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Dos, Don'ts and Perennial Challenges in Our Development Assistance

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We know that a broad and deep reassessment of our foreign policy and economic development assistance is likely to take place in the coming years. Among others, the reassessment should address the following aspects.

1. The country needs a bipartisan consensus on core long-run development policy objectives and norms consistent with the principles that guided United States' prosperity. In working toward such consensus our political parties have to deal with the issue of whether we still believe that the values that drove our country's creation are still a superior foundation for legitimate governance, shared prosperity, and overall wellbeing.

I raise this point because, as I see it, the underlying conceptual foundations of our current development policies are vague and our international development assistance has lacked a consistent emphasis over the years. In fact, unfortunately much of such assistance has been administration-specific and tainted by partisan biases. A result has been shifting and unstable prominence given over the years to, for instance, so-called basic needs, micro-enterprises, population control, other private sector, economic policy and institutional reforms, democracy and civil society, and climate change plus the environment at present.

I think liberal values do provide an adequate framework for the greatly needed consensus. But there is the question of whether, as a nation, we have the courage and conviction to still defend such values or, alternatively, whether internal political polarization has so weakened our sense of moral authority that we can no longer move with resolve. I think we still can.

2. Is it appropriate to have two major entities (USAID and the MCC) channeling separately our foreign development assistance? Probably not. And this doesn't take into account the involvement of other agencies in the United States government's development efforts overseas.

Likewise, the reassessment will have to deal with the question of whether humanitarian and development assistance should be under the control of different agencies. Which of course means distinguishing what is *humanitarian* from what is *developmental*. To my mind, development assistance would certainly include health, education and private sector development projects in its portfolio. On the other hand, disaster assistance and emergency health

interventions, as well as assistance driven by short-term foreign affairs imperatives, could well be captioned under the rubric of humanitarian aid.

In dealing with the topic one would have to revisit the rationale for the creation of the MCC as a separate entity – the sensible proposition that assistance is more effective when conferred on countries that are helping themselves. As relates to USAID (or a successor agency), it will also be important to finish rebuilding the cadre of international development practitioners in the federal government and, critically, safeguarding the professional integrity of the cadre's members. The latter is not easy in contexts where short-term political priorities or fads impinge on personal careers.

3. Do both project and institutional-policy-reform interventions. Project efforts can have strong demonstration effects. Yet the effectiveness and replicability of projects is conditioned by the broader institutional and policy settings in which they are implemented. Accordingly, reforms and project efforts reinforce each other and go together. Thus, in all countries receiving USAID development aid a 3-prong approach for our development assistance makes sense:
 - a) Openly sponsor research think-tank type institutions that support competitive free markets and personal freedoms as the foundation for economic growth in open societies. The objective here is to open minds and win hearts.
 - b) Fund projects that stand on their economic merits, have good potential for replication in aid-receiving countries, and are consistent with the promotion of wealth-creating market competition.
 - c) Maintain a policy dialogue with the public and private sector in support of broad-based policy and institutional reform.

Of special importance, our agencies should beware of not undoing with one intervention what is being accomplished with another. This is relevant because philosophical inconsistency over time and the effects of bureaucratic incentives and vested interests (in the United States and abroad) have led, at times, to project interventions that run counter to US Government-host country policy dialogue objectives for appropriate institutional environments.

An example relating to economic growth efforts may be the record of interventions with targeted credit facilities, business incubators, support to cooperatives, and venture capital initiatives. While with successes, by and large, my sense is that these attempts have tended to promote foreign assistance dependence without contributing clear long-lasting foundations for economic

growth. In fact, frequently and perversely these interventions tend to foster rent-seeking and cronyism, key obstacles to development in many regions. Of course, the rationale for this intervention type – most frequently market failure—has to be taken into account. The point here is that on occasions the remedy worsens the malady.

4. As possible, avoid grandiose and complex project endeavors. These multiply exponentially the possibility of failure, foster bureaucratic inertia, and feed a central planning mentality. While the recent development literature has repeatedly pointed to the perils involved, still these endeavors seem to be a standard practice among international development agencies.

For instance, ongoing and recent ambitious big-plan multi-faceted approaches to value-chain development (e.g., by the World Bank and bilateral donors in some African countries) tend to overload management and the public-private sector institutions involved in project implementation. In contexts where the institutional setting is very weak such setup strains local capacities beyond feasibility.

Moreover, in these milieus, often development interventions are linked to partners dependent on long-lasting foreign assistance and varying degrees of host government industrial protection. When one adds built-in assumptions regarding good practices and appropriate technologies, such project framework strikes me as a recipe for failure. Yes, sometimes complexity is unavoidable but “keep it simple please” is not bad counsel.

5. Make the promotion of long-term economic growth a pivotal objective of our development assistance. And be serious about it.

While lip-service is paid to such objective, in practice it is difficult to see that this is really a key goal if structural reforms for institutional and policy-strengthening, along with the policy dialogue to help them happen, are not important elements in the intervention toolkit of our agencies involved in development assistance. Of course we know that a condition for success is that aid-recipient countries view the reform efforts as their own -- in fact the Millennium Challenge Corporation model was a result of that insight.

After all, we now know that the significant decline in poverty in the last 20 to 30 years happened after and largely because of pro-market reforms. The decline holds for Asia, even controlling for China, Latin America, and Africa. What else does one need to know?