

UNITED STATES AID TO DEVELOPING COUNTRIES IS generally measured solely in terms of the official development assistance that the government provides to the U.S. Agency for International Development (USAID), Peace Corps, multilateral institutions, and certain programs sponsored by the State Department and Department of Defense. But the U.S. government also provides considerable resources for international assistance not included in measures of official development assistance. Moreover, many nongovernment U.S. sources—including foundations, corporations, private and voluntary organizations, colleges and universities, religious organizations, and individuals—provide direct assistance to people in developing countries. All these sources must be taken into account to plan aid effectively.

Better understanding of private giving is needed to accurately assess American generosity toward poor people overseas. Such knowledge can also help USAID use private funds to leverage additional official development assistance. Private investment and lending have transformed the economies of many developing countries over the past 20 years. Less attention has been paid to private philanthropy—but it too plays an important role. Indeed, this “silent” private financing has become the dominant expression of U.S. concern for poor people abroad.

To help understand how these trends will affect development assistance over the next 15 years, this chapter first reviews the origins and purposes of the U.S. government’s foreign aid. It then examines the effectiveness and public perceptions of this aid—information essential to planning support for economic and political growth in developing countries. Finally, the chapter assesses the many nongovernment forces involved in U.S. aid. Understanding these forces is essential to shaping future U.S. assistance efforts. Taking into account both government and nongovernment sources, the chapter concludes by providing a full measure of U.S. aid to foreign countries.

OBJECTIVES, OUTCOMES, AND AMOUNTS OF GOVERNMENT AID

Although early programs focused on supporting the Cold War and providing targeted humanitarian relief, foreign aid has long been seen as a tool for promoting economic growth in developing countries. In 1961 U.S. President John F.

THE FULL MEASURE OF FOREIGN AID

CHAPTER 6

*AID REDUCES POVERTY
ONLY WHEN ECONOMIC
POLICIES SUPPORT
SUSTAINED ECONOMIC
GROWTH AND WHEN THE
BENEFITS OF GROWTH
ARE WIDELY SHARED*

Box 6.1. Gauging public support for government aid

Public perceptions of foreign aid reflect U.S. values and principles. In public opinion polls Americans have always ranked domestic affairs higher than international ones. Even before the September 11 terrorist attacks, the U.S. public named as its top five priorities reducing the threat of international terrorism, stopping international drug trafficking, halting the spread of AIDS around the world, protecting the global environment, and getting Saddam Hussein out of Iraq.

Until the mid-1990s, 65–75 percent of Americans believed that the country was spending too much on foreign aid. But in 2000 several surveys found that only 40–47 percent of Americans still held that view. A study in the early 1990s, after the end of the Cold War, found that Americans were becoming more interested in aid for humanitarian than for security purposes. Whether that has remained true since the September 11 attacks is unknown. But in general, Americans have never strongly supported economic aid to other countries. For example, three surveys conducted by the Chicago Council on Foreign Relations since

the end of the Cold War have found that the U.S. public is divided on whether to give economic aid to other countries. In the most recent survey, in line with the previous two, only 13 percent of Americans favored increasing federal spending on foreign economic aid—while 48 percent favored reducing it.

Americans strongly endorse supporting the United Nations, ending world hunger, and alleviating human pain and suffering worldwide. Yet they historically have had doubts about the effectiveness of foreign aid, including concerns about corrupt foreign governments. These misgivings may be related to general distrust of the federal government and international organizations, which consistently rank near the bottom in U.S. surveys on confidence in institutions. Much as they advocate self-reliance in welfare programs, Americans want foreign aid that shows results in countries with honest and compassionate governments.

Source: Bostrom 2001; PIPA 2001; Belden and Russonello 1994; Rielly 1999; Independent Sector 1999.

Kennedy said that to productively absorb external capital, recipient countries first had to—on their own—mobilize resources, implement reforms, and pursue other self-help measures.¹ Yet the Marshall Plan's success in rebuilding European nations misled some analysts into believing that similar capital assistance could be used to build developing nations.

OBJECTIVES AND OUTCOMES

Since 1951 Western countries have given developing countries more than \$1 trillion in economic and humanitarian aid.² How has this money improved the lives of people in these countries? The different types of U.S. foreign aid—humanitarian relief, security assistance, and economic development—have had varying success. Disaster relief and humanitarian aid have been successful and have also drawn the strongest support from the American public (box 6.1). The United States has been a leader in delivering goods, coordinating disaster relief, and leveraging vast resources from private contributors. USAID has helped countries implement immunization campaigns, feeding programs, and public health emergency

measures that have saved countless lives around the world.

Foreign aid has also been used for security assistance in countries where the United States has had strategic interests in combating communism, promoting peacekeeping, maintaining military bases, and controlling nuclear weapons and narcotics. During initial peace talks and in sudden crises—such as the Gulf War and the U.S. war on terrorism—this assistance has contributed to stronger alliances and agreements.

But since the terrorist attacks of September 11, 2001, intense scrutiny has focused on the effectiveness of foreign aid in influencing developing country policies and protecting Americans from terrorism. In some instances terrorism has been nurtured by countries that are among the top recipients of US assistance.³

The emerging consensus in the development community is that aid reduces poverty only when economic policies support sustained economic growth and when the benefits of growth are widely shared.⁴ But economists and scholars have also concluded that countries implement

economic reforms when they choose to—not because of aid offered or withheld.⁵ Recent efforts to provide debt relief and to tie aid to country policies have also not achieved their intended results.⁶ These approaches do not create incentives for growth. Instead, many governments have strangled growth by allowing high inflation, black markets, negative interest rates, corruption, excess regulation, and failed public services.

AMOUNTS

U.S. foreign aid goes far beyond official development assistance (ODA)—the “donor performance” measure developed by the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD). The OECD is made up of industrial countries that provide the bulk of development aid to developing countries, and every year the DAC publishes a report comparing the generosity of donors based on their ODA as a percentage of their GNP.⁷

At \$9.9 billion, ODA accounts for just 18 percent of total U.S. assistance—public and private—to developing countries (table 6.1). Private international assistance, by contrast, is \$33.6 billion—60 percent of the U.S. contribution, and projected to grow to 65 percent by 2010. Every year the publication of the DAC report results in press reports and statements by academics and opinion leaders disparaging America’s “stinginess,”⁸ asserting that U.S. foreign policy will be ineffective without more ODA,⁹ and claiming that U.S. foreign aid programs collapsed after the Cold War.¹⁰ But ODA is a limited and outdated way of measuring a country’s giving. Given the enormous growth in the private sector around the world, donors should reevaluate the measure.

Although the United States consistently ranks first or second in absolute amounts of foreign aid, it falls last among industrial countries when aid is measured as a percentage of GNP. The DAC has set an annual target for foreign aid of 0.7 percent of GNP. But this target has no bearing on the quality of aid projects, their effectiveness, or their impact on economic development. The idea of a fixed percentage dates to 1958, when the Central Committee of the World Council of Churches called for countries to devote 1 percent of their national incomes to international development.¹¹ Over time the target was modified, but there was little discussion of why a

More assistance than meets the eye

Estimated U.S. international assistance to developing countries, 2000

TABLE 6.1

	US\$ billions	Share of total (%)
U.S. official development assistance	9.9	18
All other U.S. government assistance	12.7	22
U.S. private assistance	33.6	60
Foundations	1.5	
Corporations	2.8	
Private and voluntary organizations ^a	6.6	
Universities and colleges	1.3	
Religious congregations	3.4	
Individual remittances	18.0	
Total U.S. international assistance	56.2	100

a. Including volunteer time.

Source: OECD 2002; OMB 2002; USAID 2002; various private sources.

fixed 0.7 percent contribution is preferable to a strategic approach designed to provide aid for the right projects in the right countries at the right time. Denmark, Luxembourg, the Netherlands, Norway, and Sweden are the only countries ever to have achieved this target.

In an official DAC report one concerned non-governmental organization (NGO) argues that the further countries are from meeting the 0.7 percent of GNP target, the less committed they are to development. Declaring a “crisis in development policy and financing” and highlighting the 0.09 percent contribution by the United States, the critique adds, “Amidst the longest boom in a generation, it stands as an indictment of the governments of the developed countries, and a source of shame for their citizens.”¹² But the same report offers a more realistic view: “Despite some calls for a doubling of aid volume and for bilateral donors to meet the United Nations 0.7 percent ODA/GNP target . . . the political reality of aid suggests that, at the aggregate level, expectations of these magnitudes will not be met. Even if they were, it would not solve the problem, nor could many developing countries deal effectively with any such surge.”¹³

Moreover, the U.S. government budget for international affairs contains many items not included in ODA (table 6.2). In 2000 the international affairs budget totaled \$22.6 billion—so at \$9.9 billion, ODA accounted for less than half. ODA consists primarily of allocations to USAID, the Peace Corps, most multilateral institutions, and certain programs sponsored by the State Department and Department of Defense. The

IN 2000 THE INTERNATIONAL AFFAIRS BUDGET TOTALED \$22.6 BILLION—SO AT \$9.9 BILLION, ODA ACCOUNTED FOR LESS THAN HALF

THE FULL MEASURE OF FOREIGN AID

DEPARTMENT OF
DEFENSE SPENDING ON
HUMANITARIAN AND
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CURRENTLY REPORTED

Nearly \$23 billion in all: U.S. government international assistance

Total U.S. government international assistance by agency, classification, and selected programs, 2000

TABLE 6.2

Official development assistance—\$9.9 billion		Other government assistance—\$12.7 billion	
USAID			
Operations			Israel
Development assistance			Newly independent states
Child survival, humanitarian			Eastern Europe and Baltic States
Disaster relief, food aid			
State Department			
Refugees, narcotics			Operations
Asia Foundation			Broadcasting (Voice of America, Radio Marti)
International organizations			Peacekeeping
			Educational and cultural exchanges
			International organizations
			National Endowment for Democracy
Department of Defense			
Humanitarian			Military education and training
Peacekeeping development			Foreign military loans
			Antiterrorism, nonproliferation
Other agencies			
Peace Corps			Export-Import Bank
U.S. Trade and Development Agency			Overseas Private Investment Corporation
Multilateral institutions			Inter-American Foundation
Security assistance (Egypt and others)			

Source: U.S. Office of Management and Budget.

other \$12.7 billion spent on international affairs represents all other contributions, including those to “part 2” countries, the International Monetary Fund (IMF), Export-Import Bank, Overseas Private Investment Corporation, State Department operations and other items, and Department of Defense international security assistance. Part 2 countries, as defined by the DAC, are excluded from ODA data because they have graduated from developing country (or part 1) status. These countries include all of Central and Eastern Europe, Belarus, Israel, Russia, Ukraine, and a variety of island states such as Cyprus. In 2000 the United States provided \$2.5 billion in aid to part 2 countries, accounting for 37 percent of their official aid from DAC donors.¹⁴

ODA also does not fully include humanitarian and development activities sponsored by the Department of Defense. International food drops, earthquake relief, and medicine deliveries have been counted since 1991, and these totaled \$2.3 billion through 2000.¹⁵ DAC reporting also allows

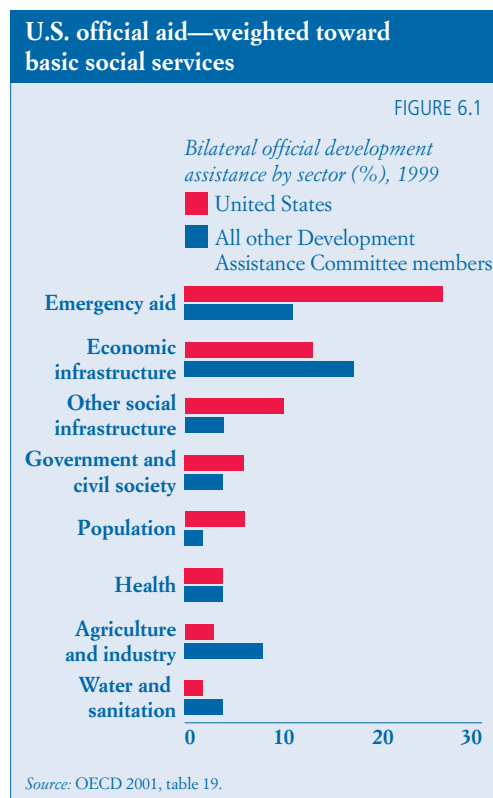
the inclusion, when possible, of military costs related to monitoring elections, rebuilding infrastructure, supporting in-country narcotics control, reducing security threats and demobilizing armies, and postconflict peacebuilding.

But Department of Defense spending on humanitarian and development activities is probably much higher than currently reported. For example, in 1999 the department spent \$6.2 billion on contingency operations related to foreign military crises and peacekeeping, including in Bosnia and Herzegovina and East Timor.¹⁶ These operations involved humanitarian and development activities such as building schools, hospitals, and roads. But because the costs of these activities are not broken out from the \$6.2 billion, they are not included in ODA.

If the Department of Defense better identified these budget items, the U.S. government could include them in its ODA calculations. Included would be more efforts like those of the hundreds

of U.S. Marines called into Honduras after Hurricane Mitch to distribute donated goods.¹⁷ Even if humanitarian activities accounted for just 15 percent of the department's contingency operations in 1999, their inclusion would have raised U.S. ODA by \$1 billion.

DAC donors devote different percentages of their ODA to different development activities. For example, the United States allocates 20 percent of its ODA to basic social services such as education, health, population, and water and sanitation (figure 6.1). Only the United Kingdom, Ireland, and Luxembourg devote larger percentages of ODA to basic social services. Compared with the average for all donors, the United States spends more of its ODA on emergency, humanitarian, and government and civil society programs. Other DAC donors invest larger portions of their ODA in economic infrastructure, agriculture and industry, and water and sanitation systems. In the two-year period 1997–98 the United States gave developing countries an average of \$570 million a year for population programs, or two-thirds of the total ODA from all other countries for this purpose. The United States provided a considerably smaller percentage for health (15 percent of the total ODA from all other countries for this purpose), education (10 percent), and water and sanitation (0.03 percent).¹⁸



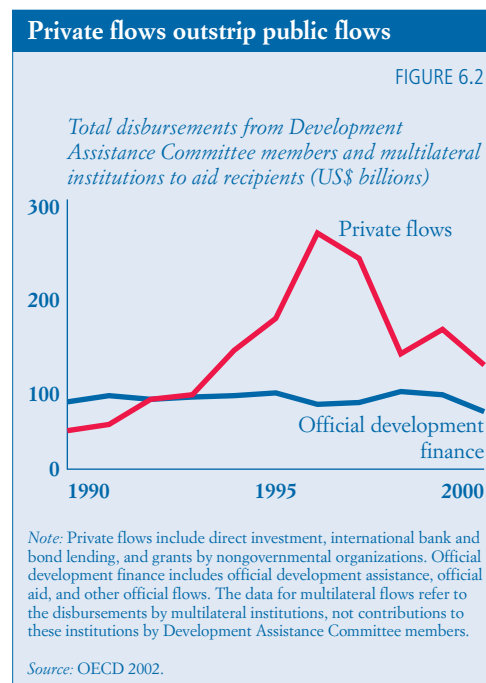
SOURCES AND AMOUNTS OF PRIVATE INVESTMENT AND LENDING

Over the past 20 years private capital flows have had a dramatic effect on developing countries. Until the early 1990s most international resource flows to developing countries came from governments. Now these flows are primarily private. The shift began in 1992, when foreign direct investment and financial markets took off in emerging economies—and private flows exceeded official development finance for the first time (figure 6.2).

Private capital flows peaked in 1996 at \$273 billion, or 78 percent of resource flows to developing countries. Although this level was not sustainable, especially for bank and bond lending, foreign direct investment proved resilient, reaching a high of \$188 billion in 1999. Growth in private investment and lending meant that emerging economies were attracting the kind of capital that creates and sustains development. Progress has been made in improving trade, governance, financial systems, and political and macroeconomic stability and in creating a receptive environment for private business.

In 2000 resource flows to developing countries dropped sharply, reflecting the global recession. ODA fell 5 percent, though ODA to the least developed countries rose slightly to 22 percent of the total. But net private flows from DAC

COMPARED WITH THE AVERAGE FOR ALL DONORS, THE UNITED STATES SPENDS MORE OF ITS ODA ON EMERGENCY, HUMANITARIAN, AND GOVERNMENT AND CIVIL SOCIETY PROGRAMS



The United States leads the world in total flows

Net aid flows from selected Development Assistance Committee members (US\$ millions), 2000

TABLE 6.3

	Total ODA	Total ODA as % of GNP	Bilateral ODA	Multilateral ODA	Other official flows	Grants by private voluntary agencies	Private flows	Total flows	Total flows as % of GNP
Canada	1,744	0.25	1,160	583	5	113	4,621	6,483	0.95
Denmark	1,664	1.06	1,024	641	-3	32	482	2,176	1.39
France	4,105	0.32	2,829	1,276	14	—	1,439	5,557	0.43
Germany	5,030	0.27	2,687	2,343	-456	846	7,000	12,420	0.67
Italy	1,376	0.13	377	999	-103	37	9,537	10,846	1.01
Japan	13,508	0.28	9,768	3,740	-5,200	231	2,725	11,264	0.23
Netherlands	3,135	0.84	2,243	892	38	306	3,469	6,947	1.85
Norway	1,264	0.80	934	330	—	179	-5	1,437	0.91
Spain	1,195	0.22	720	475	3	—	22,272	23,471	4.25
Sweden	1,799	0.80	1,242	557	0	26	2,127	3,952	1.76
United Kingdom	4,501	0.32	2,710	1,792	-72	536	2,093	7,058	0.50
United States	9,955	0.10	7,405	2,550	562	4,069	10,666	25,252	0.25

— Not available.

Note: Total official development assistance (ODA) includes net flows to developing countries (bilateral ODA) as well as contributions to multilateral institutions (multilateral ODA).

Source: OECD 2002.

**THE UNITED STATES IS
THE CLEAR LEADER IN
ALL MEASURES OF
PRIVATE ASSISTANCE TO
THE DEVELOPING WORLD**

donors were \$117 billion, down dramatically from 1999 and the lowest since 1993. As investors pulled out of foreign markets, equity flows plunged by \$50 billion. Foreign direct investment fell somewhat but remained the largest transfer. Despite the downturn in 2000, private investment and lending to developing countries still far exceeded government aid. Even at their lowest level since 1993, private capital flows are still more than twice government aid to developing countries.¹⁹

U.S. investors have channeled enormous amounts to developing countries, especially since the early 1990s. When these private investment and lending flows are added to ODA and other flows, the United States moves into first place among bilateral donors (table 6.3). While the United States ranked lowest in terms of ODA as a percentage of GNP in 2000, it had the largest total resource flows, at \$25.3 billion. The United States is the clear leader in all measures of private assistance to the developing world. Again, ODA fails to reflect the full measure of U.S. commitment, because it does not include private capital flows—the most important measure of sustainable development. Most significantly, ODA does not include private aid from U.S. foundations, private and voluntary organizations (PVOs), corporations, churches, and individual remittances. This

giving is much higher than in other countries because of the unique U.S. tax structure and the country's strong tradition of private giving.

SOURCES AND AMOUNTS OF PRIVATE AID

Despite their reservations about government aid, Americans have a long tradition of domestic and international generosity. U.S. private giving for international assistance predates government aid programs, and over the past 25 years such giving has grown significantly.

Churches and other religious congregations initially played the largest role in U.S. international giving, through relief and humanitarian assistance as well as overseas missions. Then colleges, universities, and foundations began responding to international development needs with scholarships and support for foreign universities and research centers. The number and budgets of PVOs and private charities have grown as Americans have increasingly offered their money and time to international causes. With globalization and changing immigration patterns, U.S. corporations have also increased their philanthropy to developing countries. And U.S. immigrants, increasingly from developing countries, have been sending more and more money back to their homelands.

**THE FULL MEASURE OF
FOREIGN AID**

Box 6.2. Building democratic and market institutions

The Eurasia Foundation has awarded over 6,500 grants, totaling more than \$130 million, to foster democracy and free markets and to popularize community foundations. Awarding its first grants in Eastern Europe and the former Soviet Union in 1993, the foundation funds programs in Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, the Kyrgyz Republic, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan. The foundation receives \$20–30 million a year from USAID, but it has also raised more than \$40 million from non-U.S. government sources. The Russian government now gives it funds as well.

Multinational firms operating in the region want to be good corporate citizens, but as Citigroup said to the foundation, “We need to be bankers first.” To help bridge that gap, the foundation, operating at the grassroots, finds both business partners and worthy philanthropy projects for foreign firms.

To sustain its work, the Eurasia Foundation is financing a trust fund of \$100 million—half from private sources and half from public—that will establish indigenous, professional, and privately managed philanthropic institutions.

Source: Rutledge 2002.

In 2000 nearly 9 of 10 U.S. households gave to domestic or foreign charities. Americans also give generously of their time: in 1999 a record 56 percent of U.S. adults over 18 volunteered at home or abroad. In 2000 that share dropped to 44 percent because the revised survey considered only adults over 26. Still, volunteers provided work equal to more than 9 million full-time employees, with a value of \$239 billion.²⁰ In 2000 U.S. universities and colleges gave more to developing countries in foreign scholarships than Australia, Belgium, Norway, Spain, and Switzerland each gave in ODA. Remittances from U.S. immigrants to their homelands exceeded ODA from Japan—the largest provider (in dollar amounts) of government aid to developing countries.²¹

Political and economic forces driving the increase in U.S. private giving include the end of the Cold War, fall of communism, growth in market economies, and explosion in information and communications technology.²² New democracies have given rise to indigenous PVOs and private entrepreneurs with sources of wealth outside of central governments. International issues are the focus of new “mega donors”—such as the UN Foundation (with funding from Ted Turner), David and Lucille Packard Foundation, and Bill and Melinda Gates Foundation—and increasingly of other U.S. grant-makers. In the 1990s low inflation, growth in personal fortunes, and a strong stock market nearly doubled the assets held by foundations. In addition, new community foundations in the United States and abroad have created new sources of funding with closer ties to people and communities in developing countries.

Although private giving far exceeds official government aid, data on such giving are weak, and the development community knows little about its nature, its flows, and the full amounts involved. Donors understand that private international assistance no longer means only relief efforts or missionaries working in isolated villages. Today this assistance means dollars transferred directly to Salvadoran families from their relatives in the United States so they can afford good health care and education. It means dollars spent to create indigenous foundations in Kenya that involve community members in creating grants. And it means going online in Hartford, Connecticut, and sending mooncakes to a sister in Hanoi for the mid-autumn festival in Vietnam. The size and impact of private international giving create new opportunities for development agencies. By learning about and working with the many providers of private assistance, foreign assistance can enhance its effectiveness and define its comparative advantage and its role in the 21st century (box 6.2).

INDEPENDENT, CORPORATE, AND COMMUNITY FOUNDATIONS

The number of U.S. foundations—independent, corporate, and community—jumped from 32,401 in 1990 to 46,832 in 1998. In 1998 these foundations gave \$1.6 billion to international activities, two-thirds more than in 1994.²³ Because the latest surveys are from 1998, they do not reflect large international grants made by the Bill and Melinda Gates Foundation and the UN Foundation for 1999–2001. Together, these foundations provide

NEW COMMUNITY FOUNDATIONS IN THE UNITED STATES AND ABROAD HAVE CREATED NEW SOURCES OF FUNDING WITH CLOSER TIES TO PEOPLE AND COMMUNITIES IN DEVELOPING COUNTRIES

THE FULL MEASURE OF FOREIGN AID

*MORE THAN A THIRD OF
INTERNATIONAL GIVING
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some \$350 million a year to international projects. In addition, in 2000 U.S. foundations announced two major international funding initiatives totaling some \$430 million over a five-year period.²⁴

More than a third of international giving by U.S. foundations goes for health, education, and social sciences programs. About 30 percent is spent on international affairs and development activities. Together, the arts, the environment, and human rights activities receive 25 percent, divided fairly evenly. During the 1990s human rights, public and social benefits, arts and culture, and religion experienced the largest growth in dollar amounts.²⁵

Breaking down U.S. foundation aid by recipient region is not easy. It is estimated that Western Europe and Latin America each receive about 22 percent of the total, and Asia and the Pacific and Sub-Saharan Africa each about 19 percent. But much of the aid to Western Europe goes to organizations that conduct programs in other countries and regions. For example, among non-U.S. recipients the World Health Organization, based in Geneva, Switzerland, receives the most money from U.S. foundations.²⁶

Independent foundations account for 90 percent of international giving by U.S. foundations, corporate foundations for 5 percent, operating foundations for 3.8 percent, and community foundations for less than 1 percent. Corporate and community foundations experienced the fastest growth in giving in the 1990s.²⁷

In the 1980s international activities accounted for just 5 percent of U.S. foundation giving. This share grew with the end of the Cold War and surged in the 1990s, reaching almost 11 percent by 1998. In addition, more small and medium-size foundations are giving international grants. Nevertheless, the 10 largest U.S. foundations give 60 percent of international grants, and the 25 largest, 74 percent. Foundations must address several issues as they globalize, including their openness to outside proposals, their accountability for results, and their organizational structures, to link private efforts to the needs of developing countries.

Independent foundations. Independent foundations include some of the oldest and largest U.S. foundations—organizations that helped transform tropical health and agriculture and expand foreign scholarships and academic research in

developing countries. The Rockefeller, Ford, Kellogg, and MacArthur foundations are continuing this long tradition, including through massive funding for higher education in Africa.

With \$22 billion in assets in 2000, the Bill and Melinda Gates Foundation is the world's largest foundation. Awarding more than half its grants to international health projects, it is transforming health services in developing countries. In its quest to establish standards and accountability in development projects, the Gates Foundation requires countries to develop detailed applications and meet inoculation targets under its Global Alliance for Vaccines and Immunization, which it launched in 1999 with a grant of \$750 million.²⁸

The number of U.S. independent foundations has grown, with an estimated 24,000 created in the 1980s and 1990s. Though most are small, 8,200 have at least \$1 million in assets. Of these, more than 500 have at least \$25 million.²⁹ Giving has not necessarily grown in line with assets, with foundations consistently giving about 5 percent of their assets a year regardless of asset growth. Many new small and medium-size foundations are among the most active in international giving. Among U.S. foundations that give at least half their money to international activities, 60 percent were created after 1970.³⁰

Corporate foundations. Corporate foundations accounted for just 13 percent of international giving by U.S. corporations in 1998. Many international donations are made through corporations' foreign affiliates and matching grants programs for employee donations. Although corporate foundations account for 20 percent of U.S. foundations making international grants, they provide just 5 percent of foundation giving.³¹

International contributions from U.S. corporate foundations rose considerably in 1997 and 1998 as companies entered more partnerships with governments, nongovernmental organizations (NGOs), and international organizations. These partnerships reflect increased corporate social responsibility, employee volunteerism, and cause-related marketing.

In 1998 six U.S. corporate foundations gave at least 25 percent of their grants to international programs, including the Bechtel Foundation (40

Box 6.3. Exporting community foundations

Following a long tradition of strengthening international philanthropy, U.S. foundations, including the Charles Stewart Mott, Ford, and Soros foundations, have begun supporting the creation of community foundations overseas. Ford Foundation Senior Vice President Barry Gaberman is enthusiastic about this democratization of philanthropy: “What was a uniquely American construct is now providing the energy for the development of philanthropy around the world.”

Source: Greene 2001.

The Charles Stewart Mott Foundation has helped create community foundations around the world, providing \$20 million for foundations in Eastern Europe, South Africa, and the United Kingdom. Concerned that traditional forms of overseas assistance are not working, the foundation’s president, William White, argues that “philanthropy needs to begin on Main Street. Local neighborhood people know far better than people from out of town what their town needs. I believe in empowering people at the local level.”

U.S. CORPORATIONS ARE DEVELOPING STRATEGIC RELATIONSHIPS THAT TIE THEIR PHILANTHROPIC ACTIVITIES TO THEIR BUSINESS INTERESTS

percent), Archer Daniel Midlands Foundation (30 percent), and Bristol-Myers Squibb and Coca-Cola foundations (28 percent each).³² But in recent years contributions from corporate foundations have leveled off because of the East Asian financial crisis and the global recession. Still, increased giving and new relationships with nonprofits have become established features of international corporate philanthropy.

U.S. corporations are developing strategic relationships that tie their philanthropic activities to their business interests. For example, Citigroup Foundation gave \$1 million to support Asian microlending programs that foster economic development by helping small entrepreneurs—and create future Citigroup customers.³³

Community foundations. A promising development in international giving is the recent growth in community foundations (box 6.3). There are now nearly 800 around the world, with three-quarters in the United States. Tied to the needs of communities overseas, a community foundation is independent, receives funds from a variety of sources, and makes grants in conjunction with the people living in the communities.³⁴

Frustration with foreign aid and donor controls on projects led to the creation of the Kenya Community Development Foundation. It became independent in 2001 after three years of managerial and organizational support from the Aga Khan and Ford foundations.³⁵ This community foundation brings hope to Kenyans who want to decide their needs for themselves and determine how to meet them with their resources. The United States and other donors could consider

using such foundations as channels for local development projects.

Some of the most visible work in community and indigenous foundations has occurred in Central and Eastern Europe. Between 1989 and 1994 more than 60 European and U.S. foundations spent more than \$600 million to develop nonprofit organizations in the region. The Ford and Rockefeller foundations are joining the effort to fund the Trust for Civil Society in Central and Eastern Europe to support these philanthropic endeavors.³⁶

Future developments. With the September 11 terrorist attacks and the global economic downturn since 2000, international giving will see limited growth in the near future. But the fundamental changes in foundation giving in the 1990s and the expanded assets of foundations argue for a continued expansion of private philanthropy over the medium and long term. As the U.S. economy rebounds, foundation assets and individual donations will rise. Recent growth in U.S. foundations—with some 8,000 new ones emerging between 1994 and 1998—bodes well for international giving.³⁷ As these organizations mature and increase their assets, many will expand to international activities.

As globalization continues, rising corporate and personal income in developing countries will increasingly be channeled to indigenous PVOs and community foundations. These new sources, along with older independent and corporate foundations, will provide partners for donors in all areas of development.

Foundation giving is estimated at \$1.5 billion (this estimate excludes corporate foundation

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giving, combined with other corporate giving in the following section). Assuming modest cumulative growth in international giving of 25 percent over a five-year period, rather than the robust 66 percent that occurred in the 1990s, foundation giving could reach \$2.5 billion in 2005 and \$3.1 billion in 2010. Foundation reporting is underestimated because not all small foundations report. In addition, some corporate foundations underreport or do not report at all. With better data, projected levels could be even higher.

CORPORATIONS

As noted, private capital flows surpassed official government aid in the early 1990s. Less noticed was the growth in new forms of international philanthropy that are redefining U.S. corporate giving. International giving by corporations has expanded to include cash and noncash giving, cause-related marketing, employee volunteer programs, and expenditures on issues management and public affairs. Corporations do not systematically collect data on these different types of international philanthropy, so the full scope of giving is not recorded. One survey found that more than 95 percent of corporations support employee volunteer efforts, yet only 9 percent reported tracking these efforts globally.³⁸

It may be that not even a small portion of the total contributions by corporations has been measured. Because such spending is relatively new and because of different tax, management, and accounting systems overseas, this spending is difficult to track.

The two latest, most complete surveys, for 1999 and 2000, cover small samples—with just over 200 companies in each. In the 1999 survey, covering 209 U.S. companies, 83 reported making international contributions totaling \$2 billion.³⁹ The 2000 survey, covering 207 companies, reported international contributions totaling \$2.8 billion.⁴⁰ These amounts include cash and noncash giving directly by the corporations and by their foundations.

Given the history of corporate philanthropy in America, the lack of rigor in tracking international contributions is not surprising. Until 1936 it was illegal for a company to give away shareholder assets for anything other than company interests.

In 1936 the U.S. Internal Revenue Service started allowing companies to deduct 5 percent of pretax earnings from taxable income. But the real shift in corporate giving came in 1953, when a New Jersey court set a precedent later followed by all U.S. states. The court determined that it was legal for companies to give money for reasons not directly related to their business. That decision paved the way for corporate giving to grow from \$30 million in 1936 to \$11 billion in 2000. In 1954 General Electric created the country's first matching gift program, which has since provided schools with more than \$2 billion. Today more than 6,000 companies and corporate foundations match employee contributions to nonprofit organizations.⁴¹

New roles and relationships. International philanthropy by U.S. corporations is evolving, reflecting new relationships with nonprofit organizations, multilateral institutions, and government agencies. Calling the 21st century the “age of alliances,” one author predicts that “collaborative relationships [between corporations and nonprofit organizations] will grow in frequency and strategic importance. Collaborative relationships will increasingly migrate from the traditionally philanthropic, characterized by benevolent donor and grateful recipient, toward deeper, strategic alliances.”⁴² Many such alliances have already emerged.

The fastest growth in such partnerships has occurred in pharmaceuticals, the most philanthropic U.S. industry. Between 1998 and 2001 U.S. pharmaceutical companies gave developing countries nearly \$2 billion in financial assistance and free drugs.⁴³ These companies are working with UN agencies to provide products free of charge or at highly subsidized prices. Efforts address tropical diseases such as river blindness, filariasis, and leishmaniasis as well as modern plagues such as HIV/AIDS, tuberculosis, and malaria. Pharmaceutical companies are increasingly working together to provide overseas assistance.

U.S. drug companies are also funding domestic research centers that work with foreign institutions to fight disease and develop research and medical skills. In 2000 Bristol-Myers Squibb introduced the Secure the Future program, providing \$115 million for training and infrastructure to treat HIV/AIDS in South Africa. Pfizer provides free antifungal medicines to developing

countries most in need, and in 2001 it created the Academic Alliance for AIDS Care and Prevention in Africa—financing a \$10 million partnership between the University of Utah Medical School and Makerere University in Uganda. The alliance is training African doctors and other health workers to treat HIV/AIDS and opportunistic infections.⁴⁴

In 2000 Merck and American Home Products joined the Global Alliance for Vaccines and Immunization—created by the Bill and Melinda Gates Foundation and supported by USAID—contributing \$140 million in vaccines. Merck has provided \$50 million to Botswana for HIV/AIDS prevention and treatment efforts. Eli Lilly, one of the world's largest donors of pharmaceuticals, has provided low-cost drugs to the World Health Organization to treat multi-drug-resistant tuberculosis.⁴⁵ Pharmaceutical companies are working more and more closely with one another and with international donor organizations to finance projects for improving health clinics and training doctors and to provide donated or deeply discounted medicines to poor people in developing countries. Their activities are increasingly similar to those of development agencies.

Strategic philanthropy. U.S. corporations are also strengthening the links between their giving and their markets and employees. This strategic philanthropy often takes the form of cause-related marketing, such as the alliance between Starbucks and CARE launched in 1996.⁴⁶ Starbucks began selling a sampler of coffee beans grown in three countries where CARE operated, donating \$2 from each sale to CARE. Over time Starbucks and CARE employees began working together, and Starbucks donated larger amounts. By 1998 Starbucks was CARE's largest donor, with contributions of \$6.2 million.⁴⁷

More companies are trying to be good citizens. To carry out these new corporate roles, they have created management positions in issues management, global social policy, international public affairs, and global ethics and transparency.

Decentralization and allocation shifts. Most international giving by U.S. corporations—both cash and noncash—originates at company headquarters. But decentralization is on the rise, with local and regional business units and foundations making their own decisions on local giving. In 2000 cash contributions exceeded noncash con-

tributions in international corporate giving. And cash contributions increasingly come from business units outside the United States, reflecting a shift in the traditional pattern of corporate giving.⁴⁸

Although information on international giving by U.S. corporations is rarely broken down by sector, data from 1997 indicate that health and human services received the largest share, followed by education, community economic development, and disaster relief. Decisions about where to give were based almost entirely on where employees and plants were located. After that a project's relationship to the company's objectives was considered important, and in last place was the likelihood of a project's enhancing the company's market share.⁴⁹

Amounts. The two most comprehensive surveys on U.S. corporate international giving (including cash and noncash gifts and foundation contributions) reported giving of \$2.0 billion in 1999 and \$2.8 billion in 2000. But these totals are underestimates, since they include only a sample of U.S. companies. In addition, much of international corporate giving—matching gifts, cause-related marketing, local cash donations, and the value of volunteers' time—is simply not tracked and recorded.

After pharmaceutical companies, the largest sources of foreign contributions (cash and noncash) by U.S. industries are manufacturers of computer and office equipment; telecommunications companies; producers of food, beverage, and tobacco products; and companies engaged in retail and wholesale trade.

Future developments. International giving by U.S. corporations should be better documented. As the global recession recedes and developing countries become more attractive for trade and investment, corporate philanthropy will likely continue to grow. But it is unclear which type of corporate philanthropy—foundation grants, direct cash or noncash grants, cause-related marketing, employee gift matching programs, or volunteerism—will be most important.

Though large U.S. corporations are developing major giving programs in close partnerships with donors, they will resist becoming the sole support for failing economies and corrupt governments. Their philanthropy will likely be targeted to areas

STRATEGIC
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INTERNATIONAL
CORPORATE
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REACH \$3.6 BILLION IN
2005 AND \$4.6 BILLION
IN 2010

Box 6.4. A private voluntary board for the Litewska Children's Hospital

Aided by a small grant from USAID, private hospitals and individuals created Poland's first private voluntary board for a public institution. The collapse of communism in Poland had decimated the nation's already meager public hospital budgets. The Litewska Children's Hospital, one of Warsaw's oldest pediatric teaching hospitals, no longer had hot water. Doctors had to carry patients from floor to floor because the elevators were often out of service. Poland's new decentralization was forcing hospital managers to find funding and answer to their communities and patients rather than to central planners.

The voluntary hospital board, called Friends of Litewska, was modeled on that of the New Rochelle Hospital and Medical Center in New York. Most of the Poles involved believed that no one would volunteer, but within six months 60 volunteers were at work. Employees of U.S. and

Polish corporations donated their time as board members, airlines and hotels donated tickets and rooms to support exchanges between the two hospitals, and U.S. and Polish legal, accounting, and advertising firms donated services.

In just one year—less than half the time it takes to design, write, and finalize a typical USAID government contract—Friends of Litewska obtained commitments of \$1.5 million for renovating the hospital. Their volunteer program was up and running. A nurse training program involving five U.S. medical institutions jumped in to donate training. USAID spending for the program lasted only a year and a half, but the program is thriving thanks to private support. Friends of Litewska, headed by many of the most respected private leaders in Warsaw, has become a permanent partner of the hospital.

Source: Raymond 1996b.

that contain or support their markets, employees, and public image interests. U.S. corporations have new roles to play in development, including one of the most important: helping affiliates and other local businesses engage in philanthropy. Some analysts question whether corporate philanthropy can be replicated in different cultures and financial systems. Helping developing countries establish the legal framework—that is, the incentives—to donate and the company procedures to do it are worthwhile objectives for corporations and donors.

The latest survey on international corporate contributions projects growth of only 1 percent a year, despite the 40 percent increase from 1999 to 2000.⁷⁰ Based on a conservative projection of 5 percent growth in corporate giving, such contributions could reach \$3.6 billion in 2005 and \$4.6 billion in 2010—estimates that could increase significantly with better tracking and reporting.

PRIVATE AND VOLUNTARY ORGANIZATIONS

Until the 1970s most U.S. PVOs working overseas were engaged in relief and humanitarian efforts. Catholic Relief Services, CARE, World Vision, and Save the Children have been among the largest recipients of USAID funding for these efforts. Since then PVOs have become increasingly active in development work such as com-

munity development, microlending, and agricultural cooperatives (box 6.4). In addition, during the 1990s a growing number of PVOs involved in building democracy and entrepreneurship registered with USAID.

The definition of a PVO and the benefits PVOs receive are important in understanding USAID's development assistance program. A PVO is a registered nonprofit organization that receives part of its annual revenue from the private sector, receives voluntary contributions of money, time, or in-kind support from the general public, works or wants to work overseas, is financially viable (with overhead accounting for no more than 40 percent of expenses), has a board of directors, fits within USAID priorities, and does not have alleged terrorist ties. Universities, colleges, accredited degree-granting education institutions, private foundations, hospitals, organizations engaged exclusively in research or scientific activities, churches, and organizations engaged exclusively in religious activities are not considered PVOs for this purpose.

Sources of financing and types of activities. Registering with USAID offers PVOs considerable benefits. PVOs can receive money from all USAID accounts, including those for development assistance, economic security, and disaster relief. USAID has played a large role in developing the capacity of U.S. PVOs and supporting both U.S. and international PVOs. In addition,

the U.S. Congress has fully supported the integration of PVOs with international development efforts. In the late 1980s legislation mandated that 13.5 percent of USAID funding go to PVOs, with a target of 16 percent. Though that legislation is no longer in effect, PVOs continue to receive about a third of USAID's development assistance budget.

The number of USAID-registered PVOs has grown considerably—from 138 in 1979 to 436 in 2000—though in recent years this number appears to have stabilized. In the 1990s U.S. PVOs experienced significant growth in public and private funding of their international programs. Private funding of international programs has always been higher than public, jumping from \$1.7 billion in 1989 to \$3.3 billion in 2000. Data on private funding are estimated from USAID financial statistics for USAID-registered PVOs in 2000. Although several surveys have tried to gather these data, they have not captured the full amount.⁵¹ With the time of international U.S. volunteers—valued at an estimated \$3.3 billion—included, PVOs provided developing countries with \$6.6 billion in goods and services in 2000.⁵²

In 2000 the top 20 USAID-registered PVOs received an average of \$43 million in grants and contracts—for a total of about \$854 million, or two-thirds of PVO funding by USAID. Within this group, some older PVOs—CARE, Catholic Relief Services, World Vision, Save the Children—receive significant private contributions (for both domestic and international efforts), ranging from \$60 million to almost \$380 million. Others also meet the requirement that 20 percent of overseas expenses come from private sources. But more than 30 percent meet it only through exemptions.

USAID-registered PVOs work in 159 countries in nearly every area of development. Most are involved in health, nutrition, and population projects, with a focus on family planning and child survival. The priority given by USAID to funding family planning and child survival has increased the number of PVOs administering such programs. The top 20 U.S. PVO recipients of USAID funding now include the Academy for Educational Development, Pathfinder International, Family Health International, Population Services International, Management Sciences for Health, and Engender Health. Other PVO activities

include community development, food security, food aid, and disaster relief.

Advantages of private and voluntary organizations. The advantages of traditional PVOs have long been clear. Most important, they foster pluralism, volunteerism, and compassion—values that have characterized the United States throughout its history. Markets create wealth and prosperity. But private philanthropy—from communities, charities, religious organizations, and families—is required to help the needy, complementing government-provided social safety nets. U.S. President George W. Bush expressed this view in his inaugural address, when he said that “compassion is the work of a nation, not just a government.”⁵³ PVOs are unique private sources of money and time.

U.S. PVOs also have advantages in performing development work abroad, including their ability to operate in politically sensitive situations, to conduct programs often faster and more efficiently than contractors or government employees, and to work with governments and communities with which they have established relationships.

Challenges for private and voluntary organizations. U.S. PVOs must work to increase volunteerism and private contributions to their overseas programs, both important factors in the long-term effectiveness and sustainability of their projects. The main challenge for PVOs today is to develop sustainable counterpart institutions that can eventually assume their tasks. Widely shared economic growth will reduce the need for assistance from outside donors to support development and meet basic human needs. As countries create wealth and develop private institutions, their social welfare needs are best served by their own government systems and private philanthropic organizations. Where social safety nets are required, local community foundations and indigenous PVOs can help disadvantaged people. U.S. PVOs must view their role as a “bridge toward development, not a permanent fixture.”⁵⁴ The benefits of indigenous PVOs were well articulated by a USAID-funded study written more than 20 years ago.⁵⁵ The study argued that local PVOs generally deliver services at lower cost, can respond faster, are more likely to follow through on completed projects, and are more likely to gain cooperation from local governments and support from beneficiaries.

*PVOs FOSTER
PLURALISM,
VOLUNTEERISM, AND
COMPASSION—VALUES
THAT HAVE
CHARACTERIZED THE
UNITED STATES
THROUGHOUT HISTORY*

*THE FULL MEASURE OF
FOREIGN AID*

PRIVATE GIVING FOR THE INTERNATIONAL ACTIVITIES OF U.S.

PVOs SHOULD RISE TO \$5.4 BILLION IN 2005 AND \$6.8 BILLION IN 2010

U.S. PVOs have worked with and transferred technology and values to thousands of local organizations in developing countries. But there has been no concerted effort to nurture philanthropy and volunteerism in these countries, to enable these organizations to start taking care of themselves. Such change will not happen overnight, and it will not happen in countries with pervasive institutional corruption. Still, the United States should do more to encourage the long-term development of local PVOs.

Future developments. In the short term private international giving by U.S. PVOs could follow a path similar to that of foundation giving, reflecting lower contributions resulting from the global recession and concerns about terrorism. But a survey of Americans who donated to charities involved in responses to the September 11 attacks found that three-quarters planned to maintain or increase their giving to other charities.⁵⁶ Whether this sentiment will endure is unclear. People's charitable contributions are strongly influenced by their immediate financial concerns, so Americans could cut back on giving now and in the immediate future. The same survey found that if the economy worsens, one in five of these Americans would donate less—and the same number would stop giving altogether. Volunteer time will suffer similar effects if people are focused on earning more income or searching for jobs.

But over the medium and long term private giving for the international activities of U.S. PVOs should continue to increase. Between 1995 and 2000 such giving grew a little over 10 percent a year, a solid increase that likely reflected the strong U.S. economy. Assuming roughly the same annual growth, these private contributions would rise to \$5.4 billion in 2005 and \$6.8 billion in 2010. Adding the \$3.3 billion in international volunteer time would raise total international assistance from PVOs to \$8.7 billion in 2005 and \$10.1 billion in 2010.

COLLEGES AND UNIVERSITIES

U.S. colleges and universities educate a huge number of students from developing countries. In 1955 these institutions had 34,000 foreign students, accounting for 6.4 percent of enrollment. By the 2000/01 school year there were more than 500,000 foreign students, representing 3.9 percent

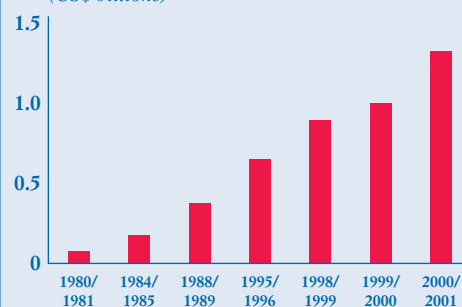
of enrollment.⁵⁷ Because private U.S. funding for foreign students has not been calculated, this report uses a methodology based on the share of foreign students funded by U.S. colleges and universities multiplied by the average cost of a college education.⁵⁸ Such funding has skyrocketed in recent years, from \$83 million in 1980/81 to \$1.3 billion in 2000/01 (figure 6.3). The share of foreign students receiving scholarships has also increased, to 20 percent.

It is not known what effect the recent downturn in the U.S. economy has had on such scholarships. Nor is it known whether increasing scrutiny of foreign students for possible terrorist ties will reduce the number of students coming to the United States. In the wake of the September 11 attacks there has been a sharp upswing in applications for citizenship among U.S. immigrants, suggesting that foreigners want to secure their rights as Americans rather than return to their homelands. The same phenomenon may be occurring among foreign students seeking to secure the benefits of studying in the United States.

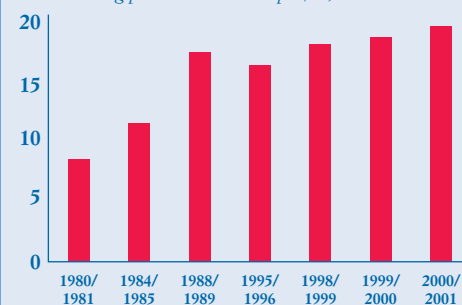
U.S. colleges and universities—educators to the world

FIGURE 6.3

Private scholarships for foreign students from U.S. colleges and universities (US\$ billions)



Share of foreign students receiving private scholarships (%)



Source: Institute of International Education 2002; U.S. Department of Education 2000.

Over the medium and long term, as globalization continues and foreign investment increases in developing countries, the trends of the past 20 years should continue. Foreign students will come to the United States for its high-quality higher education, and U.S. colleges and universities will award them scholarships. But U.S. government funding of foreign students has fallen, and it is unknown whether this trend will continue given the renewed interest in promoting diplomacy and understanding of U.S. culture since September 11. Between 1996 and 2001 U.S. universities and colleges increased their scholarships for foreign students by almost half. Even if future funding grows at just three-quarters that rate, scholarships for foreign students would reach \$1.7 billion in 2005 and \$2.4 billion in 2010.

RELIGIOUS CONGREGATIONS

There are 354,000 religious congregations in the United States, accounting for nearly a quarter of nonprofit organizations. As noted, churches and other religious congregations were the earliest private U.S. sources of international giving. More than 300 years ago, before the creation of the United States, Cotton Mather, a New England religious and civic leader, called for Americans to engage in “a perpetual endeavor to do good in the world.”⁵⁹ Funding initially went to missionaries and their religious activities overseas.

But international giving has changed, and the nonsecular activities of religious congregations are increasing, focusing on international programs for disaster relief, health care, agriculture, and education. Three-quarters of religious congregations consider international activities one of their top three program areas, along with health care and human services.⁶⁰ Churches, synagogues, and mosques give money overseas, often as small grants, that help pay school tuitions, set up nutrition programs, provide medicines, or pay for vocational training in the world’s least developed countries.

Many congregations channel their donations through local foundations, disaster relief centers, global ministries, and women’s societies. Congregations also contribute to other PVOs and international organizations that conduct overseas programs. And in some cases they give directly to foreign churches, hospitals, or schools.

Amounts. Private giving and volunteering are expected in religious organizations. The revenues of such organizations amounted to \$81.2 billion in 1996, with individual contributions accounting for more than three-quarters.⁶¹ Households directed 60 percent of all their charitable contributions to religious organizations.⁶²

It is difficult to obtain data on international giving by U.S. religious organizations because statistics are not broken down by international purpose, implementing organization, or religious or non-religious purpose. Moreover, religious organizations are not required to report their contributions to the U.S. Internal Revenue Service. An early estimate put international contributions by three U.S. religious groups—Protestant, Jewish, and Catholic—at a total of nearly \$4 billion in 1919–60.⁶³

A more recent survey took the operating expenditures and volunteer time of all congregations and prorated them among major activities other than religion.⁶⁴ This exercise estimated that \$480 million was contributed to international activities in 1992. But while the survey covered a representative sample, the data captured only salaries and volunteer time, ignoring much larger expenditures for relief and development programs and in-kind donations. Thus \$480 million is a considerable underestimate—a fact supported by estimates of international activities provided by some religious organizations.

While much more research is needed in this area, a rough order of magnitude can be estimated. One survey reported international giving by the Catholic Church and by funding agencies it sponsors as just under \$500 million in 1999.⁶⁵ Another survey has compiled budgets for U.S. overseas Protestant ministries. These budgets totaled \$2.9 billion in 1999 and included relief and development work such as medical care, literacy training, and vocational training.⁶⁶ Thus an overall estimate for religious international assistance is \$3.4 billion. While this estimate does not cover exclusively secular activities, it is the most comprehensive assessment of church spending overseas. But this figure is still likely to be an underestimate because it does not include the ongoing collections, projects, and cash and noncash collections in individual churches throughout the year. Nor is there any estimate of the value of volunteers’ time, which is considerable in religious congregations.

SCHOLARSHIPS FOR FOREIGN STUDENTS COULD REACH \$1.7 BILLION IN 2005 AND \$2.4 BILLION IN 2010

RELIGIOUS GIVING
COULD BE \$4 BILLION IN
2005 AND \$4.8 BILLION
IN 2010

Future developments. Along with corporate giving, international donations by religious organizations are probably the most underestimated type of private U.S. giving. Assuming 4 percent annual growth from the current figure of \$3.4 billion, religious giving would be \$4 billion in 2005 and could hit \$4.8 billion in 2010. (The assumption of 4 percent growth is based on the average annual growth of religious giving in the United States.)⁶⁷ Although religious giving may suffer from the same short-term economic trends affecting foundation and PVO giving, it should not be adversely affected over the medium and long term.

The strengthened sense of community and solidarity in the United States in the wake of the September 11 attacks will likely continue in congregations as it has in the general public. Calls for international volunteerism and engagement with other countries in support of U.S. values and institutions—like those made by President Bush in his January 2002 State of the Union Address—will likely resonate in congregations. Giving by religious organizations offers advantages similar to those of giving by PVOs. Funds are usually delivered by PVOs or by U.S. congregation members, overseas missionaries, or members of sister congregations in developing countries. Thus the programs are likely to be more efficient and to reflect greater knowledge of community needs. Accountability is also better, because the administrators of the funds are more likely to live in the recipient community or country.

REMITTANCES BY INDIVIDUALS TO
DEVELOPING COUNTRIES

The money sent home by U.S. immigrants accounts for 10 percent of GDP in six Latin American countries—and for 13 percent in El Salvador.⁶⁸ Around the world, remittances from immigrant workers more than doubled in the past decade, from \$21 billion in 1989 to \$50 billion in 1999 (these figures exclude Russia, for which data were not available).⁶⁹ Latin America received the most (\$14.5 billion), followed by India (\$11.5 billion), the Middle East (\$10.4 billion), and Eastern Europe (\$6.2 billion). The amount sent to Latin America exceeded the region's financing from USAID and all multilateral lending agencies. Despite their significance, such remittances are a fairly new topic in studies of globalization and

international development, having received far less attention than trade and investment.

The spread of communications technology has made it easier to send dollars and gifts back home. About 44 percent of U.S. immigrant households own a computer, and affordable wire transfers and efficient online services are replacing once-costly money transfers, duties, customs, and mailing costs. Vilma Iraheta, born in El Salvador and now living in Maryland, is an example of the growing number of immigrants sending daily necessities and even birthday gifts to relatives abroad. Vilma logged on to elsalvadorpizza.com to place an order, and the next day a Pizza Hut 1,900 miles away delivered two extra-large pizzas to her father for his birthday. The local Pizza Hut business is booming, with \$10,000 a month in sales, three-quarters of that from the United States. Orders also come in from Salvadoran immigrants as far away as Australia and Sweden.⁷⁰

Trends. The U.S. Department of Commerce's Bureau of Economic Analysis began collecting data on remittances from U.S. immigrants in 1986.⁷¹ These data cover cash payments and the value of goods sent to foreign countries from people in the United States.⁷² Remittances are highest in immigrants' early years of living in the United States and drop sharply thereafter. Moreover, single immigrants remit more than immigrants with family in the United States.

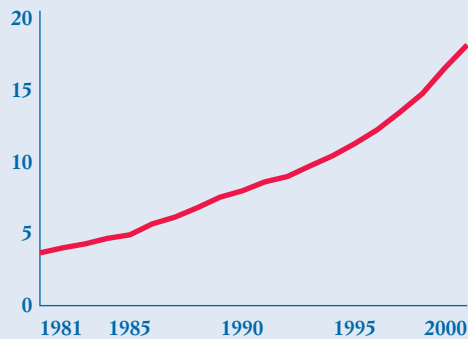
Since data on remittances from U.S. immigrants to developing countries were first collected, these remittances have grown impressively—quintupling from \$3.6 billion in 1981 to \$18.0 billion in 2000 (figure 6.4). The bulk of giving went to Latin America, followed by Asia, the former Soviet Union, and Africa.

These remittances have enormous development implications. Although much more needs to be learned about how this money is spent and what impact it has in thousands of urban neighborhoods and rural towns throughout the developing world, it is clear that this massive private giving—involving little or no overhead and directly filling people's basic needs—is changing the landscape of development and donor agencies. As one officer of the Inter-American Foundation said, “the term ‘remittance’ needs to be broadened to include the full range of resources sent home. Immigrants are a source of capital, knowledge, experience and ideas, which they can funnel to the community.”⁷³

Sending billions of dollars back home

FIGURE 6.4

Individual remittances from the United States to developing countries (US\$ billions)



Source: U.S. Department of Commerce, Bureau of Economic Analysis; USAID.

Remittances as international development. Personal remittances could affect some unexpected areas, possibly providing an antidote to the “brain drain” from developing countries. The Internet will fuel online buying and benefit local businesses: a Central American executive with the supermarket chain Paiz set up a Website, misuper.com, for local shoppers; he was surprised to see that many orders were coming from emigrants sending their relatives gift certificates, shampoo, and cereal.⁷⁴

A few experts on remittances worry that direct transfers of money will promote dependency rather than stimulating the local economy. Remittances may be spent on immediate household needs and consumer goods rather than go to savings or investment.⁷⁵ Others argue that remittances have a strong multiplier effect through consumption that stimulates the supply chain and GDP growth.⁷⁶

Private giving by immigrants fills basic needs for poor people in developing countries. Poverty is much lower among households that have been left by emigrants.⁷⁷ And while some remittances may be spent on entertainment or activities without development benefits, funds are also used for development purposes and for productive infrastructure such as roads, clinics, schools, and water pumps.⁷⁸

Lower fees for transferring money would be a major boon to remittances. In some cases as much as 25 percent of a money transfer goes to fees. Working with the Haitian Development Bank, the Inter-American Foundation is helping to create a new remittance transfer system that generates development capital from transfer fees.

Besides offering prospects for channeling remittances into economic development, this system would bypass government customs officials and thus might reduce corruption.

The potential for coordinating and leveraging remittances remains untapped. USAID needs to gather far more information on this vast resource and work with it more productively. As long as the United States absorbs people from developing countries, the benefits of their work here will be felt in their native countries. Even assuming modest growth of 5 percent a year, personal remittances could rise to \$23 billion in 2005 and to almost \$30 billion by 2010.

Today personal remittances to developing countries are almost twice U.S. official development assistance. By 2010, even with the projected increases in U.S. official development assistance through the Millennium Challenge Account—a new initiative by President Bush that will encourage economic growth and political openness in developing countries—personal remittances will still be twice U.S. government aid. This eclipsing of foreign aid calls for new thinking by USAID on partners in development aid.

TAKING THE FULL MEASURE OF U.S. INTERNATIONAL ASSISTANCE

Among international donors, the United States gives the largest amount of official aid to developing countries, contributing more than 20 percent of total DAC assistance. As a percentage of gross national income, however, this aid is the smallest among government foreign assistance programs. But as this chapter has made clear, the true measure of U.S. generosity and sustainable development is not just government aid—it is total U.S. international resource flows, including private capital and philanthropy.

When all these private flows are added to official development assistance, the United States moves into first place for total resource flows. Table 6.4 summarizes and compares U.S. government and private international assistance for 2000, 2005, and 2010. The table also includes estimates for the Millennium Challenge Account, projected to increase U.S. government aid by \$5 billion a year in 2006. For private international giving, poorly documented and therefore underestimated in all categories, the table provides a range from the

*PERSONAL REMITTANCES
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THE FULL MEASURE OF
FOREIGN AID

CITIZENS OF INDUSTRIAL COUNTRIES EVERYWHERE WANT TO PARTICIPATE IN GIVING AS VOLUNTEERS —AND IN WAYS THAT ENSURE ACCOUNTABILITY AND TRANSPARENCY IN THEIR GIVING

lowest estimates supported by research to reasonable higher estimates suggested by known gaps in research. This range of numbers provides a much-needed starting point for estimating private international giving.

The table provides a different perspective on the common criticism that the United States is not generous in its overseas contributions. Although official development assistance is a smaller percentage of gross national income in the United States than in other countries, it is also a smaller percentage of total giving. According to the DAC standard of 0.7 percent of gross national income, total U.S. international giving in 2000 should have been \$69.5 billion. The actual total of official development assistance and private giving was \$44.5 billion, or 0.45 percent of U.S. gross national income—well within the average range for DAC donors.

When other official government and private assistance are added to this \$44.5 billion, the United States moves far ahead in the total amount of resources provided to developing countries. So Americans have not given up on foreign aid. They have simply found new channels through which they can express their compassion for less fortunate

people abroad. Official government aid has been displaced by a rising tide of private giving with significantly lower transaction costs, more client-directed services, and more willingness to cede ownership to recipients.

The recognition by the U.S. government of nonofficial development assistance and its importance to economic and political development has an enabling quality for global development assistance. It could encourage other donors to improve their national climate for private giving, such as through laws allowing tax-deductible contributions. Governments could work to ease the flow of immigrants' remittances to their hometowns abroad and could study new ways of working at the grassroots level with workers in these towns, supported by immigrants. Citizens of industrial countries everywhere no longer expect their governments to do it all. They want to participate in giving as volunteers—and in ways that ensure accountability and transparency in their giving.

From America's earliest assistance to international refugees in Santo Domingo (in today's Dominican Republic) and food shipments for famine-struck Ireland, to the work of the Rockefeller and Ford foundations, to today's

The full measure of international assistance

Estimated U.S. government and private international assistance to developing countries (US\$ billions) TABLE 6.4

	2000	2005	2010			
U.S. official development assistance (ODA)	9.9	10.4	10.9			
All other U.S. government assistance	12.7	13.3 ^a	14.0			
Millennium Challenge Account	n.a.	3.3	5.0			
	<i>Low estimates</i>	<i>High estimates</i>	<i>Low estimates</i>	<i>High estimates</i>	<i>Low estimates</i>	<i>High estimates</i>
U.S. private assistance	33.6	43.7	43.5	55.5	55.2	70.3
Foundations	1.5	2.5	2.5	3.5	3.1	4.5
Corporations	2.8	7.7	3.6	10.0	4.6	12.8
Private and voluntary organizations ^b	6.6	7.0	8.7	9.0	10.1	11.0
Universities and colleges	1.3	1.5	1.7	2.1	2.4	3.0
Religious congregations	3.4	5.0	4.0	5.9	4.8	7.0
Individual remittances	18.0	20.0	23.0	25.0	30.0	32.0
Total U.S. international assistance	56.2	70.5	84.9			
U.S. ODA as % of total	18	19	19			
Other U.S. government as % of total	22	19	16			
Private as % of total	60	62	65			

n.a. Not applicable.
a. Provisional. The Millennium Challenge Account is set to increase U.S. official development assistance by \$5 billion a year in 2006 and thereafter.
b. Including volunteer time.
Source: U.S. government and private sources.

“mega donors”—Ted Turner and Bill and Melinda Gates—Americans have consistently given time, money, and in-kind contributions to international causes, preferring to channel these donations through private organizations. This vast assistance should be better documented. As the United States defines its assistance role in the 21st century, it must understand and work more closely with providers of private resources. The future calls for a new approach that recognizes and incorporates private giving, focusing on grassroots support, local ownership, sustainability, accountability, and—not least—passion and commitment.

NOTES

1. USAID 1989, p. 18.
2. OECD data compiled by William McCormick, USAID, March 2002.
3. Goldberg 2001.
4. Hay 2000.
5. IFIAC 2000.
6. Easterly 2001.
7. The base has recently been changed to gross national income, or GNI, but this does not appear to affect the data in any significant way.
8. Johnson 2000.
9. Gardner 2000.
10. WHO 2001.
11. OECD 1999.
12. OECD 2001, p. 71.
13. OECD 2001, p. 76.
14. OECD 2002.
15. U.S. Department of Defense 2002.
16. U.S. Department of Defense 2002.
17. Raymond 2001.
18. OECD 2001.
19. OECD 2002.
20. Independent Sector 2002a.
21. OECD 2002.
22. Foundation Center 2000.
23. Foundation Center 2000, p. xiii.
24. AAFRC Trust for Philanthropy 2001.
25. Foundation Center 2000, p. xx.
26. Foundation Center 2000.
27. Foundation Center 2000, p. 18.
28. Foundation Center 2000, p. 36.
29. Foundation Center 2000, p. 29.
30. Foundation Center 2000.
31. Foundation Center 2000. Based on results from the two surveys used in Foundation Center (2000), the 5 percent of total foundation giving from corporate foundations equaled an estimated \$80 million in 1998. A higher estimate of \$260 million comes from AAFRC Trust for Philanthropy (2001). Neither is used in this analysis. Instead, a figure combining all corporate contributions (regular and through foundations) is used later to reflect this private giving.
32. Foundation Center 2000, p. 30.
33. Foundation Center 2000, p. 3.
34. Greene 2001.
35. Greene 2001.
36. Foundation Center 2000, p. 4.
37. Foundation Center 2000.

38. Kao 2001, p. 32.
39. Tillman 2000.
40. Kao 2001.
41. Muirhead 1999.
42. Austin 2000.
43. PhRMA 2001.
44. PhRMA 2001.
45. PhRMA 2001.
46. Raymond 1996a.
47. Austin 2000.
48. Tillman 2000, p. 29.
49. Muirhead 1999, p. 30.
50. Kao 2001.
51. The \$3.3 billion estimate, covering private support and revenue that U.S. PVOs spend overseas, was calculated using a methodology developed by a USAID contractor, Dimensions International. First, all USAID grants to USAID-registered PVOs are subtracted from their total overseas expenses, under the assumption that all USAID grants are for international purposes. The remainder is assumed to be the amount of overseas expenses funded from private and other non-USAID sources. The percentage of these expenses funded by private sources is then estimated to be the same as the percentage of private support and revenue in all non-USAID funding. This percentage is multiplied by the remainder of assumed non-USAID overseas expenses to get the estimate of private support and revenue. The advantage of using USAID data is that they are collected from USAID financial systems, which are quite complete. While the analysis is limited to the PVOs registered with USAID, these organizations probably make up most of the PVOs working overseas. AAFRC Trust for Philanthropy (2001) provides a lower estimate, \$2.7 billion, recognizing that its number is an underestimate.
52. Independent Sector 2001b, p. 15.
53. Bush 2001.
54. USAID 1989, p. 68.
55. Bolling and Smith 1982.
56. Independent Sector 2001a.
57. Institute of International Education 2002. The number of foreign students is somewhat underestimated because sources of private funding for foreign students other than colleges and universities—such as employers and NGOs—are not included in this total. But since some 20 percent of all foreign students are from Europe and North America, the number provides a rough order of magnitude for private funding for students from developing countries—at well over \$1 billion a year.
58. College Board 2001; U.S. Department of Education 2000.
59. USAID 1989, p. 14.
60. Independent Sector 2000, p. 6.
61. Independent Sector 2000, p. 2.
62. Independent Sector 2002b, p. 13.
63. Curti 1982, p. 39.
64. Independent Sector 1992.
65. Robinson 2000.
66. Siewert and Welliver 2001.
67. AAFRC Trust for Philanthropy 2001, p. 89.
68. Bate 2001.
69. IMF 1999.
70. Sheridan 2001.
71. McCormick 2002. McCormick developed the method for the complex estimation of remittances. The rigorous procedures, worked on for many years, continue to be refined as better data are reported to the Bureau of Economic Analysis by institutions and individuals.
72. Data are collected from decennial censuses of 1980 and 1990 that identify population totals, family totals, average family incomes by country of origin, and duration of U.S. residency. Yearly flows are based on data from the U.S. Immigration and Naturalization Service and the U.S. Census Bureau's Current Population Survey. The information is combined with remittance

and income relationships of the foreign-born population from a sample survey by the U.S. Immigration and Naturalization Service in 1987 and a follow-up survey in 1996. Independent checks on this data are obtained from U.S. banks that issue wire transfers, traveler's checks, bank notes, and money orders. One estimate is that some 80 percent of transfers move through banks, with the rest taking the form of cash carried or mailed abroad.

73. Breslin 2001.
74. Sheridan 2001.
75. Alarcon 2001.
76. Martin 2001.
77. Serrano 2001.
78. Alarcon 2001.

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TABLE 6.1 (page 131)

More assistance than meets the eye

<u>Estimated U.S. international assistance to developing countries, 2000</u>	<u>US\$ billions</u>	<u>Share of total (%)</u>
U.S. official development assistance	9.9	18
All other U.S. government assistance	12.7	22
U.S. private assistance	33.6	60
Foundations	1.5	
Corporations	2.8	
Private voluntary organizations ^a	6.6	
Universities and colleges	1.3	
Religious congregations	3.4	
Individual remittances	18	
<u>Total U.S. international assistance</u>	<u>56.2</u>	<u>100</u>

a. Including volunteer time.

Source: OECD 2002; OMB 2002; USAID 2002; various private sources.

TABLE 6.2 (page 132)

Nearly \$23 billion in all: U.S. government international assistance

	Official development assistance—\$9.9 billion	Other government assistance—\$12.7 billion
USAID	Operations	Israel
	Development assistance	Newly independent states
	Child survival, humanitarian	Eastern Europe and Baltic States
	Disaster relief, food aid	
State Department	Refugees, narcotics	Operations
	Asia Foundation	Broadcasting (Voice of America, Radio Marti)
	International organizations	Peacekeeping
		Educational and cultural exchanges
		International organizations
		National Endowment for Democracy
Department of Defense	Humanitarian	Military education and training
	Peacekeeping development	Foreign military loans
		Antiterrorism, nonproliferation
Other agencies	Peace Corps	Export-Import Bank
	U.S. Trade and Development Agency	Overseas Private Investment Corporation
	Multilateral institutions	Inter-American Foundation
	Security assistance (Egypt and others)	

Source: U.S. Office of Management and Budget 2002.

TABLE 6.3 (page 134)

The United States leads the world in total flows

	Total ODA	Total ODA as % of GNP	Bilateral ODA	Multilateral ODA	Other official flows	Grants by private voluntary agencies	Private flows	Total flows	Total flows as % of GNP
Canada	1744	0.25	1160	583	5	113	4621	6483	0.95
Denmark	1664	1.06	1024	641	-3	32	482	2176	1.39
France	4105	0.32	2829	1276	14	n.a.	1439	5557	0.43
Germany	5030	0.27	2687	2343	-456	846	7000	12420	0.67
Italy	1376	0.13	377	999	-103	37	9537	10846	1.01
Japan	13508	0.28	9768	3740	-5,200	231	2725	11264	0.23
Netherlands	3135	0.84	2243	892	38	306	3469	6947	1.85
Norway	1264	0.8	934	330	n.a.	179	-5	1437	0.91
Spain	1195	0.22	720	475	3	n.a.	22272	23471	4.25
Sweden	1799	0.8	1242	557	0	26	2127	3952	1.76
United Kingdom	4501	0.32	2710	1792	-72	536	2093	7058	0.5
United States	9955	0.1	7405	2550	562	4069	10666	25252	0.25

n.a. Not available.

Note: Total official development assistance (ODA) includes net flows to developing countries (bilateral ODA) as well as contributions to multilateral institutions (multilateral ODA).

Source: OECD 2002.

TABLE 6.4 (page 146)**Estimated U.S. government and private international assistance to developing countries (US\$ billions)**

	2000		2005		2010	
U.S. official development assistance (ODA)	9.9		10.4		10.9	
All other U.S. government assistance	12.7		13.3		14	
Millennium Challenge Account	n.a.		3.3		5	

	Low estimates	High estimates	Low estimates	High estimates	Low estimates	High estimates
U.S. private assistance	33.6	43.7	43.5	55.5	55.2	70.3
Foundations	1.5	2.5	2.5	3.5	3.1	4.5
Corporations	2.8	7.7	3.6	10	4.6	12.8
Private and voluntary organizations ^b	6.6	7	8.7	9	10.1	11
Universities and colleges	1.3	1.5	1.7	2.1	2.4	3
Religious congregations	3.4	5	4	5.9	4.8	7
Individual remittances	18	20	23	25	30	32
Total U.S. international assistance	56.2		70.5		84.9	
U.S. ODA as % of total	18		19		19	
Other U.S. government as % of total	22		19		16	
Private as % of total	60		62		65	

n.a. Not applicable.

a. Provisional. The Millennium Challenge Account is set to increase U.S. official development assistance by \$5 billion a year in 2006 and thereafter.

b. Including volunteer time.

Source: U.S. government and private sources.