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THE BUSINESS CASE
FOR FOREIGN AID REFORM

The Business Case for Foreign Aid Reform

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What does business have to do with foreign aid?

THE BUSINESS CASE FOR FOREIGN AID REFORM

America's economic health and security are inextricably linked with the prosperity and stability of the rest of the world. The expansion of economic growth and opportunity worldwide is in our country's best interest – and it is also of critical concern to U.S. business. Most U.S. companies, regardless of their size, view themselves as players in a global system. Whether they are selling products and services into the international marketplace or sourcing their inputs from overseas, companies today are far more engaged globally than their predecessors. U.S. business has a core interest in the economic health of the rest of the world. Increasingly, this includes the economic development of people in poor countries.

Long-term growth

For many companies, there is a growing awareness that economic growth in developing country markets is the strongest opportunity for long-term business growth – and they have a direct interest in growing the incomes of potential consumers in poor countries. The poorest two-thirds of the world's population represent \$5 trillion in purchasing power.¹ This translates into significant opportunity for companies interested in expanding into new markets. Developing countries also represent a huge pool of potential employees and a vast network of potential suppliers. Companies with overseas operations or that source from factories in the developing world have a clear interest in the health and prosperity of their employees and suppliers.

Reputational value

Other dimensions of significance to business are the importance U.S. consumers increasingly assign to the conditions under which the products they buy are made and the improvement in retention and morale when employees feel a personal connection to the values a company espouses in its global operations. In this era of global and increasingly transparent supply chains, development is no longer a side concern or philanthropic exercise for most major companies. It is a matter of fundamental business success.

Business environment

The private sector can have real impact on global poverty through its investments and activities in poor countries. Indeed, private capital flows are growing as a share of total financial flows to developing countries. Foreign direct investment can create jobs, stimulate economic growth and is often the primary source of poverty reduction in the developing world. However, governments rightly play a leadership role in creating an environment where private investment and entrepreneurship can flourish by enacting policies that promote investments in human development, infrastructure and rule of law. Foreign aid is our country's primary investment in supporting good governance and is a critical piece of the equation.

What is the role of foreign aid?

FOREIGN AID AS CATALYTIC INVESTMENT

By helping to create an environment where private enterprise will thrive, foreign aid is often the necessary first step in a country's climb out of poverty and into the global marketplace. This assistance is especially important in the face of the current economic crisis, which has hit the most vulnerable hardest.

Though a few countries have succeeded in making enormous strides against poverty in the last few decades without significant foreign aid, most notably China and India, the great majority of the world's low-income countries do not possess the internal resources to jump start the growth needed to combat poverty. Unlike China and India, most cannot access private capital and do not attract significant levels of private investment. They rely upon the official assistance that comes from donor governments and international institutions as well as charitable contributions from private citizens through NGOs.

Aid works when it's done right

Foreign aid programs can seem slow, cumbersome and inefficient, but there is compelling evidence that, when done right, aid works. A 2005 study found that aid explicitly directed at stimulating economic growth – aid to build infrastructure and support productive sectors like agriculture – had “a strong, positive and causal effect” on economic growth. The study found that each \$1 in growth-targeted aid yielded \$1.64 in increased income in the recipient country.² In 2006, a World Bank study focusing on rural infrastructure found that households in Bangladesh benefited in a variety of ways from the paving of rural roads: Men's agricultural wages went up significantly, fertilizer prices fell, farm productivity increased. Even the number of boys and girls in school grew. Overall, poverty fell five percent.³

“It's in our country's best interest to get economic development in every corner of the world.”

–Jeff Immelt, CEO, GE

U.S. aid has improved the lives of millions of people by helping spur economic activity – connecting people to markets, boosting the productivity of workers, giving entrepreneurs the tools they need to scale up, and creating an environment that attracts private investment. Moreover, investments in health, education and physical infrastructure help attract foreign direct investment and enhance the overall business climate by helping to create a healthier, better educated workforce and the transportation corridors necessary to move product and connect producers to markets.⁴

The economic benefits of reducing global poverty

A world where half the population lives in poverty and one in five people cannot afford to meet their basic needs is not economically stable. The health of the U.S. economy is closely tied to the global economy, which is in turn susceptible to slowdowns in large emerging markets. **As growth slows worldwide, demand for U.S. goods falls, taking productivity and jobs with it.**

The creation of American jobs depends more than ever on selling our products overseas. U.S. exports accounted for nearly all U.S. economic growth in 2008 – one-third of those exports went to developing countries.⁵

A 2007 study by the International Food Policy Research Institute quantified **the link between economic growth in developing countries and expanded markets for U.S. agricultural exports.** They found that U.S. farm exports to Africa and Asia (excluding China and India) could rise substantially if low- and middle-income countries achieved broad-based economic growth. Annual GDP growth of seven percent in these regions translated to an additional three percent growth of U.S. farm exports (over baseline projections) by 2020.⁶

The number of low-income consumers that are lifted out of poverty “will be the most important determinant of the future size of world food and agricultural product markets,” says Dr. Robert Thompson, Chairman of the International Food and Agricultural Trade Policy Council. This has effects beyond agriculture as well – **once people have adequate shelter and food, their demand for other goods and services grows.**⁷

How can aid be more effective?

A NATIONAL STRATEGY FOR GLOBAL DEVELOPMENT

Well-designed and implemented assistance works and should be a key component of U.S. engagement with the world. The Bush Administration took a step toward recognizing that the United States “does well by doing good” when it raised development to equal footing with defense and diplomacy in its 2002 and 2006 national security strategies. The Obama Administration has agreed with this assessment, referring to development, defense and diplomacy – the “3 D’s” – as the three legs of U.S. foreign policy. But this vision has not been achieved in practice because of what three former USAID administrators called “programmatic and organizational chaos... [that] has significantly increased the costs of implementing foreign aid programs, delayed their implementation and reduced their impact.”⁸

Coherence and coordination

While U.S. foreign aid has posted significant successes over the past few decades, its current organizational structure is disjointed and inefficient. Current law identifies 33 major objectives, 75 priorities and 247 directives for U.S. assistance, but does not prioritize them. Further adding to the confusion, these diverse objectives are implemented by some 28 separate government agencies, departments and offices, with no single agency having the authority or responsibility for the big picture. This makes it almost impossible to design or implement a sustained, integrated development strategy.

In addition, the legislation governing our foreign aid programs – the Foreign Assistance Act – has not been comprehensively rewritten since the end of the Cold War and still reflects the era in which it was written, despite decades of learning. Without a clear mission and coherent policy guidance, it is hard to evaluate effectiveness; and more often than not the success of a program or project is measured according to money spent, rather than what the spending achieved.

“Foreign assistance is not an end in itself. The purpose of aid must be to create the conditions where it is no longer needed – where we help build the capacity for transformational change in a society.”

–President Barack Obama

Trade and development

Finally, foreign aid is not coordinated with other U.S. policies that have development impact, such as trade. There are some astonishing inconsistencies that highlight this lack of alignment – for example, in 2006, the United States gave \$120 million in aid to two extremely poor countries, Bangladesh and Cambodia, while at the same time collecting \$853 million from them in import duties

– as much as was collected from France and the United Kingdom combined.⁹ In the same year, the United States assessed more duties on imports from countries eligible to receive aid from the Millennium Challenge Corporation (MCC), a U.S. development initiative, than the MCC committed in grant assistance. Overall, U.S. trade policy has become highly regressive, collecting the highest tariffs from the poorest countries.¹⁰

A national development strategy that incorporates all of the government’s policy and investment tools would greatly improve the effectiveness of U.S. aid. President Obama signaled that he recognizes the critical contribution foreign aid makes to U.S. security and prosperity when he committed to doubling foreign assistance from its current miniscule level of roughly one percent of the federal budget. Additional resources are crucial, but what matters most is a new strategic approach that focuses on how our aid is delivered and measures whether it in fact achieves its intended goals. Comprehensive reform will ensure that our foreign aid dollars achieve the greatest benefit.

What can business do?

BUSINESS HAS A KEY ROLE TO PLAY

Business leaders have expertise in job creation, investment evaluation and efficient use of resources. In addition, many companies have significant experience in the developing world – producing, purchasing, selling and investing. Companies can fight poverty directly through their investments and operations, but business can also strengthen its impact on development by using its expertise and experience to advocate for improvements to U.S. aid and trade policies.

How business can help improve foreign aid:

- Affirm the business stake in successful global development efforts and aid’s role in that success
- Provide input into U.S. assistance policies and push for greater effectiveness
- Forge a more strategic partnership with government to drive increased public and private investment in poor countries

“There are no sustainable businesses without sustainable communities.”

*–Neville Isdell,
Former CEO, Coca-Cola*

Successful companies are characterized by strong strategic focus, clarity of mission, coordination across departments, results-based evaluation, and attention to customer needs and feedback.

The Center for Global Development's Staci Warden says, "private sector companies are accountable to customers and shareholders in a way that is fundamental to their survival. They have institutionalized habits of putting client needs first, of responding to changes in demand, of deploying capital on the basis of its highest marginal return, and of real accountability in spending."¹¹ Our foreign assistance structures are lacking in many of these areas – incorporating these practices would better serve poor people and more effectively stimulate growth.

A more effective development strategy

When business leaders see people in poor countries as potential customers, employees and suppliers, they are incentivized to address the obstacles that hinder productivity and income generation – disease, poor nutrition, inadequate access to education, and lack of economic opportunity. That energy and commitment should be harnessed in support of a business plan for foreign aid that promotes a more effective development strategy – by advocating for smarter aid and trade policies and by forging a more strategic partnership between business and government.

"The size, scale and urgency of the challenges we face require new types of collaboration and partnerships. Business cannot succeed on its own, nor can governments be successful without input from the private sector. Concerted action is needed."

*–Jorma Ollila, Chairman,
World Business Council on
Sustainable Development*

A national development strategy that emphasizes results and leverages foreign assistance with private investments will give immense value back to business – through healthier, better-educated employees and suppliers, new customers, greater investment opportunities and a more stable global economy. And it will more effectively achieve its primary objective – expanding economic opportunity and improving the lives of the world's poorest people.

Contact IGD to learn more about how business and government investments can work together to advance economic opportunity around the world.

A business plan for foreign aid

START WITH A CLEAR STRATEGY

- Formulate a comprehensive national strategy for global development that outlines clear objectives and encompasses all relevant trade, aid and investment programs
- Put someone in charge – one individual responsible for coordinating all U.S. development policies and programs, who is accountable for delivering results and who serves as a unique development voice – distinct from diplomacy and defense – in interagency discussions
- Know your customers – design assistance activities so that they respond to local needs and priorities

EMPHASIZE RESULTS

- Evaluate development outcomes rather than dollars disbursed
- Emphasize local management – give U.S. government development staff in country the flexibility and authority to allocate resources based on their knowledge of needs on the ground
- Find more strategic ways to collaborate with the private sector to leverage impact

INVEST FOR SUCCESS

- Put the right team in place – rebuild the government's core development expertise
- Support the strategy with adequate resources – increase funding for U.S. development programs over time
- Leverage the investments made by U.S. development agencies with private sector commitments to catalyze greater development gains

NOTES

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