



Foreign aid 101:

A quick and easy guide to
understanding US foreign aid

Revised edition



Global poverty poses a challenge to the security, prosperity, and values of the US. Right now, nearly 40 percent of the world's population—2.7 billion people—live in poverty, struggling to survive on less than \$2 per day.¹

But these aren't just numbers; these are real people, and most of them are women and girls. All over the world people like Jacqueline Morette (pictured), a 41-year-old Haitian farmer, are making the move from daily subsistence to providing a better life for themselves and their families. Married with two children, Morette is the president of the United Women's Association of Pouillé, a local group that helps women farmers in central Haiti produce more food on their land and process it for sale. Oxfam and other organizations have worked with the farmers of Pouillé over the past few years. As a result of Jacqueline's capable leadership and better access to farm advice and credit, incomes have risen for women in the association.

US foreign aid has supported Morette's efforts in the fight against poverty and instability.² Today, aid from the US is moving beyond just sending food to women like Morette and toward supporting their efforts to produce more food and escape poverty for good.

"Foreign aid 101" is designed to provide a factual overview of US foreign aid, dispel common myths about aid, and describe current reforms to make sure aid is a better tool to help people like Morette break their own cycle of poverty.

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Oxfam America is an international relief and development organization that creates lasting solutions to poverty, hunger, and injustice. Together with individuals and local groups in more than 90 countries, Oxfam saves lives, helps people overcome poverty, and fights for social justice. Oxfam America does not receive money from the US government.

To learn more, visit oxfamamerica.org/reformaid.

Opposite: Jacqueline Morette (pictured during a visit to an Iowa farm) runs an association of women farmers in rural Haiti, which has received support from USAID and private groups like Oxfam. With Morette's leadership and support from foreign assistance, the women in the group are now earning higher incomes, which they can use to invest in their families' futures. *Sarah Peck / Oxfam America*

A short history of US foreign aid

Following World War II, US leaders realized that America's security and prosperity are interconnected with the rest of the world, and that they had a duty to help people in Europe with their recovery from war. For those reasons, in 1948 the US created its first major foreign aid program—the Marshall Plan—to rebuild Europe's economy and safeguard against radical ideologies taking root.

In 1961, Congress passed the Foreign Assistance Act in response to President John F. Kennedy's request to unify all economic aid efforts under the jurisdiction of a single agency, the US Agency for International Development (USAID). A single agency for development meant that expertise could be maximized; USAID assembled hundreds of experts, including technically trained economists, engineers, scientists, doctors, agricultural specialists, nutritionists, and teachers, to carry out development programs directly. USAID rose to prominence for its technical expertise, but from the early 1990s onward, the agency's capacity suffered a steep decline. As a result of downsizing, USAID shifted from directly employing technical assistance to managing grants and contracts.



▲ In the past 50 years, USAID provided democracy and governance assistance to 36 of the 57 nations that successfully made the transition to democratic government. Pictured above, a man casts his ballot in Champs de Mars in Port-au-Prince, Haiti, on November 28, 2010. *Kendra Helmer / USAID*

President George W. Bush began a process of rebuilding US foreign aid and introduced several notable reforms: He created the Millennium Challenge Corporation (MCC) to better enable countries to meet the needs of their own citizens; he developed the President's Emergency Plan for AIDS Relief (PEPFAR), which paved the way for the Global Health Initiative (GHI); and he began to restore staffing levels at USAID through the Development Leadership Initiative (DLI).

Efforts to ensure that foreign aid works to reduce global poverty and human suffering have accelerated under President Barack Obama. In 2010, President Obama announced a new US Global Development Policy, recognizing that governments and citizens in poor countries shouldn't be merely recipients of aid, but full partners in the process. The policy also outlines new tools for measuring programs to make sure they meet their goals, so both American taxpayers and poor people affected by US policies abroad can see where aid dollars are going and for what purposes. In keeping with this policy, US agencies are working to implement reforms that promise to improve the quality and impact of US aid dollars.

Why does the US give foreign aid?

“Foreign aid” is a broad category of assistance that the US provides to foreign countries. Purposes of these funds include economic development, increased government accountability, and basic services like vaccines, clean water, education, and microcredit. Foreign aid also includes the money that the US provides to respond to natural disasters and crises. Additionally, the US provides aid for security and military purposes, including efforts to fight drugs and terrorism in other countries.³

The US provides aid through multiple channels, generally through US nongovernmental organizations (NGOs) and contractors, but also through local NGOs and businesses, regional and multilateral organizations, and occasionally directly to governments.

Foreign aid is not just about helping people in poor countries. The US gives aid to countries for many reasons, including the following:

- **National security**—Aid can support efforts to reduce poverty and injustice, which fuel social tensions that can destabilize communities and countries and pose risks to all of us.
- **National economic interests**—By helping to improve livelihoods, aid can support the generation of demand for US goods and build stable trading partners.
- **Moral leadership**—Providing aid in the right ways can help showcase the goodwill of the American people

The US provides emergency food aid like these sacks of rice and other humanitarian relief where it is desperately needed. But under a new emphasis on growth, the US is also helping to build the capacity of people and their governments to meet their own needs. *Toby Adamson / Oxfam*



Figure 1: The onion layers of aid



Like the layers of an onion, there are many layers of aid (Figure 1):

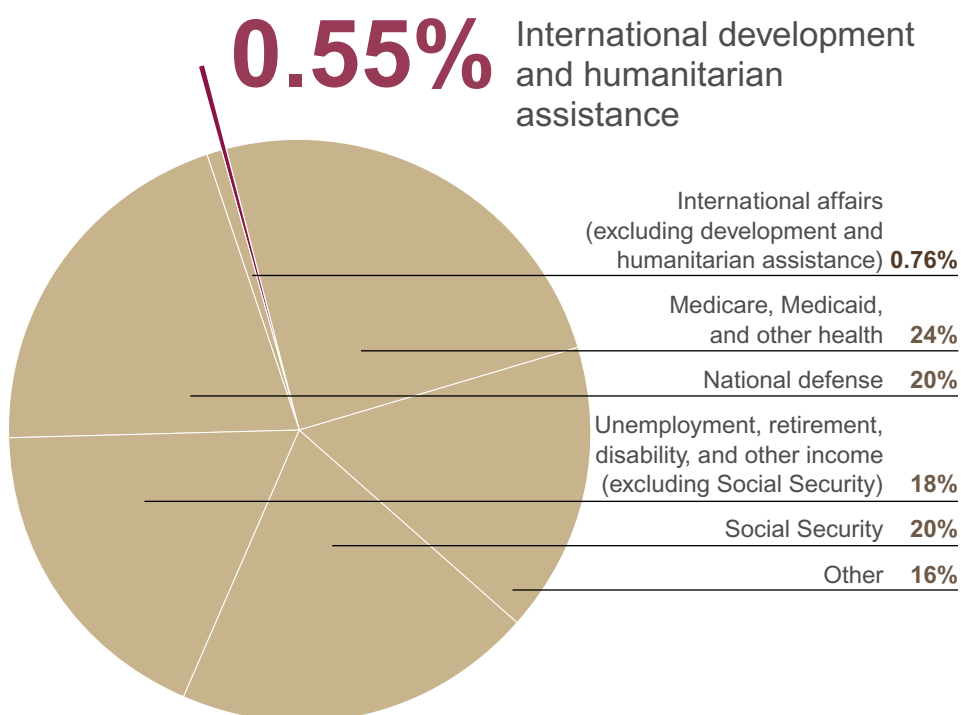
- **The international affairs budget**, or the “150 account,” is the basket of the federal budget that includes the resources to fund US activities abroad. In addition to funds for USAID and overall foreign aid, it also covers the Department of State’s diplomatic expenditures, such as salaries for embassy staff, expenses for maintaining diplomatic and cultural relationships, and costs incurred protecting the interests of US businesses and citizens overseas. Other programs funded in the international affairs budget include the Peace Corps, contributions to international organizations (e.g., the UN), peacekeeping operations, and agricultural programs (e.g., PL 480 Title II and other food assistance), among others.
- **Foreign aid** is the blanket term for all the assistance the US gives to other countries. In addition to development spending, foreign aid provides monies to military and political allies for strategic purposes. For example, the US provides foreign aid to Israel and Jordan for their value to US strategic interests in the region; to Pakistan for its cooperation against terrorism; and to Colombia for counter-narcotics programs. This kind of politically driven aid may help lift people out of poverty, but that is not its primary purpose.⁴
- **Official development assistance (ODA)** accounts for all official aid globally, which is tracked by the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD).⁵ A subcategory of foreign aid, ODA is mostly development aid—specifically designed to promote economic growth in poor countries or alleviate suffering from man-made or natural disasters. Some political or immediate security activities—such as reconstruction efforts in Iraq and Afghanistan—may also qualify as ODA.
- **Poverty-focused development aid**,⁶ which rests within ODA, is specifically directed toward responding to disasters, improving livelihoods, and creating lasting solutions to poverty. For example, poverty-focused development aid helps to increase maize farmers’ yields in Kenya, prevent famine in Ethiopia, and improve girls’ access to primary school in Bangladesh. This aid has helped communities in Indonesia’s Aceh province rebuild their lives after the 2004 tsunami and communities in Haiti rebuild after the 2010 earthquake. At its best, poverty-focused humanitarian and development aid can enhance the livelihoods of families around the world, strengthen US moral leadership, and improve security for all of us.

How much does foreign aid cost?

Americans repeatedly overestimate how much money the US government spends on foreign aid. Surveys report that, on average, Americans think the US spends as much as 30 percent of the federal budget on foreign aid, and they think we should only spend 13 percent.⁷

In fact, the entire international affairs budget—which includes diplomacy and development—is only about 1 percent of the federal budget. Only half of that—0.55 percent—is poverty-focused development assistance. That's half a percent of our tax dollars for programs that improve livelihoods and create lasting solutions to world poverty, a real threat to American security.⁸

At \$30.2 billion in 2010, the US is the largest bilateral (government) donor of ODA, meaning the US gives the most money overall. But in relation to the size of its economy, the US only spent 0.21 percent of its national income on foreign aid in 2010.⁹ That puts the US in 19th place among other major donors, behind most industrialized nations. For comparison, in the same year, Britain contributed 0.56 percent (more than twice the US percentage).¹⁰



Myth: The US spends 30 percent of the federal budget on foreign aid to poor countries.

Fact: Foreign aid that's poverty-focused is less than 1 percent of the federal budget.¹¹



Americans spend as much on maintaining their lawns—\$30 billion annually—as the US government spends on foreign aid.¹²



Americans spend more on caring for pets—\$45 billion annually—than the US government spends on foreign aid.¹³



Americans spend as much on candy—\$30 billion annually—as the US government spends on foreign aid.¹⁴

Figure 2. Less than 1 percent of the federal budget goes to poverty-focused aid.

FY2010 budget data obtained from Historical Tables of the Federal Budget, Table 3.1, "Outlays by Function and Subfunction: 1962–2016" (accessed April 25, 2011. <http://www.whitehouse.gov/omb/budget/Historicals>. Subfunction 151, "International development and humanitarian assistance" is used as a proxy for poverty-focused aid.

The best and worst of aid

There's always an element of risk in foreign aid: Not all programs succeed. In general, aid that responds to local priorities tends to deliver more lasting results. Aid that's supply driven and doesn't build local capacity tends to have fleeting, if any, impact.



Afghanistan residents rebuild a road as part of an Oxfam cash-for-work program. During research conducted in Afghanistan by Oxfam in 2008, some of those surveyed criticized USAID for being too bureaucratic when planning and financing similar projects. *Mohammed Salim / Oxfam*

AID AT ITS WORST¹⁵

When donors do not take into account local needs and demands and bypass governments and local communities, aid is ineffective and unsustainable and fails to reach the people who need it most. In Afghanistan, despite some laudable efforts, US aid is still overly reliant on contractors and provincial reconstruction teams to deliver assistance rather than relying on Afghans themselves. For example, a US-funded highway in the northern provinces of Afghanistan is plagued by wasteful spending and threatens the homes of the people who live in a nearby community. Before construction on the road could begin, the \$15 million project had to pass through the hands of three different consulting companies. As a result, not enough money was left to purchase the materials necessary to build a decent road once expenses and salaries were paid to each consultant. As one senior USAID

contractor put it: "So you have contract after subcontract after subcontract, which just kills everything. Multiple contracts, then an Afghan guy digging the road—why not straight hire the Afghan?"

The 1,000-person community affected by this project has signed a petition complaining that the road is substandard. The biggest issue for residents is that the road is built close to mud homes. The old dirt road was low and allowed runoff to drain away. The new road is built atop a raised berm, blocking drainage. If a heavy storm strikes, the villagers fear the mud homes they built with their hands will collapse. They submitted their petition to the governor of Sar-e Pol province, but the governor has no power over the highway. This program demonstrates the problems that occur when aid is not responsive to the needs and demands of both citizens and their governments.



Student nurses training to be midwives take the blood pressure of a patient at Faizabad Maternity Hospital in Afghanistan's Badakhshan province. *Alixandra Fazzina / Oxfam*

AID AT ITS BEST¹⁶

Aid at its best incorporates local practices instead of bringing in outside solutions. Facing one of the world's highest maternal and neonatal mortality rates, the government of Afghanistan worked with citizen groups to develop a community midwifery program to improve the chances of both mother and child surviving childbirth. Along with other donors, the US decided to invest in this Afghan-led program instead of setting up a separate project. As described by a senior employee of a major US NGO:

The community midwifery program is a real success, and [one that] the Ministry of Public Health has really thought through. We [an international NGO] support a residential training program for community health workers, which lasts for 18 months. The right people are selected for the course through community engagement and mobilization to get volunteers. Young mothers

are also eligible, as there is a dormitory with day care facilities. These women—trained community midwives—have state-of-the-art knowledge and information about maternal health practices. They are placed in health clinics throughout the country [where they] receive a good salary, as well as support from NGOs. The first year we had to search hard for volunteers. In the second, we had huge numbers of women volunteers, and even parades of fathers and husbands supporting their women to become involved.

The Ministry of Public Health program has led to an increase in the number of midwives in Afghanistan from 467 in 2002 to more than 2,500 in 2010¹⁷ and increased the number of deliveries attended by a skilled provider by 50 percent.¹⁸ The country's infant mortality rate has dropped by an estimated 22 percent since 2003, thanks in part to better midwifery.¹⁹

What is the US doing to make foreign aid more effective?

Presidents George W. Bush and Barack Obama, in partnership with Congress, have rolled out major initiatives on US foreign aid over the past decade.

The US Global Development Policy

In September 2010, President Barack Obama issued the US government's first-ever US Global Development Policy.²⁰ The policy clarifies that the primary purpose of US development aid is to pursue broad-based economic growth as the means to fight global poverty. More importantly, it offers a clear mandate that country ownership—that is, leadership by responsible governments and citizens in poor countries—is how the US government will pursue the fight against poverty. Now that the policy has been issued, various US government agencies are working to put it into action.

The US has been moving in this direction since the George W. Bush administration. Some of the more promising initiatives in operation that practice a country ownership approach include USAID Forward, Feed the Future, the Global Health Initiative, and Millennium Challenge Corporation.

USAID Forward

USAID Forward is a flagship reform process designed to modernize the agency and make it more transparent, effective, and accountable to US taxpayers and to poor people overseas. This initiative reforms outdated procurement policies that perpetuate a cycle of aid dependence. USAID Forward includes initiatives to hire for problem-solving skills, rebuild staff technical capacity, obtain feedback through rigorous program evaluation, budget to better support the agency's policy objectives, build a culture of innovation, and strengthen the role of science and technology throughout USAID's programs. At the heart of this reform process is strengthening the local people and institutions that are ultimately responsible for transforming their countries.

USAID Forward also aims to rebuild the agency's internal capacity, while saving 12–15 percent in overhead costs associated with contracting.²³ This reform package is critical to carrying out the US Global Development Policy successfully and sustaining a new way of doing business.

Myth: Providing aid just lets recipient governments off the hook for taking care of their citizens.

Fact: Donors can provide aid in ways that hold country governments accountable for doing their share. In Rwanda, for example, as donors gave direct support to the government, the government increased its spending in health, while simultaneously decreasing defense spending.²¹ And in 2005, after receiving direct support, the countries of Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda, and Vietnam all stepped up pro-poor spending and scaled up social service delivery.²²

Feed the Future

As recurring food crises in recent years have reminded the world of the importance of agricultural development to food security, the Obama administration has responded to the challenge through the Feed the Future initiative, because agriculture is how most of the world's poor people earn a living. The program aims to deliver aid based on a country's own needs and priorities, leverage US investments for maximum outcomes, and focus on results. Investments in agriculture include local research and training on farming methods, irrigation, and nutrition. Done right, these investments can pay off big: every 1 percent increase in agricultural income per capita reduces the number of people living in extreme poverty up to 1.8 percent.²⁴

Global Health Initiative

As the next generation of President George W. Bush's President's Emergency Plan for AIDS Relief (PEPFAR) program, the Global Health Initiative (GHI) works to strengthen health systems in developing nations, allowing countries ultimately to care for their own people and better protecting the world from global disease outbreaks. The program provides for a more integrated approach to health that will eliminate duplicative programs and break down funding "silos," which means more effective spending and better results.²⁵



In Malawi, the GHI is helping to address a local shortage of health care professionals by training nurses who will help Malawi care for its own citizens and ultimately become less reliant on donor funding. The idea to train nurses was taken straight from Malawi's own five-year health plan, developed by citizens and the Malawian government. By working in collaboration with Norway and the World Health Organization, the program prevents duplicated efforts and wasteful spending.²⁶

◀ Nurse Khetase Kapira works in the children's ward at the Kamuzu Central Hospital in Lilongwe, Malawi. The GHI seeks to support Malawi's health care professionals by working directly through public clinics run by the Ministry of Health, rather than by setting up parallel health care systems. *Eva-Lotta Jansson / Oxfam*

Millennium Challenge Corporation

President George W. Bush introduced the Millennium Challenge Corporation (MCC), a major foreign aid reform initiative that rewards countries for good governance, economic freedom, and investments in people. The MCC model requires countries to meet eligibility criteria in those three areas. In return, it provides large, five-year grants (“compacts”) toward development projects that are identified by a host country implementation agency along with representatives from the host country government, private sector, and civil society, and that are assessed on the basis of expected economic returns and other technical criteria.²⁷ For example, Lesotho took steps to improve economic freedom to become eligible for an MCC compact by passing a law in 2006 that allowed married women to own property for the first time. To date, the MCC has signed compacts with 22 countries and provided \$7.9 billion in aid.²⁸

The MCC undertakes concrete development projects that offer real benefits to people. In Honduras, MCC funding was used to finance the construction of 300 miles of rural roads, which, combined with farmer training, nearly doubled the income for nearby farmers, from \$1,800 to \$3,550 per year. The MCC also focuses on lasting policy reforms that have a multiplier effect far beyond the life of the funding. In Nicaragua, the MCC not only built roads, but also required the Nicaraguan government to set up a permanent road maintenance fund that keeps the new roads, as well as other roads, in good repair so donors don’t have to come back to repair them.²⁹

► José Ordóñez, a papaya and guava farmer in Honduras, has seen the benefits of better roads. He lives along a recently improved rural road that connects to an improved secondary road that, in turn, connects to a new highway, meaning that he can get his papayas and guavas to market quicker and increase his earnings. All these road improvements were funded by the MCC compact. *Millennium Challenge Corporation*



How the US can ensure that foreign aid leads to broad-based growth



▲ Cirlene Maria de Souza, 19, makes dolls for sale in Conceicao das Crioulas, Brazil. Each doll is modeled on a real woman in the community—in this case, de Souza's grandmother Julia. After decades of receiving foreign assistance, Brazil is now one of the world's fastest-growing economies and is starting to provide foreign assistance of its own.

Gilvan Barreto / Oxfam

Three changes would ensure that US foreign aid leads to broad-based economic growth:

- **Fully implement the US Global Development Policy**, which holds aid accountable for fighting poverty first and foremost, and measure it to that standard. When aid is used effectively to fight poverty, it builds a safer world for everyone and strengthens US standing and moral authority abroad. When aid is used for short-term security purposes—like military protection, troop morale, popular support, or intelligence gathering—it is unlikely to have a lasting impact on either long-term security or poverty and isn't accountable to recipients because it's not designed for their needs.
- **Modernize the outdated laws, strategy, and structure around US foreign aid.** Designed in the 1960s, US foreign aid has sometimes been slow, bureaucratic, and at times contradictory, making it hard to reach the people who need it the most. In some countries the US charges more in tariffs than it gives in development assistance. (In Bangladesh, the US gives \$80 million in foreign assistance, but charges \$500 million in tariffs.)³⁰ Broad reforms, like the US Global Development Policy and USAID's internal reforms via USAID Forward, strengthen the US's hand in addressing global poverty for good. To ensure that reform succeeds, the administration and Congress need to fix the bureaucratic logjams that work at cross-purposes and undermine the progress of foreign aid.
- **Recognize that poor people are in charge of their own futures**, and promote country ownership as the most effective path to economic growth. Effective US foreign aid should be designed to support poor people in their own efforts to escape poverty. The US and other donors don't "do" development; people develop themselves. If the US wants poor governments to lead their people toward peace, economic growth, and political stability, it must let those governments conduct their own development efforts and hold them accountable for results. Likewise, if the US wants to fight corruption, it must support the efforts of people in poor countries who are demanding accountability, transparency, gender equality, and results from their governments.

Why does Oxfam care about foreign aid?

Oxfam America is dedicated to fighting poverty around the world. Because we do not receive US funds, we can independently advocate for reforms that can make US foreign aid a better tool for development for people in recipient countries. Whether the US fights global poverty for moral reasons or to improve its own security, Oxfam believes that US foreign aid will only effectively tackle development challenges when the US designs its aid to fight poverty for its own sake and when the US aid system learns to be more driven by demand than supply.

Oxfam America advocates for country-led development that strengthens the relationship between people and their governments. Now is the time to support emerging aid reforms and initiatives that are moving in this promising direction. When the US fights poverty by treating people as equal partners, everyone wins.

Learn more

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Glossary

Country ownership—Country ownership means letting aid recipients lead their own development agenda. Because foreign aid doesn't "do" development—people and countries develop themselves—ownership is central to effective aid. As Kenyan anticorruption activist John Githongo put it, "Ownership is *ni sisi*. It is up to us. It is us who own our problems. And it is us who will come up with the solutions."³¹ See also "Ownership in Practice: The Key to Smart Development," available at oxfamamerica.org/publications/ownership-in-practice-the-key-to-smart-development.

Foreign aid—Foreign aid is support the US provides to other countries for a multitude of purposes, from military to diplomatic to development.

Foreign Assistance Act of 1961—Passed by Congress in 1961, the Foreign Assistance Act created the US Agency for International Development (USAID) and was intended to bring reason to the dizzying array of players involved in foreign aid. After decades in which new directives, earmarks, and aid offices have been added, the act has become a catchall of contradictory messages with no clear purpose.³²

International affairs budget—Also known as the "150 account" for its location in the federal budget, the international affairs budget contains the majority of diplomatic, development, and military aid dollars (but not defense spending). This account pays for everything from embassy salaries to fighting drugs in Colombia to children's health programs.

Millennium Challenge Corporation (MCC)—The MCC was established in 2004 to deliver aid under the premise that aid is most effective when it rewards countries for good governance, economic freedom, and investments in people. The MCC signs five-year compacts with responsible governments to fund programs that the country itself identifies through a consultative process.

Official development assistance (ODA)—The Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) tracks the ODA of the OECD's 30 member states, including the US. The DAC's total figure for US aid accounts for all aid given for economic development. Sometimes including aid for diplomatic and strategic purposes as well as development aid, ODA is considered one of the more generous measures of US development assistance.

Poverty-focused development aid—The development aid community³³ often uses this term to describe US aid that's targeted first and foremost toward improving the lives and livelihoods of poor people. This aid is distinguished from aid provided for diplomatic or security purposes.

US Agency for International Development (USAID)—Created in 1961 by the Foreign Assistance Act, USAID was intended to be the primary vehicle for delivering US poverty-focused development aid. USAID was marginalized and underresourced throughout the 1990s and early 2000s, but staffing increases begun under the George W. Bush administration and USAID Administrator Rajiv Shah's USAID Forward agenda are restoring the agency's expertise and leadership.

Notes

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5. For more information, see the Development Assistance Committee (DAC) at www.oecd.org/dac.
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8. FY2010 budget data obtained from Historical Tables of the Federal Budget, Table 5.1, "Budget Authority by Function and Subfunction: 1976–2016" accessed March 4, 2011. Estimate for poverty-focused aid from ONE's FY10 budget analysis, at www.one.org/c/us/policybrief/3237/.
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Cover: In the months after Haiti's January 2010 earthquake, Marie Carole St. Juste, right, plowed through her savings to make ends meet. A businesswoman who ran her own bottled-drinks and packaged-food business (known as a *boutik* in Creole), she lost both her home and her business in the disaster. St. Juste found short-term work with USAID that helped her get back on her feet. She then received a grant from Oxfam to reopen her business. "It really put joy in my heart," said St. Juste, standing in the entry of her new shop, its walls painted with a fresh coat of pink paint—a color she loves. "I'm on my way. I know I'm going to be able to make it back." With her business, she is supporting herself, her mother (pictured at left), her father, and two nieces. *Toby Adamson / Oxfam*

Oxfam America's Aid Effectiveness team is working to increase the effectiveness of US foreign aid by placing the voices and priorities of poor people at the center of aid policy and practice.

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