AID AND DEVELOPMENT IN LATIN AMERICA*

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FROM MARSHALL PLAN TO DEBT CRISIS: FOREIGN AID AND DEVELOPMENT CHOICES IN THE WORLD ECONOMY. By Robert E. Wood. (Berkeley and Los Angeles: University of California Press, 1986. Pp. 400. $45.00 cloth, $14.95 paper.)

THE EFFECTIVENESS AND ECONOMIC DEVELOPMENT IMPACT OF POLICY-BASED CASH TRANSFER PROGRAMS: THE CASE OF JAMAICA, 1981–1987. By Richmond Allen, Chris Hermann, Joseph Lieberson, and Elaine Grigsby. AID Evaluation Special Study no. 62, Document PN-AAX 220. (Washington D.C.: Agency for International Development, 1989. Pp. 58. $3.00.)

THE EFFECTIVENESS AND ECONOMIC DEVELOPMENT IMPACT OF POLICY-BASED CASH TRANSFER PROGRAMS: THE CASE OF COSTA RICA. By John Newton, Joseph Lieberson, Richard Sines, James Fox, and Clarence Zuvekas. AID Evaluation Special Study no. 57, Document PN-AAX 210. (Washington D.C.: Agency for International Development, 1988. Pp. 117. $3.00.)

AID FOR JUST DEVELOPMENT: REPORT ON THE FUTURE OF FOREIGN ASSISTANCE. By Stephen Hellinger, Douglas Hellinger, and Fred M. O'Regan. (Boulder, Colo.: Lynne Rienner Publishers, 1988. Pp. 332. $34.50 cloth, $13.95 paper.)

DIRECT TO THE POOR: GRASSROOTS DEVELOPMENT IN LATIN AMERICA. Edited by Sheldon Annis and Peter Hakim. (Boulder, Colo.: Lynne Rienner Publishers, 1988. Pp. 226. $26.50 cloth, $10.95 paper.)

COOPERACION EXTERNA Y DESARROLLO EN CENTROAMERICA. By Concertación Centroamericana de Organismos de Desarrollo. (San José, Costa Rica: Centro de Capacitación para el Desarrollo, 1990. Pp. 146.)

Since becoming an established fixture of the postwar environment, the role of international development assistance to Latin America has

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changed a great deal.[1] The theories of development that underlie foreign aid, the institutional forms it takes, and the topics and regions targeted for support have all shifted notably over the last forty-five years.

Foreign Assistance prior to the 1980s

Foreign aid to Latin America in the 1950s was limited.[2] The little aid available was mostly technical assistance in agriculture, health, and education provided by the United States, the technical branches of the Organization of American States, and the newly formed system of the United Nations. Such aid focused on transferring institutional and technological models from the developed countries. In the context of the emerging cold war, foreign assistance was supposed to foster growth through modernization—and hence national security.

The Alliance for Progress of the 1960s continued the emphasis on technical assistance (carried out in part through innovative programs like the Peace Corps) but combined it with a greater concern for social reforms (agrarian reform, small-farmer credit, market intervention, health, education, and housing) and with support for building physical infrastructure like roads and utilities. Commodity programs were created to help resolve what was perceived as a capital shortage, while Latin American governments were provided with local currency revenues and American exporters with outlets for their products.

Bilateral aid from the United States was complemented by the growing role of the multilateral financial institutions designed to provide capital for long-term investment. New multilateral institutions like the Inter-American Development Bank (IDB) and the Central American Bank for Economic Integration (CABEI) were created, and the World Bank expanded its activities.

All these efforts were based on the assumption that development was a linear process and that the two main bottlenecks for achieving it in Latin America were a lack of knowledge and a shortage of capital. Technical assistance and the training of Latin Americans abroad would provide the knowledge, while capital inflows from official loans and private direct investment would supply the funds for investment. Moreover, as

1. Official development assistance, as defined by the Development Assistance Committee (DAC) of the OECD includes only public transfers with a grant element of 25 percent or more. Under this definition, official development assistance does not include most loans by the World Bank or the Inter-American Development Bank. The term *development assistance* as used in this essay, however, also includes other official flows like these and private development assistance.

2. Total expenditures for U.S. technical cooperation programs in Latin America between 1953 and 1957 averaged less than thirty million dollars annually (Davis 1970, 5).

these economies grew and matured, the benefits were expected to trickle down to the poor.

In the 1970s, however, policymakers began to question the notion of "trickle down." They observed that a number of Latin American countries had experienced rapid economic growth with only marginal benefits to the poor. Consequently, the World Bank, the U.S. Congress, the International Labor Organization, and other agencies all adopted new policies designed to provide more support directly to poor families. These policies were variously known as "growth with equity," "basic needs," "support for the poorest of the poor," and "redistribution with growth." Although practice changed far less than rhetoric, the new policies were associated with major investments in integrated rural development projects and social services for marginal groups. Paralleling this trend, substantial aid was directed into large investment projects in livestock, irrigation, roads, and energy.

The 1970s also witnessed consolidation of the shift from the predominance of U.S. bilateral aid to Latin America toward a greater role for the multilateral lending agencies and loans from commercial banks. U.S. AID missions were pared back as the World Bank and other multilateral institutions grew. Whereas almost 90 percent of all aid to Latin America between 1960 and 1966 came from the United States, by 1978–1980 bilateral aid represented the main source of external financing for only four Latin American countries. According to Robert Wood's *From Marshall Plan to Debt Crisis,* multilateral agencies had become the main source of financing in nine countries and of private-sector loans in eight (p. 90).

Several factors influenced the decline in importance of direct U.S. aid. American policymakers began to feel that Latin America had "graduated" from the need for concessional assistance. At the same time, Latin American governments were becoming increasingly sensitive about being associated publicly with the United States. Meanwhile, loans from commercial banks and the multilateral institutions became more easily available, with fewer political costs and strings attached.

The Decline and Resurgence of the "Aid Regime"

These trends in foreign assistance are well summarized in Robert Wood's monograph and the study coauthored by Stephen Hellinger, Douglas Hellinger, and Fred O'Regan. In particular, Wood's *From Marshall Plan to Debt Crisis: Foreign Aid and Development Choices in the World Economy* provides an excellent recounting of the evolution of foreign aid. He shows how a postwar "international aid regime" had been established by the end of the 1960s with a clear set of principles, norms, and procedures that shaped development options and choices in the Third World. According to Wood, the overall goal of this aid regime has been "the creation of an open multilateral world economy characterized by the dominance of market forces and the maximum freedom of private capital to trade and invest" (p. 21).

The essence of the aid regime can be summarized in five basic rules: first, a bilateral negotiating framework, in which each country negotiates individually and donors make the final decisions; second, strategic nonlending, in which aid cannot be used to substitute for private direct investment (which rules out such instances as using aid for industrial development); third, institutionalized noncompetition between donors, in which "each aid agency offers the hardest terms deemed justifiable by a particular project and is prepared to defer to any agency offering still harder terms" (p. 120); fourth, conditionality, which deems it legitimate for aid agencies to use aid to influence policy; and fifth, creditworthiness, which implies that aid can be provided only to countries that are in good standing with the multilateral financial institutions and have expressed a willingness to repay all their foreign debts.

Wood demonstrates how the availability of commercial lending during the 1970s allowed the larger and more developed Third World countries like Mexico, Brazil, and Peru to break out of the aid regime. The commercial banks neither imposed policy conditions for their loans nor restricted the sectors that could be used in specific projects. This approach permitted the emergence of new state-capitalist development options based on the growth of public enterprises. With real interest rates remaining low and commercial banks competing to make money available, indebtedness became a more attractive way of obtaining capital than direct foreign investment. In this way, the power of developed countries and multilateral institutions to impose the aid regime was reduced. But with the international recession of the early 1980s and the mushrooming of the debt crisis, the empire struck back. The declining creditworthiness of Latin American governments and the disappearance of alternative sources of capital put official donor agencies once again in positions to impose the aid regime and its rules.

The Shift toward Policy Reform and National Security

In the eyes of the guardians of the aid regime, the main explanation for Latin America's economic and social problems was no longer a lack of knowledge or capital but rather faulty government policies that distorted the market. Such policies included exchange-rate, tax, and tariff regimes that discourage exports; reliance on inefficient public enterprises for production; inflationary fiscal policies; restrictions on foreign investment; failure to establish clear property rights; and a variety of market interventions that distort relative prices.

The two AID evaluation studies by teams led by Richmond Allen

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and John Newton explain that in the 1980s the U.S. Agency for International Development shifted its focus toward policy reforms designed to reduce the role of government in the economy, promote the private sector and direct foreign investment, reduce protectionism, and encourage exports. The preferred instruments for achieving these ends have been cash-transfer programs, which the Allen team characterizes as "quick-disbursing non-project assistance, with disbursements conditioned upon the developing country's adoption of a policy reform program" (p. v). The World Bank, the International Monetary Fund (IMF), and the Inter-American Development Bank all adopted a similar approach in making their structural adjustment loans. As becomes clear from reading *The Case of Jamaica, 1981–1987* and *The Case of Costa Rica,* it is difficult to evaluate the impact of these policy-based cash-transfer programs. Although specific policy and institutional reforms can be attributed with a certain accuracy to the conditions imposed by these programs, it is much harder to determine the impact of these reforms on the economy. Similar policy changes were made in both countries, but the outcome in Jamaica during the period analyzed seems to have been negative (declining living standards and reduced spending on social services) while economic performance in Costa Rica was favorable. It is also difficult to separate the impact of the reforms from the direct positive effect of the cash transfers. To conclude, as these authors do, that in both cases the policy reforms had a positive impact on the economy is more an ideological exercise of faith than a serious conclusion based on causal analysis.

Another notable trend in foreign assistance in the 1980s was the shift in its geographic distribution in favor of Central America, a direct result of the conflicts in that region. While U.S. assistance to Latin America doubled in real terms from 1978 to 1989, aid to Central America increased sevenfold (McGuire and Ruttan 1990, 132, 144). More broadly, total official development assistance to Central America almost quadrupled from about five hundred million dollars in 1977 to close to two billion dollars in 1985 (OECD 1979; OECD 1987). In fact, Central America was the only subregion in Latin America that was a net recipient of capital in the 1980s (excluding private capital flight).

American economic assistance to Central America in this period focused almost exclusively on concerns about national security and dovetailed with the military strategy of low-intensity conflict (Barry and Preusch 1990). A wide variety of aid instruments were used for this purpose, but the preferred approach was cash transfers to the Central American governments through Economic Support Funds. For the most part, policy reforms and economic restructuring took a back seat to counterinsurgency goals and to the desire to destabilize the Sandinista government in Nicaragua.

Aid beyond the Public Sector

Whether for purposes of achieving structural adjustment or national security, the portion of foreign assistance funds assigned by donor agencies to public-sector development projects declined in the 1980s. The tendency was either to move "upstream" and provide cash transfers and structural adjustment loans directly to finance ministries and central banks, as discussed, or to move "downstream" and support private-sector efforts and nongovernmental organizations (NGOs).

For different, but occasionally converging, reasons, conservative as well as liberal and social-democratic aid agencies have increasingly favored non-public-sector approaches to developmental assistance. Conservatives perceive these approaches as a way of promoting the commercial private sector and avoiding inefficient government bureaucracies. More liberal groups have viewed nongovernmental assistance as a means of empowering the poor and providing them with direct access to resources without having to go through government structures that are controlled by elites.

The role of foreign-financed NGOs has expanded greatly in the region, thanks to a complex combination of factors. To begin with, organizations representing women, indigenous groups, farmers, squatters, ecological activists, and community residents came into being as a result of social movements and began to seek ways to formalize and finance their activities. Meanwhile, the rise of rightist dictatorships in Chile and other countries as well as reductions in public employment throughout Latin America forced large numbers of professionals to seek alternative sources of employment in nongovernmental activities. Also, deterioration of public services in many countries left large sectors of the population unattended, creating the need for alternative sources of service provision.

The perceived positive experience of the NGOs has caused many policymakers and authors like Hellinger, Hellinger, and O'Regan to propose an approach to development assistance based on supporting the grass roots' capacity to solve their own problems. According to these authors, problems of development and poverty cannot be solved by encouraging large government bureaucracies or the formal private sector. To make sustainable progress, poor people and their institutions must become protagonists in the development process. Greater emphasis should therefore be placed on supporting local-level activities (efforts that take advantage of poor people's knowledge about their conditions) as well as dynamic institutional structures that allow for collective learning processes.

Specifically, Hellinger, Hellinger, and O'Regan make three main proposals in *Aid for Just Development:* that grass-roots organizations be supported by U.S. development agencies with funding as well as technical and managerial training and advice; that foreign assistance be used to pressure for government policies designed to reduce poverty; and that aid provided for national security reasons be clearly distinguished from aid provided for development assistance and be managed by different institutions. The model these authors support is largely based on the experience of the Inter-American Foundation (IAF), which was created by the U.S. Congress in 1971 to provide direct support to grass-roots organizations. This experience is presented in greater detail in Sheldon Annis's and Peter Hakim's suggestively titled study, *Direct to the Poor: Grassroots Development in Latin America.* This work combines case studies of IAF projects with more reflective pieces by the contributors. They deal with a variety of issues: the role of leadership in grass-roots organizations, achievement of collective action among the poor, and the need for a balance between income-generating projects and cultural projects to help the poor define their own reality and achieve a greater sense of self-worth.

For the most part, Annis and Hakim's *Direct to the Poor* is excessively descriptive, but on the fundamental issue of the relation between micro- and macro-level development, they provide important insights. The editors conclude that small-scale grass-roots projects cannot replace just and competent governments, efficient, effective, and equitable macroeconomic policies, or large-scale development projects and programs. Rather, Annis and Hakim perceive the role of grass-roots activities as being complementary to government efforts. Grass-roots initiatives can serve as social experiments that provide lessons for macro-policies. Meanwhile, pressure groups can help assure that government policies meet the needs of the poor. They can also supply resources and energies that may have significant impact at the local level.

To play this complementary role described by Annis and Hakim, grass-roots organizations will have to enter into more substantive dialogues with Latin American governments and donors and pay greater attention to macro policy issues. Also, donors and national governments will have to make renewed efforts to improve the public sector's capacity for developing and implementing sectoral policies.

Perspectives for the 1990s

One of the most intriguing recent NGO initiatives to address larger concerns was a consultation held in 1989 by forty national and international nongovernmental organizations. They planned to discuss the perspectives for foreign assistance to Central America and to develop a joint response to the various initiatives. For this purpose, the NGOs commissioned papers on several topics: the impact of recent events in Eastern Europe on aid to Central America; trends in assistance from the United States, Canada, Scandinavia, and Japan; and the role of foreign assistance in the areas of environment, food aid, and human rights. These papers have now been published by the Concertación Centroamericana de Organismos de Desarrollo in a worthwhile collection entitled *Cooperación externa y desarrollo en Centroamérica.*

This collection of essays is one of the few works available that provides insight into the prospects for foreign assistance in the 1990s. In general, the future outlook is for more of the same. The United States and the multilateral financial institutions will probably continue to emphasize support for structural adjustment programs designed to promote more open economies with a smaller role for the state. Only the Europeans, Canadians, and a few international organizations are likely to stress equity-related issues, and these donors play a relatively minor role in overall flows of aid to Latin America. Donor backing for micro-level nongovernmental development efforts will continue and perhaps even grow.

Direct U.S. bilateral assistance may decline, however, because of domestic budget difficulties and shifting attention to other parts of the world. Japan's collaboration will increase but will remain somewhat marginal and largely limited to collaboration with other donors.

From another perspective, the end of the cold war and changes in government in Nicaragua and Panama may substantially affect the national security rationale that has been the guiding principle of U.S. foreign policy since the 1950s. The ultimate impact of these changes remains uncertain, but two specific short-term outcomes are likely to be reduced aid to Central America (previously justified by national security concerns) and a greater U.S. openness to multilateral assistance.

During most of the 1980s, U.S. foreign policymakers were suspicious of multilateral initiatives, whether World Bank loans or support for the United Nations system. These decision makers perceived multilateral agencies as critical of U.S. policy and excessively liberal. Although total U.S. economic and financial assistance remained almost constant in real terms between 1980 and 1989, U.S. support for multilateral assistance declined by almost 60 percent (McGuire and Ruttan 1990, 130).

With the cold war ended and a consensus emerging among developed capitalist countries and the Soviet Union and among U.S. and Latin American governments, the Bush administration has shown greater openness to multilateral institutions. Recent examples are the prominent role of the Inter-American Development Bank in George Bush's Initiative for the Americas and that of the World Bank in the U.S.-sponsored Alliance for Democracy and Development in Central America, along with increased U.S. support for the United Nations.

Another shift in the U.S. foreign-aid agenda has been greater emphasis on topics of immediate domestic relevance to the United States, such as drugs, the environment, immigration, terrorism, and public-health issues like AIDS and cholera (Sabato 1991). Interest has also been

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growing in promoting greater commercial ties between the United States and Latin America through programs and policies designed to reduce trade barriers and increase Latin American exports. With the growing division of the world into large commercial blocks, the Bush administration is seeking to move toward greater U.S. commercial integration with its Latin American neighbors.

Unlike the traditional concerns about development, these new issues have important domestic political constituencies in the United States. Moreover, greater trade, reduction of drug traffic, an improved environment, and the elimination of international epidemics could provide significant shared gains for the United States and Latin America. These goals thus establish the possibility of creating a common agenda for the United States and Latin America, one that would enjoy broad domestic support in both.

Significant progress, however, requires addressing not only the symptoms but their root causes. Given the few alternative sources of income, increased international migration and continued drug trafficking remain inevitable. As has been shown by the recent experience with cholera in Peru, the continued existence of widespread poverty and the decline in government expenditures on health make contagious diseases all but impossible to control. Similarly, economic growth, political stability, and the reduction of poverty are necessary but insufficient for making significant environmental progress (Trigo, Kaimowitz, and Flores 1991). Sustained growth in trade between the United States and Latin America depends on increased purchasing power among Latin American consumers and enough economic and political stability to make Latin America an attractive place for investments.

Ultimately then, the fundamental question for the future of foreign assistance to Latin America and for relations between Latin America and the developed countries is whether the donors will continue to perceive these relations in terms of humanitarian concerns, national security, and short-term bilateral interests or whether they will recognize that economic growth and political stability in Latin America can provide major economic benefits for the developed countries themselves.

Achieving such growth and stability would require three conditions beyond continued policy reforms and support for nongovernmental initiatives: donor support for strengthening national governments and for encouraging more equitable policies; increased Latin American access to the markets of developed countries; and a reduction in the capital drain caused by the foreign debt.[3] Because the problems are hemispheric, the

3. Although discussion of foreign debt and developed country protectionism lies well beyond the scope of this review essay, it is clear that both these problems have major implications for the development possibilities of Latin America and hence its ability to utilize foreign assistance effectively.

approach should be largely multilateral. In the absence of such changes, foreign assistance alone cannot reverse Latin American decline, and continued aid, although useful in some respects, will not bring about greater development.

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