Charles Stewart Mott, Ford, and Soros foundations, have begun supporting the creation of community foundations overseas. Ford Foundation Senior Vice President Barry Gaberman is enthusiastic about this democratization of philanthropy: “What was a uniquely American construct is now providing the energy for the development of philanthropy around the world.”

Source: Greene 2001.

The Charles Stewart Mott Foundation has helped create community foundations around the world, providing \$20 million for foundations in Eastern Europe, South Africa, and the United Kingdom. Concerned that traditional forms of overseas assistance are not working, the foundation’s president, William White, argues that “philanthropy needs to begin on Main Street. Local neighborhood people know far better than people from out of town what their town needs. I believe in empowering people at the local level.”

U.S. CORPORATIONS ARE DEVELOPING STRATEGIC RELATIONSHIPS THAT TIE THEIR PHILANTHROPIC ACTIVITIES TO THEIR BUSINESS INTERESTS

percent), Archer Daniel Midlands Foundation (30 percent), and Bristol-Myers Squibb and Coca-Cola foundations (28 percent each).³² But in recent years contributions from corporate foundations have leveled off because of the East Asian financial crisis and the global recession. Still, increased giving and new relationships with nonprofits have become established features of international corporate philanthropy.

U.S. corporations are developing strategic relationships that tie their philanthropic activities to their business interests. For example, Citigroup Foundation gave \$1 million to support Asian microlending programs that foster economic development by helping small entrepreneurs—and create future Citigroup customers.³³

Community foundations. A promising development in international giving is the recent growth in community foundations (box 6.3). There are now nearly 800 around the world, with three-quarters in the United States. Tied to the needs of communities overseas, a community foundation is independent, receives funds from a variety of sources, and makes grants in conjunction with the people living in the communities.³⁴

Frustration with foreign aid and donor controls on projects led to the creation of the Kenya Community Development Foundation. It became independent in 2001 after three years of managerial and organizational support from the Aga Khan and Ford foundations.³⁵ This community foundation brings hope to Kenyans who want to decide their needs for themselves and determine how to meet them with their resources. The United States and other donors could consider

using such foundations as channels for local development projects.

Some of the most visible work in community and indigenous foundations has occurred in Central and Eastern Europe. Between 1989 and 1994 more than 60 European and U.S. foundations spent more than \$600 million to develop nonprofit organizations in the region. The Ford and Rockefeller foundations are joining the effort to fund the Trust for Civil Society in Central and Eastern Europe to support these philanthropic endeavors.³⁶

Future developments. With the September 11 terrorist attacks and the global economic downturn since 2000, international giving will see limited growth in the near future. But the fundamental changes in foundation giving in the 1990s and the expanded assets of foundations argue for a continued expansion of private philanthropy over the medium and long term. As the U.S. economy rebounds, foundation assets and individual donations will rise. Recent growth in U.S. foundations—with some 8,000 new ones emerging between 1994 and 1998—bodes well for international giving.³⁷ As these organizations mature and increase their assets, many will expand to international activities.

As globalization continues, rising corporate and personal income in developing countries will increasingly be channeled to indigenous PVOs and community foundations. These new sources, along with older independent and corporate foundations, will provide partners for donors in all areas of development.

Foundation giving is estimated at \$1.5 billion (this estimate excludes corporate foundation

THE FULL MEASURE OF FOREIGN AID

giving, combined with other corporate giving in the following section). Assuming modest cumulative growth in international giving of 25 percent over a five-year period, rather than the robust 66 percent that occurred in the 1990s, foundation giving could reach \$2.5 billion in 2005 and \$3.1 billion in 2010. Foundation reporting is underestimated because not all small foundations report. In addition, some corporate foundations underreport or do not report at all. With better data, projected levels could be even higher.

CORPORATIONS

As noted, private capital flows surpassed official government aid in the early 1990s. Less noticed was the growth in new forms of international philanthropy that are redefining U.S. corporate giving. International giving by corporations has expanded to include cash and noncash giving, cause-related marketing, employee volunteer programs, and expenditures on issues management and public affairs. Corporations do not systematically collect data on these different types of international philanthropy, so the full scope of giving is not recorded. One survey found that more than 95 percent of corporations support employee volunteer efforts, yet only 9 percent reported tracking these efforts globally.³⁸

It may be that not even a small portion of the total contributions by corporations has been measured. Because such spending is relatively new and because of different tax, management, and accounting systems overseas, this spending is difficult to track.

The two latest, most complete surveys, for 1999 and 2000, cover small samples—with just over 200 companies in each. In the 1999 survey, covering 209 U.S. companies, 83 reported making international contributions totaling \$2 billion.³⁹ The 2000 survey, covering 207 companies, reported international contributions totaling \$2.8 billion.⁴⁰ These amounts include cash and noncash giving directly by the corporations and by their foundations.

Given the history of corporate philanthropy in America, the lack of rigor in tracking international contributions is not surprising. Until 1936 it was illegal for a company to give away shareholder assets for anything other than company interests.

In 1936 the U.S. Internal Revenue Service started allowing companies to deduct 5 percent of pretax earnings from taxable income. But the real shift in corporate giving came in 1953, when a New Jersey court set a precedent later followed by all U.S. states. The court determined that it was legal for companies to give money for reasons not directly related to their business. That decision paved the way for corporate giving to grow from \$30 million in 1936 to \$11 billion in 2000. In 1954 General Electric created the country's first matching gift program, which has since provided schools with more than \$2 billion. Today more than 6,000 companies and corporate foundations match employee contributions to nonprofit organizations.⁴¹

New roles and relationships. International philanthropy by U.S. corporations is evolving, reflecting new relationships with nonprofit organizations, multilateral institutions, and government agencies. Calling the 21st century the “age of alliances,” one author predicts that “collaborative relationships [between corporations and nonprofit organizations] will grow in frequency and strategic importance. Collaborative relationships will increasingly migrate from the traditionally philanthropic, characterized by benevolent donor and grateful recipient, toward deeper, strategic alliances.”⁴² Many such alliances have already emerged.

The fastest growth in such partnerships has occurred in pharmaceuticals, the most philanthropic U.S. industry. Between 1998 and 2001 U.S. pharmaceutical companies gave developing countries nearly \$2 billion in financial assistance and free drugs.⁴³ These companies are working with UN agencies to provide products free of charge or at highly subsidized prices. Efforts address tropical diseases such as river blindness, filariasis, and leishmaniasis as well as modern plagues such as HIV/AIDS, tuberculosis, and malaria. Pharmaceutical companies are increasingly working together to provide overseas assistance.

U.S. drug companies are also funding domestic research centers that work with foreign institutions to fight disease and develop research and medical skills. In 2000 Bristol-Myers Squibb introduced the Secure the Future program, providing \$115 million for training and infrastructure to treat HIV/AIDS in South Africa. Pfizer provides free antifungal medicines to developing

countries most in need, and in 2001 it created the Academic Alliance for AIDS Care and Prevention in Africa—financing a \$10 million partnership between the University of Utah Medical School and Makerere University in Uganda. The alliance is training African doctors and other health workers to treat HIV/AIDS and opportunistic infections.⁴⁴

In 2000 Merck and American Home Products joined the Global Alliance for Vaccines and Immunization—created by the Bill and Melinda Gates Foundation and supported by USAID—contributing \$140 million in vaccines. Merck has provided \$50 million to Botswana for HIV/AIDS prevention and treatment efforts. Eli Lilly, one of the world's largest donors of pharmaceuticals, has provided low-cost drugs to the World Health Organization to treat multi-drug-resistant tuberculosis.⁴⁵ Pharmaceutical companies are working more and more closely with one another and with international donor organizations to finance projects for improving health clinics and training doctors and to provide donated or deeply discounted medicines to poor people in developing countries. Their activities are increasingly similar to those of development agencies.

Strategic philanthropy. U.S. corporations are also strengthening the links between their giving and their markets and employees. This strategic philanthropy often takes the form of cause-related marketing, such as the alliance between Starbucks and CARE launched in 1996.⁴⁶ Starbucks began selling a sampler of coffee beans grown in three countries where CARE operated, donating \$2 from each sale to CARE. Over time Starbucks and CARE employees began working together, and Starbucks donated larger amounts. By 1998 Starbucks was CARE's largest donor, with contributions of \$6.2 million.⁴⁷

More companies are trying to be good citizens. To carry out these new corporate roles, they have created management positions in issues management, global social policy, international public affairs, and global ethics and transparency.

Decentralization and allocation shifts. Most international giving by U.S. corporations—both cash and noncash—originates at company headquarters. But decentralization is on the rise, with local and regional business units and foundations making their own decisions on local giving. In 2000 cash contributions exceeded noncash con-

tributions in international corporate giving. And cash contributions increasingly come from business units outside the United States, reflecting a shift in the traditional pattern of corporate giving.⁴⁸

Although information on international giving by U.S. corporations is rarely broken down by sector, data from 1997 indicate that health and human services received the largest share, followed by education, community economic development, and disaster relief. Decisions about where to give were based almost entirely on where employees and plants were located. After that a project's relationship to the company's objectives was considered important, and in last place was the likelihood of a project's enhancing the company's market share.⁴⁹

Amounts. The two most comprehensive surveys on U.S. corporate international giving (including cash and noncash gifts and foundation contributions) reported giving of \$2.0 billion in 1999 and \$2.8 billion in 2000. But these totals are underestimates, since they include only a sample of U.S. companies. In addition, much of international corporate giving—matching gifts, cause-related marketing, local cash donations, and the value of volunteers' time—is simply not tracked and recorded.

After pharmaceutical companies, the largest sources of foreign contributions (cash and noncash) by U.S. industries are manufacturers of computer and office equipment; telecommunications companies; producers of food, beverage, and tobacco products; and companies engaged in retail and wholesale trade.

Future developments. International giving by U.S. corporations should be better documented. As the global recession recedes and developing countries become more attractive for trade and investment, corporate philanthropy will likely continue to grow. But it is unclear which type of corporate philanthropy—foundation grants, direct cash or noncash grants, cause-related marketing, employee gift matching programs, or volunteerism—will be most important.

Though large U.S. corporations are developing major giving programs in close partnerships with donors, they will resist becoming the sole support for failing economies and corrupt governments. Their philanthropy will likely be targeted to areas

STRATEGIC
PHILANTHROPY OFTEN
TAKES THE FORM OF
CAUSE-RELATED
MARKETING

THE FULL MEASURE OF
FOREIGN AID

INTERNATIONAL
CORPORATE
CONTRIBUTIONS COULD
REACH \$3.6 BILLION IN
2005 AND \$4.6 BILLION
IN 2010

Box 6.4. A private voluntary board for the Litewska Children's Hospital

Aided by a small grant from USAID, private hospitals and individuals created Poland's first private voluntary board for a public institution. The collapse of communism in Poland had decimated the nation's already meager public hospital budgets. The Litewska Children's Hospital, one of Warsaw's oldest pediatric teaching hospitals, no longer had hot water. Doctors had to carry patients from floor to floor because the elevators were often out of service. Poland's new decentralization was forcing hospital managers to find funding and answer to their communities and patients rather than to central planners.

The voluntary hospital board, called Friends of Litewska, was modeled on that of the New Rochelle Hospital and Medical Center in New York. Most of the Poles involved believed that no one would volunteer, but within six months 60 volunteers were at work. Employees of U.S. and

Polish corporations donated their time as board members, airlines and hotels donated tickets and rooms to support exchanges between the two hospitals, and U.S. and Polish legal, accounting, and advertising firms donated services.

In just one year—less than half the time it takes to design, write, and finalize a typical USAID government contract—Friends of Litewska obtained commitments of \$1.5 million for renovating the hospital. Their volunteer program was up and running. A nurse training program involving five U.S. medical institutions jumped in to donate training. USAID spending for the program lasted only a year and a half, but the program is thriving thanks to private support. Friends of Litewska, headed by many of the most respected private leaders in Warsaw, has become a permanent partner of the hospital.

Source: Raymond 1996b.

that contain or support their markets, employees, and public image interests. U.S. corporations have new roles to play in development, including one of the most important: helping affiliates and other local businesses engage in philanthropy. Some analysts question whether corporate philanthropy can be replicated in different cultures and financial systems. Helping developing countries establish the legal framework—that is, the incentives—to donate and the company procedures to do it are worthwhile objectives for corporations and donors.

The latest survey on international corporate contributions projects growth of only 1 percent a year, despite the 40 percent increase from 1999 to 2000.⁷⁰ Based on a conservative projection of 5 percent growth in corporate giving, such contributions could reach \$3.6 billion in 2005 and \$4.6 billion in 2010—estimates that could increase significantly with better tracking and reporting.

PRIVATE AND VOLUNTARY ORGANIZATIONS

Until the 1970s most U.S. PVOs working overseas were engaged in relief and humanitarian efforts. Catholic Relief Services, CARE, World Vision, and Save the Children have been among the largest recipients of USAID funding for these efforts. Since then PVOs have become increasingly active in development work such as com-

munity development, microlending, and agricultural cooperatives (box 6.4). In addition, during the 1990s a growing number of PVOs involved in building democracy and entrepreneurship registered with USAID.

The definition of a PVO and the benefits PVOs receive are important in understanding USAID's development assistance program. A PVO is a registered nonprofit organization that receives part of its annual revenue from the private sector, receives voluntary contributions of money, time, or in-kind support from the general public, works or wants to work overseas, is financially viable (with overhead accounting for no more than 40 percent of expenses), has a board of directors, fits within USAID priorities, and does not have alleged terrorist ties. Universities, colleges, accredited degree-granting education institutions, private foundations, hospitals, organizations engaged exclusively in research or scientific activities, churches, and organizations engaged exclusively in religious activities are not considered PVOs for this purpose.

Sources of financing and types of activities. Registering with USAID offers PVOs considerable benefits. PVOs can receive money from all USAID accounts, including those for development assistance, economic security, and disaster relief. USAID has played a large role in developing the capacity of U.S. PVOs and supporting both U.S. and international PVOs. In addition,

the U.S. Congress has fully supported the integration of PVOs with international development efforts. In the late 1980s legislation mandated that 13.5 percent of USAID funding go to PVOs, with a target of 16 percent. Though that legislation is no longer in effect, PVOs continue to receive about a third of USAID's development assistance budget.

The number of USAID-registered PVOs has grown considerably—from 138 in 1979 to 436 in 2000—though in recent years this number appears to have stabilized. In the 1990s U.S. PVOs experienced significant growth in public and private funding of their international programs. Private funding of international programs has always been higher than public, jumping from \$1.7 billion in 1989 to \$3.3 billion in 2000. Data on private funding are estimated from USAID financial statistics for USAID-registered PVOs in 2000. Although several surveys have tried to gather these data, they have not captured the full amount.⁵¹ With the time of international U.S. volunteers—valued at an estimated \$3.3 billion—included, PVOs provided developing countries with \$6.6 billion in goods and services in 2000.⁵²

In 2000 the top 20 USAID-registered PVOs received an average of \$43 million in grants and contracts—for a total of about \$854 million, or two-thirds of PVO funding by USAID. Within this group, some older PVOs—CARE, Catholic Relief Services, World Vision, Save the Children—receive significant private contributions (for both domestic and international efforts), ranging from \$60 million to almost \$380 million. Others also meet the requirement that 20 percent of overseas expenses come from private sources. But more than 30 percent meet it only through exemptions.

USAID-registered PVOs work in 159 countries in nearly every area of development. Most are involved in health, nutrition, and population projects, with a focus on family planning and child survival. The priority given by USAID to funding family planning and child survival has increased the number of PVOs administering such programs. The top 20 U.S. PVO recipients of USAID funding now include the Academy for Educational Development, Pathfinder International, Family Health International, Population Services International, Management Sciences for Health, and Engender Health. Other PVO activities

include community development, food security, food aid, and disaster relief.

Advantages of private and voluntary organizations. The advantages of traditional PVOs have long been clear. Most important, they foster pluralism, volunteerism, and compassion—values that have characterized the United States throughout its history. Markets create wealth and prosperity. But private philanthropy—from communities, charities, religious organizations, and families—is required to help the needy, complementing government-provided social safety nets. U.S. President George W. Bush expressed this view in his inaugural address, when he said that “compassion is the work of a nation, not just a government.”⁵³ PVOs are unique private sources of money and time.

U.S. PVOs also have advantages in performing development work abroad, including their ability to operate in politically sensitive situations, to conduct programs often faster and more efficiently than contractors or government employees, and to work with governments and communities with which they have established relationships.

Challenges for private and voluntary organizations. U.S. PVOs must work to increase volunteerism and private contributions to their overseas programs, both important factors in the long-term effectiveness and sustainability of their projects. The main challenge for PVOs today is to develop sustainable counterpart institutions that can eventually assume their tasks. Widely shared economic growth will reduce the need for assistance from outside donors to support development and meet basic human needs. As countries create wealth and develop private institutions, their social welfare needs are best served by their own government systems and private philanthropic organizations. Where social safety nets are required, local community foundations and indigenous PVOs can help disadvantaged people. U.S. PVOs must view their role as a “bridge toward development, not a permanent fixture.”⁵⁴ The benefits of indigenous PVOs were well articulated by a USAID-funded study written more than 20 years ago.⁵⁵ The study argued that local PVOs generally deliver services at lower cost, can respond faster, are more likely to follow through on completed projects, and are more likely to gain cooperation from local governments and support from beneficiaries.

*PVOs FOSTER
PLURALISM,
VOLUNTEERISM, AND
COMPASSION—VALUES
THAT HAVE
CHARACTERIZED THE
UNITED STATES
THROUGHOUT HISTORY*

*THE FULL MEASURE OF
FOREIGN AID*

*PRIVATE GIVING FOR THE
INTERNATIONAL
ACTIVITIES OF U.S.*

*PVOs SHOULD RISE TO
\$5.4 BILLION IN 2005
AND \$6.8 BILLION IN
2010*

U.S. PVOs have worked with and transferred technology and values to thousands of local organizations in developing countries. But there has been no concerted effort to nurture philanthropy and volunteerism in these countries, to enable these organizations to start taking care of themselves. Such change will not happen overnight, and it will not happen in countries with pervasive institutional corruption. Still, the United States should do more to encourage the long-term development of local PVOs.

Future developments. In the short term private international giving by U.S. PVOs could follow a path similar to that of foundation giving, reflecting lower contributions resulting from the global recession and concerns about terrorism. But a survey of Americans who donated to charities involved in responses to the September 11 attacks found that three-quarters planned to maintain or increase their giving to other charities.⁵⁶ Whether this sentiment will endure is unclear. People's charitable contributions are strongly influenced by their immediate financial concerns, so Americans could cut back on giving now and in the immediate future. The same survey found that if the economy worsens, one in five of these Americans would donate less—and the same number would stop giving altogether. Volunteer time will suffer similar effects if people are focused on earning more income or searching for jobs.

But over the medium and long term private giving for the international activities of U.S. PVOs should continue to increase. Between 1995 and 2000 such giving grew a little over 10 percent a year, a solid increase that likely reflected the strong U.S. economy. Assuming roughly the same annual growth, these private contributions would rise to \$5.4 billion in 2005 and \$6.8 billion in 2010. Adding the \$3.3 billion in international volunteer time would raise total international assistance from PVOs to \$8.7 billion in 2005 and \$10.1 billion in 2010.

COLLEGES AND UNIVERSITIES

U.S. colleges and universities educate a huge number of students from developing countries. In 1955 these institutions had 34,000 foreign students, accounting for 6.4 percent of enrollment. By the 2000/01 school year there were more than 500,000 foreign students, representing 3.9 percent

of enrollment.⁵⁷ Because private U.S. funding for foreign students has not been calculated, this report uses a methodology based on the share of foreign students funded by U.S. colleges and universities multiplied by the average cost of a college education.⁵⁸ Such funding has skyrocketed in recent years, from \$83 million in 1980/81 to \$1.3 billion in 2000/01 (figure 6.3). The share of foreign students receiving scholarships has also increased, to 20 percent.

It is not known what effect the recent downturn in the U.S. economy has had on such scholarships. Nor is it known whether increasing scrutiny of foreign students for possible terrorist ties will reduce the number of students coming to the United States. In the wake of the September 11 attacks there has been a sharp upswing in applications for citizenship among U.S. immigrants, suggesting that foreigners want to secure their rights as Americans rather than return to their homelands. The same phenomenon may be occurring among foreign students seeking to secure the benefits of studying in the United States.

**U.S. colleges and universities—
educators to the world**

FIGURE 6.3

*Private scholarships for foreign students
from U.S. colleges and universities
(US\$ billions)*



*Share of foreign students
receiving private scholarships (%)*



Source: Institute of International Education 2002;
U.S. Department of Education 2000.

Over the medium and long term, as globalization continues and foreign investment increases in developing countries, the trends of the past 20 years should continue. Foreign students will come to the United States for its high-quality higher education, and U.S. colleges and universities will award them scholarships. But U.S. government funding of foreign students has fallen, and it is unknown whether this trend will continue given the renewed interest in promoting diplomacy and understanding of U.S. culture since September 11. Between 1996 and 2001 U.S. universities and colleges increased their scholarships for foreign students by almost half. Even if future funding grows at just three-quarters that rate, scholarships for foreign students would reach \$1.7 billion in 2005 and \$2.4 billion in 2010.

RELIGIOUS CONGREGATIONS

There are 354,000 religious congregations in the United States, accounting for nearly a quarter of nonprofit organizations. As noted, churches and other religious congregations were the earliest private U.S. sources of international giving. More than 300 years ago, before the creation of the United States, Cotton Mather, a New England religious and civic leader, called for Americans to engage in “a perpetual endeavor to do good in the world.”⁵⁹ Funding initially went to missionaries and their religious activities overseas.

But international giving has changed, and the nonsecular activities of religious congregations are increasing, focusing on international programs for disaster relief, health care, agriculture, and education. Three-quarters of religious congregations consider international activities one of their top three program areas, along with health care and human services.⁶⁰ Churches, synagogues, and mosques give money overseas, often as small grants, that help pay school tuitions, set up nutrition programs, provide medicines, or pay for vocational training in the world’s least developed countries.

Many congregations channel their donations through local foundations, disaster relief centers, global ministries, and women’s societies. Congregations also contribute to other PVOs and international organizations that conduct overseas programs. And in some cases they give directly to foreign churches, hospitals, or schools.

Amounts. Private giving and volunteering are expected in religious organizations. The revenues of such organizations amounted to \$81.2 billion in 1996, with individual contributions accounting for more than three-quarters.⁶¹ Households directed 60 percent of all their charitable contributions to religious organizations.⁶²

It is difficult to obtain data on international giving by U.S. religious organizations because statistics are not broken down by international purpose, implementing organization, or religious or non-religious purpose. Moreover, religious organizations are not required to report their contributions to the U.S. Internal Revenue Service. An early estimate put international contributions by three U.S. religious groups—Protestant, Jewish, and Catholic—at a total of nearly \$4 billion in 1919–60.⁶³

A more recent survey took the operating expenditures and volunteer time of all congregations and prorated them among major activities other than religion.⁶⁴ This exercise estimated that \$480 million was contributed to international activities in 1992. But while the survey covered a representative sample, the data captured only salaries and volunteer time, ignoring much larger expenditures for relief and development programs and in-kind donations. Thus \$480 million is a considerable underestimate—a fact supported by estimates of international activities provided by some religious organizations.

While much more research is needed in this area, a rough order of magnitude can be estimated. One survey reported international giving by the Catholic Church and by funding agencies it sponsors as just under \$500 million in 1999.⁶⁵ Another survey has compiled budgets for U.S. overseas Protestant ministries. These budgets totaled \$2.9 billion in 1999 and included relief and development work such as medical care, literacy training, and vocational training.⁶⁶ Thus an overall estimate for religious international assistance is \$3.4 billion. While this estimate does not cover exclusively secular activities, it is the most comprehensive assessment of church spending overseas. But this figure is still likely to be an underestimate because it does not include the ongoing collections, projects, and cash and noncash collections in individual churches throughout the year. Nor is there any estimate of the value of volunteers’ time, which is considerable in religious congregations.

SCHOLARSHIPS FOR FOREIGN STUDENTS COULD REACH \$1.7 BILLION IN 2005 AND \$2.4 BILLION IN 2010

RELIGIOUS GIVING
COULD BE \$4 BILLION IN
2005 AND \$4.8 BILLION
IN 2010

Future developments. Along with corporate giving, international donations by religious organizations are probably the most underestimated type of private U.S. giving. Assuming 4 percent annual growth from the current figure of \$3.4 billion, religious giving would be \$4 billion in 2005 and could hit \$4.8 billion in 2010. (The assumption of 4 percent growth is based on the average annual growth of religious giving in the United States.)⁶⁷ Although religious giving may suffer from the same short-term economic trends affecting foundation and PVO giving, it should not be adversely affected over the medium and long term.

The strengthened sense of community and solidarity in the United States in the wake of the September 11 attacks will likely continue in congregations as it has in the general public. Calls for international volunteerism and engagement with other countries in support of U.S. values and institutions—like those made by President Bush in his January 2002 State of the Union Address—will likely resonate in congregations. Giving by religious organizations offers advantages similar to those of giving by PVOs. Funds are usually delivered by PVOs or by U.S. congregation members, overseas missionaries, or members of sister congregations in developing countries. Thus the programs are likely to be more efficient and to reflect greater knowledge of community needs. Accountability is also better, because the administrators of the funds are more likely to live in the recipient community or country.

REMITTANCES BY INDIVIDUALS TO
DEVELOPING COUNTRIES

The money sent home by U.S. immigrants accounts for 10 percent of GDP in six Latin American countries—and for 13 percent in El Salvador.⁶⁸ Around the world, remittances from immigrant workers more than doubled in the past decade, from \$21 billion in 1989 to \$50 billion in 1999 (these figures exclude Russia, for which data were not available).⁶⁹ Latin America received the most (\$14.5 billion), followed by India (\$11.5 billion), the Middle East (\$10.4 billion), and Eastern Europe (\$6.2 billion). The amount sent to Latin America exceeded the region's financing from USAID and all multilateral lending agencies. Despite their significance, such remittances are a fairly new topic in studies of globalization and

international development, having received far less attention than trade and investment.

The spread of communications technology has made it easier to send dollars and gifts back home. About 44 percent of U.S. immigrant households own a computer, and affordable wire transfers and efficient online services are replacing once-costly money transfers, duties, customs, and mailing costs. Vilma Iraheta, born in El Salvador and now living in Maryland, is an example of the growing number of immigrants sending daily necessities and even birthday gifts to relatives abroad. Vilma logged on to elsalvadorpizza.com to place an order, and the next day a Pizza Hut 1,900 miles away delivered two extra-large pizzas to her father for his birthday. The local Pizza Hut business is booming, with \$10,000 a month in sales, three-quarters of that from the United States. Orders also come in from Salvadoran immigrants as far away as Australia and Sweden.⁷⁰

Trends. The U.S. Department of Commerce's Bureau of Economic Analysis began collecting data on remittances from U.S. immigrants in 1986.⁷¹ These data cover cash payments and the value of goods sent to foreign countries from people in the United States.⁷² Remittances are highest in immigrants' early years of living in the United States and drop sharply thereafter. Moreover, single immigrants remit more than immigrants with family in the United States.

Since data on remittances from U.S. immigrants to developing countries were first collected, these remittances have grown impressively—quintupling from \$3.6 billion in 1981 to \$18.0 billion in 2000 (figure 6.4). The bulk of giving went to Latin America, followed by Asia, the former Soviet Union, and Africa.

These remittances have enormous development implications. Although much more needs to be learned about how this money is spent and what impact it has in thousands of urban neighborhoods and rural towns throughout the developing world, it is clear that this massive private giving—involving little or no overhead and directly filling people's basic needs—is changing the landscape of development and donor agencies. As one officer of the Inter-American Foundation said, “the term ‘remittance’ needs to be broadened to include the full range of resources sent home. Immigrants are a source of capital, knowledge, experience and ideas, which they can funnel to the community.”⁷³

Sending billions of dollars back home

FIGURE 6.4

Individual remittances from the United States to developing countries (US\$ billions)



Source: U.S. Department of Commerce, Bureau of Economic Analysis; USAID.

Remittances as international development. Personal remittances could affect some unexpected areas, possibly providing an antidote to the “brain drain” from developing countries. The Internet will fuel online buying and benefit local businesses: a Central American executive with the supermarket chain Paiz set up a Website, misuper.com, for local shoppers; he was surprised to see that many orders were coming from emigrants sending their relatives gift certificates, shampoo, and cereal.⁷⁴

A few experts on remittances worry that direct transfers of money will promote dependency rather than stimulating the local economy. Remittances may be spent on immediate household needs and consumer goods rather than go to savings or investment.⁷⁵ Others argue that remittances have a strong multiplier effect through consumption that stimulates the supply chain and GDP growth.⁷⁶

Private giving by immigrants fills basic needs for poor people in developing countries. Poverty is much lower among households that have been left by emigrants.⁷⁷ And while some remittances may be spent on entertainment or activities without development benefits, funds are also used for development purposes and for productive infrastructure such as roads, clinics, schools, and water pumps.⁷⁸

Lower fees for transferring money would be a major boon to remittances. In some cases as much as 25 percent of a money transfer goes to fees. Working with the Haitian Development Bank, the Inter-American Foundation is helping to create a new remittance transfer system that generates development capital from transfer fees.

Besides offering prospects for channeling remittances into economic development, this system would bypass government customs officials and thus might reduce corruption.

The potential for coordinating and leveraging remittances remains untapped. USAID needs to gather far more information on this vast resource and work with it more productively. As long as the United States absorbs people from developing countries, the benefits of their work here will be felt in their native countries. Even assuming modest growth of 5 percent a year, personal remittances could rise to \$23 billion in 2005 and to almost \$30 billion by 2010.

Today personal remittances to developing countries are almost twice U.S. official development assistance. By 2010, even with the projected increases in U.S. official development assistance through the Millennium Challenge Account—a new initiative by President Bush that will encourage economic growth and political openness in developing countries—personal remittances will still be twice U.S. government aid. This eclipsing of foreign aid calls for new thinking by USAID on partners in development aid.

TAKING THE FULL MEASURE OF U.S. INTERNATIONAL ASSISTANCE

Among international donors, the United States gives the largest amount of official aid to developing countries, contributing more than 20 percent of total DAC assistance. As a percentage of gross national income, however, this aid is the smallest among government foreign assistance programs. But as this chapter has made clear, the true measure of U.S. generosity and sustainable development is not just government aid—it is total U.S. international resource flows, including private capital and philanthropy.

When all these private flows are added to official development assistance, the United States moves into first place for total resource flows. Table 6.4 summarizes and compares U.S. government and private international assistance for 2000, 2005, and 2010. The table also includes estimates for the Millennium Challenge Account, projected to increase U.S. government aid by \$5 billion a year in 2006. For private international giving, poorly documented and therefore underestimated in all categories, the table provides a range from the

*PERSONAL REMITTANCES
COULD RISE TO \$23
BILLION IN 2005 AND TO
ALMOST \$30 BILLION BY
2010*

THE FULL MEASURE OF
FOREIGN AID

CITIZENS OF INDUSTRIAL COUNTRIES EVERYWHERE WANT TO PARTICIPATE IN GIVING AS VOLUNTEERS —AND IN WAYS THAT ENSURE ACCOUNTABILITY AND TRANSPARENCY IN THEIR GIVING

lowest estimates supported by research to reasonable higher estimates suggested by known gaps in research. This range of numbers provides a much-needed starting point for estimating private international giving.

The table provides a different perspective on the common criticism that the United States is not generous in its overseas contributions. Although official development assistance is a smaller percentage of gross national income in the United States than in other countries, it is also a smaller percentage of total giving. According to the DAC standard of 0.7 percent of gross national income, total U.S. international giving in 2000 should have been \$69.5 billion. The actual total of official development assistance and private giving was \$44.5 billion, or 0.45 percent of U.S. gross national income—well within the average range for DAC donors.

When other official government and private assistance are added to this \$44.5 billion, the United States moves far ahead in the total amount of resources provided to developing countries. So Americans have not given up on foreign aid. They have simply found new channels through which they can express their compassion for less fortunate

people abroad. Official government aid has been displaced by a rising tide of private giving with significantly lower transaction costs, more client-directed services, and more willingness to cede ownership to recipients.

The recognition by the U.S. government of nonofficial development assistance and its importance to economic and political development has an enabling quality for global development assistance. It could encourage other donors to improve their national climate for private giving, such as through laws allowing tax-deductible contributions. Governments could work to ease the flow of immigrants' remittances to their hometowns abroad and could study new ways of working at the grassroots level with workers in these towns, supported by immigrants. Citizens of industrial countries everywhere no longer expect their governments to do it all. They want to participate in giving as volunteers—and in ways that ensure accountability and transparency in their giving.

From America's earliest assistance to international refugees in Santo Domingo (in today's Dominican Republic) and food shipments for famine-struck Ireland, to the work of the Rockefeller and Ford foundations, to today's

The full measure of international assistance

Estimated U.S. government and private international assistance to developing countries (US\$ billions) TABLE 6.4

	2000	2005	2010			
U.S. official development assistance (ODA)	9.9	10.4	10.9			
All other U.S. government assistance	12.7	13.3 ^a	14.0			
Millennium Challenge Account	n.a.	3.3	5.0			
	<i>Low estimates</i>	<i>High estimates</i>	<i>Low estimates</i>	<i>High estimates</i>	<i>Low estimates</i>	<i>High estimates</i>
U.S. private assistance	33.6	43.7	43.5	55.5	55.2	70.3
Foundations	1.5	2.5	2.5	3.5	3.1	4.5
Corporations	2.8	7.7	3.6	10.0	4.6	12.8
Private and voluntary organizations ^b	6.6	7.0	8.7	9.0	10.1	11.0
Universities and colleges	1.3	1.5	1.7	2.1	2.4	3.0
Religious congregations	3.4	5.0	4.0	5.9	4.8	7.0
Individual remittances	18.0	20.0	23.0	25.0	30.0	32.0
Total U.S. international assistance	56.2	70.5	84.9			
U.S. ODA as % of total	18	19	19			
Other U.S. government as % of total	22	19	16			
Private as % of total	60	62	65			

n.a. Not applicable.
a. Provisional. The Millennium Challenge Account is set to increase U.S. official development assistance by \$5 billion a year in 2006 and thereafter.
b. Including volunteer time.
Source: U.S. government and private sources.

“mega donors”—Ted Turner and Bill and Melinda Gates—Americans have consistently given time, money, and in-kind contributions to international causes, preferring to channel these donations through private organizations. This vast assistance should be better documented. As the United States defines its assistance role in the 21st century, it must understand and work more closely with providers of private resources. The future calls for a new approach that recognizes and incorporates private giving, focusing on grassroots support, local ownership, sustainability, accountability, and—not least—passion and commitment.

NOTES

1. USAID 1989, p. 18.
2. OECD data compiled by William McCormick, USAID, March 2002.
3. Goldberg 2001.
4. Hay 2000.
5. IFIAC 2000.
6. Easterly 2001.
7. The base has recently been changed to gross national income, or GNI, but this does not appear to affect the data in any significant way.
8. Johnson 2000.
9. Gardner 2000.
10. WHO 2001.
11. OECD 1999.
12. OECD 2001, p. 71.
13. OECD 2001, p. 76.
14. OECD 2002.
15. U.S. Department of Defense 2002.
16. U.S. Department of Defense 2002.
17. Raymond 2001.
18. OECD 2001.
19. OECD 2002.
20. Independent Sector 2002a.
21. OECD 2002.
22. Foundation Center 2000.
23. Foundation Center 2000, p. xiii.
24. AAFRC Trust for Philanthropy 2001.
25. Foundation Center 2000, p. xx.
26. Foundation Center 2000.
27. Foundation Center 2000, p. 18.
28. Foundation Center 2000, p. 36.
29. Foundation Center 2000, p. 29.
30. Foundation Center 2000.
31. Foundation Center 2000. Based on results from the two surveys used in Foundation Center (2000), the 5 percent of total foundation giving from corporate foundations equaled an estimated \$80 million in 1998. A higher estimate of \$260 million comes from AAFRC Trust for Philanthropy (2001). Neither is used in this analysis. Instead, a figure combining all corporate contributions (regular and through foundations) is used later to reflect this private giving.
32. Foundation Center 2000, p. 30.
33. Foundation Center 2000, p. 3.
34. Greene 2001.
35. Greene 2001.
36. Foundation Center 2000, p. 4.
37. Foundation Center 2000.
38. Kao 2001, p. 32.
39. Tillman 2000.
40. Kao 2001.
41. Muirhead 1999.
42. Austin 2000.
43. PhRMA 2001.
44. PhRMA 2001.
45. PhRMA 2001.
46. Raymond 1996a.
47. Austin 2000.
48. Tillman 2000, p. 29.
49. Muirhead 1999, p. 30.
50. Kao 2001.
51. The \$3.3 billion estimate, covering private support and revenue that U.S. PVOs spend overseas, was calculated using a methodology developed by a USAID contractor, Dimensions International. First, all USAID grants to USAID-registered PVOs are subtracted from their total overseas expenses, under the assumption that all USAID grants are for international purposes. The remainder is assumed to be the amount of overseas expenses funded from private and other non-USAID sources. The percentage of these expenses funded by private sources is then estimated to be the same as the percentage of private support and revenue in all non-USAID funding. This percentage is multiplied by the remainder of assumed non-USAID overseas expenses to get the estimate of private support and revenue. The advantage of using USAID data is that they are collected from USAID financial systems, which are quite complete. While the analysis is limited to the PVOs registered with USAID, these organizations probably make up most of the PVOs working overseas. AAFRC Trust for Philanthropy (2001) provides a lower estimate, \$2.7 billion, recognizing that its number is an underestimate.
52. Independent Sector 2001b, p. 15.
53. Bush 2001.
54. USAID 1989, p. 68.
55. Bolling and Smith 1982.
56. Independent Sector 2001a.
57. Institute of International Education 2002. The number of foreign students is somewhat underestimated because sources of private funding for foreign students other than colleges and universities—such as employers and NGOs—are not included in this total. But since some 20 percent of all foreign students are from Europe and North America, the number provides a rough order of magnitude for private funding for students from developing countries—at well over \$1 billion a year.
58. College Board 2001; U.S. Department of Education 2000.
59. USAID 1989, p. 14.
60. Independent Sector 2000, p. 6.
61. Independent Sector 2000, p. 2.
62. Independent Sector 2002b, p. 13.
63. Curti 1982, p. 39.
64. Independent Sector 1992.
65. Robinson 2000.
66. Siewert and Welliver 2001.
67. AAFRC Trust for Philanthropy 2001, p. 89.
68. Bate 2001.
69. IMF 1999.
70. Sheridan 2001.
71. McCormick 2002. McCormick developed the method for the complex estimation of remittances. The rigorous procedures, worked on for many years, continue to be refined as better data are reported to the Bureau of Economic Analysis by institutions and individuals.
72. Data are collected from decennial censuses of 1980 and 1990 that identify population totals, family totals, average family incomes by country of origin, and duration of U.S. residency. Yearly flows are based on data from the U.S. Immigration and Naturalization Service and the U.S. Census Bureau's Current Population Survey. The information is combined with remittance

and income relationships of the foreign-born population from a sample survey by the U.S. Immigration and Naturalization Service in 1987 and a follow-up survey in 1996. Independent checks on this data are obtained from U.S. banks that issue wire transfers, traveler's checks, bank notes, and money orders. One estimate is that some 80 percent of transfers move through banks, with the rest taking the form of cash carried or mailed abroad.

73. Breslin 2001.
74. Sheridan 2001.
75. Alarcon 2001.
76. Martin 2001.
77. Serrano 2001.
78. Alarcon 2001.

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Foreign assistance will be a key instrument of foreign policy in the coming decades. This report, commissioned by USAID Administrator Andrew S. Natsios, makes that argument while focusing foreign assistance on four dominant themes—political leadership, effective policy, investment in people, and commitment to partnership.

- Unless a country's leaders make smart choices for national priorities and show political will to support meaningful reform, development—and development assistance—cannot succeed.
- Unless sensible policies are put into place to defend good governance and the rule of law, development cannot be sustained. Unless countries invest in health and education, their people cannot compete in today's global marketplace, and development cannot even begin.
- Unless everyone in the development arena works better with partners—both traditional and new, public and private—many development opportunities will be wasted.
- Too much is at stake. Political leadership, effective policy, investment in people, and commitment to partnership must guide the future of foreign assistance—all in the national interest.

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PD-ABW-900



BOX TABLE 1 (page 4)

Incomes rising everywhere, except in Africa, and too slowly in the former Soviet bloc, the Arab world, and even Latin America

<u>Growth in real per capita GDP (%)</u>	<u>Total growth, 1980–2000</u>
World	29
Industrial countries	52
Developing countries	36
East Asia and Pacific	224
Europe and Central Asia	1
Latin America and the Caribbean	7
Middle East and North Africa	4
South Asia	95
<u>Sub-Saharan Africa</u>	<u>-16</u>

Source: United Nations, Global Population Prospects, 2002.

TABLE 1 (page 27)

More assistance than meets the eye

<u>Estimated U.S. international assistance to developing countries, 2000</u>	<u>US\$ billions</u>	<u>Share of total (%)</u>
U.S. official development assistance	9.9	18
All other U.S. government assistance	12.7	22
U.S. private assistance	33.6	60
Foundations	1.5	
Corporations	2.8	
Private voluntary organizations ^a	6.6	
Universities and colleges	1.3	
Religious congregations	3.4	
Individual remittances	18	
<u>Total U.S. international assistance</u>	<u>56.2</u>	<u>100</u>

a. Including volunteer time.

Source: OECD 2002; OMB 2002; USAID 2002; various private sources.

TABLE 2 (page 28)

Nearly \$23 billion in all: U.S. government international assistance

	Official development assistance—\$9.9 billion	Other government assistance—\$12.7 billion
USAID	Operations	Israel
	Development assistance	Newly independent states
	Child survival, humanitarian	Eastern Europe and Baltic States
	Disaster relief, food aid	
State Department	Refugees, narcotics	Operations
	Asia Foundation	Broadcasting (Voice of America, Radio Marti)
	International organizations	Peacekeeping
		Educational and cultural exchanges
		International organizations
		National Endowment for Democracy
Department of Defense	Humanitarian	Military education and training
	Peacekeeping development	Foreign military loans
		Antiterrorism, nonproliferation
Other agencies	Peace Corps	Export-Import Bank
	U.S. Trade and Development Agency	Overseas Private Investment Corporation
	Multilateral institutions	Inter-American Foundation
	Security assistance (Egypt and others)	

Source: U.S. Office of Management and Budget 2002.

TABLE 3 (page 29)**Much more to come**

Estimated U.S. government and private international assistance to developing countries (US\$ billions)	2000	2005	2010
U.S. official development assistance (ODA)	9.9	10.4	10.9
All other U.S. government assistance	12.7	13.3	14
Millennium Challenge Account	n.a.	3.3	5
U.S. private assistance (low estimates)	33.6	43.5	55.2
Foundations	1.5	2.5	3.1
Corporations	2.8	3.6	4.6
Private voluntary organizations ^b	7.6	8.7	10.1
Universities and colleges	1.3	1.7	2.6
Religious congregations	3.4	4	4.8
Individual remittances	18	23	30
Total U.S. international assistance	56.2	70.5	84.9
U.S. ODA as % of total	17	15	19
Other U.S. government as % of total	22	20	16
Private as % of total	60	65	65

n.a. Not applicable.

a. Provisional. The Millennium Challenge Account is set to increase U.S. official development assistance by \$5 billion a year in 2006 and thereafter.

b. Including volunteer time.

Source: U.S. government and private sources.

TABLE 6.1 (page 131)

More assistance than meets the eye

<u>Estimated U.S. international assistance to developing countries, 2000</u>	<u>US\$ billions</u>	<u>Share of total (%)</u>
U.S. official development assistance	9.9	18
All other U.S. government assistance	12.7	22
U.S. private assistance	33.6	60
Foundations	1.5	
Corporations	2.8	
Private voluntary organizations ^a	6.6	
Universities and colleges	1.3	
Religious congregations	3.4	
Individual remittances	18	
<u>Total U.S. international assistance</u>	<u>56.2</u>	<u>100</u>

a. Including volunteer time.

Source: OECD 2002; OMB 2002; USAID 2002; various private sources.

TABLE 6.2 (page 132)

Nearly \$23 billion in all: U.S. government international assistance

	Official development assistance—\$9.9 billion	Other government assistance—\$12.7 billion
USAID	Operations	Israel
	Development assistance	Newly independent states
	Child survival, humanitarian	Eastern Europe and Baltic States
	Disaster relief, food aid	
State Department	Refugees, narcotics	Operations
	Asia Foundation	Broadcasting (Voice of America, Radio Marti)
	International organizations	Peacekeeping
		Educational and cultural exchanges
		International organizations
		National Endowment for Democracy
Department of Defense	Humanitarian	Military education and training
	Peacekeeping development	Foreign military loans
		Antiterrorism, nonproliferation
Other agencies	Peace Corps	Export-Import Bank
	U.S. Trade and Development Agency	Overseas Private Investment Corporation
	Multilateral institutions	Inter-American Foundation
	Security assistance (Egypt and others)	

Source: U.S. Office of Management and Budget 2002.

TABLE 6.3 (page 134)

The United States leads the world in total flows

	Total ODA	Total ODA as % of GNP	Bilateral ODA	Multilateral ODA	Other official flows	Grants by private voluntary agencies	Private flows	Total flows	Total flows as % of GNP
Canada	1744	0.25	1160	583	5	113	4621	6483	0.95
Denmark	1664	1.06	1024	641	-3	32	482	2176	1.39
France	4105	0.32	2829	1276	14	n.a.	1439	5557	0.43
Germany	5030	0.27	2687	2343	-456	846	7000	12420	0.67
Italy	1376	0.13	377	999	-103	37	9537	10846	1.01
Japan	13508	0.28	9768	3740	-5,200	231	2725	11264	0.23
Netherlands	3135	0.84	2243	892	38	306	3469	6947	1.85
Norway	1264	0.8	934	330	n.a.	179	-5	1437	0.91
Spain	1195	0.22	720	475	3	n.a.	22272	23471	4.25
Sweden	1799	0.8	1242	557	0	26	2127	3952	1.76
United Kingdom	4501	0.32	2710	1792	-72	536	2093	7058	0.5
United States	9955	0.1	7405	2550	562	4069	10666	25252	0.25

n.a. Not available.

Note: Total official development assistance (ODA) includes net flows to developing countries (bilateral ODA) as well as contributions to multilateral institutions (multilateral ODA).

Source: OECD 2002.

TABLE 6.4 (page 146)

Estimated U.S. government and private international assistance to developing countries (US\$ billions)

	2000	2005	2010
U.S. official development assistance (ODA)	9.9	10.4	10.9
All other U.S. government assistance	12.7	13.3	14
Millennium Challenge Account	n.a.	3.3	5

	Low estimates	High estimates	Low estimates	High estimates	Low estimates	High estimates
U.S. private assistance	33.6	43.7	43.5	55.5	55.2	70.3
Foundations	1.5	2.5	2.5	3.5	3.1	4.5
Corporations	2.8	7.7	3.6	10	4.6	12.8
Private and voluntary organizations ^b	6.6	7	8.7	9	10.1	11
Universities and colleges	1.3	1.5	1.7	2.1	2.4	3
Religious congregations	3.4	5	4	5.9	4.8	7
Individual remittances	18	20	23	25	30	32
Total U.S. international assistance	56.2		70.5		84.9	
U.S. ODA as % of total	18		19		19	
Other U.S. government as % of total	22		19		16	
Private as % of total	60		62		65	

n.a. Not applicable.

a. Provisional. The Millennium Challenge Account is set to increase U.S. official development assistance by \$5 billion a year in 2006 and thereafter.

b. Including volunteer time.

Source: U.S. government and private sources.