

COMMENTARY

By Pete Engardio

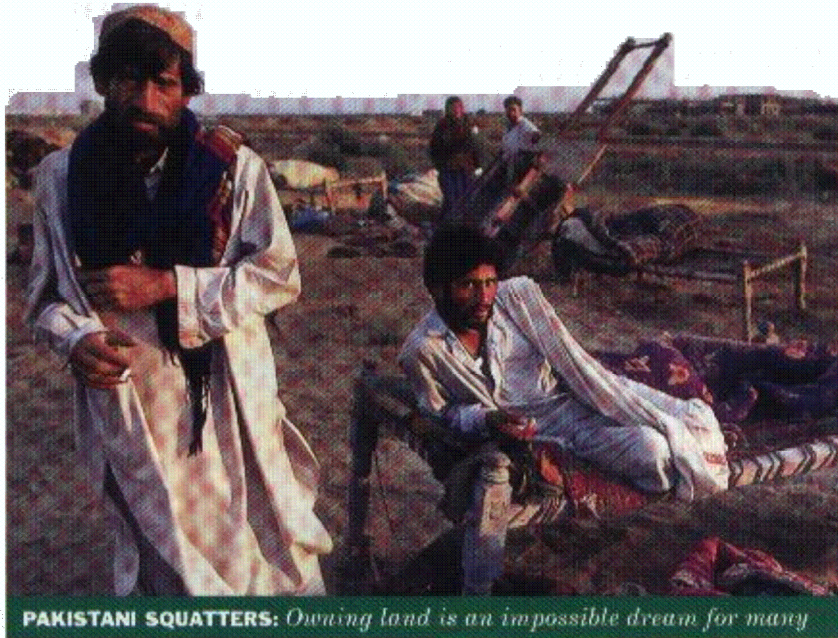
SMART BOMBS, SO WHY NOT SMART AID?

In September 11's aftermath, support for foreign aid is growing. Despite deriding "nation building" as a candidate, President George W. Bush is pledging to help rebuild the economies of Pakistan and post-Taliban Afghanistan. And a U.S. Senate resolution calling for tripling foreign aid over five years is gaining bipartisan support. That's a reversal. While still the world's biggest donor, the U.S. has slashed overseas development assistance since 1990 by 34%. U.S. foreign aid accounts for 0.1% of gross domestic product—the lowest level among industrialized nations.

But now, the challenge is to deploy the increased aid effectively. It's essential to focus aid on "creating the basic institutions needed to bring people into the capitalist system and create prosperity," says Hernando de Soto, founder of Institute for Liberty & Democracy, a Peruvian think tank.

How do you pull that off? First, target rural land reform because that gives poor workers a real stake in the economy. Set up and fund financial institutions that provide micro-credit for small businesses, putting people on the path to becoming entrepreneurs. And distribute aid in a way that encourages corrupt or reluctant governments to cooperate. The big lesson: "If you want to win hearts and minds, make sure aid goes to improving people's lives," says aid expert William Easterly of the Institute for International Economics, a Washington think tank.

MICRO LOANS. Land policy is key. In most developing nations, it's not simply a matter of the poor not owning land. Property rights are often so ill-defined that it's hard for anyone to assert title to land. That leaves the poor without the assets needed to accumulate wealth. Many of the desperate young men lured to radical causes are landless. In Peru, property reform helped un-



PAKISTANI SQUATTERS: Owning land is an impossible dream for many

dercut popular support for the violent Maoist group Shining Path. The U.S. learned the same lesson, albeit too late, when in the 1970s it funded land reform in South Vietnam, reducing recruits to the Viet Cong. In Pakistan, where some 40% of people are landless, funds should be used to buy small plots for tenant farmers, says Roy L. Prosterman of the Seattle-based Rural Development Institute and an adviser in Vietnam.

The poor also need access to credit. 'Micro-credit' programs are designed to dispense loans of about \$100 to those without any access to capital. Bangladesh's Grameen Bank, for example, gave loans to 2 million Asian entrepreneurs, many of them women.

Access to technology helps spur local entrepreneurship as well. Private foundations and companies such as Hewlett-Packard Co. have begun setting up inexpensive computer centers—typically, a dozen work sta-

tions, high-speed satellite link, and solar panels—in villages in Senegal, Costa Rica, and India. Within months, such centers seem to be generating dozens of businesses and bringing computer literacy to people who would otherwise be cut off.

NO LUMP SUMS. Of course, no amount of aid can produce an economic transformation if governments getting the help resist change. During the cold war, the U.S. lavished billions upon corrupt regimes that ignored poverty. Pakistan was a huge recipient, while Egypt got up to \$4 billion annually after the 1979 Camp David peace accord. Yet both remain dirt poor and hotbeds of radical Islam.

To ensure that the infusion of funds heading for Pakistan and Afghanistan are well spent, it is important to rigorously monitor each program and reward real results. Aid should not be doled out at once. It should be gradually dispersed as governments enact reforms or cut off if they don't.

No one says this will be easy. But foreign aid can work if it is well-managed—a lesson Congress and the White House should take to heart.

Engardio covers global economic issues from New York.



PHOTOGRAPH BY DILIP MEHTA/CONTACT; CHART BY ERIC HOFFMANN/BW