



Foreign Aid

Summary and Key Talking Points

Policy Proposals

1. Reorganize and streamline the health and humanitarian components of the U.S. Agency for International Development (USAID), and relocate them directly within the U.S. Department of State.
2. Improve coordination of military and security assistance under the joint authority of the Departments of Defense and State.
3. Consolidate and reduce the over 25 U.S. government foreign aid agencies and programs, and eliminate redundant and antiquated programs that no longer serve their purpose.
4. Transfer USAID's Development Assistance account to an expanded and reorganized U.S. Millennium Challenge Corporation.

Quick Facts

1. Since 1946, U.S. foreign assistance spending has averaged about \$35 billion per year, and in total exceeds \$2.5 trillion.
2. Israel, Egypt, Pakistan, and Afghanistan have been the top recipients of U.S. aid for decades.
3. Overseas Development Assistance donations were less than \$150 billion in 2017, while global private money transfers exceed \$700 billion annually.

Power Phrases

Lasting Change

- Despite the best intentions, the aid we give to developing countries often has little long-term effect, and is focused more on treating symptoms than on encouraging lasting change and meaningful impact.

More Effective Assistance

- One of the best ways to help developing countries is with free and open trade that gives their businesses access to new markets and opportunities.
- U.S. aid should encourage free trade and investment, property rights, and rule of law, which encourage healthier societies, cleaner environments, stronger democracy, and greater prosperity.

The Issue

“Foreign Aid” is a catch-all moniker that encompasses a wide variety of projects and programs that are funded and implemented by U.S. government agencies in countries around the world. The total spent every year for U.S. foreign aid and international diplomatic operations (e.g., American embassies) has traditionally been a little less than 1 percent of the federal budget.

Often, but not always, foreign aid is tied to the achievement of a foreign policy objective. U.S. security and foreign policy interests motivate assistance to nations deemed vital to advancing or defending those interests, such as U.S. aid to Israel and Egypt under the Camp David Accords. Aid to these countries, which are often in unstable areas of the world, requires cooperation with less than ideal governmental partners.

Development assistance is intended to reduce poverty and encourage economic growth in recipient countries by funding programs dedicated to improving agriculture, education, health, and democracy and advancing other initiatives. Higher standards of living in poor nations support U.S. interests: Wealthier nations are more stable, more democratic, and more likely to become economic partners with America. Unfortunately, the record of development assistance in promoting economic growth and improved living standards is not robust.

Although aid has had some success (notably health programs and natural disaster response efforts), the trillions of dollars of official development assistance (ODA) given by the United States (and other Western donors) since 1960 have largely failed to produce the results promised. Specifically, foreign aid has not reliably improved living standards through economic growth and integration into the global economy, which in turn would allow developing countries to “graduate” from the need for further aid. Worse, aid can reinforce the same problems that contribute to a lack of development because it involves government-to-government transfers that tend to promote statist approaches, and encourage dependency, creating opportunities for corruption.

Some of this substandard impact can be attributed to the dramatic differences today from the time when many U.S. foreign aid programs were established. America’s foreign and security challenges today are vastly different from what they were during the Cold War, but many assistance programs remain bound by the structures, instructions, and restrictions adopted in that era. In addition, private capital, which flows from all sources, now dwarfs ODA by a factor of about 20 to one. That means that developing countries have far greater access to investment capital and global markets than they did 60 years ago. As a result of these very positive global economic developments, U.S. assistance does not have the market share and influence it once did. The need to support America’s goals and policies, however, remains undiminished.

To take advantage of the opportunity to attract private capital, developing countries must implement policies that open their markets. Various trade and investment-friendly policies are examined each year in The Heritage Foundation’s *Index of Economic Freedom*. To get ahead based on sheer merit and hard work, citizens of any country need their government to remove obstacles to the free flow of capital, goods, services, and ideas and to strengthen those institutions of the state that will maintain non-discriminatory markets, allocate resources impartially, maintain the rule of law, protect property rights, and reward individual effort and success. That is the proven recipe for economic freedom and real human progress.

The trend towards ever-greater reliance on private capital for development justifies the Trump Administration’s proposals since taking office to reform foreign aid. The Administration understands that developing countries’ problems cannot be solved simply by increasing ODA and other forms of foreign aid. The solution is to use U.S. foreign aid more effectively to promote U.S. interests and provide support to developing countries until they reach the point at which they can be helped by private capital.

America’s current aid programs are too numerous, fragmented, and micromanaged to support U.S. foreign policy objectives efficiently. It is no longer feasible merely to propose patches and workarounds to the 1961

Foreign Assistance Act, which was itself a restructuring of awkward, haphazard, and ineffective post-war programs from the 1950s that had become increasingly bogged down by bureaucratic fragmentation and infighting. As stewards of American taxpayer dollars, Congress and the Administration have a responsibility to ensure that foreign aid dollars are used effectively to advance the nation's interests. The next Administration and Congress should work together to reform America's foreign assistance agencies and bureaucracies with the goal of eliminating duplication, improving coordination, and freeing foreign assistance programs from unnecessary legislative instructions.

Recommendations

Properly designed and directed, U.S. foreign aid can support U.S. national interests. It can address humanitarian crises, promote policy changes necessary for private sector-led economic growth (the most reliable and sustainable path to development), and advance our diplomatic and security priorities through targeted support. Although some reforms have been enacted in recent years, the underlying problems remain. Fundamental reform does not lie solely within the authority of the executive branch: Legislation to amend or replace existing laws is required. The next Administration should consult with Congress to take congressional concerns and priorities into account and work jointly to reform, consolidate, and refocus U.S. foreign assistance programs to maximize their effectiveness for the future.

To that end, USAID should be replaced with a new agency, the United States Health and Humanitarian Assistance Agency (USHHAA), to manage all health and humanitarian assistance programs. The United States Agency for International Development (USAID) was established in 1961 by the Kennedy Administration. As discussed above, the global environment for foreign aid and development assistance in 2020 bears little resemblance to the situation 60 years ago, when the world was still recovering from World War II, the process of decolonization was underway, and the American economy was much more dominant globally than it is today. Over the past six decades, USAID has lost much of its effectiveness due to its expanding remit and ongoing funding of many programs that are no longer fit for the purpose but are defended by special interests. More often than not, this inefficient management model has resulted in USAID establishing far too many low-budget programs in too many countries that are far too small to make a sustainable long-term difference. The first step in addressing this problem is eliminating current U.S. assistance programs and consolidating U.S. assistance by focus and purpose.

Humanitarian assistance addresses sudden major natural disasters, tragedies, or ongoing suffering. Although annual appropriations are made for humanitarian assistance, distribution can be irregular, unpredictable, and of relatively short duration. Humanitarian assistance is not intended to advance other foreign policy objectives, but it can serve to bolster America's reputation and increase international goodwill. Consolidating humanitarian and health assistance under one umbrella institution, including U.S. food and disaster assistance, would streamline operations and focus it on a clear, consistent mission. The USHHAA should be placed within the U.S. State Department and USAID's Foreign Service Officers (FSOs) tasked with overseeing this assistance should be placed into a new "Assistance Cone" at the State Department.

The amount appropriated to the State Department's Economic Support Fund (ESF) should be increased, and the account should be renamed the "Policy Goal Implementation Fund" with the express purpose of generating goodwill and supporting U.S. foreign policy and security objectives (bilaterally and at the United Nations). Other developed countries—such as Sweden, Norway, Denmark, and Canada—are way ahead of the U.S. in updating their foreign assistance strategies and have already merged their foreign aid and diplomatic agencies. The result is a more coherent process for linking assistance to foreign policy. By the same logic, ambassadors appointed by the President should have greater authority over foreign aid expenditures in the country to which he or she is accredited. Using the savings from cuts elsewhere in the foreign aid budget, increasing the State Department's Economic Support Fund account would encourage more resilient, democratic, prosperous, and secure societies around the world.

Improve the coordination of military and security assistance under the joint authority of the Departments of Defense and State. The purpose of the military and security assistance account should be made explicit: to support U.S. allies with training and equipment to bolster their military capabilities and address emerging, current, receding crises or conflicts that represent a threat to the U.S., its allies, or international or regional peace and security. Military and security assistance programs, regardless of whether appropriated through the International Affairs budget or in the Defense budget, should be the joint responsibility of the Departments of Defense and State. Programs under this category include International Military Education and Training (IMET); Foreign Military Financing (FMF); International Narcotics Control and Law Enforcement (INCLE); Non-Proliferation, Anti-Terrorism, Demining, and Related Programs (NADR); and Peacekeeping Operations (PKO). In addition, funding aimed at assisting and stabilizing fragile and post-conflict states as well as crisis prevention should be appropriated within this category. Congress should reverse the proliferation of assistance programs by consolidating these accounts where appropriate.

Eliminate duplicative foreign aid programs, improve coordination of remaining programs, end congressional “earmarks,” and terminate programs that do not work. Tracking and assessing the vast array of U.S. foreign aid programs (through more than 25 federal agencies and programs) is no simple task. Since many of these programs are antiquated or are no longer fit for the purpose, efforts have been made over the years to improve the transparency and accountability of U.S. foreign assistance programs. Two of the larger programs and agencies that should be eliminated are the Export–Import Bank of the United States (EXIM Bank) and the United States Trade and Development Agency (USTDA). There is no shortage of private capital to finance exports, but governments have increased the practice of subsidizing financing in an effort to increase exports. This practice is a harmful distortion of domestic and international economies. The U.S. should set an example for developed and developing countries alike, showing that such practices are anti-market and anti-development, by eliminating the EXIM Bank. The USTDA and similar work by the U.S. Commercial Service—the trade promotion arm of the Department of Commerce—might have been of value when they were established decades ago, but, in a world awash with hundreds of billions of dollars circulating in highly developed global capital markets, they are simply no longer necessary. The U.S. International Development Finance Corporation (DFC), established in 2018 to replace the Overseas Private Investment Corporation (OPIC), should lend only to the relatively few unstable states or least-developed countries that truly lack access to private capital markets, or to counter threats to U.S. interests posed by foreign financial influence, such as China’s Belt and Road Initiative. Even in these cases, however, the goal should be to promote policies and development through the MCC to the point where private options are available. Congress should also minimize the “earmarking” of foreign aid. The level of micromanagement of foreign assistance undermines its effectiveness by spreading it too thinly among recipients and purposes. Congress and the Administration should consult and agree on the broad instructions and goals of America’s foreign assistance within overarching priorities. Earmarks and more directed instructions should be applied only in extraordinary circumstances and should always have an explicit expiration to ensure that they continue only as circumstances merit.

Move all development assistance to an expanded and re-organized U.S. Millennium Challenge Corporation (MCC), an independent agency that stresses the primary importance of the rule of law, effective governance, and recipient country accountability. Transfer USAID’s Development Assistance account to the MCC and add the Under Secretary of State for Foreign Assistance to the MCC Board of Directors to better coordinate all U.S. foreign assistance.

Facts and Figures

FACT: U.S. foreign assistance spending (including security assistance) has averaged about \$35 billion a year since 1946 (in 2018 Dollars), and in total exceeds \$2.5 trillion.

FACT: Although there have been American foreign aid programs in well over 100 countries around the world, four of the top five recipients of U.S. aid in recent years have been in the top five for decades.

- Israel, Egypt, Pakistan, and Afghanistan have remained in the top five recipients of U.S. aid for decades.

FACT: Today ODA is dwarfed by private financial flows—from charities, foundations, corporations, churches, and individuals—along with increased trade and investment generated by the growth of the private sector, greater domestic resources, substantial flows of remittances, and increased capital flows to developing countries.

- According to a recent estimate in *Forbes*, global remittances alone exceed \$700 billion annually, and those remittances go directly to private family members and usually do not end up passing through the hands of corrupt government officials.
- These remittances are on top of global foreign direct investment (FDI) inflows (comprised of equity capital, reinvested earnings, and intracompany loans), which the United Nations Conference on Trade and Development estimates to have been about \$1.2 trillion in 2018 (including investment in developed and developing nations).
- On top of remittances and FDI, the figures for which are probably greatly understated, there are private philanthropy flows, which the Hudson Institute estimated to be nearly \$65 billion globally in 2014 (the latest year available).
- Generous Americans accounted for about two-thirds of that global total, at nearly \$45 billion in 2014.
- ODA donations to developing countries by OECD member countries were less than \$150 billion in 2017, a small fraction of total global flows.

FACT: Although the U.S. government has made some efforts over the years to consolidate and improve the transparency and accountability of U.S. foreign assistance programs, tracking and assessing the vast array of U.S. foreign aid programs remains too opaque.

- As of late 2017, the U.S. government had at least 36 separate government departments and independent agencies financing foreign assistance programs.
- The major foreign aid agencies include: the U.S. Agency for International Development (USAID), the Department of State, the Millennium Challenge Corporation, the Department of the Treasury, the Department of Agriculture, the Department of Health and Human Services, the Department of Defense (the Department of the Army, Department of the Navy, Department of the Air Force, and the U.S. Army Corps of Engineers), the Department of the Interior, the Department of Justice, the Department of Labor, the Department of Commerce, the Department of Energy, the Department of Homeland Security, and the Department of Transportation.
- Smaller U.S. agencies with foreign aid programs include: the Peace Corps, the Trade and Development Agency, the Inter-American Foundation, the African Development Foundation, the Federal Trade Commission, the Nuclear Regulatory Commission, the National Science Foundation, the Overseas Private Investment Corporation (renamed the U.S. International Development Finance Corporation), the Export-Import Bank of the United States, and the United States Institute of Peace.

Additional Resources

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James M. Roberts, “Not All Foreign Aid Is Equal,” Heritage Foundation *Backgrounder* No. 2523, March 1, 2011, <https://www.heritage.org/global-politics/report/not-all-foreign-aid-equal>.