



Foreign Assistance in a Time of Austerity

Daniel F. Runde

In 2013, the new administration will face an immense strain on the foreign assistance budget. The ongoing budgetary impact of the 2008 financial crisis and the competition among debt, entitlements, and defense will take priority over the “150 Account,” which funds diplomacy and development.

The next administration will have to make difficult choices with the U.S. foreign assistance budget while developing creative ways to reposition increasingly limited aid dollars. Several countries will find themselves targets of this increased attention. These “countries of interest” have outgrown or are outgrowing the conditions that allowed traditional foreign assistance to be effective. Some like China and Brazil have developed their own bilateral aid programs, manage sovereign wealth funds, and possess operational satellites in outer space. Confronted with increasingly limited resources, the administration will be forced to reexamine

how it can most efficiently and effectively support continued growth and prosperity in middle-income countries (MICs) while simultaneously maintaining influence and positive relationships.

At the same time, many traditional recipients of U.S. assistance have reached or are reaching MIC status. These countries have experienced significant periods of large-scale growth in recent years and were dealt a milder blow by the financial crisis than was the United States. As they succeed, it will become much more difficult for Washington or other aid donors to justify traditional foreign assistance programs.

In a number of specific country contexts, the next administration must begin to think differently about our aid relationships, pivoting from a development-focused approach to a cooperative approach—to partnerships characterized by collaboration and exchange. To its credit, the Obama administration has begun to anticipate

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these changes, announcing new approaches on a limited basis in places like India and telegraphing its intention to close U.S. Agency for International Development (USAID) missions. However, these pressures are going to increase more quickly than the traditional bureaucracy and interest groups are willing or able to move. Many diplomats assume that any assistance program is a way for bilateral engagement. This template must be amended in 2013.

The good news is that the United States has gained significant experience in making strategic exits from MICs in the last 25 years. Several outstanding models may be garnered from these experiences:

- As USAID began its official phaseout of programs in Portugal, USAID and State Department representatives worked with Portuguese officials to develop the Luso-American Foundation (FLAD). This endowed foundation has financed activities in education, technology, culture, science, and commerce.
- USAID's graduation strategy in Costa Rica included the establishment of the USA–Costa Rica Foundation for Mutual Cooperation (CRUSA), a \$47 million endowed foundation that finances projects promoting education, the environmental sector, and the development of science and technology in the country. Like FLAD, CRUSA still includes Americans on its board of directors.
- USAID's 1980 exit from South Korea was smoothed by low-cost, high-impact development finance activities implemented by agencies such as the U.S. Overseas Private Investment Corporation (OPIC), the Export-Import Bank (Ex-Im), and the U.S. Trade and Development Agency (USTDA).

There are a number of “countries of interest” where an end to U.S. foreign assistance could be the source of much-needed savings. If the United States were to exit these countries over three to five years, the U.S. government could recoup several billion dollars from the foreign assistance budget annually.

The next administration could create a series of foundations and legacy institutions or market-based approaches modeled on the examples above, and preferably matched with funding by the host country government, diasporas, and interested private-sector entities. In particular, the administration should focus its work on:

- “brokering” technical advice as opposed to funding social service delivery;
- deepening trade relations through instruments such as OPIC, Ex-Im, and USTDA;
- pursuing triangular cooperation (joint development efforts in third countries);
- developing local civil society and private philanthropy;
- supporting entrepreneurship; and
- supporting cultural exchanges and understanding, education, and scholarships.

These are inherently government functions, but given budget constraints, legacy institutions like those above are effective alternatives to traditional assistance. ■