



Foreign aid 101:

A quick and easy guide to understanding US foreign aid

What is foreign aid?	2
How much does foreign aid cost?	5
Who is responsible for foreign aid?	7
Why does Oxfam care about foreign aid?	9
Glossary	10
Learn more	10
Notes	11

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 120 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 www.oxfamamerica.org/reformaid.

Cover: In Kampala, Uganda, US-funded food aid is gathered for delivery to HIV/AIDS-infected people and their families in the Mbuya district. *Photo: Tamara Plush*

What is foreign aid?

“Foreign aid” is a broad category of grants to other countries for economic development, health, and emergency response to disasters. It also may be used for security and military assistance, counter narcotics and counter terrorism activities, and programs to fight corruption and increase public transparency.¹

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

- **National security**—Aid helps tackle the poverty and injustice that can destabilize and alienate communities from their governments and the international community.
- **National economic interests**—Aid can open up new markets to US producers.
- **National values**—Aid reduces global poverty and suffering in emergencies.

Figure 1: The onion layers of aid

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

- **The international affairs budget**, or the “150 account,” is the basket of the federal budget that covers aid programs. It also covers diplomatic expenditures like salaries for embassy staff, maintaining diplomatic and cultural relationships, and protecting the interests of US businesses and citizens overseas.
- **Foreign aid** is strictly 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, Egypt, and Jordan for their value to US strategic interests in the region; Pakistan for its cooperation against terrorism; and Colombia for counternarcotics programs. This aid may help lift people out of poverty, but that is not its primary purpose.²
- **Official development assistance (ODA)** accounts for all official aid that is tracked by the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD).³ 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 more strategic activities—such as reconstruction efforts in Iraq and Afghanistan—may also qualify as ODA.
- **Poverty-focused development aid.**⁴ Within ODA, there is aid specifically directed toward improving livelihoods and creating lasting solutions to poverty. For example, poverty-focused development aid helps to increase maize farmers’ yields in Kenya, prevent the next famine in Ethiopia, and improve girls’ access to primary school in Bangladesh. This aid also helped communities in Indonesia’s Aceh province rebuild their lives after the 2004 tsunami. At its best, poverty-focused development aid can enhance the livelihoods of families around the world, strengthen US moral leadership, and improve security for all of us.



Chicken coop made of USAID tins at Amekwi Lokana’s compound in Kalobeiyei trading center in Kenya’s Turkana district.
Photo: Crispin Hughes / Oxfam



REFINED RAPESEED OIL (No. 2)
EUROPEAN COMMUNITY
1998



USA

REFINED VEGETABLE OIL
VITAMIN A FOR ENHANCED
NOT TO BE SOLD OR USED FOR

REFINED VEGETABLE OIL
VITAMIN A FOR ENHANCED
NOT TO BE SOLD OR USED FOR

USA

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USA

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Aid at its worst

Despite many successes, some kinds of aid have dramatically underperformed and failed to reach the people who need it most. Consider this story from an Afghan nongovernmental organization (NGO) about a project to deliver roofing timber to people in Afghanistan's central highlands:

"Villagers described how the agency in Geneva that was meant to oversee the project took 20 percent of the \$30 million for administrative costs, then subcontracted to an NGO in Washington, DC, that took another 20 percent, which in turn subcontracted to an Afghan NGO that took another 20 percent. Then they paid money to a trucking company in Iran to haul the timber.

"Once the timber arrived, it was found to be of no use as roofing timber to the villagers. It was too heavy for the mud-brick walls of their homes, so the villagers chopped the wood up and used it as firewood."⁵

Aid at its best

US foreign aid has contributed to such successes as the eradication of polio and increases in literacy worldwide. Another success story is the National Solidarity Program in Afghanistan. In 2003, this program gave rural villages ownership over their own development.

One such village, Dadi Khel, is in the heart of Azra, a mountainous area near the Pakistan border where Taliban insurgents were recruiting economically isolated villagers. It's an unlikely place for a development project, but as part of the National Solidarity Program, villagers are now building their own hydropower plant that will bring electricity to about 300 families. Near the site, villagers record government aid disbursements for the entire village to see. "This is our money," said a local teacher. "All the time, we are checking whether it is spent correctly."⁶

The program's model encourages village councils to identify and complete more projects—reinforcing a relationship between citizens and their government. Because villagers create the projects, they want to protect them. What's more, the Taliban feel less comfortable attacking village-led projects than they do road projects that are clearly branded as foreign aid.

In spite of the program's successful demonstration of two-way accountability, the US Government has only funded 2 percent of the program's cost due to US reluctance to funding government-sponsored programs.⁸



Gathered in the village mosque, the Afghanistan Pilot Participatory Poverty Assessment research staff consults a group of male community members on their perspectives on poverty in Tergaran Village, Afghanistan. This participatory approach to development is also a hallmark of the Afghanistan National Solidarity Program.

Photo: Agency Coordinating Body for Afghan Relief (ACBAR).

How much does foreign aid cost?

Americans tend to overestimate how generous we are as a nation. Surveys report the average American thinks we spend as much as 30 percent of the federal budget on foreign aid.⁹

In fact, the international affairs budget—which includes diplomacy and development—is only about 1.3 percent of the federal budget. About half of that 1.3 percent is spent on poverty-focused development aid. That’s roughly 0.6 percent of our tax dollars for programs that improve livelihoods and create lasting solutions to world poverty.¹⁰

At \$23.5 billion in 2006, the US is the largest bilateral donor in absolute terms.¹¹ However, compared to the nation’s income (a common comparison for assessing donor countries’ ODA commitments), US aid levels have gradually fallen over the last four decades (Figure 2). It’s worth noting that levels have increased in the last couple of years, partly because of increased HIV/AIDS spending and one-off debt relief deals with Iraq and Nigeria.¹²

The US spent 0.18 percent of its national income on foreign aid in 2006 (Figure 3).¹³ That puts the US in 21st place among OECD members and behind most industrialized nations. In the same year, Canada spent 0.29 percent (almost double the US percentage), while Britain contributed 0.51 percent (almost triple the US percentage).¹⁴

Myth: We spend 15 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.

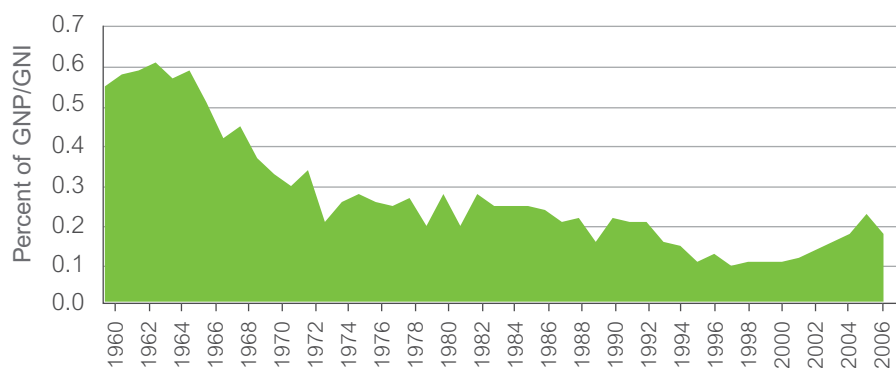


Figure 2: US ODA as percentage of gross national income

GNP = Gross national product
GNI = Gross national income

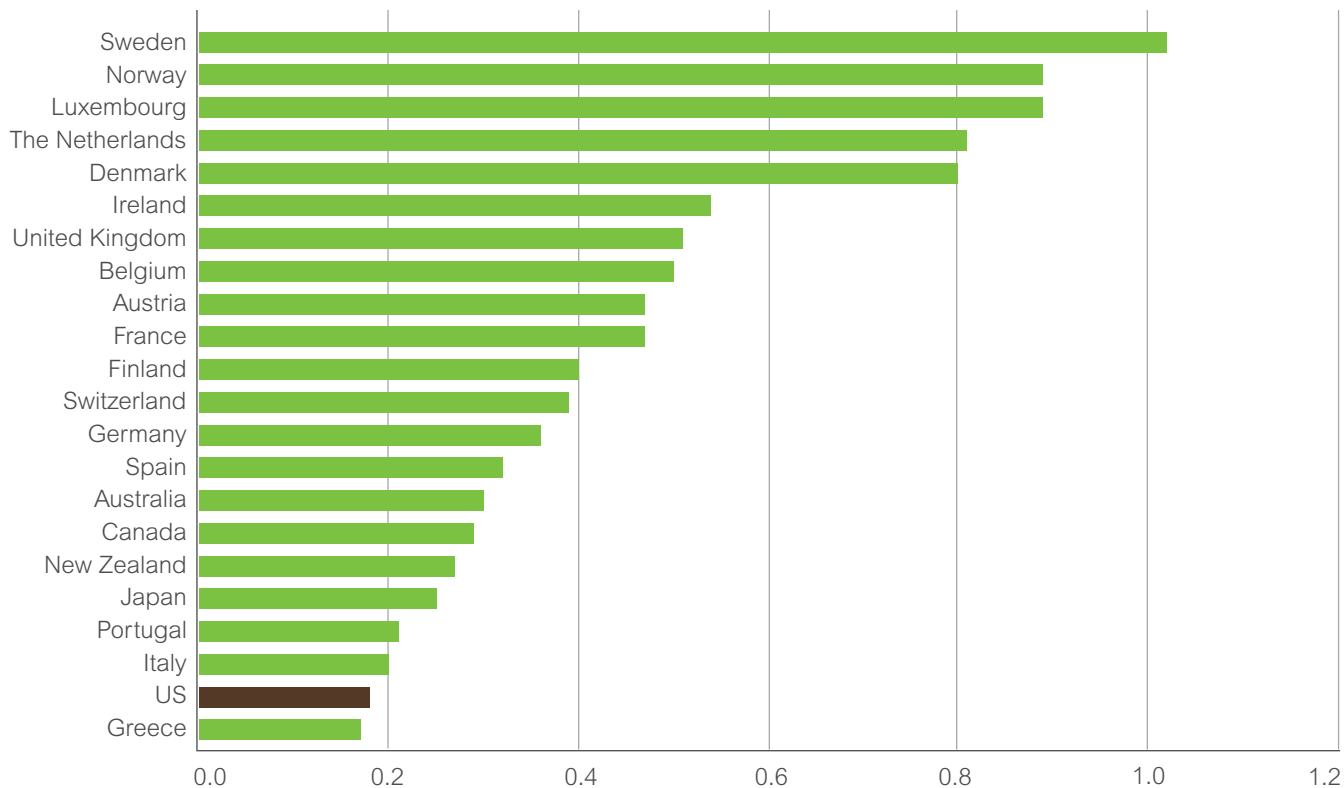
Source: Connie Veillette, “Foreign Aid Reform: Issues for Congress and Policy Options,” (Washington, DC: Congressional Research Service, Nov. 7, 2007): 8, CRS Report for Congress RL34243



A laboratory technician draws blood from a pregnant patient for HIV testing at the Mamata Clinic at Sheth V. S. General Hospital in Ahmedabad, India. The clinic is part of a program to prevent parent-to-child transmission of HIV. Photo: © 2007 Rajal Thaker, Courtesy of Photoshare

Figure 3: OECD countries' net ODA in 2006 as percentage of gross national income

Source: OECD DAC, "Final ODA flows in 2006" (Paris: OECD, 2007), 9, www.oecd.org/dataoecd/7/20/39768315.pdf.



Who is responsible for foreign aid?

In 1961, Congress passed the Foreign Assistance Act in response to president Kennedy's complaint that too many different agencies were involved in foreign assistance. The Foreign Assistance Act attempted to unify all economic aid efforts under the jurisdiction of a single agency—the US Agency for International Development (USAID).

However, this intent has never been fully realized—in part because presidents and Congresses have often chosen to work around the act, enacting more than 20 additional pieces of legislation to achieve their foreign aid goals. Today, USAID oversees only 45 percent of US foreign aid. Meanwhile, the Foreign Assistance Act is more complicated than ever, featuring 33 different goals,¹⁵ 75 priority areas, and 247 directives, and being executed by at least 12 departments, 25 different agencies,¹⁶ and almost 60 government offices. This mix of agencies with different missions has made the efficient delivery of aid increasingly difficult (Figure 4).

Myth: As the US government's aid agency, USAID delivers most development aid.

Fact: USAID now oversees only 45 percent of US foreign aid. Other US government agencies—from the Department of the Interior to the FBI—are increasingly involved in the aid business.

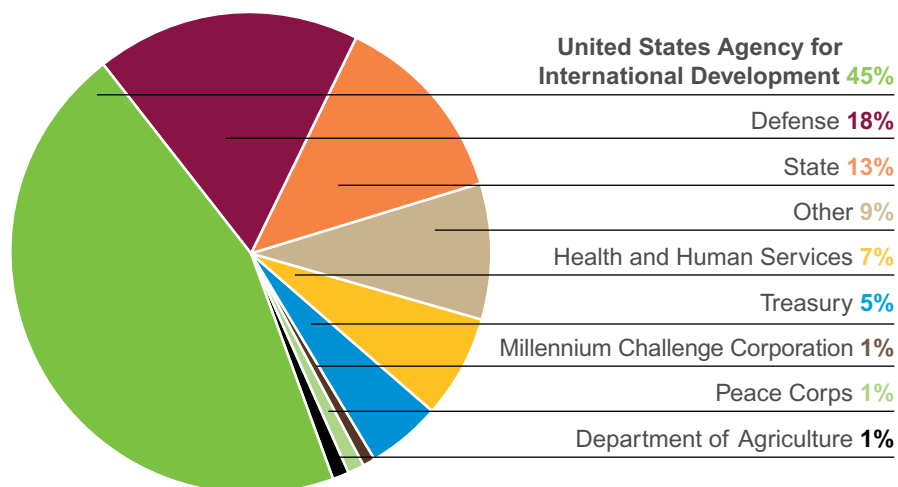


Figure 4: US official development assistance by agency CY (calendar year) 2006

Source: Connie Veillette, "Foreign Aid Reform: Issues for Congress and Policy Options," (Washington, DC: Congressional Research Service, Nov. 7, 2007): 28, CRS Report for Congress RL34243

New initiatives: PEPFAR and the MCC

The Bush Administration has created a handful of new aid initiatives that add further to the mix of offices and agencies already delivering aid:

- In 2003, the President's Emergency Plan for AIDS Relief (PEPFAR) and the Africa Education Initiative;
- In 2004, the Millennium Challenge Corporation (MCC) and the Office of the Coordinator for Reconstruction and Stabilization;
- In 2005, the President's Malaria Initiative; and
- In 2008, the Presidential Initiative for Neglected Tropical Diseases Control.¹⁷

All the initiatives have introduced new reporting and paperwork requirements within existing agencies. The two largest initiatives are PEPFAR and the MCC.

President Bush created PEPFAR to respond to the global AIDS crisis. PEPFAR's mandate for its first five years was to put two million people on anti-retroviral treatment. Most of the initiative's \$15 billion funding over the past five years has gone to 15 focus countries,¹⁸ providing much-needed anti-retroviral treatment to 1.5 million people.¹⁹

Of course, PEPFAR has its critics, who pressure the organization to do the following:

- Better integrate AIDS care with existing health care systems;
- Improve coordination with other AIDS programs;
- Fund the approaches that have proven most effective rather than those with moral and political agendas; and
- Address absorptive capacity in host countries.

Nevertheless, PEPFAR has had broad bipartisan support in Congress and with the American public. PEPFAR reauthorization legislation in 2008 is taking steps to address most of these concerns.

President Bush's other major new initiative, the MCC, pioneered a new way of delivering aid, based on the notion that aid is most effective when it rewards countries for good governance, economic freedom, and investments in people. The MCC model requires countries to meet eligibility criteria in these three areas. In return, it provides large five-year grants ("compacts") toward development projects that the country and its citizens identify. It also requires a counterpart agency in the host country with representatives of the state and civil society to decide on and manage funding priorities.²⁰ For promising countries that need an extra push to become eligible, the MCC Threshold Program (managed by USAID) provides small incentive grants for countries to improve transparency and become eligible for long-term MCC compacts.

To date, the MCC has signed compacts or threshold agreements with 16 countries, totaling \$5.5 billion in aid.²¹ However, countries design the programs themselves. Once approved, they must meet benchmarks of progress to receive each round of funding—and this process takes time. Congress has been impatient with the MCC’s slow rate of disbursement; Congressional support for the MCC has been more tenuous than for PEPFAR.

These new agencies and programs have applied new resources to address particular problems facing people in poor countries. However, without an umbrella authority coordinating US foreign aid programs, these initiatives have exacerbated the underlying fragmentation of the entire aid system.

All about “F”

In 2006, Secretary of State Condoleezza Rice attempted to reform the system by creating a new Bureau of Foreign Assistance (the F Bureau) to coordinate the various aid programs and agencies. However, in establishing the F Bureau, Secretary Rice did not seek any changes to the Foreign Assistance Act. Today, the F Bureau oversees only half of the foreign aid portfolio, complicating its effort to create a more “whole of government” approach to foreign aid.²² Also, some USAID missions have found it difficult to adapt F Bureau policies to realities in the field, which prevents them from delivering aid most efficiently.²³

Critics of the recent reforms are wary of two new trends.

- First, the Department of Defense (DOD) has started to make forays into political and diplomatic foreign aid—territory that has historically been managed by the State Department.²⁴
- Second, the Department of State has begun to exert increasing control over USAID’s poverty-focused development aid.²⁵

While coordination among the DOD, Department of State, and USAID needs improvement, the agencies ultimately have different mandates. The DOD fights wars and protects the US from attack.²⁶ The State Department manages the US’s diplomatic and political agenda. USAID responds to humanitarian emergencies, seeks long-term economic development, and works to improve conditions of people living in poverty.²⁷

Not surprisingly, both the recent Lugar and HELP Commission reports noted that State Department and DOD staff tend to be less efficient when they stray from their core competencies.²⁸

Why does Oxfam care about foreign aid?

Oxfam America is an agency dedicated to fighting poverty because, in a world of plenty, poverty is morally untenable. We have watched as the US's fight against global poverty has become increasingly driven by strategic concerns and single-issue initiatives.²⁹ Whether the US fights global poverty for moral reasons or to improve its own security, Oxfam believes that truly effective foreign aid will only happen when a major part of our aid portfolio is designed to fight poverty for its own sake. This poverty-focused aid saves lives and helps people overcome poverty, which is vital for the nearly half of the world that is surviving on less than \$2 a day.³⁰ And this reinvigorated, effective aid also happens to be exactly the kind of smart tool that's needed to regain US leadership in the world. Simply put, when the US fights poverty, everyone wins.

Learn more

Foreign aid is a complex issue. Here are helpful resources for understanding aid:

- Armitage, Richard L., and Joseph S. Nye Jr. "CSIS Commission on Smart Power: A smarter, more secure America." Washington, DC: Center for Strategic and International Studies, 2007, available at www.csis.org/component/option,com_csis_pubs/task,view/id,4156/type,1.
- Bush, Mary K., and others. "Beyond assistance: The HELP Commission report on foreign assistance reform." HELP Commission, 2007. Available at www.helpcommission.gov.
- "The Foreign Assistance Act of 1961." Full text available at www.foreignaffairs.house.gov/archives/109/24796.pdf.
- Lugar, Richard G. "Embassies grapple to guide foreign aid." 110th Cong., 1st sess., 2007. A report to the Senate Committee on Foreign Relations. Available at www.gpoaccess.gov/congress/index.html.
- Radelet, Steven. "A primer on foreign aid." Washington, DC: Center for Global Development, 2006. Working Paper No. 92. Available at www.cgdev.org/content/publications/detail/8846.
- Veillette, Connie. "Foreign aid reform: Issues for Congress and policy options." Washington, DC: Congressional Research Service, 2007. CRS Report for Congress RL34243, 2.

Glossary

Bureau of Foreign Assistance (F Bureau)—In 2006, Secretary of State Condoleezza Rice created a new Bureau of Foreign Assistance (F Bureau) to coordinate various aid programs and agencies. The director of foreign assistance sits in the State Department but also serves as the director of USAID. Foreign aid experts are both interested in and concerned by this move.

Department of Defense (DOD)—The DOD is responsible for deterring war and protecting the US from attack. In recent years, it has started to manage aid programs in areas of strategic interest to the US. For example, the proposed Africa Command seeks to integrate diplomacy and aid under the defense command structure in Africa.

Department of State—As the US government's primary diplomatic agency, the State Department now oversees PEPFAR and many functions of USAID.

Foreign aid—Foreign aid includes aid the US gives 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 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.

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

Poverty-focused development aid—The development aid community often uses this term to describe US aid that's targeted toward improving the lives and livelihoods of poor people.

President's Emergency Plan for AIDS Relief (PEPFAR)—In 2003, President Bush created PEPFAR to respond to the global AIDS crisis. To date, the program has provided much-needed anti-retroviral treatment to 1.5 million people.

US Agency for International Development (USAID)—Created in 1961 by the Foreign Assistance Act, USAID was intended to be the primary vehicle for delivering the US's poverty-focused development aid. However, USAID has been increasingly marginalized and under-resourced, leaving it with insufficient capacity and staff to fulfill its mandate.

Notes

1. Connie Veillette, "Foreign aid reform: Issues for Congress and policy options" (Washington, DC: Congressional Research Service, 2007), CRS Report for Congress RL34243), 2.
2. Carol Lancaster, "Foreign aid: Diplomacy, development, domestic politics" (Chicago: University of Chicago Press, 2006), 3.
3. For more information, see the Development Assistance Committee (DAC) at www.oecd.org/dac.
4. Also known as "poverty-focused development assistance." Bread for the World (www.bread.org) and the ONE Campaign (www.one.org) are other advocacy organizations that use the term.
5. Kevin Anderson, "Call for rethink in aid policy," BBC News, Aug. 1, 2005, http://news.bbc.co.uk/2/hi/in_depth/4678877.stm.
6. Gregory Warner, "The schools the Taliban won't torch," Washington Monthly, December 2007, www.washingtonmonthly.com/features/2007/0712.warner.html.
7. National Solidarity Program, "Frequently asked questions," Islamic Republic of Afghanistan, Ministry of Rural Rehabilitation and Development, www.nspafghanistan.org/faqs.shtm.
8. Gregory Warner, "The schools the Taliban won't torch," Washington Monthly, December 2007, www.washingtonmonthly.com/features/2007/0712.warner.html.
9. Global Interdependence Initiative, "Summary of surveys on development aid, global hunger, and poverty: MDG [Millennium Development Goals] campaign research—increasing US international assistance and humanitarian support," www.gii-exchange.org/workspace/2006/06/summary_of_surveys_on_developm_12.html.
10. The president's budget request for fiscal year 2009 totaled \$3.107 trillion. Of that money, \$39.5 billion—or 1.27 percent—was designated for the International Affairs Budget. Of that budget, \$19.8 billion—or 0.64 percent—of the federal budget is considered poverty-focused development aid, according to analysis conducted in February/March 2008 by the bipartisan group the ONE Campaign. These numbers are fairly consistent with levels from the previous two fiscal years. For more on the president's FY09 request, see the Office of Management and Budget, "The 2009 president's budget," www.whitehouse.gov/omb/budget/fy2009/budget.html.
11. Organization for Economic Cooperation and Development (OECD) DAC, "Final ODA [official development assistance] flows in 2006" (Paris: OECD, 2007), 4, www.oecd.org/dataoecd/7/20/39768315.pdf.
12. OECD DAC, "The US DAC peer review" (Paris: OECD, 2006), 26, www.oecd.org/dataoecd/6/1/57/37885999.pdf.
13. Foreign aid levels are typically measured as a percentage of a country's gross national income (GNI). The OECD DAC releases these figures annually. See OECD DAC, "Final ODA flows in 2006" (Paris: OECD, 2007), 4, www.oecd.org/dataoecd/7/20/39768315.pdf.
14. OECD DAC, "Final ODA flows in 2006" (Paris: OECD, 2007), 9, www.oecd.org/dataoecd/7/20/39768315.pdf.
15. A personal conversation in 2007 with an expert who has read the Foreign Assistance Act emphasized the complexity of the act. This expert noted that upon one reading, he came up with 33 objectives, yet from a subsequent reading, 34 objectives, suggesting that the number of goals can actually vary according to how one reads the act.
16. Steven Radelet, testimony to the Senate Foreign Relations Subcommittee on International Development, Foreign Assistance, Economic Affairs, and International Environmental Protection, June 12, 2007, www.cgdev.org/doc/commentary/testimony/Radelet_Foreign_Assistance.pdf.
17. The program was announced during President Bush's Africa trip on Feb. 20, 2008. Press release/fact sheet is available at www.whitehouse.gov/news/releases/2008/02/20080220.html.
18. President's Emergency Plan for AIDS Relief (PEPFAR), "About PEPFAR: Strategy," www.pepfar.gov/about/c19380.htm.
19. PEPFAR, "About PEPFAR: Latest results," www.pepfar.gov/about/c19785.htm.
20. "Overview of the compact process," in "Fiscal year 2007 country guidance" (Washington, DC: Millennium Challenge Corporation [MCC]), Chap. 9, available at www.mcc.gov/countrytools/compact/implementation.php.
21. MCC, "MCC CEO Ambassador Danilovich marks fourth anniversary with members of Congress," press release, Jan. 30, 2008, www.mcc.gov/press/releases/documents/release-013008-mccatfour.php.
22. Steven Radelet, testimony to the Senate Foreign Relations Subcommittee on International Development, Foreign Assistance, Economic Affairs, and International Environmental Protection, June 12, 2007, www.cgdev.org/doc/commentary/testimony/Radelet_Foreign_Assistance.pdf.
23. Richard G. Lugar, "Embassies grapple to guide foreign aid," 110th Cong., 1st sess., 2007, a report to the Senate Committee on Foreign Relations, available at www.gpoaccess.gov/congress/index.html.
24. Walter H. Pincus, "Taking Defense's hand out of State's pocket," Washington Post, July 9, 2007. It is also worth noting that the Department of Defense (DOD) went from managing 6 percent of US ODA in 2002 to more than 21 percent in 2005, although the trend has eased somewhat since 2005. See OECD DAC, "The US DAC peer review" (Paris: OECD, 2006), 26, www.oecd.org/dataoecd/6/1/57/37885999.pdf.
25. Gerald F. Hyman, "Assessing Secretary of State Rice's reform of US foreign assistance," Carnegie Paper No. 90 (Washington, DC: Carnegie Endowment for International Peace, 2008), 25, www.carnegieendowment.org/files/CP90_hyman_foreign_assistance_final.pdf.
26. US DOD, "Our bottom line," www.defenselink.mil/pubs/dod101/dod101.html#bottomline.
27. USAID, "About USAID: This is USAID," www.usaid.gov/about_usaid.
28. See Richard G. Lugar, "Embassies grapple to guide foreign aid," 110th Cong., 1st sess., 2007, a report to the Senate Committee on Foreign Relations, available at www.gpoaccess.gov/congress/index.html; and Mary K. Bush and others, "Beyond assistance: The HELP Commission report on foreign assistance reform" (HELP Commission, 2007), available at www.helpcommission.gov.
29. For others who have voiced this concern, see Gordon Adams, "New funds for foreign aid," Bulletin Online, Feb. 13, 2008, www.thebulletin.org/columns/gordon-adams/20080212.html.
30. The World Bank Development Data Group, "World development indicators 2007" (Washington, DC: World Bank, 2007), <http://web.worldbank.org/WBSITE/EXTERNAL/DATASTATISTICS/0,,contentMDK:21298138~pagePK:64133150~piPK:64133175~theSitePK:239419,00.html>.

Oxfam America's Aid Reform campaign 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.

To learn more, visit www.oxfamamerica.org/reformaid.

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