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# **U.S. Agency for International Development (USAID): Background, Operations, and Issues**

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## Summary

This report provides background information on the institutional makeup and operations of the U.S. Agency for International Development (USAID), the leading international humanitarian and development arm of the U.S. government. The report then discusses in greater depth several aspects of the agency that might be of particular congressional interest.

In FY2015, USAID is responsible for more than \$20 billion in appropriations, representing more than one-third of the International Affairs 150 budget function and more than half of total foreign assistance encompassed by the State, Foreign Operations appropriations and international food aid appropriated under the Agriculture appropriations.

USAID provides assistance to a range of countries—125 in FY2013; however, of those, 23 received under \$1 million, mostly small island nations or countries receiving one-time funds for humanitarian purposes. In FY2013, nearly 40% of funds attributable to countries and regions went to sub-Saharan Africa and more than 19% went to Afghanistan and Pakistan. Of funds attributable to a specific sector, 36% were for health programs and 19% for humanitarian efforts.

USAID maintains more than 60 country and regional missions that design and manage a wide range of development projects, most intended to meet specific development objectives as formulated in a Country Development Cooperation Strategy. Most projects are implemented through some form of grant, cooperative agreement, or contract by one of thousands of potential development partners—nonprofit private voluntary organizations and other non-governmental organizations, for-profit contractors, universities, international organizations, and foreign governments and civil society.

Since 2010, under its USAID Forward agenda, the agency has undertaken numerous reforms to address challenges in budgeting, evaluation, human resources, use of the private sector, and the application of science and technology to development issues, among other concerns.

Congress maintains broad interest in and authority over the budget, operations, and policies of the U.S. government's leading development agency, and over U.S. foreign policies generally. Issues of possible interest to Congress include the following, each of which is addressed more fully in the report:

- **Accountability.** Is the agency able to provide adequate accountability for taxpayers dollars and could efforts to increase accountability have negative implications for the agency?
- **Local Solutions.** What are the benefits and challenges of moving agency resources through local governments and organizations?
- **Aid Implementers.** What are some of the concerns regarding the largest cohort of aid implementers, U.S. contractors and grantees?
- **Relationship to Department of State.** What has been the historic relationship of USAID, technically an independent agency, and the Department of State, and what impact has this relationship had on USAID operations? What is the outlook for the USAID-State relationship?

- **Role of Congress.** In what ways can and does Congress affect the programs and operations of USAID?
- **Sustainability.** How can USAID ensure that project efforts are maintained by local governments and organizations after its financial and technical support ends?

USAID faces multiple challenges in the course of fulfilling its mission, including:

**Local Solutions.** Providing assistance to local entities incurs the risk of loss of taxpayer dollars. Efforts to mitigate risk generally require more personnel and consequent funding to monitor local entities and build their capacities.

**Sustainability.** “Country ownership” and domestic resource mobilization efforts are two ways the agency has sought to address sustainability, but a clear path to sustainability remains a work in progress.

**Human Resources.** The agency faces shortages of specific skill sets to meet the needs generated by efforts to work more closely with local government and private sector partners and to meet the needs of the Food Security Initiative.

**Program Flexibility.** Congressional funding mandates and a host of presidential initiatives are viewed by many observers as restricting the ability of USAID mission personnel to program project activities in accordance with development professional and partner country priorities.

**Scaling-Up.** Seeing successful ideas from pilot through to maturity and making them work at the country, region, and international level likely requires a long-term funding horizon, programming flexibility, and mechanisms to spread ideas throughout the agency—each a challenge in itself.

**Security.** Security concerns in non-permissive environments, such as South Sudan and Afghanistan, raise numerous obstacles to successful project implementation.

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The U.S. Agency for International Development (USAID) was established on November 3, 1961, following enactment of the Foreign Assistance Act of 1961 (FAA, P.L. 87-195) which formally established and authorized the assistance programs that USAID implements.<sup>1</sup> Since then, USAID has been the leading international humanitarian and development arm of the U.S. government. In FY2015, the agency is responsible for more than \$20 billion in appropriations, representing more than half of all traditional foreign aid appropriations and more than two-thirds of total U.S. humanitarian and development funding in that year.<sup>2</sup> USAID is the workhorse of the U.S. foreign assistance program. The agency has played a role in multiple contexts and forms of assistance over many years so that no short account can fully characterize it. Focusing as much as possible on points likely to illuminate concerns of Congress, this report provides a profile of the agency, putting its operations into brief historical context, and explains how it implements its programs.<sup>3</sup> Selected current issues are then discussed in more depth.

## USAID Background

### Key Features of USAID

Of the multiple agencies and departments of the U.S. government that engage in some form of international humanitarian and development work, USAID differs from the others in a variety of ways:

**Leading U.S. Development Agency.** USAID is the largest provider of U.S. development aid. It employs thousands of development professionals with specializations in a wide range of sectors and geographic regions. It is the representative of the U.S. government on development issues throughout the world.

**Works in Numerous Countries.** USAID funds activities in 125 countries (based on FY2013 obligations) and maintains an extensive field presence, with more than 60 standing bilateral

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<sup>1</sup> USAID was established by the Secretary of State under State Department Delegation of Authority No. 104 as a consequence of Executive Order 10973, also on November 3, 1961, and both pursuant to the FAA, enacted on September 4, 1961.

From 1961 to 1993, when its name was changed, USAID was known as the Agency for International Development and commonly referred to by its acronym, A.I.D. Throughout this report, references to the agency, with the exception of historical quotations, will use the current acronym, USAID, regardless of time period.

In addition to development and humanitarian programs, the FAA also authorizes a range of other programs in which USAID does not currently play a role, such as military, nonproliferation, counterterrorism, and other security aid, as well as Overseas Private Investment Corporation (OPIC), Trade and Development Agency (TDA), and International Narcotics and Law Enforcement Affairs (State-INL) activities.

<sup>2</sup> Foreign aid has traditionally been characterized as encompassing only assistance accounts in the State, Foreign Operations appropriations as well as food aid funded through the Agriculture appropriations. A broader definition of aid would include agencies funded through other appropriations legislation less identified with assistance programs, such as the Department of Defense (DOD) and the National Institutes of Health. USAID's share of all aid from all sources can be roughly estimated at 37% in FY2012, the most recent year these figures (in obligations) are available. In that year, it also represented 65%, nearly two-thirds, of all humanitarian and development aid from all sources, both traditional and nontraditional.

<sup>3</sup> USAID operations and corresponding data are constantly changing, and so the descriptions and explanations provided in this report should be viewed as illustrative rather than fixed or definitive.

country missions and regional offices that serve countries without mission representation. This physical presence allows the agency to formulate development strategies based on familiarity with local conditions, consult regularly with the local government and civil society, and closely monitor project progress.

**Works in Multiple Sectors.** USAID works on a broad and varied range of humanitarian and development concerns, including microenterprise, health, agriculture, biodiversity, education, democracy and governance, economic infrastructure, energy, financial markets, trade capacity, trafficking in persons, women, disaster relief, and water. Activities in these fields are often supported by specific legislative authorities, and many of them are mandated annually by Congress in appropriations funding language.

**Works in the Poorest Countries.** In order to meet the objectives of mitigating humanitarian disasters and addressing poverty, USAID works with the poorest of the poor countries. In FY2013, the most recent year for which data are available, USAID had programs in 31 of the 34 lowest-income countries, accounting for 44% of total country assistance. With corrupt and weak political and economic institutions, these countries are often challenging development partners.

**Works in Conflict Countries.** USAID is obligated to work in conflict or post-conflict countries, such as Iraq, Afghanistan, Pakistan, and Somalia. USAID programs in such locations often focus as much on establishing stability and delivering basic services as on long-term development. In the past decade, Department of Defense secretaries under administrations of both parties have argued the importance of USAID development programs in combatting national security threats.<sup>4</sup>

**Serves Political/Strategic and U.S. Commercial Purposes.** In addition to humanitarian and development objectives, USAID supports the political and strategic foreign policy goals of the State Department by providing assistance to strategically important countries—for example, eastern Europe and the former Soviet Union after the fall of communism and Afghanistan today. USAID assists U.S. commercial interests by furthering the economic growth of developing countries and building these countries' capacity to participate in world trade. In most years, it has been the largest provider of trade capacity building assistance among U.S. aid agencies.<sup>5</sup>

**Leads World in Humanitarian Aid.** While most refugee aid is provided by the State Department through contributions to international organizations, USAID is the U.S. government's prime channel for disaster and food assistance and the most visible face of any U.S. humanitarian response.

**Works Directly with Civil Society/Private Sector as Well as Governments.** In addition to providing funding and technical expertise to governments, USAID directly funds international and local non-governmental organizations (NGOs) as well as other private sector entities. It also participates with U.S. businesses in hundreds of public-private partnerships.

**Largest and Leading Bilateral Donor.** USAID is the world's largest provider of bilateral donor grant assistance. It alone represented about 14% of all Official Development Assistance (ODA)

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<sup>4</sup> For example, Secretary of Defense Robert M. Gates, *Landon Lecture*, November 26, 2007; and Secretary of Defense Ash Carter, *Remarks at the Global Chiefs Mission Conference*, March 26, 2015.

<sup>5</sup> Management Systems International for USAID, *From Aid to Trade: Delivering Results, A Cross-Country Evaluation of USAID Trade Capacity Building*, November 24, 2010, pp. 4-5.

from all international donors in 2013.<sup>6</sup> Historically, USAID led other donors in offering innovative ways to address challenges in the health, agriculture, microcredit, democracy promotion, environment, and private sector development fields.

## Agency Roles, Strategy, and Programs

USAID serves three key and overlapping roles in U.S. foreign policy. In addition to being the primary development agency of the U.S. government, USAID is a major implementer of humanitarian and political-strategic assistance.<sup>7</sup>

- *Development assistance* programs are designed chiefly to foster sustainable broad-based economic growth, good governance, and social welfare in developing countries. Where once they served as a counterpoint to communism, these programs are generally viewed as instrumental in building trade partners and future allies, preventing breeding grounds for terrorists, addressing a range of common international concerns, and exercising U.S. leadership abroad.
- Unlike development assistance programs, which are often viewed as long-term efforts that may have the effect of preventing future crises, *humanitarian aid* programs are devoted largely to the immediate alleviation of natural and man-made emergencies, and reflect the traditional charitable impulse of the American people, while also attempting to stifle a cause of instability.
- While largely indistinguishable from development aid programs, the primary purpose of *political-strategic aid* is to address special U.S. economic, political or security interests, such as the reconstruction of Iraq and Afghanistan or alternative agriculture programs in centers of illicit narcotics production.

These roles are wrapped up in USAID's mission statement, revised in January 2014: *We partner to end extreme poverty and to promote resilient, democratic societies while advancing our security and prosperity.* Mission statements change to reflect the times, and the new version, while more succinct than previous iterations, emphasizes several current aspects of USAID policy.<sup>8</sup> "Partnering," "ending extreme poverty," and "promoting resilience" are current concerns in the development community. "Partnering" denotes the agency's growing effort to work with other bilateral and international donor agencies, the private sector, and foundations, as well as traditional recipient government and NGO entities. While the World Bank recently adopted the

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<sup>6</sup> Based on a total ODA figure from all countries of \$134.8 billion in FY2013. Despite this leadership position, in 2013, the United States was 20<sup>th</sup> in total ODA (USAID and other agencies) provided as a percentage of gross national income. See <http://www.oecd.org/development/data.htm>. The DAC defines ODA as those flows to countries on the DAC List of ODA Recipients that are provided by official agencies, each transaction of which is administered with the promotion of the economic development and welfare of developing countries as its main objective and is concessional in character (conveys a grant element of at least 25%).

<sup>7</sup> A very rough estimate based on appropriation account purposes suggests that 48% of USAID's FY2015 program budget is devoted to development activities, 25% to humanitarian, and 27% to meeting specific political and strategic goals while addressing development needs.

<sup>8</sup> By contrast, the 2009 mission statement identifies more objectives in greater detail: *USAID accelerates human progress in developing countries by reducing poverty, advancing democracy, building market economies, promoting security, responding to crises, and improving quality of life. Working with governments, institutions, and civil society, we assist individuals to build their own futures by mobilizing the full range of America's public and private resources through our expert presence overseas.*

goal of “ending extreme poverty,” it has arguably long been among USAID’s purposes—the 1973 New Directions mandate (discussed below) made addressing basic human needs of the poor a key focus. “Resilience” refers to efforts to reduce a country’s vulnerability to humanitarian and other crises. It is both a humanitarian and development assistance concern.

The strategies that currently guide USAID policies can be found in five key documents.

1. The *President’s Policy Directive on Global Development* (PPD-6) issued in September 2010, was the result of an interagency review led by the National Security Council.
2. The December 2010 *Quadrennial Diplomacy and Development Review* (QDDR) represents a parallel effort on the part of the State Department to address ways in which to make the two key diplomacy and development agencies more effective and, therefore, is more of an operational document.
3. The recently issued 2015 QDDR builds on its predecessor, with more modest initiatives.
4. The State/USAID joint *Strategic Plan FY 2014-2017* focuses on five broad strategic goals of U.S. foreign policy and gives USAID a role in each.<sup>9</sup>
5. The *USAID Policy Framework 2011-2015* further actualizes the broader objectives of the previous documents.<sup>10</sup>

Together, the documents argue the importance of development in U.S. national security—equal to diplomacy and defense, according to PPD-6—with USAID as the lead development agency. The QDDR calls for reestablishing USAID as the world’s premier development agency by focusing on six areas of perceived advantage—the promotion of food security, health, climate change, economic growth, democracy and governance, and humanitarian assistance—with the *USAID Policy Framework* adding a seventh, the prevention and response to conflict countries. Noting seven operational principles to be applied more systematically than in the past, the framework document states that USAID seeks to:

- promote gender equality and female empowerment;
- apply science, technology, and innovation strategically;
- apply selectivity and focus;
- measure and evaluate impact;
- build in sustainability from the start;
- apply integrated approaches to development; and
- leverage “solution holders” and partner strategically.

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<sup>9</sup> The goals are: (1) strengthening America’s economic reach and positive economic impact; (2) strengthening America’s foreign policy impact on its strategic challenges; (3) promoting the transition to a low-emission, climate-resilient world while expanding global access to sustainable energy; (4) protecting core U.S. interests by advancing democracy and human rights and strengthening civil society; and (5) modernizing U.S. diplomacy and development efforts. Department of State and USAID, *Strategic Plan FY2-14-FY2017*, March 2014.

<sup>10</sup> To the list of key documents, one could add the much broader *National Security Strategy*, its most recent iteration in February 2015. Its views on development and humanitarian aid are reflected in the other documents.

Many of these principles are brought to life in an agency reform program called USAID Forward, discussed in more detail below. But they are also apparent in the range of policy directives and guidance documents issued by the agency in the years since they were enumerated.<sup>11</sup>

While Washington-based strategy and policy directives have an impact as they are dispersed to USAID field missions in countries around the world, it should be kept in mind that there can be a disconnect between policy and practice, especially as mission directors must work within the constraints and challenges of developing countries as well as the budget they are given.

### *Drivers of Agency Strategy and Programs*

In its first dozen years, the Foreign Assistance Act called for development in general terms only, Congress declaring the necessity of U.S. support for both economic growth and political democracy. The act did not specify in which sectors USAID should work or what project activities would be useful to achieve these objectives, and it only broadly and incompletely proposed methodologies for achieving development ends. As the agency addressed the specific developmental needs of individual countries, USAID launched projects in multiple development areas.

A change in emphasis by the agency to one type of aid or another or the adoption of a new operational approach during the past five decades has reflected specific country needs as well as a host of other intersecting factors. Periodic shifts in development theory and practice, the introduction of new technologies, and the evident success of an assistance initiative leading to its application elsewhere shape policy. Presidential initiatives and congressional mandates, often reflecting public interest, also shape policy. All of these elements inform current Administration and agency strategy.

**Evolving Development Theories.** USAID’s development professionals generally seek the most effective means to achieve development goals. Historically, the agency’s choice of operational methodology and project emphasis has reflected aid theory of the moment. In its first decade, there was a particular emphasis in USAID programs on both the provision of economic infrastructure and the promotion of policy reform. Both followed from a top-down view of economic development current at the time—that development emanated from government actions and that national wealth would trickle down to the poor. Operationally, the Development Loan Fund, a 1950s effort inherited by the agency, was designed for infrastructure support and, until ceding this role to the World Bank, was one of the main spigots for infrastructure credit support available to many developing countries. Until the mid-1970s, infrastructure loans accounted for the highest proportion of USAID assistance. Promotion of economic policy reform—including policies fostering export promotion, realistic exchange rates, reform of public enterprises, the elimination of subsidies and price controls, tax reform, and private sector strengthening—was a new element in development introduced by USAID and most evident in the aid programs in South Korea and Taiwan.<sup>12</sup>

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<sup>11</sup> For example, *Local Systems: A Framework for Supporting Sustained Development*, April 2014; *Water and Development Strategy: 2013-2018*; *Building Resilience to Recurrent Crisis: USAID Policy and Program Guidance*, December 2012; *USAID Strategy on Democracy, Human Rights, and Governance*, June 2013; *Clean Resilient Growth: USAID Climate Change and Development Strategy*, January 2012; *Gender Equality and Female Empowerment Policy*, March 2012.

<sup>12</sup> Michael Pillsbury, *A.I.D. and Economic Policy Reform: Origins and Case Studies*, Policy Analysis International, (continued...)

Support for both infrastructure and policy reform lost favor—at least for some years—when the focus on the government role in fostering a higher overall growth rate was rejected and a new bottom-up approach to development emphasizing “growth with equity and basic human needs” was adopted.<sup>13</sup> The so-called New Directions strategy, embodied in the Foreign Assistance Act of 1973 (P.L. 93-189, which amends the 1961 FAA), made it the purpose of U.S. development assistance to help the poor majority satisfy their basic human needs. Although revisions have been made over the years, the New Directions focus in U.S. development aid remains to a large extent intact.

The shift in emphasis signified by New Directions shaped the way USAID operates to this day. It led the agency to focus on projects benefitting the poor.<sup>14</sup> It accelerated an ongoing transition from a loan to a grant agency, and from an agency building infrastructure to one providing technical expertise. Whereas assistance had been provided by Congress previously on a functional basis—as grants or loans—aid was now appropriated for specific sectors and emphasized sectors viewed as important to the rural poor, especially agriculture and nutrition, which went from an estimated 26% of aid in FY1973 to 54% in FY1975 and 61% in the proposed FY1976 budget.<sup>15</sup> The inventory of USAID projects increased from about 1,550 projects in 1975 to over 2,000 in 1981 as a result of moving from capital-type projects to small, technical assistance projects.<sup>16</sup> Some projects in higher-income developing countries (e.g., Uruguay, Brazil, Venezuela) were phased out to make room for more projects in lower-income countries (e.g., Bangladesh, Indonesia, Philippines). New programs were established in lower-income countries. The biggest change was in Africa, which went from 8 to 28 USAID missions from 1973 to 1980.<sup>17</sup> Program planning practices still employed today, such as conducting social soundness and beneficiary analysis, were adopted to better focus on the poor majority, as was using a logical framework process to draw connections between project activities and objectives and the Country

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(...continued)

Vienna, VA, September 1993.

<sup>13</sup> The Nixon Administration adopted the view that policy reform should be the purview of multilateral institutions and channeled increased funding to them. Policy reform regained a measure of importance in USAID in the 1980s as the Reagan Administration utilized cash transfers, so-called non-project assistance, as a condition for the adoption of reform aimed at making governments support pro-private sector policies. Apart from a shift in development theory, a decrease in foreign aid levels and lending helped drive a decline in expensive infrastructure support which only was maintained under the more politically-oriented and well-funded Economic Support Fund and, after 2004, in the Millennium Challenge Corporation.

<sup>14</sup> While an incomplete 1981 review of project documents for FY1973-74 found only about 26% of USAID’s projects were intended to primarily benefit the poor, by FY1979-80, 72% were justified in these terms. Congressional Research Service, *The New Directions Mandate and the Agency for International Development*, in U.S. House of Representatives, Committee on Government Operations, *AID’s Administrative and Management Problems in Providing Foreign Economic Assistance*, October 6, 1981, p. 10 (hereafter cited as CRS/*New Directions*).

<sup>15</sup> U.S. House of Representatives, Committee on International Relations, *Implementation of “New Directions” in Development Assistance: Report Prepared by the Agency for International Development*, July 22, 1975, p. 5, 17. Although population planning and health only rose from 18% in FY1973 to 22% in FY1975, health programs changed substantially as a result of New Directions. From a previous focus on a few high profile projects not designed to help the rural poor, USAID assisted 25 low-cost health delivery programs in 1975 as compared with only one in 1971. The agency also shifted its education program’s emphasis from universities to a focus on basic, non-formal, and primary education.

<sup>16</sup> GAO Associate Director Samuel W. Bowlin testimony in U.S. House of Representatives, House Government Operations Committee, *AID’s Administrative and Management Problems in Providing Foreign Economic Assistance*, October 6, 1981, p. 5.

<sup>17</sup> In total, USAID went from 38 missions and representative offices abroad in 1973 to 62 in 1980. CRS/*New Directions*, p. 326.

Development Strategy Statement, forerunner of the current Country Development Cooperation Strategy (discussed below).<sup>18</sup>

Perhaps the most important consequence for USAID of New Directions was its acceleration of an ongoing shift from an agency “having significant operational responsibilities to an agency which largely plans and finances projects which other groups implement, and the agency monitors and evaluates.”<sup>19</sup> This shift occurred because, in addition to new programs in lower-income countries, the new development approach required a different set of technical skills—social scientists and rural development specialists instead of infrastructure engineers—at the same time that budget cuts slashed the agency’s U.S. direct hire workforce from 4,439, excluding Vietnam and Laos, to 3,672 between 1974 and 1977, a 17% reduction.<sup>20</sup> The consequent difficulty in meeting technical requirements increased the need to turn to contractors and grantees. New Directions specifically called for increased use of Private Voluntary Organizations (PVOs) and other NGOs to carry out assistance programs.<sup>21</sup>

**Science and Technology.** Support for scientific research and its dissemination as practical solutions to development problems has long characterized USAID and is recognized in the ongoing reform initiatives that seek to re-vitalize the agency as a center for scientific research and innovation (see “USAID Forward and Other Reform Efforts” section below).<sup>22</sup> For decades, USAID has been a major source of funds for the International Agricultural Research Centers and the agricultural research activities of land grant universities. In 2011 alone, the agency spent more than \$192 million in health research.<sup>23</sup> The measurable success of innovative practices, particularly in the health field, has encouraged large-scale spending on dissemination of these advances. It is arguably one of the reasons why the health sector has in recent years been the recipient of the highest proportion of the assistance budget.

USAID played a key role in disseminating the new grains that characterized the green revolution of the 1960s and 1970s. Its do-it-yourself rice kits, containing seed, fertilizer, pesticides, and information on how these were to be used, effectively introduced the new high-yield grains to farmers, and its development loans supported developing country fertilizer purchases. In the 1980s, USAID was an early user of satellite data to forecast crop failures and identify mineral deposits and groundwater resources. Other innovations during the past several decades, (e.g., more efficient cook stoves, drip irrigation technologies, a rinderpest vaccine for African cattle, oral rehydration therapies, a measles vaccine, improved contraception, anti-malarial nets, and

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<sup>18</sup> USAID, *Implementation of New Directions*, pp. 25-33; CRS/*New Directions*, p. 269, 271.

<sup>19</sup> CRS/*New Directions*, p. 296.

<sup>20</sup> Total direct hires, U.S. and foreign national, fell from 7,031 to 6,198 between 1974 and 1976, excluding the terminating Vietnam and Laos programs, a 12% reduction in just those two years. Including Vietnam and Laos, the decline in the total workforce was 47% (1974-1977). Even excluding the demise of the large-scale program in Southeast Asia, this decline had begun in the late 1960s with continuing cuts to the overall budget. USAID, Office of Personnel and Manpower, *Distribution of Personnel as of June 30, 1948 thru 1976*, April 1977. The 1977 figures are from USAID, *Task Force Report for the Administrator, A.I.D., Organization and Structure of A.I.D.* (the Babb Report), October 1977, pp. IV-6.

<sup>21</sup> CRS/*New Directions*, p. 308, 326.

<sup>22</sup> Section 241 of the original FAA broadly authorized development research, and legislation since then has supported both broad and specific areas of research. The current FAA supports research for agriculture (§103A), health and population (§104(e)), energy (§105(b)(2)), tropical forestry (§118(c)(9)), and for development generally (§105 (d)(2)). It also specifically supports dissemination of appropriate technology (§107).

<sup>23</sup> USAID, *Report to Congress: Health-Related Research and Development Strategy, 2011-2015*, December 2012, p.22.

anti-retrovirals) were developed and/or widely disseminated with USAID support.<sup>24</sup> The agency currently continues its long-supported research on a malaria vaccine, new tuberculosis drugs, and vitamin A deficiency, among others.

**Presidential Priorities.** Presidential initiatives have added new areas of emphasis. For instance, the Reagan Administration’s Private Enterprise Initiative sought to shift the balance of USAID activities from a “predominantly public sector, or government-to-government, focus to one that emphasizes market forces and active private indigenous productive sectors.”<sup>25</sup> Figures at the time suggested that private sector program funding rose from 4% of key accounts in 1982 (Development Assistance and Economic Support Fund) to as much as 13% in 1988. The GAO noted a shift in three USAID country programs (e.g., Jamaica, Kenya, and Senegal) it examined from an emphasis on government capacity building in 1978 to one focused on the private sector as an engine of growth in 1986.<sup>26</sup> Private sector programs and approaches continue to be deployed decades later.

The George H.W. Bush Administration’s President’s Emergency Program for AIDS Relief (PEPFAR), supporting efforts to address the global AIDS epidemic, shifted significant funding into an already comparatively robust health sector. In addition to its existing agency-funded programs, USAID implements about three-fifths of the State Department-funded PEPFAR program. As a result, HIV/AIDS funding implemented by USAID leapt from \$407 million in FY2003 to \$3.8 billion in FY2010, representing roughly 17% of USAID’s total budget in that year.

Three major Obama Administration aid initiatives—on global health, food security, and climate change—have shaped USAID’s program. In particular, the Food Security Initiative boosted agriculture aid funding. A major component of the USAID program in the 1970s, agriculture aid had dwindled to insignificance by the 1990s. Between 2008 and 2012, funding obligations in the sector doubled. At the country level, presidential initiatives may be decisive in determining the composition and budget of mission programs—in 2012, the three Obama initiatives reportedly represented an estimated 75% of Nepal’s program funds.<sup>27</sup>

**Congressional Priorities.**<sup>28</sup> As each Administration put its stamp on USAID’s program, Congress made its own contribution, perhaps most importantly in the series of legislative authorizations of the 1960s and 1970s that led to and included the New Directions legislation noted above. In the absence of a broad aid authorization since 1985—thereby leaving it to appropriators to largely

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<sup>24</sup> For example, on oral rehydration therapy, see Ann Van Dusen, “Child Survival: The Washington Story,” pp. 104-105, in Janet C. Ballantyne and Maureen Dugan, *Fifty Years in USAID*, Arlington Hall Press, 2012 and, on the rinderpest vaccine, see USAID, *USAID’s Legacy in Agricultural Development*, pp. 42-43.

<sup>25</sup> USAID, *AID Congressional Presentation FY1989*, p 202. See Committee on Foreign Affairs, U.S. House of Representatives, *The Private Enterprise Initiative of the Agency for International Development, Report Prepared for the Committee on Foreign Affairs by the Congressional Research Service*, September 1989.

<sup>26</sup> GAO, *Foreign Aid: Agency for International Development’s 1978 and 1986 Programs for Jamaica, Kenya, and Senegal*, 86-103 BR, April 1986.

<sup>27</sup> EnCompass LLC for USAID, *Bureau for Policy, Planning and Learning: Evaluation of Program Cycle Implementation, Final Report*, September 2013, p. 118. These initiatives plus USAID’s own initiatives in Resilience, Basic Education, and Biodiversity, among others are also putting a strain on USAID staff who must digest their requirements and implement them. “Too many initiatives,” is a common complaint in surveys of foreign service officers undertaken by the American Foreign Service Association.

<sup>28</sup> For further discussion, see Role and Impact of Congress section under Issues below.

shape the aid program in its annual foreign operations appropriations legislation—Congress has continued to periodically authorize sector or regional programs representing a particular interest or concern. Among these are microfinance, water and sanitation, global health, and aid to Africa, eastern Europe, and the former Soviet Union.<sup>29</sup> Although, in many cases, USAID’s role in a sector preceded this interest, congressional support often has helped to solidify funding and shape strategy.<sup>30</sup>

A funding mandate or recommendation in appropriations legislation or committee report language is perhaps the most common expression of congressional program priorities. Over the years, Congress has directed funding levels for a range of sectors, to varying degrees of specificity. In the foreign aid portions of the FY2015 State, Foreign Operations appropriations legislation (P.L. 113-235, Division J), Congress required or suggested (“shall” or “should”) funding levels for health, the American Schools and Hospitals Abroad program, cooperative development, democracy promotion, basic and higher education, environmental protection, food security and agricultural development, microenterprise, trafficking in persons, and water and sanitation. These FY2015 recommendations amounted to about \$12.5 billion—most of which was expected to be implemented by USAID—and, therefore, likely account for more than two-thirds of its program budget for the fiscal year.

Perhaps the most important role of Congress in determining the shape of USAID’s programs is congressional control over the total USAID budget. The various elements of the budget are discussed below.

## **USAID Budget**

The USAID annual budget is provided through multiple funding accounts. Each account has different rules and flexibilities established in authorization and appropriations language. Most USAID program and operational accounts are authorized specifically or broadly under the standing legislative authority of the Foreign Assistance Act of 1961. Authorization of funding levels, however, is time-limited and, in many cases, has not been renewed since the last comprehensive aid legislation in 1985, which provided funding levels for FY1986 and FY1987. A legislative requirement that foreign assistance program appropriations be authorized before the appropriation can be made is regularly waived, for example, as the Consolidated and Further

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<sup>29</sup> Respectively, the Microenterprise for Self Reliance Act of 2000 (title I of P.L. 106-309) and the Microenterprise Results and Accountability Act of 2004 (P.L. 108-484); Senator Paul Simon Water for the Poor Act of 2005 (P.L. 109-121); the United States Leadership Against HIV/AIDS, Tuberculosis and Malaria Act of 2003 (P.L. 108-25); Chapter 10 of the FAA–Development Fund for Africa (added by P.L. 101-513); Support for East European Democracy Act of 1989 (P.L. 101-179); and Freedom for Russia and Emerging Eurasian Democracies and Open Markets Support Act of 1992 (P.L. 102-511).

<sup>30</sup> Congressional proclivities have at times run counter to those of USAID. One example is microcredit aid, where Congressional involvement beginning in the mid-1980s came in the form of appropriations funding earmarks accompanied by policy directives for the use of those funds in support of “poverty lending”, i.e., seeking to reach the so-called poorest of the poor, those in the bottom half of the poverty line. Congress mandated, first in appropriations language and later, in 2000, 2003, and 2004 in authorizations, that half of loans should be provided to this group, limited the monetary size of loans to force USAID to reach this cohort, defined the size of microenterprises to be supported, and later mandated surveys to factually establish the poverty levels of target groups. Although the agency had long supported microfinance institutions, it strongly resisted congressional actions, arguing that economic benefits of microfinance were best generated by higher income micro and small entrepreneurs.

Continuing Appropriations Act, 2015 (P.L. 113-235, Division J, §7022) did in the case of FY2015 unauthorized foreign aid program appropriations.<sup>31</sup>

### ***Budget Accounts***

Almost all of USAID’s funding is appropriated in the annual State, Foreign Operations appropriations legislation, except the P.L. 480 Title II food aid program, which is funded through the Agriculture appropriations.<sup>32</sup> Some appropriations accounts that fund USAID programs are exclusive to sectors (e.g., health, democracy). Some accounts are exclusive to broad purposes (e.g., political/strategic, development, humanitarian). Some are exclusive to an aid methodology (e.g., development credit authority). And, in the past, some accounts have been exclusive to countries or regions (e.g., the Iraq Relief and Reconstruction Fund; Assistance to Europe, Eurasia and Central Asia; Development Fund for Africa).

Up until 2006, a number of appropriations accounts whose funding went entirely to USAID—its “core” accounts—were solely under the jurisdiction of the agency, while others from which only a portion of the total went to USAID were co-managed with the Department of State. In the latter case, the State Department set policy and country allocations and USAID implemented the program funding allocated to it. Since 2006, with the creation of what is now the Office of U.S. Foreign Assistance Resources in the State Department, all these accounts—both “core” and shared—are perhaps best described as jointly managed by State and USAID at the policy and allocation level, with USAID implementing funds allocated to it.

Because the shared account totals can only be estimated, total USAID budget figures in **Table 1** are also only estimates. Further, each year some funds—contributions to a few international programs, such as the Global Fund to Fight AIDS, Tuberculosis, and Malaria and cash transfers to various governments—merely pass through USAID. Because these “transient” funds may be quite large—the Global Fund contribution, for instance, sometimes representing more than \$1 billion—the total USAID budget figure somewhat distorts the profile of funding available to it for implementing its own programs.

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<sup>31</sup> The aforementioned requirement lies in §15 of the State Department Basic Authorities Act of 1956 (22 U.S.C. 2680) and §10 of the Foreign Military Sales Act amendments, 1971(22 U.S.C. 2412).

<sup>32</sup> The food aid program is authorized in the Agricultural Trade Development and Assistance Act of 1954, as amended (P.L. 84-480), from which is derived the name to which it is commonly referred.

**Table I. USAID Appropriations: FY2012-FY2016 Request**  
(in current \$ millions)

	FY2012	FY2013	FY2014	FY2015 est. <sup>a</sup>	FY2016 req.
<b>USAID Program Total (est.)</b>	<b>16,780.5</b>	<b>17,349.0</b>	<b>16,545.5</b>	<b>19,163.0</b>	<b>18,117.7</b>
<b>Core Programs:</b>					
Global Health Programs—USAID	2,629.8	2,626.1	2,773.8	3,096.0	2,755.0
Development Assistance (DA)	2,520.0	2,717.7	2,507.0	2,507.0	2,999.7
International Disaster Assistance (IDA)	1,095.0	1,550.4	1,801.0	3,331.3	1,741.0
Transition Initiatives (TI)	93.7	68.8	57.6	67.0	67.6
Complex Crises Fund (CCF)	50.0	53.0	40.0	20.0	30.0
Development Credit Auth Subsidy [Possible Transfer from other Accts]	[40.0]	[40.0]	[40.0]	[40.0]	[40.0]
P.L. 480 Food for Peace Title II (USDA Apps)	1,466.0	1,359.4	1,466.0	1,466.0	1,400.0
<b>Shared Programs:<sup>b</sup></b>					
Global Health Programs—State Dept: USAID Portion (est.)	2,738.0 (5,542.9)	3,470.0 (5,439.8)	3,572.1 (5,670.0)	3,572.1 (5,670.0)	3,418.4 (5,426.0)
Economic Support Fund (ESF): USAID Portion (est.)	5,716.4 (6,146.7)	5,456.8 (5,867.5)	4,268.0 (4,589.2)	5,048.6 (5,428.6)	5,706.0 (6,135.5)
Assistance for Europe; Eurasia & Central Asia (AEECA): USAID Portion (actual)	424.8 (626.7)	0.0	0.0	0.0	0.0
Democracy Fund: USAID Portion (actual)	46.8 (114.8)	46.8 (109.0)	60.0 (130.5)	55.0 (130.5)	0.0
<b>USAID Administration Total</b>	<b>1,536.3</b>	<b>1,458.7</b>	<b>1,321.1</b>	<b>1,434.1</b>	<b>1,700.5</b>
USAID Operating Expenses	1,347.3	1,279.3	1,140.2	1,235.3	1,425.0
USAID Capital Investment Fund	129.7	123.1	117.9	130.8	203.3
Development Credit Authority Admin	8.3	7.9	8.0	8.1	9.2
USAID Inspector General	51.0	48.4	55.0	59.9	63.0
<b>TOTAL: USAID Program &amp; Administration (est.)</b>	<b>18,316.8</b>	<b>18,807.7</b>	<b>17,866.6</b>	<b>20,597.1</b>	<b>19,818.2</b>

**Source:** U.S. Department of State budget documents and CRS calculations.

**Notes:** Totals include Overseas Contingency Operations (OCO) and transfers. FY2013 amounts include post-sequester and across-the-board rescission. Of FY2015 CCF \$50 million appropriated total, \$30 million was managed by State.

- FY2015 totals include Ebola emergency funding.
- Shared Programs: Amounts shown on top are estimated USAID-implemented portion of account. Amounts shown in parentheses are account totals as appropriated. USAID portions of Global Health-State for FY2012-2013 are estimates based on USAID reporting; FY2014-2015 is based on FY2010-2013 average proportion (63%). USAID ESF portion is based on USAID estimate of historic average of about 93%, but the actual percentage may vary widely from year to year. AEECA amount is actual USAID portion reported by Europe/Eurasia Coordinator. Democracy Fund amount is actual allocation to USAID.

The agency's core program accounts include the following:

The **USAID Global Health Programs** account, currently one of two components of a broader Global Health Programs account—the other owned by the Department of State—supports programs focused on combating infectious diseases such as immunization and oral rehydration; HIV/AIDS; malaria; tuberculosis; maternal and child health; vulnerable children; and family planning and reproductive health.

- The **Development Assistance (DA)** account funds programs in agriculture, private sector development, microcredit, water and sanitation, education, environment, democracy, and governance, among others.
- The **International Disaster Assistance (IDA)** account, managed by the USAID Office of Foreign Disaster Assistance, aids nations struck by natural and man-made disasters and emergencies. Funding is flexible and less constrained by requirements than other accounts in order to support a rapid response.
- The **Transition Initiatives** account supports the activities of USAID's Office of Transition Initiatives (OTI), a program launched in 1994 to bridge the gap between disaster and development aid. It supports flexible, short-term assistance projects in countries that are moving from war to peace, civil conflict to national reconciliation, or where political instability has not yet erupted into violence and where conflict mitigation might prevent the outbreak of such violence.
- The **Complex Crises Fund (CCF)** is a standing pot of non-allocated funds that allows USAID to rapidly respond to emerging or unforeseen crises with projects aimed at the root causes of conflict or instability. In 2010, for example, the CCF provided agricultural assistance in time for the planting season to newly resettled Sri Lankans previously displaced by the civil war, and in 2014 to address unanticipated governance challenges in Ukraine.
- The **Development Credit Authority (DCA)** specifies an amount that may be transferred from other accounts to subsidize U.S. loan guarantees that assume a portion of the risk taken by private banks financing water and sanitation systems, microcredit and small enterprise development programs, and other development activities. The provision also directly appropriates administrative costs to run the credit program.
- **P.L. 480 Title II**, although funded through the Agriculture appropriations, it is managed by USAID. Also known as the Food for Peace program, P.L. 480 Title II provides U.S. agricultural commodities to meet both emergency and non-emergency food needs. Humanitarian food programs represent about 60% of funding and target mostly vulnerable populations in response to malnutrition, famine, natural disaster, civil strife, and other relief requirements. It is provided through multilateral organizations, such as the World Food Program, and to private voluntary organizations (PVOs). Non-emergency, developmental-purposed food is provided to PVOs and often "monetized" (i.e., sold in the recipient country with proceeds used to support development projects). In recent years, Congress has allowed a portion of this account to be provided in cash form, rather than food, which can then be used to purchase food on local markets.

USAID also receives a portion of the following accounts:<sup>33</sup>

- The **Global Health-State** component of the broader Global Health Programs account, managed by the Office of the Global AIDS Coordinator (OGAC) in the Department of State, is the largest source of funding for the President's Emergency Plan for AIDS Relief (PEPFAR). Programs funded from this account are implemented by USAID, the Department of Defense, the Centers for Disease Control and Prevention, and the Peace Corps, among others. USAID's share averages over 60% of this account's funding, although the amount may vary widely from year to year. The U.S. contribution to the Global Fund to Fight AIDS, Tuberculosis, and Malaria passes through USAID.
- The **Economic Support Fund** (ESF) uses economic assistance to advance U.S. political and strategic goals in countries of special importance to U.S. foreign policy. Key recipients in recent years include Afghanistan, Iraq, South Sudan, Egypt, Colombia, and Jordan. In most years, USAID receives over 90% of the funding.
- The **Democracy Fund** supports democratization programs run by the State Department and USAID. Congress directs a specific dollar portion of the funds in this account—representing 46% in FY2014—to USAID's Bureau for Democracy, Conflict, and Humanitarian Assistance.

In addition to these accounts, USAID has, on occasion, received funding transfers from other agencies, most commonly the Millennium Challenge Corporation to implement the MCC's threshold programs.

Several accounts are exclusively for USAID administrative purposes, not programs, and remain solely under the agency's jurisdiction:

- The **Operating Expenses** (OE) account funds the operational costs of USAID, including salaries and benefits, overseas and Washington operations, staff training, security, and information technology maintenance and upgrades. As this account is often insufficient to cover administrative costs, in some cases Congress allows a portion of program costs to be used to support operations.
- The **Capital Investment Fund**, begun in FY2003, supports USAID modernization of information technology systems and the construction of facilities overseas.
- The **Office of Inspector General** account supports operational costs of the office, which conducts audits and investigations of USAID programs.

**Table 1** shows appropriated amounts under each of these accounts. Although appropriated numbers are useful, because they are more recent and clearly show congressional action, this report often relies on estimated FY2013 obligations (amounts committed) for USAID-

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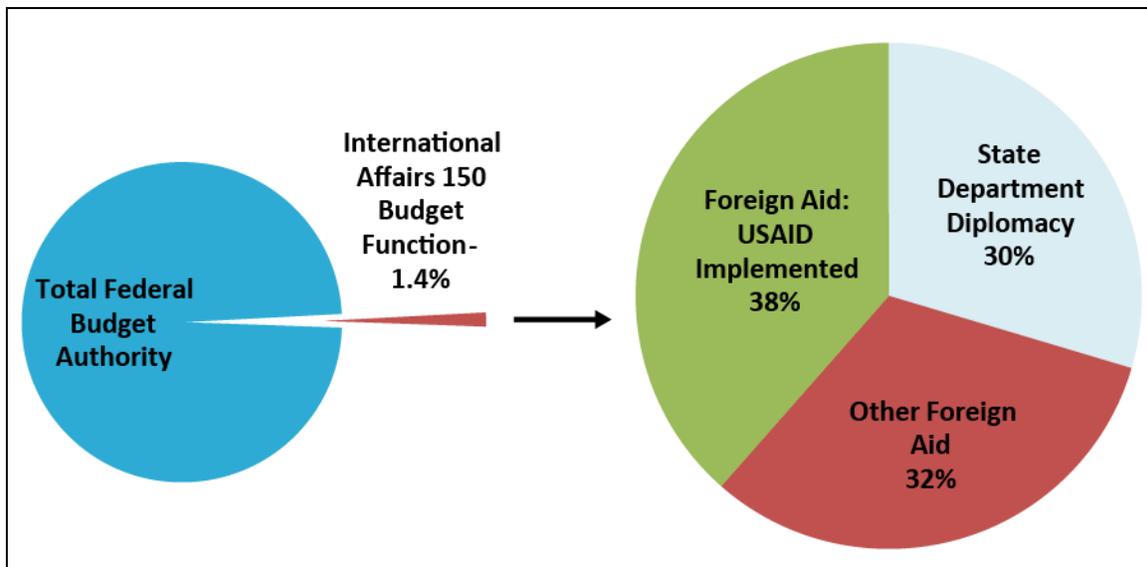
<sup>33</sup> Until it was discontinued in FY2013, the Assistance for Europe, Eurasia, and Central Asia (AEECA) account was managed by the Department of State and partly implemented by USAID in support of the countries of east Europe and the former Soviet Union. Account policy was determined by a State Department Coordinator. USAID received about 70% of its funds each year. Funding for its former recipients is now provided mostly under ESF.

implemented activities because of the level of detail by country and account that is available for that year.

### Budget Trends

Based on an estimated appropriation total of \$20.6 billion in FY2015, USAID activities make up more than half of total foreign assistance, traditionally defined as accounts under the foreign operations part of the State, Foreign Operations appropriations and international food aid appropriated under the Agriculture appropriations (**Figure 1**).<sup>34</sup> USAID manages more than one-third of the International Affairs 150 budget function in the federal budget. The agency’s operations and programs represent about 0.7% of total federal budget authority.

**Figure 1. USAID Portion of Federal Budget and I 50 Budget Function, FY2015**



**Source:** OMB Historical Budget Tables FY2015 and CRS calculations.

As might be expected, over five decades total agency funding has shifted variously, as have its individual account components. At discrete points, agency funding levels can be seen as a reflection of the general sentiment, both pro and con, toward all foreign—including military—aid, a reflection as well of Cold War strategy and the Global War on Terrorism, of humanitarian response, of the broader federal budget, and of specific congressional and Administration foreign policy aims.

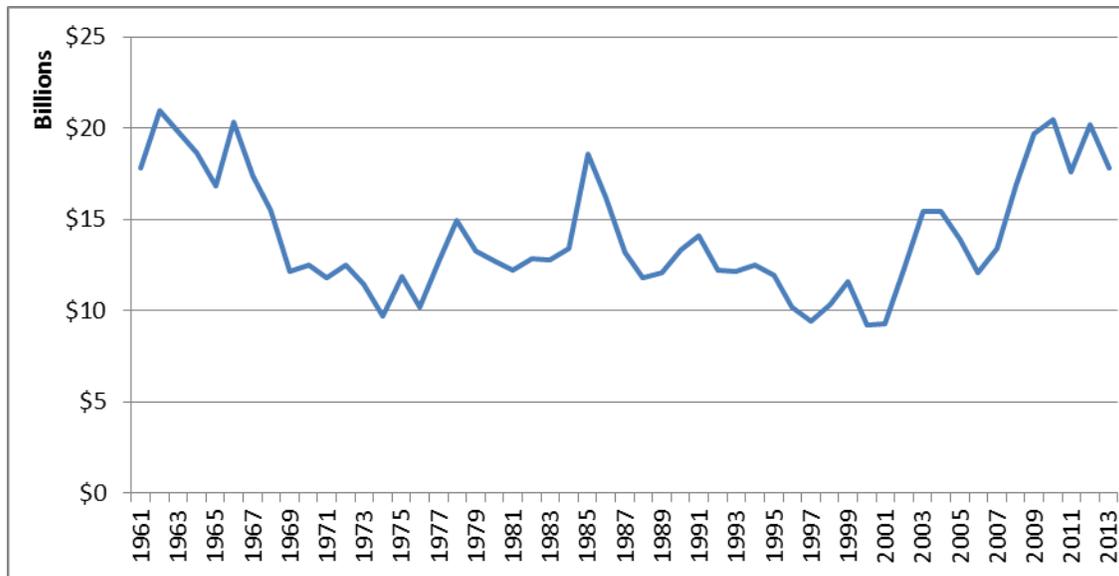
The inconsistent quality of data prior to 2001 makes it difficult to track USAID-specific funding through its history, but an approximate calculation using constant dollars suggests that only since

<sup>34</sup> This definition excludes a number of programs funded by non-aid agencies, largely encompassing the Department of Defense programs to train and equip Afghan security forces, support nonproliferation in the former Soviet Union, and health programs funded by DOD, the Centers for Disease Control and Prevention, and the National Institutes for Health.

FY2009 have levels reached the heights that they did in the first years of USAID’s existence (Figure 2).<sup>35</sup>

High assistance levels in the early to mid-1960s were fueled in part by the agency’s prominent role in the Alliance for Progress in Latin America and the Vietnam War (at its peak, USAID employed as many as 10,000 staff in that country alone).<sup>36</sup> In the past decade, USAID funding levels have risen again, in large part due to spending on the health sector, especially HIV/AIDS; in response to a range of humanitarian emergencies, such as the Haiti earthquake and Ebola; in support of activities in Iraq, Afghanistan, and Pakistan; and more broadly as development assistance has been viewed as a mitigating factor in the war on terrorism. From FY2001 to FY2009, USAID’s implemented funding more than doubled in real terms.

**Figure 2. USAID Funding: FY1961 to FY2013**  
(Obligations in Constant 2015 Dollars)



**Source:** USAID, U.S. Overseas Loans and Grants <https://eads.usaid.gov/gbk/> and CRS calculations.

**Note:** The 1976 transitional quarter has been omitted from this chart because, at \$5 billion in constant dollars, it would visually disrupt the trend-line. The transitional quarter was an accounting device to accommodate the 1976 change of the U.S. government fiscal year from July 1–June 30 to October 1–September 30.

In between its first and most recent decades, the agency’s funding levels fell dramatically in the late 1960s and early 1970s, as broad support for development aid dwindled and programs in southeast Asia were ended. Funding levels were reconstituted by the policy and management reforms of New Directions. A significant spike in USAID’s budget occurred in the mid-1980s during the Reagan Administration in conjunction with increases in total foreign aid and in support of famine assistance programs in Africa and development aid in Central America, a region of

<sup>35</sup> In evaluating Figure 2, the time lag inherent in obligation data should be kept in mind. The appropriations that generated the obligations and that better reflect changes in policy at the government level may have preceded the actual obligations by one or more years.

<sup>36</sup> Total composed of direct hire, detailee, contract, third country, and local national staff. Asia Bureau, Office of Vietnam Affairs, USAID, *United States Economic Assistance to South Vietnam, 1954-1975, An Overview*, October 14, 1975.

intense foreign policy interest at the time. A chief rationale for foreign aid collapsed with the fall of communism in eastern Europe and the former Soviet Union (1989 through 1992), despite a rise in assistance to those very regions. Amid broader congressional budget cutting in the post-1994 period, USAID budgets were substantially slashed. By FY2000, they reached the lowest level (in real terms) in agency history.

## Aid Recipients

Although it is common to discuss aid to a specific country, only a small percentage of USAID assistance—4% in FY2014—actually goes directly to the governments of recipient countries.<sup>37</sup> Most USAID funds go through U.S. partners—universities, NGOs, and contractors—although their efforts may directly assist a government’s Ministry of Education or Health, for example, in providing educational and health programs to their public. U.S. assistance may also bypass government institutions and directly benefit farmers, civil society organizations, and other segments of the population.

USAID provides assistance to a range of countries—125 in FY2013. However, of those, 23 received under \$1 million, mostly small island nations or countries receiving one-time funds for humanitarian purposes. The agency’s chief beneficiaries (listed in **Table 2**) are mainly countries of special interest for political/strategic reasons, Afghanistan and Pakistan most prominently. Four countries are in the Near East—Syria appearing for the first time on this list in FY2013, although funds allocated for Syria support refugees and displaced people rather than the Syrian government. Nine are sub-Saharan Africa countries of strategic importance and/or the subject of substantial HIV/AIDS assistance. One country absent from the list—Israel—which is regularly among the major recipients of total U.S. funding from all sources, now receives nearly all of its aid in the form of security assistance, which is not administered by USAID.

**Table 2. Top Country Recipients of USAID-Implemented Funding: FY2013**

(\$ millions in obligations)			
Afghanistan	1,644	Nigeria	305
West Bank/Gaza	752	Egypt	295
Jordan	685	Uganda	289
Pakistan	669	South Africa	256
Syria	569	Tanzania	250
Ethiopia	459	Sudan	233
Kenya	414	Democratic Republic of Congo	229
South Sudan	352	Haiti	223

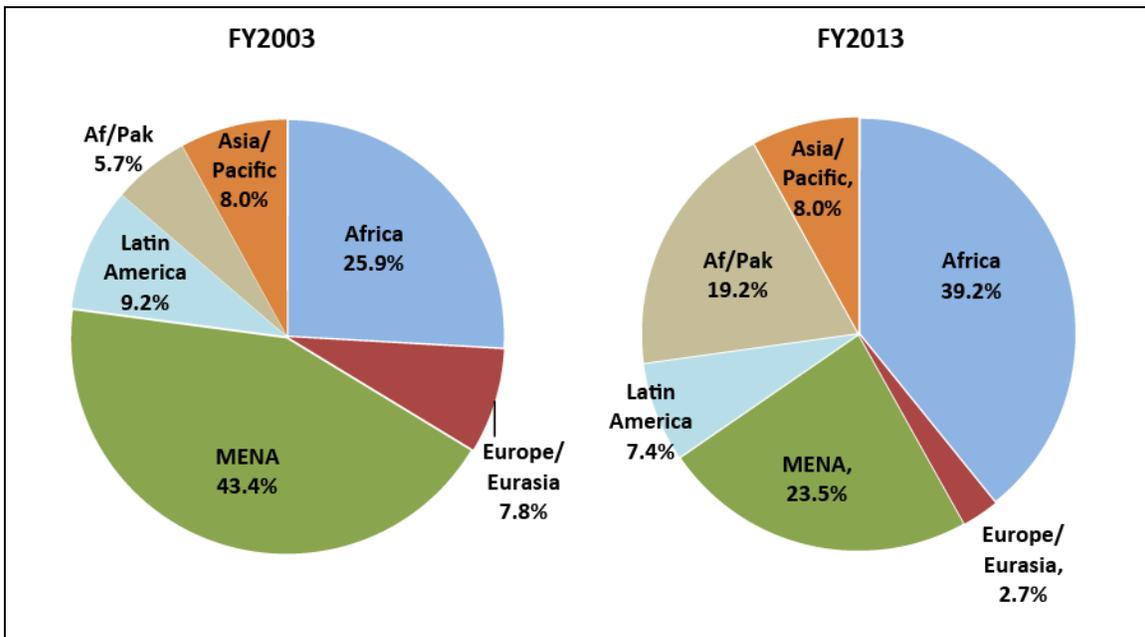
**Source:** USAID, U.S. Overseas Loans and Grants <https://eads.usaid.gov/gbk/> and CRS calculations.

<sup>37</sup> USAID, *Overview of Summary of Foreign Assistance to US and Non-US Organizations, FY2012-2014*, document provided to CRS, July 17, 2015. USAID procurement data are often inconsistent and not comparable from year to year, sometimes counting only mission programs, sometimes excluding categories of procurement. In this report, procurement data are used as suggestive, not conclusive.

As suggested by the country rankings, in FY2013, the lion’s share—nearly 40%—of USAID funding attributable to countries or regions went to sub-Saharan Africa. Two countries in south Asia—Afghanistan and Pakistan—accounted for nearly one-fifth of total USAID country/regional assistance. Not counting those countries, the rest of Asia and the Pacific made up a little more than 8% of the USAID portfolio.

Comparing regional USAID allocations with those of 10 years earlier (**Figure 3**) illustrates the foreign policy drive behind the choice of aid beneficiaries. In FY2003, the Middle East/North Africa (MENA) region represented more than one-third of assistance, largely because of USAID’s prominent role in Iraq reconstruction. By FY2013, the MENA’s proportion has been cut nearly in half. In FY2003, Afghanistan and Pakistan’s importance to U.S. strategic interests had only just begun, but even then accounted for about 6% of assistance. In FY2013, their share of total assistance had tripled and in dollar terms nearly quadrupled. By FY2003, at about 8%, the Europe/Eurasia program had begun to dramatically decline from its 1990s immediate post-communist levels; it represented 16% as recently as FY2001. In FY2013, it accounted for less than 3% of USAID programs.

**Figure 3. USAID-Implemented Funding by Region: FY2003 and FY2013**



**Source:** Based on obligations attributable to regions. USAID, U.S. Overseas Loans and Grants <https://eads.usaid.gov/gbk/> and CRS calculations.

**Note:** Af/Pak = Afghanistan/Pakistan; MENA = Middle East and North Africa.

As an agency chiefly designed to support international development, USAID maintains programs in almost every low-income and lower-middle income country, with 44% going to low income and 41% to the lower-middle grouping in FY2013 (**Table 3**). In contrast, in FY2012, the proportion to these two groups was 57% and 29%, respectively. About 15% of total USAID country funding is spread amongst a wide number of upper-middle income countries as well. Programs in high-income countries, although scanty, appear, as in the case of Ireland, to reflect specific U.S. political interests or are provided in response to natural disasters.

**Table 3. USAID Beneficiaries by Country Income Levels: FY2013**

	Low Income	Lower-Middle Income	Upper-Middle Income	High Income
Number of Countries	31 (of 34)	47 (of 50)	40 (of 55)	7 (of 75)
Total Amount of USAID Assistance	\$5.1 billion	\$4.7 billion	\$1.7 billion	\$0.007 billion
Percentage of All USAID Country Assistance	44%	41%	15%	0.06%

**Source:** Based on FY2013 obligations data of funds implemented by USAID attributable to specific countries, USAID, U.S. Overseas Loans and Grants <https://eads.usaid.gov/gbk/> and CRS calculations.

**Notes:** FY2013 income levels defined by the World Bank. Low Income equals a gross national income level (GNI) per capita of less than \$1,045; lower-middle income between \$1,036 and \$4,125, upper-middle between \$4,125 and \$12,746, and high income above \$12,746.

The agency's focus on the most challenging political and social environments is further indicated by the proportion of country-specific assistance that goes to countries in crisis. The top 10 countries appearing in the 2014 Fragile States Index ranked by the Fund for Peace received 32% of total FY2013 USAID country-specific funding.<sup>38</sup>

## Aid Program Sectors

In part because its objectives are broad and its recipients are many, USAID conducts programs in nearly every humanitarian and development sector. **Figure 4** shows the proportion of funding going to USAID-implemented activities in major sectors. As noted earlier, an emphasis on one sector or another may reflect Administration or congressional priorities, current development strategies, or a mix of these and other factors.<sup>39</sup>

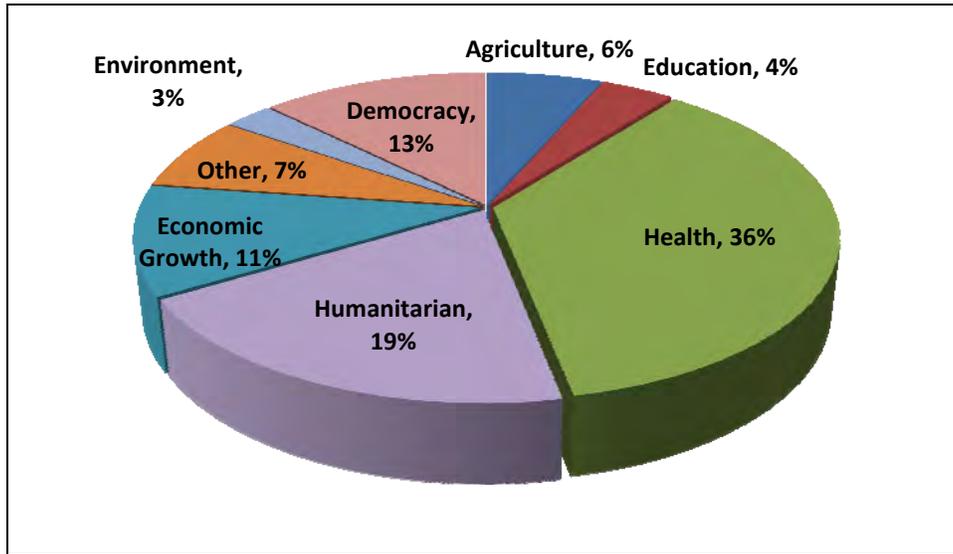
**Health.** Since the early 1990s, health programs have consistently been the largest USAID assistance sector.<sup>40</sup> Even as total USAID levels rose rapidly in the past 10 years on account of aid efforts in Iraq and Afghanistan, health funding has kept pace as a result of billions of dollars in transfers from the Department of State's PEPFAR program. In FY2013, USAID obligated about \$5.7 billion for health activities, including water and sanitation. This amount represents more than one-third of total USAID sector spending. In FY2013, about 42% of the agency's total health budget went to sub-Saharan Africa.

<sup>38</sup> Published at <http://library.fundforpeace.org/library/cfsir1423-fragilestatesindex2014-06d.pdf>. The top 10 include South Sudan, Somalia, Central African Republic, Democratic Republic of Congo, Sudan, Chad, Afghanistan, Yemen, Haiti, and Pakistan.

<sup>39</sup> About 7% of total USAID program obligations in FY2013 could not be easily classified because they crossed multiple sectors. Therefore, the figures provided may underestimate the amounts and proportions going to an identifiable sector.

<sup>40</sup> Estimates of sectoral representation prior to FY2001, when detailed obligation breakdowns became available, are largely based on budget data showing functional allocations and requests for USAID's Development Assistance account.

**Figure 4. USAID-Implemented Funding by Sector: FY2013**



**Source:** USAID, U.S. Overseas Loans and Grants <https://eads.usaid.gov/gbk/> and CRS calculations.

**Humanitarian Programs.** Historically, USAID’s humanitarian programs, including disaster and food assistance, have varied widely from year to year, in response to the emergence of significant crises such as the Sahelian drought in the 1980s and the 2010 Haiti earthquake (the State Department also administers other humanitarian accounts). Overall, however, support for humanitarian aid has grown over time. In particular, USAID’s International Disaster Assistance account, on a gradual upward trajectory for several decades, has remained high since more than doubling in FY2005 (to \$1.2 billion) in response to the 2004 Indian Ocean earthquake and tsunami. In FY2013, humanitarian support delivered by USAID represented 19% of agency sector funding, a proportion likely to increase significantly when the FY2015 Ebola crisis funding is taken into account.

**Agriculture.** In FY2013, USAID obligated \$1 billion, 6% of sector aid, for agriculture assistance. Agriculture was the largest single sector of USAID assistance until the 1990s, when it was supplanted by the health sector. In the late 1960s, agriculture spending represented about 24% of the agency’s program, but rose to nearly half by the late 1970s, reflecting the agency’s stress on rural development under the New Directions strategy.<sup>41</sup> By FY2002, however, agriculture spending represented less than 3% of total sector aid. Support for agriculture aid has grown substantially in recent years with the Administration’s Global Food Security Initiative. Agriculture programs include training of farmers, researching and introducing new technologies and materials to improve productivity, developing markets, and providing access to credit. The largest recipients were Afghanistan, Bangladesh, Colombia, Ethiopia, Ghana, Haiti, Mali, Pakistan, Tanzania, and Uganda, collectively about 54% of total agriculture aid.

<sup>41</sup> Testimony of USAID Assistant Administrator Joel Bernstein in Green Revolution: Symposium, December 5, 1969, p. 115. The 1970s estimate is based on FY1970 request in USAID Congressional Budget Justification functional development aid breakdown, p. 23.

**Democracy and Governance.** In FY2013, USAID obligated nearly \$2 billion, about 13% of total sector aid, for programs supporting democracy and governance, including assistance for rule of law, anti-corruption, development of civil society, and the elections process. The largest beneficiaries of this aid were Afghanistan, Egypt, Iraq, Jordan, Pakistan, and South Sudan, together representing 66% of the total employed in this sector in FY2013. The bulk of democracy funding, as for these countries, is derived from the agency's portion of the ESF account.

**Economic Growth and Private Sector Development.** Programs designed to increase economic growth include assisting access to credit for micro and small business, organization of business associations, encouragement of policy reforms to build a favorable business climate, and facilitating development of market chains. For those countries with sufficiently large aid programs, such as Afghanistan and Pakistan, a significant element of USAID's economic growth strategy is the provision of infrastructure, including such costly items as roads, power plants, and communications. Four countries made up 67% of this sector's obligated funds in FY2013—Egypt, Afghanistan, Pakistan, and West Bank/Gaza. In FY2013, economic growth programs accounted for about 11% of USAID sector funding. If agriculture assistance, with its similar purpose, is included in this sector, economic growth efforts could also be said to represent roughly 17% of the USAID program.

**Education.** In FY2013, assistance to education accounted for 4% of USAID's programs. Reflecting the agency's main goals of improving reading skills and addressing school access for children in crisis and conflict countries, 83% of total funds went toward basic education in FY2013. Most of the remaining funds went toward post-secondary education in efforts to address workforce development. Five countries—Afghanistan, Ethiopia, Lebanon, Liberia, and Pakistan—represented more than a third (36%) of all education obligations in FY2013.

**Environment.** In FY2013, environment programs represented about 3% of USAID sector assistance. Chief beneficiaries of environment protection programs, making up more than a third of funding in FY2013, were Colombia, Ecuador, Indonesia, Mexico, Peru, the Philippines, Sudan, Ukraine, and Vietnam. Programs included land rights management, protection of biodiversity, climate change mitigation, and efforts to end deforestation, among others.

## **How USAID Delivers Assistance**

The process in which USAID provides assistance encompasses thousands of individuals both within and outside the agency, undertaking a range of actions to ensure that funded activities—projects—are formulated, designed, implemented, monitored, and evaluated effectively. It is a complex process with multiple permutations; therefore, any brief description such as this one is greatly simplified.

### ***Mission and Headquarters Roles***

Organizationally, USAID is split into two pieces—field missions and headquarters' bureaus and other offices—each with their own key functions and personnel. In Washington, agency staff are composed of mostly U.S. direct-hire civil service; in the missions, staff are composed of U.S. direct-hire Foreign Service Officers (FSOs) and foreign national employees, most from the mission country. As of September 2014, USAID staff totaled 9,355, composed of 3,815 U.S.

direct-hire staff—2,119 Foreign Service and 1,696 civil service—and the remainder mostly foreign national personal service contractors (PSCs).<sup>42</sup>

**Role of Country and Regional Missions.** The USAID missions are perhaps the agency’s most unique feature and are often said to be the heart of agency functions. They are the focal point of the agency’s development role, while its humanitarian and research functions are largely centered at headquarters. USAID’s relatively large-scale personnel presence in aid recipient countries—about 70% of its current workforce—long differentiated the agency from other donors, although many have emulated this model in recent decades.

The mission’s role is to interface with the government and private sector, formulate a country development strategy, design projects, monitor those projects, and ensure both programmatic and financial accountability. A hands-on presence in each of these steps suggests a better understanding of local conditions, ready access to the host government and other aid recipients, and a greatly enhanced ability to follow project progress and make necessary amendments as priorities and circumstances change. A 1992 study of the mission presence, still relevant today, argues that the potential to influence the country program, to influence country policy reform, and to be accountable for the effectiveness of USAID financial resources are the fundamental justifications for the in-country presence.<sup>43</sup> The same study pointed to possible negative sides of the mission presence—“heavy-handedness,” excessive use of American expertise, physical insecurity, cost of maintaining a presence, and an inclination to “perpetuate rather than to work to phase down U.S. presence and the role of USDH [U.S. direct hire] employees.”<sup>44</sup>

Currently, USAID supports more than 60 bilateral missions. Missions vary in size depending on factors such as the overall funding level of the country program, the range of programs and sectors addressed, the availability of educated foreign nationals, and the security situation. USAID programs in countries without missions are managed from regional missions, which also engage in an array of cross-border regional programs.<sup>45</sup> At one time separately situated, most missions are now colocated with the U.S. embassy.<sup>46</sup>

Missions are largely staffed by U.S. FSOs and local nationals. USAID’s FSOs are development professionals who mostly work abroad and function under similar administrative rules as State Department FSOs but modified by USAID. They usually specialize in a development sector or an administrative function, such as contracting or financial management. Depending on the country, FSOs generally spend two to four years in a country before rotating to the next posting.<sup>47</sup>

Other U.S. citizens serving at the mission level may be personal service contractors performing specific non-managerial duties. On occasion, USAID civil servants based in Washington will take

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<sup>42</sup> USAID, *Semi-Annual USAID Worldwide Staffing Pattern Report, Data as of September 30, 2014*, p. 3.

<sup>43</sup> USAID, Center for Development Information and Evaluation, *A.I.D.’s In-Country Presence: An Assessment*, October 1992, pp. 11-14.

<sup>44</sup> *A.I.D.’s In-Country Presence*, p. 11.

<sup>45</sup> USAID also maintains a number of representational offices in developed countries to coordinate with other bilateral and multilateral donors, such as the OECD in Paris and the EU in Brussels.

<sup>46</sup> The Secure Embassy Construction and Counterterrorism Act (SECCA) of 1999 (P.L. 106-113, §606) requires that USAID colocate with other U.S. government agencies in secure State facilities as new ones are constructed, absent a waiver by the Secretary of State.

<sup>47</sup> Most tours of duty are two years, but renewable for a second tour. Hardship posts such as Afghanistan are generally one-year assignments.

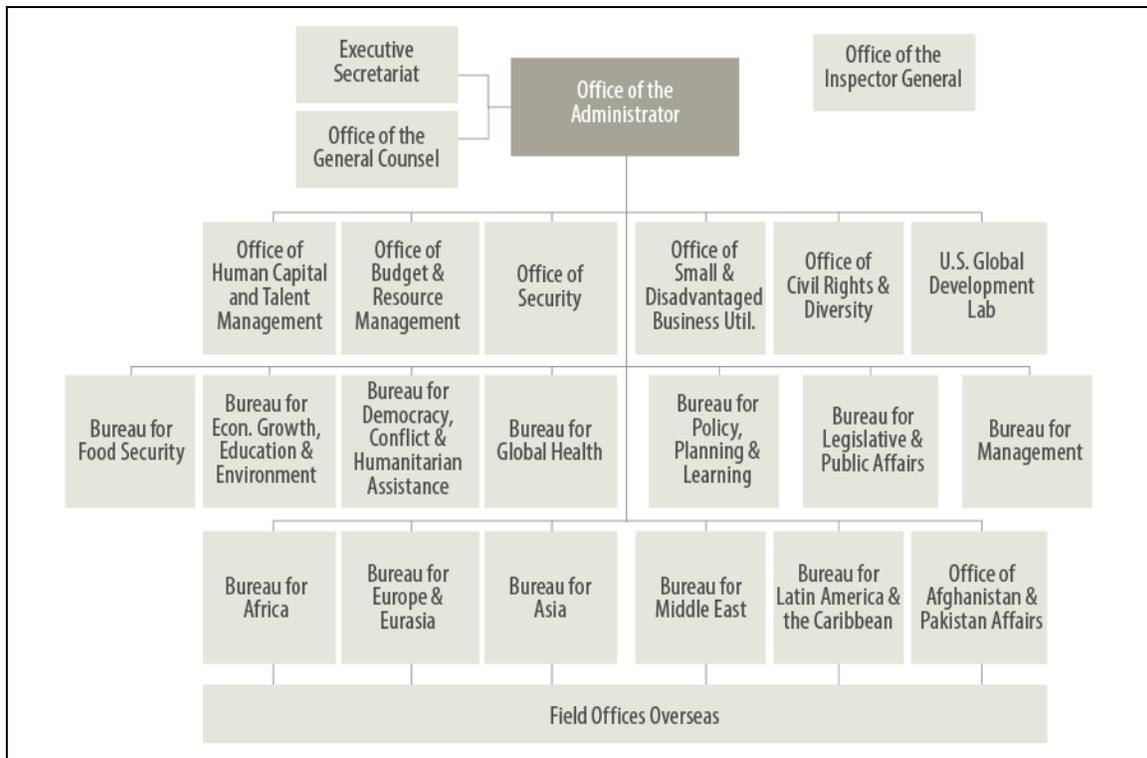
up temporary duties at the missions as will, more rarely, U.S. government employees of other agencies detailed to USAID.

In 2014, foreign nationals represented 69% of the USAID overseas workforce. Foreign nationals, most from the recipient country, work in both program professional and administrative support capacities. Missions depend heavily on the foreign national workforce to achieve their objectives. Foreign nationals bring to their jobs a deeper knowledge of the language, culture, local politics, and the development environment than U.S. direct hires. Often serving for decades, while FSOs move in and out, foreign nationals also bring an invaluable institutional memory to mission operations.

**Role of Central Bureaus and Independent Offices.** While the majority of agency program activity is conducted in the field through its missions, the Washington-based central bureaus and offices also play significant program roles.

Currently, there are 12 bureaus and a handful of independent offices in USAID’s headquarters in the Ronald Reagan Building (**Figure 5**). Of these, seven are functional bureaus, four of which focus on technical sector issues such as health and food security, and three that address concerns such as management, policy development and evaluations, and public affairs. The remaining five are regional bureaus. Independent offices address specific matters such as human resources, budget, and security. The assistance programs for Afghanistan and Pakistan are backstopped through an independent office rather than by the regional bureau.

**Figure 5. USAID Organization**



Source: USAID.

A major role of the bureaus and offices is to provide policy, technical, and administrative support for the missions and to coordinate the allocation of financial, human, and other resources to the missions. Broad policy guidance (e.g., approved measures for meeting presidential and agency initiatives; sector technical guidance, such as best practices in water and sanitation aid; and aid process guidance, such as how to design projects and carry out evaluations) is developed at headquarters and disseminated to the missions. Expertise on the whole range of development sectors is available to mission personnel through the technical bureaus. If a mission is formulating an agricultural project, for instance, it can draw on the knowledge of subject experts in the Bureau for Food Security. Technical bureaus also manage grants and contracts that provide additional expertise to the missions as required. In recent years, regional bureaus have established their own technical offices, which, in the view of some, may duplicate existing expertise.

Bureaus (and some independent offices) to varying degrees also take leadership roles in designing and implementing projects. This is especially the case where projects cross sectoral or regional lines. In the 1980s and 1990s, for example, a Microenterprise Office supported more “cutting-edge” projects and research into best practices than would occur at the mission level. In particular, it channeled funds directly to a range of microcredit specific NGOs, such as ACCION and Finca, helping them establish their expertise and success in this sector. It also led the way in encouraging the adoption of microfinance by commercial banks.<sup>48</sup>

The most prominent example of headquarters-based project implementation is the Office of U.S. Foreign Disaster Assistance (OFDA) in the Bureau for Democracy, Conflict, and Humanitarian Assistance. It is the lead government agency for international disaster relief, providing direct assistance to address 52 emergencies in 40 countries in FY2013.<sup>49</sup> It follows emerging disasters, pre-positions relief supplies, deploys response teams to evaluate needs and coordinate the U.S. government response, and helps local entities develop response capabilities for future disasters.

Similarly, the bureau’s Office of Transition Initiatives (OTI), working in post-conflict environments, conducts its own rapid assessment of country needs. Using a flexible contracting mechanism that permits it to call on a range of expertise from multiple firms as needed, its personnel work closely with contractors to quickly award small grants—averaging \$30,000—to address specific concerns. The short-term implementation time frame of these grants—two to three months—allows OTI to maintain a rolling analysis of impact and change strategy as required. As of early 2014, OTI was working in about a dozen countries, including Syria, Afghanistan, Yemen, Burma, and Kenya.

The Global Health Bureau also represents a large share of Washington-based program activity. The U.S. government’s annual contributions to the Global Fund for AIDS, Tuberculosis, and Malaria and GAVI, go through the bureau and on to those multilateral programs; commodity purchases, such as for HIV anti-retroviral drugs, are procured through the bureau; and neglected tropical diseases and global health security programs are managed by the bureau, as they are both so narrowly focused that they require teams of specialists that mission public health specialists could not provide. Considerable research funding is supported through the Global Health Bureau; each year, USAID spends more than \$200 million on health research activities.<sup>50</sup>

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<sup>48</sup> For some historical perspective, see USAID, *USAID’s Office of Microenterprise and Private Enterprise Development: A Microfinance Retrospective*, June 2014.

<sup>49</sup> USAID, *Office of U.S. Foreign Disaster Assistance Annual Report for Fiscal Year 2013*, p. 6.

<sup>50</sup> USAID, *Report to Congress: Health-Related Research and Development Strategy 2011-2015*, December 2012, p. 22.

## ***Program and Project Development***

Most USAID development projects are formulated and conducted at the country level through the missions. Over the years, the individual steps leading from broad agency policy through individual country-level program strategy, project design and implementation, and evaluation and monitoring have changed to varying degrees in form and detail. This “program cycle” in its current form is briefly described below.

Whether the end result of this cycle—the conglomeration of individual projects that make up a country program—is more the product of Washington or the mission is hard to say. One factor is the periodic phases of centralization or decentralization of decisionmaking between headquarters and the field. A more recent factor is the role of the Department of State. Between 2006 and 2009, USAID budget, strategy, and policymaking responsibilities were removed entirely from USAID headquarters and transferred to the Department of State’s Office of the Director of Foreign Assistance, with significant consequences for mission plans and procedures. USAID has since gradually regained some of these responsibilities, but not all of them. Whatever institutional mechanisms are in place, mission programs have always faced an array of budget requirements and legislative mandates and must fit within the mold of Administration program initiatives and strategies, currently including the QDDR and the USAID Framework, as described above.<sup>51</sup> But the perspective and contribution of the mission is also always a vital component in the mix. The country strategy that is a key element of current program development is the product of considerable give-and-take between mission and headquarters.

**Country Development Cooperation Strategy.** At the country level, each USAID mission formulates a five-year country strategy that addresses a wide range of factors specific to the country but also takes into account the broader external parameters emanating from Washington. A requirement launched in 2010, the Country Development Cooperation Strategy (CDCS) is the latest variant of a form of long-term development planning that stretches back to the early years of the agency. As of March 2015, 51 country missions and six regional missions had completed and received approval of their strategies.<sup>52</sup> Six more are anticipated in 2015. At least six countries have been exempted from the CDCS requirement due to instability and other reasons.<sup>53</sup>

The CDCS seeks to identify and prioritize development objectives and program areas where the agency can have the maximum impact. A product of extensive research and discussion with government, civil society, and the private sector, the CDCS is based on a reasoned analysis that takes into account the development context, U.S. foreign policy interests, and the host government’s own development plans.

In the CDCS, USAID missions employ a Results Framework (see “Results Framework: The Case of Ghana” text box below) to connect anticipated results for a given sector to the achievement of the overall Development Objectives and ultimately the CDCS goal. Missions are required to

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<sup>51</sup> A July 11, 2011, USAID Policy Directive on Agency-wide Policy and Strategy Implementation notes that “missions are expected to align their programmatic activities with Agency-wide policies or strategies ...”, p. 4.

<sup>52</sup> Missions with less than \$20 million in resources may submit an abbreviated version of the CDCS. Eight of the 57 CDCS to date are abbreviated versions. Completed CDCS can be accessed at <http://www.usaid.gov/results-and-data/planning/country-strategies-cdcs>.

<sup>53</sup> According to the OIG, the number of missions originally expected to submit CDCSs is unclear. OIG, *Audit of USAID Country and Regional Development Cooperation Strategies*, No. 9-000-15-001-P, February 20, 2015, p. 7.

identify associated measurable indicators that would demonstrate the status of progress toward these goals and objectives.

<b>Results Framework: The Case of Ghana</b>
<p><b>GOAL: Acceleration of Ghana's transition to established middle income status</b></p> <p><b>MEASURABLE PERFORMANCE INDICATORS</b></p> <ul style="list-style-type: none"><li>• improvements in the Human Development Index score,</li><li>• improvements in the rate of increase in that score, and</li><li>• improvements in the percentage of Millennium Development Goals met.</li></ul> <p><b>DEVELOPMENT OBJECTIVES</b></p> <ul style="list-style-type: none"><li>• strengthened, responsive, democratic governance,</li><li>• equitable improvements in health status,</li><li>• improved reading performance in primary school, and</li><li>• <i>sustainable and broadly shared economic growth.</i></li></ul> <hr/> <p><b>DEVELOPMENT OBJECTIVE: sustainable and broadly shared economic growth</b></p> <p><b>MEASURABLE PERFORMANCE INDICATORS</b></p> <ul style="list-style-type: none"><li>• prevalence of poverty disaggregated by gendered household type,</li><li>• percentage change in agriculture sector GDP,</li><li>• women's empowerment in agriculture index, and</li><li>• prevalence of underweight/stunted/wasted children, disaggregated by sex.</li></ul> <p><b>INTERMEDIATE RESULTS</b></p> <ul style="list-style-type: none"><li>• increased competitiveness of major food chains,</li><li>• improved resiliency of vulnerable households and communities and reduced undernutrition,</li><li>• improved government accountability and responsiveness, and</li><li>• <i>improved enabling environment for private sector investment.</i></li></ul> <hr/> <p><b>INTERMEDIATE RESULT: improved enabling environment for private sector investment</b></p> <p><b>SUB-INTERMEDIATE RESULTS</b></p> <ul style="list-style-type: none"><li>• improved policies to support agriculture sector growth,</li><li>• improved execution of public sector investment policies; and</li><li>• access to credit increased.</li></ul> <p><b>MEASURABLE PERFORMANCE INDICATORS</b></p> <ul style="list-style-type: none"><li>• numbers of policies/regulations/ administrative procedures in discrete stages (drafted, presented, passed, etc.) as a result of USAID assistance,</li><li>• value of new private sector investments in select value chains,</li><li>• value of agricultural and rural loans, and</li><li>• number of medium/small/micro enterprises, including farmers, receiving USAID assistance to access finance, by gender.</li></ul> <p><b>Source:</b> USAID/Ghana, Country Development Cooperation Strategy 2013-2017, December 2012.</p>

The CDCS goal is defined as the highest-level impact to be advanced or achieved by USAID, the host country, civil society, and other development partners during the strategy timeframe. Indicators associated with this goal may, therefore, be promoted by actions other than those of USAID. A more precise reflection of USAID's program is encompassed by the Development Objectives (DOs) that each mission may adopt (limited to no more than four). DOs are defined as

the most ambitious results that a USAID mission can *materially affect and for which it is willing to be held accountable*. Likely going into the calculation of which DOs are selected is a consideration of what funding resources are available, what ministries are most amenable to appropriate reform and programs, and the status of sector-related civil society, among other factors. Associated with each of these objectives are intermediate and sub-intermediate results, which together should be sufficient to achieve the DOs. Progress in both DOs and results are measurable by sets of performance indicators. USAID projects are designed to bring about the results that make up the Development Objectives in the CDCS.<sup>54</sup>

In theory, the mission’s evidence-based analysis is supposed to lead logically to adoption of a set of development objectives that “respond to country priorities” and will have “the greatest impact on a country’s stability and prosperity.”<sup>55</sup> However, one USAID evaluation found frustration among mission staff that presidential initiatives and other funding priorities define the CDCS more than “evidence and consultation.”<sup>56</sup> A USAID Office of Inspector General (OIG) audit suggested that the budget “trumped local priorities”—some missions drafted their CDCS based on their expectation of available funding, whereas others were told by Washington to revise theirs to reflect budget realities. Even so, in the end, the audit found that mission development objectives were not always supported, because flexible funding—money not designated for presidential initiatives and congressional mandates—is often less than a quarter of available funds.<sup>57</sup>

Minimally, the CDCS is a methodology for thinking through the connections between desired ends—even if pre-determined—the steps to get there, and ways to gauge success. For the outside observer, the CDCS provides an initial basis for identifying what USAID intends to do in a country and how its intentions can be measured and eventually judged.

One further objective of the CDCS process as well as USAID Forward, discussed below, was to focus agency efforts where the agency could do the most good. According to the agency, as a result of this reprioritization, between 2010 and 2014, USAID reduced the number of country program areas by 42%, phasing out food security and agriculture aid in 26 countries and health aid in 23.<sup>58</sup>

## ***Project Design***

New projects—defined by USAID as “a set of executed interventions or activities, over an established timeframe and budget, identified through a design process that is intended to achieve a discrete development result by solving an associated problem”—are designed around the CDCS.<sup>59</sup> They are formulated using a logical framework method where planned inputs produce

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<sup>54</sup> USAID, *ADS Chapter 201*, December 12, 2014.

<sup>55</sup> OIG, *Audit of USAID Country and Regional Development Cooperation Strategies*, No. 9-000-15-001-P, February 20, 2015, p. 8.

<sup>56</sup> Encompass LLC for USAID, *Bureau for Policy, Planning, and Learning: Evaluation of Program Cycle Implementation Final Report*, September 6, 2013, p. 20.

<sup>57</sup> OIG, *Audit of USAID Country and Regional Development Cooperation Strategies*, No. 9-000-15-001-P, February 20, 2015, pp. 9-10.

<sup>58</sup> USAID, *USAID Forward: Partnerships-Innovation-Results*, at <http://www.usaid.gov/documents/1870/usaid-forward-fy2014-presentation>.

<sup>59</sup> USAID, *Program Cycle Overview*, December 9, 2011, p. 7. This is a relatively new definition. Up to about 2010, a (continued...)

outputs that lead clearly to outcomes, the project purpose corresponding to the CDCS “results,” and all contributing to the project goal—the CDCS Development Objective. A project appraisal document (PAD) outlining these factors, as well as providing an implementation plan, budget, and monitoring and evaluation plan, forms the basis for a project.

Over the time it takes to develop a project from broad concept paper to the more analytical project appraisal document to final approval with a project authorization and corresponding funding (roughly estimated by USAID at four to six months), project designers must take into account a range of factors and agency requirements.<sup>60</sup> Among these is the relationship of the proposed project to other U.S. government programs and strategies, to other donor programs, and to partner country and local “stakeholder” priorities and concerns. In particular, the possible roles of partner country and local entities in the implementation of the project need to be identified. Plans to monitor and evaluate the project must be thought out to establish what data will be required over the life of the project and how data will be collected. The project design process requires an analysis of how the project can be made sustainable in the long term as well as analyses of gender and environmental impacts.<sup>61</sup>

### *Types of Aid and Aid Delivery Instruments*

USAID assistance takes multiple forms, most fundamentally as food, medical supplies, cash, expert advice, training, equipment such as computers, and economic infrastructure such as roads and power plants. Usually a USAID project will combine several of these inputs to best meet the desired end. For example, a basic education project might include production and distribution of student textbooks, training of teachers, and expert guidance to the Ministry of Education on curriculum design.

This assistance may be delivered in multiple ways, each of which has advantages or disadvantages in terms of the management burden on the agency and the degree of control the agency has over outcomes, among other factors. During the process of project design, consideration is given to which of these so-called implementation instruments—in USAID parlance, acquisition referring to procurement contracts or assistance referring to grants—might be best employed to carry out the project. A decision is made once the project design is finalized.

USAID management documents list at least 32 different types of implementing mechanisms; the most important and common are discussed here.<sup>62</sup>

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(...continued)

project might have been defined as any one single activity or intervention.

<sup>60</sup> Estimate in email communication from USAID, September 11, 2014.

<sup>61</sup> Among other possible analyses that might be conducted during project preparation and feed into project development are a cost benefit analysis to assess the value of the project, a beneficiary analysis to determine main project beneficiaries, a social soundness analysis to explore the project’s social impacts and cultural feasibility, an institutional analysis to assess local capacities, a disability analysis to determine impact on the disabled, a climate change vulnerability analysis to identify possible impacts and mitigating steps, and a conflict analysis to identify causes of conflict in a country and how development projects might be most effective in managing the conflict.

<sup>62</sup> Two other aid delivery mechanisms that have been well-utilized at various points in time are:

**Participant Training.** For many decades, USAID provided significant support to international, largely U.S.-based short-term, non-degree technical training and long-term academic degree training for developing country students, most linked to meeting the purposes of USAID-funded development projects. In FY1995, for example, 16,950 USAID-funded trainees were studying in the United States, 3,245 of whom were undertaking long-term academic degree (continued...)

- **Grants.** A grant supports the grantees' own program, to do the kinds of things it normally does, but that coincide as well with USAID's purpose. Because the grantee does not implement the program as an agent of the U.S. government, a grant requires relatively little oversight or management from USAID and can be implemented in places where the agency has limited access, such as in disaster or civil crisis locations. A disadvantage is that it requires less accountability to the agency than contracts or cooperative agreements. Both grants and cooperative agreements are generally provided to nonprofit organizations or educational institutions, but grants are also provided to international organizations and multidonor funds. In recent years, grants and cooperative agreements have represented about two-thirds of all USAID award funding.<sup>63</sup>
- **Cooperative Agreements.** A cooperative agreement is a type of grant that supports the recipient's own program, but, in this case, the agency seeks to be more involved in the implementation and direction of the program. The increased role and oversight make it more time consuming for the agency to administer. In FY2013, cooperative agreements represented 46% of all grant assistance.
- **Contracts.** A contract is an agreement to provide specified goods and services, meeting USAID purposes where it intends to exercise a high degree of operational control. USAID is heavily involved from start to finish, and the contractor owes the agency a high degree of accountability. Contracts are explicit about purposes, with specific benchmarks to be met. Most contracts are awarded to for-profit firms.
- **Host Country Contracts** allow local governments to compete and manage contracts for specific purposes, such as infrastructure construction, following U.S. government procurement rules. They require that the government has sufficient management capacity.
- **Government to Government Assistance (G2G).** Under this form of project assistance, USAID directly finances local governments to deliver mutually agreed upon results (e.g., increased immunizations at health clinics, teachers trained in early grade reading methodologies). Accountability is a potential problem, so this assistance requires in-depth financial and other risk assessments and risk mitigation measures tracked during implementation.

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(...continued)

programs. Since then, such training has fallen substantially—to 2,838 in FY2013, 1,050 of which were academic degree programs. The drop has been attributed by former USAID Administrator Andrew Natsios to the wrongheaded, in his view, requirement of measurable immediate impact for agency programs (talk at Center for Global Development, June 18, 2014).

**Enterprise Funds.** Seeking to establish the infrastructure of free market economies in east Europe and the former Soviet Union, beginning in 1990, USAID established enterprise funds. These private sector, board-managed entities were chiefly expected to fill a gap in capital funds for equity and loan investment in small and medium enterprises as well as to build capacity where the need was identified. Although the first fund, in Poland, was viewed by many as a considerable success, the other nine European and Eurasian funds and a Southern Africa fund had mixed records. The model is currently deployed in Egypt and Tunisia. See USAID, *The Enterprise Funds in Europe and Eurasia: Successes and Lessons Learned*, September 12, 2013.

<sup>63</sup> Excluding host country contracts, cash transfers, commodity import programs, and loan guarantees. Email communication from USAID, October 22, 2014.

- **Non-Project G2G Assistance**, more common in the past than currently, consists of various forms of budget and balance of payments support to partner governments. Sometimes U.S. funds are matched by the recipient with local currencies that may be used for development purposes. Often non-project assistance includes policy benchmarks. USAID is revising its “non-project assistance” guidance to reflect the current focus on outcomes-based assistance. Types of non-project G2G assistance include the following: **Cash Transfers** are made directly to governments. Most economic assistance to Israel up to the 1990s was provided as cash transfer general budget support. **Commodity Import Programs** (CIPs) provide U.S. currency tied to the import of U.S. goods. CIPs were a feature of aid to Egypt in the 1980s and 1990s. **Sector Program Assistance** is conditioned on achieving a specific set of policy reforms in one development sector. It was frequently offered to African countries in the 1980s.
- **Public-Private Partnerships**, also known as public-private collaboration agreements. Since 2001, under USAID’s Global Development Alliance (GDA), more than 1,500 partnerships with the private sector have been formed to support mutually agreed upon goals with resources contributed by both parties.
- **Loan Guarantees**. As noted earlier, Development Credit Authority loan guarantees (assuming up to half of the loan risk) have been used to leverage private sector bank funds for development purposes. Under a separate program, the United States has guaranteed the full value of sovereign loans to Ukraine and Tunisia.

### *Project Implementation and Oversight*

Project authorization sets into motion a sequence of activities that generally leads to a competitive selection process of project partners, project agreements with scopes of work, and ultimately obligation of funds, and launching of project implementation.

There is a large universe of potential “development partners”—nonprofit private voluntary organizations (PVOs) and other NGOs, for-profit contractors, universities, foundations, other U.S. government agencies, international organizations, and similar entities in other countries (Table 4). According to USAID, about 28% of FY2014 procurements went to U.S. nonprofits, not counting education institutions which represented 2%; 19% went to U.S. for-profits; and about 7% went to U.S. government agencies. Another 29% went to international public organizations (e.g., U.N. agencies), 4% went to other governments, and about 8% went to foreign nonprofit, educational, and for-profit entities.<sup>64</sup> As these partners implement projects, the chief role of USAID is to maintain oversight, both of its financial resources and of project performance. A number of steps are taken throughout the project design and implementation process to monitor both.

If a project is well-designed, it may already take into account potential risks and vulnerabilities that might derail effective performance or invite financial abuse. For instance, the project might include management training for local partners to improve their project management capacities or it might address sustainability concerns, thereby reducing a factor in project waste. Where higher

<sup>64</sup> USAID, *Overview of Summary of Foreign Assistance to US and Non-US Organizations, FY2012-2014*, document provided to CRS on July 17, 2015.

risk is perceived, grants and contracts can be designed to provide payment in tranches only after specific actions are undertaken accompanied by appropriate documentation.

**Table 4. Top 20 USAID Implementing Partners: FY2014**

Partners	Program Funds	Partners	Program Funds
World Bank Group	\$2,053,306,850	Jhpiego	\$217,403,649
United Nations World Food Programme (WFP)	\$1,523,309,087	RTI International	\$203,866,996
Chemonics International	\$492,408,698	Catholic Relief Services	\$200,473,900
Partnership for Supply Chain Management	\$389,233,980	Mercy Corps	\$192,425,417
Family Health International	\$342,568,887	GAVI Alliance	\$175,000,000
United Nations Children's Fund (UNICEF)	\$307,138,645	Tetra Tech, Inc.	\$167,809,064
John Snow, Inc.	\$284,197,908	United Nations World Health Organization (WHO)	\$163,548,998
ABT Associates	\$259,828,553	International Organization for Migration (IOM)	\$151,307,587
Development Alternatives, Inc.	\$258,995,568	ACDI/VOCA	\$136,725,716
Management Sciences for Health	\$233,517,932	Save the Children	\$127,721,045

**Source:** USAID, *Where Does USAID's Money Go?*, September 30, 2014.

In its procurement procedures, USAID follows its own AID Acquisition Regulations (AIDAR), based on the Federal Acquisition Regulations (FAR), which requires a determination of the qualifications of perspective contractors and grantees to ensure the likelihood of adequate performance and the preferred use of open competition to ensure the most qualified finalist at the most reasonable rate.

Each project or activity within a project may have a manager and/or a contracting officer or, in the case of grants and cooperative agreements, an agreement officer, responsible for oversight.<sup>65</sup> These officers can follow project progress through regular written reports, usually required quarterly, from contractors and grantees, and through site visits and other, more frequent, contacts. Managers and contract officers also receive regular financial reports and vouchers with which they can track expenditures.

Annual financial audits of U.S. contractors are required and usually performed by the Defense Contract Audit Agency (DCAA). These focus on the overall financial status of the contractor rather than work being done in any one country. For U.S. nonprofits whose work exceeds certain federal funding levels, an annual financial audit is performed by public accounting firms approved by the Office of the USAID Inspector General (OIG).

In 2011, the agency stood up an agency-wide unit, the Contractor Compliance Task Force, to oversee contractor compliance with primary responsibility for processing suspension and

<sup>65</sup> In addition, a single Development Objective may be managed by a multi-staff development objective team.

debarment actions, managing partner corrective actions, and tracking partner compliance. Enforcement actions have reportedly increased notably since creation of the new unit.<sup>66</sup> Special measures have been devised to capture instances of fraud or mismanagement in countries with especially high risk. In Afghanistan, for example, special measures include the following: prime contractors are required to undertake a specific proportion of the work and limits are put on the number of layers of subcontracts to make it easier to follow where the funding is going; many awards are limited to one year and smaller amounts; non-U.S. companies and key personnel are vetted to ensure that “malign actors” are not involved; electronic funds transfers are used instead of cash payments; third-party monitors are employed; more local audits and reviews of claims are conducted; more field staff are deployed; and more staff trained as “on-site monitors.”<sup>67</sup>

Where funds are being provided directly to governments and local entities, an additional set of procedures has been adopted to address added risk of poor financial or project performance. These procedures to ensure accountability are discussed in the “Selected USAID Issues” section below.

The OIG conducts audits to ensure that regular mission procedures and requirements meant to ensure accountability are carried out and are adequate to that purpose. Financial audits examine contractor and grantee financial statements and agreements. Performance audits look at project outputs and whether, if achieved, they meet the results intended. Since it would be unreasonably costly to conduct audits of every USAID award, the USAID IG chooses its subjects based on assessments of country risk, the amount of funding involved, subject interest, and other factors.

Oversight is not intended solely to catch malfeasance or incompetence. If problems are identified during project implementation, mid-course corrections can be made to put the project on the right track. If necessary, an errant project can be terminated.

To fully understand what progress has been made in achieving a project’s desired ends, a formal independent evaluation is conducted, possibly at project mid-point, but certainly at project completion. Although the frequency and requirements for these have changed over the years (see the “Evaluation” section below), current agency policy strongly supports evaluations meant both to judge the effectiveness of a project and to gather lessons that might be applicable to future projects.

## **USAID Forward and Other Reform Efforts**

In 2010, USAID launched a series of reforms intended to reestablish the agency as a world leader in development, a reputation many observers believed had eroded from the late 1980s till then. During that period, USAID suffered what many saw as a number of setbacks that were interlinked and reinforced each other, including severe funding cutbacks and numerous mission closures in the mid-1990s; a long-term decline in both civil and foreign service staff; sharply reduced USAID independence by tying it more closely to the Department of State, both through legislative efforts

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<sup>66</sup> According to USAID, by early 2014 the agency had executed over 230 suspensions and disbarment actions -25 times the number executed prior to the new unit. USAID, *Rajiv Shah Annual Letter, FY2014*, p. 5.

<sup>67</sup> Testimony of Donald “Larry” Sampler, Deputy Director of the Office of Afghanistan and Pakistan Affairs, USAID, to House Subcommittee on Oversight and Investigations, June 6, 2012; Statement by Angelique M. Crumbly, Acting Assistant Administrator, Bureau for Management, USAID, to Senate Subcommittee on Contracting Oversight, April 17, 2012.

and executive branch actions; increased reliance on contractors for program functions, establishment of rival U.S. aid agencies and funding accounts; consolidation of many administrative functions and locations with U.S. embassies; and loss of budget and policy planning functions.

Although some steps were taken to address growing concerns regarding agency capacities by USAID Administrator Henrietta Holzman-Fore (under President George W. Bush), Administrator Rajiv Shah (President Barack Obama) put reform front and center with the USAID Forward agenda. Many of USAID's programmatic and institutional reforms derive from a gathering of views from USAID mission directors in the first days of the administrator's term. Both the 2010 Presidential Policy Directive-6 and Quadrennial Diplomacy and Development Review (QDDR) recommended and enumerated various elements encompassed by these reforms. In all, the reforms represent one of the more significant changes to the agency since the "basic human needs" reforms of the 1970s.

Reforms encompassed under the USAID Forward umbrella and other significant related agency changes are discussed below.

### *Human Resources*

Due to a decrease in staff numbers between 1990 and 2008, it is widely believed that USAID lost much of its technical and professional expertise and, consequently, contracted out much work that previously had been performed in-house. Historical data on USAID staffing is weak and often contradictory, but figures suggest that the long-term slide in staff numbers that began in the early 1970s accelerated substantially in the 1990s, exacerbated by budget cuts in mid-decade that led to the closing of missions and a severe reduction in force (RIF). According to USAID, direct hire staff numbers fell from 3,262 in FY1990 to a low of 1,947 in FY2000. Reported impacts on the USAID program included a disruption of regular monitoring and evaluation practices, an increased reliance on large-scale contracting, fewer staff-intensive small projects, and a substitution for hands-on direct hire management by scores of personal service contractors increasingly undertaking what many believe are inherently government functions.<sup>68</sup>

Moreover, the agency's management capacity reportedly worsened in the 2000s as program responsibilities expanded exponentially in the health sector and in crisis countries, such as Afghanistan, Iraq, and Pakistan, with no comparable rise in operating expense funding. At the same time, a rise in retirements drained the agency of experienced personnel and institutional memory. As of September 2010, 27% of FSOs were projected to be eligible for retirement by September 2015, including more than 90% of FSO-1 and above, the most experienced levels of staff.<sup>69</sup>

To restore agency capabilities, the Bush Administration in 2008 launched its Development Leadership Initiative (DLI), with the objective of doubling the number of FSOs by 2012 (a 1,200 position increase); rebuilding a cadre of technical expertise in agriculture, education, engineering, and economics; and expanding language capabilities.<sup>70</sup> By 2011, because of Operational Expense

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<sup>68</sup> Organization for Economic Cooperation and Development (OECD), *The United States: Development Assistance Committee (DAC) Peer Review 2011*, pp. 55-58.

<sup>69</sup> USAID, USAID Five-Year Workforce Plan FY2011-FY2015, December 2010, p. 46.

<sup>70</sup> Federal Management Partners, *Evaluation of the Development Leadership Initiative (DLI): Final Report*, 2011, p. 5.

account funding cuts, hiring from the original projections of 300 new FSOs per year had slowed and delayed the DLI goal. Since then, the agency has put further growth on hold, not requesting additional FSO positions, but requesting funds that simply meet costs for the 820 DLI FSOs that were hired between 2008 and 2012. The annual USAID IG memo on management and performance challenges, issued in late 2014, notes that the agency continues to experience a shortage of experienced, highly skilled personnel, especially contracting staff.<sup>71</sup>

Among the consequences of the new hiring—as of 2013, about half of USAID FSOs had less than five years on the job—is an agency with new youthful energy but significantly increased training needs.<sup>72</sup> An 8% decline in the FY2015 USAID Operational Expenses account from the FY2012 level may challenge the agency’s ability to prepare its new staff and maintain the agency’s capabilities.

### ***Procurement and Local Solutions***

Over many decades, USAID followed an implementation model that chiefly utilized U.S. organizations to deliver assistance.<sup>73</sup> In recent years, many observers criticized this model as failing to build the development capacities of local, recipient country governments and organizations. In the 2000s, the United States joined other donors in making commitments at international conferences to support more “country ownership” of assistance.

Under its Implementation and Procurement Reform, USAID set a target of increasing funds provided directly through local systems (i.e., government, civil society and private sector)—channeling 30% of total mission program assistance directly through local entities by FY2015.<sup>74</sup> Aspects of this effort—discussed in the “Selected USAID Issues” section below—drew criticism from U.S. contractors and some NGOs and the attention of Members of Congress.

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<sup>71</sup> USAID Inspector General, *Most Serious Management and Performance Challenges for the U.S. Agency for International Development: Fiscal Year 2014*, undated memo, p. 6, 10.

<sup>72</sup> Sharon Wayne, “USAID VP Voice”, in *Foreign Service Journal*, October 2013, p. 45.

<sup>73</sup> “Buy America” language in the FAA (\$604) bolstered this approach, requiring purchase of U.S. or recipient country goods and services under most circumstances. In early decades of the aid program, alternative providers in developing countries were rare. For a period from 1976, USAID established a policy of using host countries to contract for goods and services whenever feasible. According to the USAID Inspector General, by October 1983, there were more than 448 active host country contracts valued at nearly \$2.5 billion. About 70% of these were by the Government of Egypt. (*Host Country Contracting: Assessing Host Country Capabilities and Practices, and Reporting Host Country Contracts*, Audit Report No. 84-38, September 28, 1984). Host country contracting suffered from project delays and other problems, in part because an agency requirement that an assessment of country capacities be undertaken beforehand was ignored (USAID IG, 84-38, p. 11) and because this form of contracting was poorly implemented by USAID (USAID IG, *IG Audits Continue to Show that Host Country Contracting Procedures Waste Aid Funds*, No. 3-000-83-13, March 30, 1983). In 1983, the policy favoring host country contracting was rescinded, although the practice continued when deemed useful and appears to have grown as a proportion of USAID mission assistance through the 1980s. GAO estimated host country contracting at roughly 56% of overseas awards as of October 1989, Egypt alone accounting for 67% of such contracting. The share of host country contracting was high mostly because it was used for construction projects, which are of higher dollar value than other types of assistance. (GAO, *Foreign Assistance: AID Can Improve its Management and Oversight of Host Country Contracts*, NSIAD-91-108, May 1991, p. 9). Through the 1980s and early 1990s, both USAID IG and GAO continued to criticize USAID’s country capability assessments as not complete or superficial.

<sup>74</sup> Originally broken out as 20% of program funds through partner country systems, excluding Pakistan and Afghanistan, 6% in direct grants to local nonprofit organizations, and 4% for direct contracts to local private business. An increase in the number of nonprofit and business partners was also anticipated. USAID, *Building Local Development Leadership: USAID’s Operational and Procurement Improvement Plan*, undated (probably 2010).

In spring 2013, USAID reframed the procurement reform in broader development terms. The Local Solutions reform focuses on all aspects of local systems, with sustainability as the driver of program thinking. The agency argues that its investments are best sustained in the long-term if development is locally owned, locally led, and locally resourced.

Although the 30% quantitative target is now viewed as “aspirational,” USAID continues to monitor the agency’s movement toward its direct financing of local systems. Excluding Afghanistan and Pakistan, from an FY2010 baseline of 9.6%, the FY2012 level is 9.9%, the FY2013 level is 12.3%, and FY2014 level is 15.1%.<sup>75</sup> In terms of actual funding levels, assistance going to partner governments (excluding Afghanistan and Pakistan) and local organizations has risen by 32%, from \$860 million to \$1.1 billion between FY2010 and FY2014. Amounts going through local organizations (i.e., excluding government to government aid) rose substantially in this period—from \$383 million to \$1.1 billion, a 176% increase.<sup>76</sup>

USAID has also sought reforms of its procurement processes to make them more efficient and cost-effective. An effort to increase competition and broaden the agency’s partner base by increasing the number of awards to small business is discussed below. USAID has also taken steps to address the long-standing criticism of the amount of time it takes from the production of a contract statement of work to the time of an award. A goal was set of cutting the time by about 48%, from 513 days in FY2009 to 268 days. At the end of FY2013, the time had been cut by 17%.<sup>77</sup>

In 2013, the agency sponsored an extensive study of its procurement processes. Although the Award Cost Efficiency Study (ACES) focused on maternal and child health projects, resulting recommendations made by a management consulting firm had wide application to the whole range of USAID procurement activities. Consequently, USAID, starting with a “Framework for Action in 24 Countries” launched in January 2014, is applying the recommendations in the health sector, with the expectation of shifting a third to half of its existing awards to make them more cost-effective and therefore save more lives. In addition, the agency has adopted numerous steps that aim to better define what awards should achieve and improve the process of selecting the type of procurement, the evaluation of costs, and the assessment of partner performance.<sup>78</sup>

### ***Policy and Budget Management Capacity***

In 2006, then Secretary of State Condoleezza Rice initiated a reorganization and reform of foreign aid management that, in effect, more deeply integrated USAID’s policy and budget processes into

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<sup>75</sup> Definitional changes—whether to include Afghanistan and Pakistan, cash transfers, and trust funds—have confused reporting. Counting the large quantities of aid to Afghanistan and Pakistan governments might distort evaluation of overall progress worldwide, and cash transfers and trust funds are sometimes used for general budgetary support and might not demonstrate capacity building or collaborative partnership. GAO, *Foreign Aid: USAID Has Increased Funding to Partner-Country Organizations but Could Better Track Progress*, GAO-14-355, April 2014, p. 7. If only Afghanistan and Pakistan are included, the FY2012 level is 14.3%, the FY2013 level is 17.9%, and the FY2014 level is 16.9%. If all forms of mission program funds are included, the FY2012 level is 24.5%, the FY2013 level is 30.5%, and the FY2014 level is 22.2%. Variations in these data sets are largely due to fluctuations in Afghanistan funding. FY2012 to FY2014 data accessed at USAID website, <http://www.usaid.gov/usaidforward>.

<sup>76</sup> GAO, *Foreign Aid: USAID Has Taken Steps to Safeguard Government-to-Government Funding but Could Further Strengthen Accountability*, GAO-15-377, June 2015, p. 5.

<sup>77</sup> Procurement Administrative Lead Time (PALT) data in email communication from USAID, September 15, 2014.

<sup>78</sup> For more detail, see USAID, *A New Model for Development: USAID Management & Process Reform*, June 2014.

those of the Department of State. Under this “transformational development” effort, USAID lost the policy formulation capacity that had formerly resided in the Bureau for Policy and Program Coordination (PPC) and much of its budget responsibilities and capacities to State Department entities, including a new Foreign Aid “F” Bureau. The relationship of USAID to the State Department and the consequent impact on foreign aid is discussed in the “Selected USAID Issues” section below.

Under USAID Forward reforms, the agency’s policy and programming capacity has been rebuilt to some degree by the establishment of a new USAID Bureau of Policy, Planning and Learning (PPL). At the field level, the most visible sign of the renewed capacity is the reformed Program Cycle, including the Country Development Cooperation Strategies (instead of the integrated State-USAID Operational Plans required by Secretary Rice’s reform). The PPL Bureau has also been instrumental in releasing a series of sector strategies and policies to guide agency operations.

To rebuild its budget capacity, USAID reestablished an Office of Budget and Resource Management in the Office of the Administrator. In June 2011, the agency developed its first comprehensive budget proposal since 2005. According to the agency, in 2012, it moved funds to its bureaus three months earlier than previously, “allowing our missions to better manage and plan their programs.”<sup>79</sup> Some observers question whether the new budget office substantively restored fully autonomous budget decisions to USAID, noting that the “F” Bureau in State still must sign off on USAID’s budget and USAID has not provided a comprehensive independent budget to Congress since FY2007.

## ***Evaluation***

Many observers believe that, for more than a decade, USAID neglected its evaluation processes and capacities. In 1995, coinciding with an environment of severe budget and personnel cuts, USAID changed its evaluation policy. Hereafter, a decision to evaluate was not a requirement but was to be “driven primarily by management need.”<sup>80</sup> While the intention was to eliminate pro forma evaluations, it apparently did not have this effect. One analysis notes that evaluations entered into the agency’s information system fell from 253 in 1995 to 104 in 1998.<sup>81</sup> USAID itself reported 528 evaluations in 1994 with a drop to 79 in 2001.<sup>82</sup> Whatever the number, the quality of the agency’s evaluations, in the view of some, was suspect—often a brief “fly-in” focused more on the achievement of inputs and outputs rather than impact or lessons learned.<sup>83</sup>

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<sup>79</sup> USAID, *USAID Forward Progress Report 2013*, p.7.

<sup>80</sup> USAID 1995 evaluation policy quoted in Cynthia Clapp-Wincek and Richard Blue, *Evaluation of Recent USAID Evaluation Experience*, February 13, 2001, p. 1.

<sup>81</sup> The analysis did not include duplications and reports not meeting an agreed definition. Cynthia Clapp-Wincek and Richard Blue, *Evaluation of Recent USAID Evaluation Experience*, February 13, 2001, p. 5.

<sup>82</sup> USAID, *The Initiative to Revitalize Evaluation at USAID*, 2005, available at [http://pdf.usaid.gov/pdf\\_docs/pdacm977.pdf](http://pdf.usaid.gov/pdf_docs/pdacm977.pdf).

<sup>83</sup> Cynthia Clapp-Wincek, USAID Center for Development Information and Evaluation, Working Paper No. 320, *Evaluation of Recent USAID Evaluation Experience*, June 2001, p. iii-iv; and Carol Adelman, Nicholas Eberstadt, et al., *Foreign Assistance: What Works and What Doesn’t with Recommendations for Future Improvements*, December 14, 2007, p.19.

Since the early 2000s, there has been an increased emphasis among international donors and aid partner organizations on improved evaluation practices. In January 2005, USAID introduced an Initiative to Revitalize Evaluation at USAID, which included stepped up staff training, new guidance, and new requirements, such as for an annual evaluation plan and a designated evaluation officer at the mission level, but this effort ended with the State Department's transformational development effort.<sup>84</sup>

The USAID Forward reform goes much further. The new PPL Bureau established an Office for Learning, Evaluation, and Research—the previous evaluation office having disappeared under transformational development. It issued a new evaluation policy in January 2011, establishing improved indicators of project progress, requiring more evaluations, and better measuring impacts. The agency is more regularly collecting baseline data that is expected to help it explain to what extent its aid interventions were responsible for any impact. It also committed 3% of major program funds to evaluation purposes. USAID now requires a performance evaluation for every major project, an evaluation that is to be conducted by independent third parties and released to the public. In FY2014, USAID completed 224 evaluations. Perhaps more important, according to USAID, evaluations are being put to intended use, not simply measuring success for accountability purposes, but as tools for learning and improvement.<sup>85</sup> The agency claims that more than half of the 186 evaluations published between July 2011 and the end of 2012 led staff to make mid-course changes to programs and more than a third led to budgetary changes.<sup>86</sup>

### ***Science, Technology, and Innovation***

As noted earlier, USAID has historically been a leader in applying science and technology (S&T) to development problems.<sup>87</sup> Under the USAID Forward initiative, the agency has taken steps to invigorate its role in this area while adding a new emphasis on bringing S&T innovations “to scale”—disseminating and applying new development solutions and ensuring they are adopted more broadly. This scaling-up has often been a problem for the agency, which generally has supported pilot projects—testing and demonstrating a new technology or intervention at the mission level in perhaps one province—but not had sufficient funds and the institutional leadership to either spread such projects more widely within a country or among multiple countries. While some innovations are so broadly applicable and revolutionary that they are rapidly adopted, a possibly large number of ideas never go beyond the pilot stage.

USAID is seeking to encourage new approaches to development and to foster dissemination of the most promising ones. In the past several years, it has established a range of programs to accomplish these ends and, in early 2014, combined many of them into a new U.S. Global Development Lab. At this time, it is too early to tell whether any innovations developed to date

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<sup>84</sup> Cynthia Clapp-Wincek, Richard Blue, and Holly Benner, *Beyond Success Stories: Monitoring and Evaluation for Foreign Assistance Results: Evaluator Views of Current Practices and Recommendations for Change*, May 2009, pp. 6-7.

<sup>85</sup> USAID, *Evaluation at USAID: November 2013 Update*. Data drawn from USAID FY2013 data tables in <http://www.usaid.gov/usaidtheforward>.

<sup>86</sup> USAID, *USAID Forward Progress Report FY2013*, undated, p. 8.

<sup>87</sup> USAID suggests that support for science may have been in decline in the previous two decades by noting there were 47 Science and Technology fellows at USAID from the American Association for the Advancement of Science in 1992 and only 2 in 2007. <http://www.usaid.gov/what-we-do/science-technolog-and-innovation/science-usaid>.

can be brought to scale and what might be the best methods for doing so, but the agency has made progress in identifying new technologies and approaches.

Several of the Lab's programs establish collaborations within the scientific community to help it focus on specific development problems. The Partnerships for Enhanced Engagement in Research (PEER) supports developing country scientists working with counterparts in U.S. federal science agencies, including the National Science Foundation and National Institute of Health. The Global Research and Innovation Fellows Network sends U.S. scientists to developing countries to provide technical expertise in collaborative research. The Higher Education Solutions Network has established seven development "labs" in major U.S. universities, each addressing a problem, such as new technologies in health care delivery and prevention (at Duke University).

Two programs use competitions to attract a range of ideas, the best of which are awarded grants to further their development. Grand Challenges for Development (GCD) has sponsored six competitions to date focusing on how to save lives at birth, how to get all children reading, how to power agriculture through clean energy, how to make all voices count in governance, how to improve water sustainability for food security, and how to provide better care for patients with Ebola and stop the spread of the virus. The Pratt Pouch, a technology that prevents transmission of HIV/AIDS from mother to child, is one innovation from the Saving Lives at Birth Challenge, which is being refined and prepared for integration into health delivery systems.

Development Innovation Ventures (DIV) supports pilots, start-up and testing, and scale-up for innovative proposals submitted by the public that might ultimately assist millions of beneficiaries within 10 years.<sup>88</sup> Since 2010, it has attracted more than 6,000 applications. Currently, for example, grant support is developing an inexpensive self-test for pre-eclampsia among pregnant women; evaluating effectiveness of a "quick count" photo method for reducing election fraud; and assisting in the deployment of a mobile platform for health organizations to disseminate health applications to the phones of community health workers. To date, the program has invested in more than 100 solutions in 17 sectors and 35 countries.

### *Private Sector Funding*

Based on the understanding that public aid resources will never be sufficient in themselves to achieve desired development ends, the agency's reform effort has emphasized leveraging contributions from private sector sources of funding. Greater attention has been channeled in recent years toward two programs launched under earlier Administrations, progress in each of which is measured in annual reporting on agency reforms.

The Development Credit Authority leverages significant private sector capital by guaranteeing a portion of the risk of bank loans in support of development activities. Total funding for the program is limited by a ceiling placed by Congress on the amounts that can be put at risk. In FY2014, USAID obligated \$25.7 million in support of \$769 million in possible private sector loans. In recent years, USAID has sought to expand the program by deploying teams of investment field officers well versed in business to USAID missions.

The Global Development Alliance (GDA) program collaborates with companies and other private sector entities to plan, fund, and implement projects that support both development and business

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<sup>88</sup> USAID, *FY2014 & FY2015 Development Innovation Ventures Annual Program Statement*, p. 1

objectives. The agency's goal is to leverage private sector resources and expertise to achieve development objectives, as well as promote the long-term sustainability of programs. For example, USAID is working with several international coffee companies to fight coffee rust, which threatens to harm local economies and business supply chains. According to USAID, in FY2014, it provided about \$95 million, while private sector organizations provided \$250 million in support of public-private partnerships.<sup>89</sup>

## **Selected USAID Issues**

Some points of possible interest in the broad description of USAID operations above warrant a more thorough discussion. Almost any current aspect of the agency contains a complex history—for more than 50 years the agency has been challenged by concerns regarding accountability, sustainability, project partners and the best way to do development, its place in the U.S. government, and the priorities of Congress. Each of these issues is highlighted below.

### **Financial and Performance Accountability**

Congress has long focused on executive branch accountability. In the case of USAID, some would say especially so, because its funds appear to flow to unfamiliar locations for not always well-understood purposes, and outcomes are at the mercy of unpredictable environments. However, while insufficient accountability can easily undermine congressional and public trust in the agency's mission, some steps to ensure accountability are viewed by many observers and development practitioners as preventing the agency from achieving its mission. Aspects of this dichotomy are discussed below.

#### ***Too Little Accountability?***

Public attention is occasionally drawn to examples of assistance failure—the contractor who falsely bills the U.S. government, or the malaria nets that sat in storage instead of being distributed to those in need.<sup>90</sup> As noted earlier, USAID supports multiple layers of financial and performance oversight to ensure that taxpayer dollars are not misused. Nonetheless, there are losses due to fraud, waste due to poor planning and execution, and indeterminate accounting of funds and project outputs due to incomplete recordkeeping and irregular project monitoring. In FY2014, the USAID Inspector General found \$92 million in questioned costs, \$71 million in funds recommended for better use, and \$23 million in recoveries from investigations.<sup>91</sup> A question for policymakers is whether the \$186 million total amount should be considered a lot or a little.

Because USAID works in developing countries where there are inherent risks of corruption and instability conducive to abuse and misuse of funds, some critics assume that more waste occurs

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<sup>89</sup> DCA and GDA data in USAID, *USAID Forward Data Tables*, accessed at <http://www.usaid.gov/usaidforward>.

<sup>90</sup> For example, OIG, *Former Louis Berger Group Inc. Chairman, CEO, and President Admits 20-Year Conspiracy to Defraud Federal Government*, Press Release, December 12, 2014; OIG, *Audit of USAID/Madagascar's Procurement and Distribution of Long-Lasting Insecticide-Treated Nets Under the President's Malaria Initiative*, No. 4-687-14-005-P, May 20, 2014.

<sup>91</sup> USAID, Office of Inspector General, *Semiannual Report to the Congress, October 1, 2013 to March 31, 2014*, p. 15, and *April 1, 2014 to September 30, 2014*, p. 16.

with foreign aid spending than with U.S. government domestic spending. Questioned, better use, and recovery amounts identified by the Inspector General do not all necessarily represent criminal or other misuse and fluctuate from year to year. In FY2014, \$186 million represented 1.0% of USAID's appropriated funding in that year. By comparison, a similar calculation shows questioned costs and funds recommended for better use by all inspector generals across the federal government accounted for 1.5% of total U.S. budget authority in FY2013.<sup>92</sup> Whether more or less risky than other U.S. government activities, the accountability risk in conducting USAID's business has to be weighed against assessments of how USAID's aid programs are meeting U.S. foreign policy objectives.

Countries of special foreign policy interest—and therefore, recipients of generous portions of total aid—often represent the highest proportion of identifiable waste and fraud, possibly because of the agency's lack of adequate monitoring capacity in these so-called “non-permissive” environments, and, in the case of Afghanistan and Pakistan, Administration and congressional pressure on USAID to spend a large amount of funds quickly and in every sector.<sup>93</sup> As noted earlier, USAID's history in Afghanistan and Iraq has led it to take extra precautions to track these programs, but the learning curve has been steep, and some observers have wondered what, if anything, aid projects can accomplish in such places and under the circumstances in which USAID is working, despite a number of success stories in discrete sectors. To other observers, however, it may seem harsh to judge overall agency performance on the basis of these particular programs, and perhaps it should be anticipated at the beginning of such efforts that development aid in such environments brings less in project outputs and even less in eventual stability or development.

In more typical aid programs, the IG findings and other layers of monitoring and accountability give greater assurance that the correct number of dollars generally results in the correct quantity and quality of project outputs, whether they be schools or training programs. More problematic is ensuring broad development accountability—drawing a connection between a project and actual long-term development impact. Although for decades USAID staff have designed projects with careful thought given the likely results, development aid in one sector and one province is but a small part of a country's broader growth, and it is often hard to argue the impact of any one project or that U.S. assistance, given the multiple intervening variables, is chiefly responsible for macro-development outcomes.<sup>94</sup>

Facing criticism in the 1980s and 1990s, especially after the fall of communism removed an important rationale for the aid program, the agency began to look for ways to measure and demonstrate success to a skeptical Congress. “Managing for results,” as it was called then, built on efforts begun by the Africa Bureau in the late 1980s that were adopted agency-wide after USAID offered itself as both a “reinvention laboratory” for Vice-President Gore's government

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<sup>92</sup> The most recent year of reporting. According to the FY2013 edition of the annual report of the Council of Inspectors General for Integrity and Efficiency (CIGIE), p. 15, questioned costs, funds recommended for better use, and recoveries for the whole U.S. government in FY2013 amounted to \$52.3 billion. Total budget authority in FY2013 was \$3.5 trillion according to the historical tables of the FY2015 budget, Table 5.2.

<sup>93</sup> A rough calculation shows Afghanistan and Pakistan alone accounting for 33% of USAID IG questioned and better use costs during FY2014. Not counted in the above discussion are costs examined by the Special Inspector General for Afghanistan Reconstruction (SIGAR).

<sup>94</sup> Here it is necessary to distinguish between measuring inputs and output—the number of training sessions, roads built, and textbooks provided—versus outcomes, such as a better functioning government administration or a rise in local trade or incomes.

reinvention initiative and a pilot in implementing the Government Performance and Results Act of 1993 (GPRA). Put succinctly, “managing for results” focused the aid program on the achievement of higher level strategic objectives and program outcomes rather than on the inputs and outputs of individual project activities. And it required the definition of strategic objectives and program outcomes in measurable terms—identifying quantifiable indicators and setting targets to help evaluate progress. USAID Forward prioritizes a “managing for results” approach through its Program Cycle, including the new results framework in the CDCS described earlier. But quantification of anticipated results has brought with it its own concerns, as noted in the section below.

### *Too Much Accountability?*

Some observers have argued that the various steps required to ensure financial and performance accountability may have had harmful effects on agency operations and program effectiveness. Former Administrator Andrew Natsios (George W. Bush Administration), in particular, has been an outspoken critic of management practices imposed by oversight bodies in the name of accountability.<sup>95</sup> His views, echoed in the observations of USAID field staff and others, are a caution to policymakers. An over-emphasis on accountability, these aid practitioners and observers argue—

- Discourages risk taking. The response by USAID staff to the need to predict and measure results in the inherently risky environment of developing countries has arguably been an excess of caution and depressed innovation. Why take chances funding new partners and new approaches to development if you cannot be certain of achieving the desired, measurable results?<sup>96</sup> While USAID Forward reforms seeking greater use of local systems, establishing an innovative development lab, and encouraging a “culture of learning” would indicate a greater acceptance of risk-taking in the agency, some argue that old habits and fear of failure and compliance police continue to trump risk.<sup>97</sup>
- Determines where you invest assistance dollars. Health outcomes—mortality rates, disease reduction—are more easily quantifiable than those in other sectors and, so, may have benefitted accordingly. Projects whose development outcomes are not so easily measured—scholarships, funding of local think tanks, writing of constitutions, institution building, and policy reform—may have been neglected as a result.<sup>98</sup>

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<sup>95</sup> Andrew Natsios, *The Clash of the Counter-bureaucracy and Development*, Center for Global Development, July 2010.

<sup>96</sup> Natsios, *Clash*, p. 58. And not a new argument as a similar case was made 40 years ago in 1975 by Judith Tendler, *Inside Foreign Aid*, pp.38-53. “AID, inherently vulnerable to harsh criticism, became more and more preoccupied with protecting itself from the watchdogs, retreating under the safe cover of close adherence to standard procedures, and fearing the exposure that might result from risk-taking and experiment.” (p. 42).

<sup>97</sup> On risk taking, see USAID, *Remarks by USAID Administrator Dr. Rajiv Shah at a Town Hall With the U.S. Global Leadership Coalition*, May 5, 2010; Thomas Dichter, *The Capable Partners Learning Agenda on Local Organization Capacity Development: Main Report*, February 20, 2014, pp. 127-140.

<sup>98</sup> Natsios, *Clash*, p. 15, 61, 64; Oxfam, *The ‘Right’ Results: Making Sure the Results Agenda Remains Committed to Poverty Reduction*, September 29, 2011, p. 14.

- Favors short-term planning over long-term planning. Prior to the 1990s, according to Natsios, projects had a 10-year time frame. With the need to show immediate results, planners arguably think in terms of three to five years at most.
- Prevents local participation. Accountability regulations place a compliance burden on local entities, a problem which Local Solutions reform is seeking to change.<sup>99</sup>
- Slows and makes more costly the project planning and implementation process. The need to measure progress can dominate the time of aid officers and add to project costs.<sup>100</sup>
- Has been misinterpreted and misused by IGs. Natsios argues that, although measurable indicators are intended to help evaluate project progress and make improvements, they have been used by IGs to claim that programs are not working and should be shut down. He also notes that the project delays, missed deadlines, and inadequate paperwork, highlighted by many USAID IG and GAO reports in the past, were actually signs of poor institutions in developing countries, not of waste, fraud, and abuse.<sup>101</sup>
- Is misplaced in war zones and other areas of high national security interest where the chief aims are political, aimed at winning hearts and minds, and not developmental. The same performance standards arguably should not be applied as the Defense and State Departments micro-manage the programs and USAID officers have little policy discretion in these circumstances.<sup>102</sup>

## **“Local Solutions” and Procurement Reform**

As noted in the above discussion of USAID Forward reforms, a key element of USAID’s procurement reform effort has been to provide more funds directly to host countries and local organizations implementing aid programs in order to foster country ownership, develop local capacities, and better sustain project efforts in the long-run. This reform has raised multiple overlapping concerns—first, regarding possible impacts on U.S. contractors and grantees; second, regarding the methodology of achieving country ownership; and, third, regarding the ability of USAID to maintain appropriate standards of accountability. These concerns are discussed below.

### ***U.S. Contractors and Grantees***

When first enunciated in 2010, one facet of the procurement reform in particular generated controversy and some opposition within the community of U.S. development contractors and grantees. That was the proposed effort to move 30% of contract and grant mission program funds through recipient country governments and private sector institutions by FY2015 (from the estimated 9.6% in FY2010).

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<sup>99</sup> Natsios, *Clash*, p. 57; Mercy Corps, p. 7

<sup>100</sup> Natsios, *Clash*, pp. 58, 63.

<sup>101</sup> Natsios, *Clash*, pp. 38, 17.

<sup>102</sup> Natsios, *Clash*, p. 70.

To the extent that U.S. assistance flows directly to foreign governments and local entities, it is less likely to go to U.S. development program implementers, so it could be argued that any opposition by U.S. implementers was based on self-interest. However, critics of the reform suggested that it underestimated the value of U.S. contractors and grantees to the achievement of U.S. aid objectives. Many of these development organizations have global expertise in their fields that allows them to learn from their experience in one part of the world and bring that knowledge to bear in other parts. They have a demonstrated track record in their fields of specialization. As U.S. institutions, they represent U.S. values and interests abroad. And they are long-practiced in meeting the accountability requirements of USAID. A further potential benefit of employing U.S. contractors and grantees is that U.S. entities and their supporters, especially in the community of charitable organizations, generate constituent and, hence, congressional backing for foreign aid and reduce the resistance of “buy America” advocates.<sup>103</sup>

InterAction, an organization representing the community of U.S. humanitarian and development NGOs, argued that if capacity building is the goal of this reform, USAID’s 30% objective should include U.S. NGO programs that build local capacity, as many U.S. NGOs have established counterpart organizations abroad through which they work. Others argued that the objective also failed to include sub-contracts and sub-grants by U.S. entities to local ones. If current sub-contracting to local organizations were included—something USAID did not then track—they said the 30% objective might have already been met. Further, a consortium of more than 70 for-profit development companies argued against “the premise that *more* localization will necessarily result in *better* localization.”<sup>104</sup>

The development community itself appeared divided on this issue. Some NGOs, such as Oxfam, fully supported the 30% objective and argued that aid providers should be working themselves out of a job sooner rather than later.<sup>105</sup> Supporters provided many anecdotal accounts from aid implementers negatively contrasting U.S. contractor overhead with local costs and fly-in technical assistance with locally bred knowledge.<sup>106</sup> Both supporters and opponents brought their concerns to Members of Congress.

The controversies that arose when USAID announced the reform in 2010 appear to have diminished as USAID has become less insistent on meeting established targets by a specific date and more accommodating on the role of U.S. organizations. Some blame a poorly managed rollout of procurement reform, including a lack of consultation, for the negative reaction of some aid implementers. Whatever the arguments made by or on behalf of the roles of U.S. contractors and grantees, as USAID pointed out, even if the now-“aspirational” quantitative objective of the procurement reform is met, U.S. organizations would still be implementers of 70% of mission program funds.<sup>107</sup>

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<sup>103</sup> See, for example, InterAction, *Procurement for Country Ownership and Better Results*, September 2012, and *More Effective Capacity Building Within USAID Forward*, October 2012; Daniel F. Runde and Conor M. Savoy, *The Ecosystem of U.S. International Development Assistance*, Center for Strategic and International Studies, October 2012.

<sup>104</sup> Coalition of International Development Companies, *The CIDC Vision*, at <http://www.cidc.us>.

<sup>105</sup> Oxfam, *Capacity: Helping Countries Lead*, undated. See also, Modernizing Foreign Assistance Network, *The Way Forward: A Reform Agenda for 2014 and Beyond*, undated.

<sup>106</sup> Oxfam America, *Quick Facts: How Overreliance on a Flawed Contractor Model Can Lead to Waste*, April 2013.

<sup>107</sup> USAID, Letter from Barbara Feinstein, Deputy Assistant Administrator for Legislative Affairs, to Darrell Issa, Chairman of the House Committee on Oversight and Government Reform, May 9, 2012, p. 13.

## ***Country Ownership***

USAID's "local solutions" effort follows from its original mandate and a long history of working closely with recipient governments and civil society. From the beginning of USAID, it has been a guiding policy to "carry out programs of assistance ... to the extent practicable in conjunction with local private or governmental participation."<sup>108</sup> During the past decade, at a series of international conferences on aid effectiveness, donors, including the United States, recognized the principle that developing countries should design and manage their own development, a principle known as "country ownership."<sup>109</sup>

USAID believes that a key objective of development assistance is to strengthen the capacity of government and private sector entities to meet this end. In its "local solutions" reform, USAID argues that funneling aid funds through the host government and private sector—in essence allowing them to run USAID programs—may help to build their capacity and, at the same time, facilitate long-term program sustainability by virtue of ensuring host government and local society engagement.<sup>110</sup>

The focus on local solutions is somewhat different from the historic role that USAID has played in building the institutional capacities of developing countries. From the 1960s, it placed U.S. technical experts in government ministries, trained bureaucrats in-place or through U.S. and other country degree programs, and supported the establishment of rural agricultural cooperatives, civil advocacy groups, business associations and other local organizations, among a wide range of related activities, many of which it continues today.

Although disputing the original reform metric and time frame, most in the development community of contractors and NGOs do not question the ultimate objective of "country ownership." Rather, they disagree with the "hows" of achieving country ownership.

Some reject the basic premise that localization of aid, in the sense of being part of a USAID project, will reduce a recipient government's dependence on U.S. implementers, increase local ownership, enhance sustainability, and increase capacity.<sup>111</sup> They suggest that asking local organizations to do what USAID wants—rather than acting as partners by doing what the local organizations have found works in their country—is misguided. Capacity building in this sense is to help local organizations undertake USAID projects and meet USAID financial and other requirements. Giving local organizations a larger role in project aid may create dependence on donor agency funding and practices while doing little to develop local organization institutional capacities.<sup>112</sup> A related concern is that local NGOs whose budgets increase dramatically with

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<sup>108</sup> Foreign Assistance Act of 1961, §601 (b) (5). Originally, §601 (b) (4) of the FAA. In addition, an amendment to the FAA in 1978 says, "Development planning must be the responsibility of each sovereign country. United States assistance should be administered in a collaborative style to support the development goals chosen by each country receiving assistance." (FAA, Section 102 (b) (2)).

<sup>109</sup> Most recently in the 2011 Busan agreement approved by 160 countries.

<sup>110</sup> USAID, *Local Systems: A Framework for Supporting Sustained Development*, April 2014.

<sup>111</sup> Daniel F. Runde and Conor M. Savoy, *The Ecosystem of U.S. International Development Assistance*, Center for Strategic and International Studies, October 2012, p. 3.

<sup>112</sup> Thomas Dichter, *The Capable Partners Learning Agenda on Local Organization Capacity Development: Main Report*, pp. 11-12, 141; Oxfam, *To Fight Corruption, Localize Aid*, March 19, 2015, p. 24.

USAID assistance might find themselves requiring a new organizational structure or may risk losing touch with their own grassroots support.<sup>113</sup>

As noted in the previous section, some assert that many governments and local for-profit and nonprofit organizations are simply not ready to independently implement U.S. aid programs. If the chief objective is building capacity, these critics argue, then it should be recognized that the transfer of knowledge is as important as the transfer of funds, and how well development work is performed is more important than who does it. Fair and open competition, instead of limiting applicants to the host country, they argue, would ensure the best development outcome. U.S. contractors and grantees, with expertise and long experience, already conduct most of their work with local organizations and personnel. Under this line of thinking, if USAID wants to build capacity, it should dedicate more resources to developing the management capacity of local organizations, utilizing U.S. NGOs to accomplish this end. It is argued that the agency should also simplify its various application, management, and reporting requirements to better enable local organizations to implement programs successfully. But, in any case, many supporters of the concept of local ownership are concerned that funds not be greatly increased until these organizations are ready to use them effectively.<sup>114</sup>

However, others in the development community argue a completely contrary view. They assert that developing country organizations already have considerable capacities. A USAID-sponsored study found that over half the 325 organizations in nine countries examined could “hold their own” with any U.S. NGO or contractor.<sup>115</sup> Oxfam has long argued the same.

The study also suggests that fundamental USAID behavior may need to change for local ownership efforts to work.

At USAID Missions, despite the call for reforms, staff are driven by old incentives and job descriptions. You get rewarded not for how many local organizations you have got to know but by how large a portfolio you manage. And getting out of the office to spend time getting to know local organizations at length and in depth is made hard by security concerns and by the pressure of paperwork, other duties and priorities. Thus the very behavioral traits that local organizations have told us they increasingly want – trusting relationships, regular communication, and longer term engagements, are not the behaviors that USAID is currently set up to encourage.<sup>116</sup>

USAID recognized this concern in part by attempting to incentivize its staff to work with local organizations. According to the agency, it has established local engagement as a work performance objective for about two-thirds of FSOs and foreign nationals.<sup>117</sup> It remains to be seen whether factors such as restrictive security rules and scarce staff resources permit an enabling culture in USAID for localization.

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<sup>113</sup> Jeff Tyson, “How to Make Western Aid to Local CSOs Come Without a Burden,” *DEVEX*, August 28, 2014.

<sup>114</sup> InterAction, *A New Vision for the USAID-U.S. NGO Relationship: Partnering for Effective Development*, July 2012. Betsy Bassan and James Boomgard, “How to Ensure Foreign Aid Dollars are Invested Wisely,” *Federal Times.Com*, January 6, 2013.

<sup>115</sup> Thomas Dichter, *The Capable Partners Learning Agenda on Local Organization Capacity Development: Main Report*, pp. 9, 102.

<sup>116</sup> Thomas Dichter, *The Capable Partners Learning Agenda on Local Organization Capacity Development: Main Report*, p. 12.

<sup>117</sup> State Department, *Congressional Budget Justification, Appendix 2: Foreign Operations, FY2016*, p. 224.

To ensure greater participation by local entities in USAID programs, the agency has sought to limit competition in favor of local organizations or to provide sole source awards. Likely due to U.S. NGO and contractor opposition, an element in the original reform plan that would have required missions to set aside \$2 million for local NGOs was eliminated. Nonetheless, in the FY2012 State, Foreign Operations appropriations (P.L. 112-74, §7077), Congress supported an agency pilot effort to limit competition for awards under \$5 million to local entities “if doing so would result in cost savings, develop local capacity, or enable the USAID Administrator to initiate a program or activity in appreciably less time than if competition were not so limited.”<sup>118</sup>

While this effort suggests some congressional support for localization, language on the issue adopted in the FY2014 appropriations (P.L. 113-76, §7028) and maintained in FY2015 (P.L. 113-235, §7028) points to a possible constraint on USAID efforts. Although Congress continued the language permitting limited local procurement, it now allows limited competition for local entities only if a written documented assessment is made of the level of local capacity to “effectively implement, manage, and account” for programs, and if effective monitoring and evaluation systems are in place to ensure funds are used for their intended purpose and if fraud is unlikely. The issue of local accountability is discussed below.

### ***Localization and Accountability***

Perhaps the most challenging aspect of USAID’s “local solutions” effort is the question of accountability. In an April 26, 2012, letter from the House Government Oversight and Reform Committee to USAID, Members particularly emphasized their concern over whether USAID is able to ensure that funds going to foreign governments and organizations are not subject to waste, fraud, or abuse. Such concerns were translated into Sections 7028, as noted above, and 7031 of the FY2015 State, Foreign Operations appropriations (P.L. 113-235, Division J), both requiring assessments of partner capacity to implement aid programs.<sup>119</sup> The broader interest in preventing waste or misuse of USAID funds is long-standing, but the widely accepted characterization of developing countries as corrupt and deficient in management capacity can make the risk of funneling funds directly through local entities seem outsized.<sup>120</sup>

USAID has in place regular processes to monitor both project performance and financial accountability. These apply to foreign entities as they do to U.S. ones. Furthermore, many contractors and NGOs already currently use local personnel and organizations to implement their programs as sub-contractors or sub-grantees or direct employees of these U.S. entities. However, because of the perceived risk in providing aid through governments and local organizations, USAID has taken a number of steps to launch its “local solutions” reform to ensure that concerns regarding country performance and accountability are addressed.

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<sup>118</sup> These terms were extended into FY2013 under the continuing appropriations of that year (P.L. 113-6).

<sup>119</sup> Section 7031 addressing direct government assistance was first adopted in the FY2012 State, Foreign Operations appropriations (P.L. 112-74, Division I) in December 2011. Section 7028, applying more broadly to local entities, was first adopted in the FY2014 act (P.L. 113-76, Division K) in January 2014.

<sup>120</sup> The identification of questionable financial behavior of U.S. nonprofits Academy for Educational Development (AED) and International Relief and Development (IRD) in carrying out USAID programs in South Asia during the past decade indicates that the problem is not exclusively foreign. Christopher Beam, *Contract Killer*, March 31, 2011, Slate.com.

USAID has developed a method of appraising the capacity of partner governments to handle U.S. development funds—a Public Financial Management Risk Assessment Framework (PFMRAF). As of March 2015, 35 countries had completed the stage-one rapid risk appraisal which seeks to identify broad fiduciary risks at the country level.<sup>121</sup> Of these, 27 had entered the second stage in which gaps in a specific governmental entity’s capacity are identified and measures to address them proposed.<sup>122</sup> Based on this, along with other relevant assessments, the project design is completed, inclusive of the decision to provide direct government-to-government assistance.

PFMRAF can be applied only to those parts of the government relevant to a project—the Ministry of Health and the Ministry of Finance, for example, in the case of a health project. Therefore, the quantity of stage-2 risk assessments outnumbers the total of countries; as of March 2015, 147 assessments had been performed or were on-going. Assessments are supposed to be updated every three years. While 2013 and 2014 USAID IG studies found a variety of weaknesses in implementation of the Risk Assessment Framework, in part associated with the speed of its adoption by the agency and the inexperience of mission personnel with conducting the assessments, a June 2015 GAO report noted that fiduciary risk assessments were conducted and risk mitigation plans formulated as required; risk mitigation measures, however, were not always incorporated into project planning.<sup>123</sup>

For local non-government entities, USAID assesses local capacity to perform adequately and identifies potential risk using a Non-U.S. Organization Pre-Award Survey. Mission contracting and financial officers work more closely with local organizations to help them meet agency accountability standards. A June 2013 USAID IG examination of Pre-Award Survey implementation found no weaknesses in a sample of conducted surveys.<sup>124</sup>

To diminish risk when working with partner governments, USAID now appears to more frequently employ financing mechanisms that allow the agency greater control over its funds and program results. The Fixed Amount Reimbursement Agreement (FARA) requires that a partner government complete specific project elements prior to USAID payment—so, for instance, a school would be built to specifications, confirmed by USAID, and then reimbursed at the agreed fixed amount, regardless of actual cost to the host country.

Similarly, with regard to local NGOs, a Fixed Obligation Grant (FOG) establishes milestones by which USAID can measure progress and provide funds. FOGs are particularly useful for local NGOs with limited experience working with USAID; they allow the agency to assist NGOs with compliance and help improve their internal procedures and policies to accommodate USAID requirements. A more flexible FOG mechanism has been established allowing more simplified eligibility and upfront payment or periodic advances to facilitate use of local NGOs.

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<sup>121</sup> The remaining eight countries decided not to continue on to the second stage at this time.

<sup>122</sup> Five of these 27, however, stopped direct government activities.

<sup>123</sup> USAID Inspector General, *Memorandum: Review of USAID’s Partner-Country and Local Organization Assessments Under Implementation and Procurement Reform*, June 7, 2013. USAID Inspector General, *Most Serious Management and Performance Challenges for the U.S. Agency for International Development, FY2014*, undated memo. GAO, *Foreign Aid: USAID Has Taken Steps to Safeguard Government-to-Government Funding but Could Further Strengthen Accountability*, GAO-15-377, June 2015, p. 9.

<sup>124</sup> USAID Inspector General, *Memorandum: Review of USAID’s Partner-Country and Local Organization Assessments Under Implementation and Procurement Reform*, June 7, 2013.

In special cases, such as Afghanistan, where corruption is widespread, but where a political and strategic impetus exists to direct assistance through the government—donors agreed at the 2010 London Conference to funnel 50% of aid through the government—USAID has followed different methods that still enable a degree of oversight.<sup>125</sup> The Afghanistan Reconstruction Trust Fund moves assistance into government salaries or government-supported community development programs, and their uses are monitored by the World Bank, which administers the fund. USAID’s own direct host country contracting in Afghanistan provides funds to USAID-vetted ministries—funds for the health program move through a separate unit of the Afghan Ministry of Health to designated international NGOs implementing agreed health clinic assistance in assigned parts of the country; funds for other ministries are provided on a reimbursable basis for specific projects using separate bank accounts. While the Special Inspector General for Afghanistan Reconstruction (SIGAR) has pointed to vulnerabilities in USAID’s Afghanistan risk mitigation measures and calls its failure to require ministries to implement better internal controls “an unacceptable assumption of risk,” nonetheless it says that USAID “has done a better job of protecting direct assistance funds than other U.S. agencies, particularly the Department of Defense.”<sup>126</sup>

Risk assessment and identification procedures may mitigate potential fraud or poor performance, but they cannot eliminate them entirely, just as the use of U.S. entities is not free of these concerns. A disadvantage unique to directing funds through local entities is that, in case of financial misuse, there are fewer legal remedies and none through U.S. courts. Governments, however, can be threatened with loss of further aid, and private organizations can be threatened with disbarment. Reform supporters argue that aid provided directly and transparently to governments gives local watchdog organizations the opportunity to root out corruption and strengthen democratic institutions.<sup>127</sup>

## **U.S. Aid Implementers**

The main implementers of USAID programs are U.S. for-profit and nonprofit non-governmental organizations, representing nearly 50% of assistance in FY2014.<sup>128</sup> These two groups, respectively associated with the agency’s contracting and grant/cooperative agreement award mechanisms, at times appear at odds with each other (and sometimes with themselves) and, making their concerns known to Congress, affect the way in which USAID conducts its business. Two issues illustrate this point—efforts to reduce the role of large contractors and grantees and the choice between contracts and grants.

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<sup>125</sup> Technically, most USAID assistance to the Afghanistan government is not direct government-to-government aid in the way discussed for other countries, as it is provided to special project management units operating outside of standard government procedures. USAID, *Government to Government Assistance*, August 24, 2010, Attachment A, p. 2.

<sup>126</sup> SIGAR, *Testimony before the Subcommittee on National Security of the House Committee on Oversight and Government Reform*, April 2014, p. 16. SIGAR, *High-Risk List*, December 2014, pp. 19-23.

<sup>127</sup> Oxfam, *New USAID Reforms Put Foreign Aid to Work Fighting Corruption and Waste*, May 7, 2012.

<sup>128</sup> USAID, *Overview of Summary of Foreign Assistance to US and Non-US Organizations, FY2012-2014*, document provided to CRS on July 17, 2015.

## Large Implementers vs. Small

USAID's procurement reform efforts initially emphasized a goal to broaden the pool of aid implementers to include more U.S. small businesses and NGOs, and this move stirred opposition, particularly from the larger for-profit contractors who felt most affected. If the large contractors felt unduly targeted by the reform efforts, they may have been reacting to then-USAID Administrator Rajiv Shah's comment, "This agency is no longer satisfied with writing big checks to big contractors and calling it development. There will still be a role for these contractors, just different than what it was in the past."<sup>129</sup> Subsequently, in its FY2014 guidance on procurement reform, Senate appropriators supported the agency's effort to reach "a wider range of partners and increase competition" and urged USAID to "reduce reliance on large, inflexible contracts."<sup>130</sup>

Initially, USAID's reform effort sought to reduce agency reliance on a form of contracting that, since the 1990s, has appeared to give larger contractors, and to a lesser extent larger grantees, preferable treatment. With the steep decline in USAID staff during the 1990s, including contract officers, the agency found it increasingly difficult to provide adequate oversight of numerous small contracts and grants. As a result, it moved to award larger contracts to fewer implementers. In particular, the number of indefinite quantity contracts (IQCs) grew. IQCs—recently renamed Indefinite Delivery/Indefinite Quantity (IDIQ) contracts—are "umbrella" contracts, either confined to one sector or bundling diverse activities, provided to a firm or consortium of firms whose expertise can be drawn upon when needed with separate "task orders."<sup>131</sup> If a mission, for instance, required the services of an expert on microfinance, the agency-wide microfinance IQC was available to them. The advantages were speed, because the contracting mechanism was already in place, and practical efficiency, averting the necessity of having the limited number of USAID staff design and manage multiple individual contracts.<sup>132</sup>

Although IQCs often designated a dollar value share for sub-grants and sub-contracts to other providers, the increase in IQCs was viewed by the smaller contractors and the nonprofit NGO community as reducing their role in USAID programs and giving a narrow set of contractors too much power. The congressionally mandated HELP Commission criticized the growing role of contractors, noting that between 1996 and 2005, the amount of aid going through the five largest contractors had grown from \$57 million to \$1.25 billion (it reached \$2.2 billion in FY2012), the proportion of total contracts represented by these five going from 33.1% in 1996 to 46.7% in 2005.<sup>133</sup> The commission recommended that the size, range of activity, and number of umbrella

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<sup>129</sup> Ron Nixon, "In Switch, Development Agency Welcomes Business and Technology to Poverty Fight," *New York Times*, April 8, 2014; *Remarks by USAID Administrator Dr. Rajiv Shah at the Aspen Institute*, August 1, 2012, accessed at [usaid.gov](http://usaid.gov).

<sup>130</sup> Senate Appropriations Committee report on S. 1372, the FY2014 State, Foreign Operations Appropriations Act, p. 43, the requirements of which the USAID Administrator was directed to fulfill in Division K of P.L. 113-76, the Consolidated Appropriations Act, 2014. Along the same lines, the House Appropriations Committee expected that, "to the maximum extent practicable, the Administrator of USAID shall ensure that United States small, minority-owned, veteran, and disadvantaged business enterprises fully participate in the provision of goods and services." Report on H.R. 2855, the FY2014 State, Foreign Operations Appropriations Act, p. 32.

<sup>131</sup> The IQCs grant equivalent is the Leader with Associates.

<sup>132</sup> Under an IQC or other forms of umbrella contracts, the contractor will relieve the USAID mission of management burdens by reducing the number of procurement actions and required USAID personnel – it will prepare and issue proposals, organize the review committee, complete due diligence, negotiate the award, and manage use of funds. USAID Microenterprise Development Office, *Microfinance Umbrella Programs Study*, July 2006, p.xiii.

<sup>133</sup> Established in P.L. 108-199, §637 of Division B of the Consolidated Appropriations Act, 2004. The HELP Commission Report on Foreign Assistance Reform, *Beyond Assistance*, December 2007, p. 42. The report figures (continued...)

awards be limited. The U.S. NGO community, represented on the USAID Advisory Committee on Voluntary Foreign Aid, were especially critical of the growth of IQCs. Their use, in the committee's view, "restricts the pool of expertise, resources, and ideas that USAID can draw upon for developmental solutions."<sup>134</sup> In 2004, Congress inserted itself into one manifestation of this debate by requiring (in P.L. 108-484) that microenterprise assistance "shall emphasize the use of implementing partner organizations," (i.e., the nonprofit PVO/NGOs whose share of this sector funding had dropped from 53% in 2000 to about 37% in 2005).<sup>135</sup> The original language of this legislation would have excluded for-profit contractors entirely from microenterprise activity.<sup>136</sup>

Some steps have been taken to decrease the number and dollar value of large contracts and increase awards to U.S. small business and NGOs. Large non-competed contracts over \$25 million must be approved at higher levels in the agency than previously. The agency set up a Board for Acquisition and Assistance Reform to facilitate a move to smaller awards. According to USAID, between FY2010 and FY2014, the board reviewed 67 awards, valued at nearly \$30 billion, restructuring 27 of them to increase the number of awards and the amount reserved for small business. Subsequently, amounts awarded for IQCs fell from \$470 million in FY2012 to \$64 million in FY2014. Amounts awarded to U.S. small business grew by 236% from \$137 million in FY2010 to \$461 million in FY2014.<sup>137</sup> The board has since been discontinued and its activities integrated into the regular management review process.<sup>138</sup> However, in a possible departure from the move to rein in IQCs, in March 2015, USAID awarded a \$1 billion IQC to Tetra Tech Inc. to support USAID's water programs.<sup>139</sup>

### *Contracts vs Grants/Cooperative Agreements*

The divide between the chief implementers of USAID projects—for-profits and nonprofits—is also mirrored in a debate over the use of the procurement instruments they tend to represent—contracts and grants/cooperative agreements. Under federal procurement regulations, a contract is supposed to be used to acquire services for the direct benefit or use of an agency, while a grant or cooperative agreement is to be used when the principal purpose of the relationship is to "transfer a thing of value" (i.e., fund) to the recipient to carry out a public purpose authorized by law.<sup>140</sup>

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(...continued)

miscalculated the USAID-supplied data for the FY2005 numbers. The accurate figures are provided here.

<sup>134</sup> USAID Advisory Committee on Voluntary Foreign Aid, *ACVFA's Analysis and Recommendations of Trends in USAID Implementation Mechanisms*, July 2007, p. 5.

<sup>135</sup> However, the data show only the initial recipients of assistance and ignore the sub-recipients to whom much aid is passed.

<sup>136</sup> The House International Relations Committee report (H.Rept. 108-459) argued that nonprofits had long-standing relationships with developing country institutions and were likely to remain interested in their sustainability after a project ended. They continually build expertise in the field which benefit future projects. Nonprofits also often match U.S. government funds with some private contributions and may have lower overhead costs than for-profit contractors. It was the committee's belief that for-profit contractors were neither as competent as nonprofits in providing microfinance services nor had as long a record in dealing directly with indigenous institutions. The committee was particularly critical of IQCs.

<sup>137</sup> According to USAID, amounts awarded to small business rose from 5.3% of worldwide contracts in FY2010 to 12.1% in FY2014. State Department, *Congressional Budget Justification, Appendix 2: Foreign Operations, FY2016*, p. 224.

<sup>138</sup> USAID communication with CRS, October 22, 2014.

<sup>139</sup> Eddie Staley, *Tetra Tech Wins \$1 Billion USAID Water and Development Contract*, March 30, 2015, Benzinga.com.

<sup>140</sup> Angelique M. Crumbly, Assistant Administrator, Bureau for Management, USAID, letter to Alan Chvotkin, Council (continued...)

Overall, grants and cooperative agreements represented two-thirds of awards (\$9 billion) and contracts one-third (\$4.5 billion) in FY2013.<sup>141</sup> This relationship is a turnaround from the period before about FY2007, when contracts predominated as a proportion of USAID awards.<sup>142</sup>

In the context of this change in the relative position of contractors, USAID's procurement reform agenda generated new heat. In 2011, stung by a perceived insinuation by the media and nonprofits that for-profit firms are less capable or committed to achieving development goals than nonprofits, the Professional Services Council—some of whose members formed a subsidiary Council of International Development Companies (CIDC) in the wake of USAID's procurement reform—called on USAID to support a “transparent and unbiased” process for determining the best implementing mechanism for a particular project. They argued that it is detrimental to the agency's effort to build a modern development enterprise if some are “hobbled by a presumption that one business model is superior to another” and when the public focus is on “reforms and accountability for contractors, without equal or greater attention to the performance, transparency and accountability of grantees.”<sup>143</sup>

Taking the view in a April 26, 2012, letter to the USAID Administrator that contracts “are inherently more transparent and accountable,” the Chairman and two colleagues on the House Committee on Oversight and Government Reform raised the concern that the agency's procurement reform meant an increased reliance on grant awards as a funding vehicle. They voiced a fear that grant oversight might increase the agency workload and result in more waste and fraud.<sup>144</sup>

Arguing that NGO grantees use taxpayer dollars more effectively than contractors by providing an already existing long-term in-country presence and institutional knowledge, as well as mobilizing private resources to support their efforts, InterAction, the consortium of NGOs, expressed a somewhat opposite view from that of its for-profit counterpart. It noted “USAID's apparently increasing preference of working through for-profit contractors rather than non-profit NGOs.”<sup>145</sup>

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(...continued)

of International Development Companies, June 10, 2014.

<sup>141</sup> According to data on USA Spending.Gov.

<sup>142</sup> Available data and definitions of what is being measured are changeable and imprecise. Data from the late 1980s suggest that contracts represented the bulk of USAID non-government awards, growing substantially in proportion to grants so that by FY2006 they may have represented as much as 80% of non-government awards. Thereafter, the tide appears to have shifted. Focusing only on Global Health awards from FY2008 (more than 1,000), a study found that the share of grants/cooperative agreements relative to contracts (excluding commodity procurements) increased annually between FY2009 and FY2012, from 37% of obligated funds to 78%. GAO, *Foreign Assistance: AID Can Improve Its Management of Overseas Contracting*, NSIAD-91-31, October 1990, p. 12; USA Spending.Gov, *Contracts/Awards Timeline for All Years*; Oliver Wyman for USAID, *Award Cost Efficiency Study*, p. 128.

<sup>143</sup> Letter from the Professional Services Council to USAID Administrator, February 7, 2011.

<sup>144</sup> Darrell Issa, James Lankford, Jason Chaffetz, Committee on Oversight and Government Reform, House of Representatives, *Letter to Rajiv Shah, USAID Administrator*, April 26, 2012, p. 3.

<sup>145</sup> InterAction, *Policy Brief: Procurement Reform in U.S. Development Assistance*, January 2011. It has also argued that the agency's engagement with nonprofits in recent years has been “inconsistent and in some cases seemed like an afterthought,” citing the lack of consultation with the Advisory Committee on Voluntary Foreign Aid or other NGO bodies on presidential and other aid initiatives. InterAction, *Policy Paper: A New Vision for the USAID-U.S. NGO Relationship*, July 2012, p. 3.

These views highlight distinctions between grants and contracts that to some observers may not be as sharp as suggested by their proponents and detractors. For instance, a 2006 USAID study argued that the perception that contracts better tie funds to results depends on the type of contract used. Fixed-price contracts require specific defined outputs, but because USAID works in an environment where many external factors may affect what can be done, the agency often employed cost-reimbursement and time-and-materials contracts where the objective is “best effort.” Most contracts, the report’s USAID staff authors said, are no different than grants and cooperative agreements in ensuring achievement of results.<sup>146</sup>

InterAction, meanwhile, has argued that assistance awards for the nonprofits they represent have for more than 10 years become increasingly prescriptive (i.e., more like contracts). They suggest that NGOs are treated as implementers, not partners with their own expertise in design, implementation, and monitoring of programs. USAID data show that cooperative agreements, which are more prescriptive than grants, have grown as a proportion of total procurement awards, from 22% in FY2003 to 46% in FY2013.<sup>147</sup>

Contractors and grantees seem to agree on one thing. InterAction criticizes USAID guidelines on choosing implementing mechanisms, arguing that some grants should have been contracts and vice versa. They argue that USAID should clarify its guidance on implementing mechanisms and consistently follow it.<sup>148</sup> In a series of letters to USAID in 2014, the CIDC similarly argued that federal regulations criteria for choosing between contract or grant has often not been met, asserting that USAID has chosen one or the other without clear rationales.<sup>149</sup> More recently, in April 2015, the CIDC’s parent body noted a Supreme Court decision not to review a decision by the U.S. Court of Appeals involving the Department of Housing and Urban Development that affirmed the need for agencies to adhere to federal procurement laws that draw sharp distinctions between grants and contracts.<sup>150</sup>

In 2014, a USAID-sponsored Award Cost Efficiency Study recommended ways to improve the efficiency of the procurement process. As part of its effort to implement those recommendations, a USAID team has been reviewing guidance on the different implementing mechanisms.

## Role of USAID Vis-à-Vis the State Department

By noting both in the 2010 Presidential Policy Directive and 2010 QDDR, its commitment to “rebuilding USAID as the U.S. government’s lead development agency,” the Obama Administration highlighted what many in the foreign aid community had long recognized—that USAID’s role in the U.S. government had been severely challenged in the recent past.<sup>151</sup> Not only had multiple aid providers emerged—nearly every U.S. government department had some foreign aid program of its own—but the State Department itself had moved, in the view of many

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<sup>146</sup> USAID Microenterprise Development Office, *Microfinance Umbrella Programs Study*, July 2006, p. xiii.

<sup>147</sup> Interaction communication with CRS, March 19, 2007; USAID Bureau for Management data received December 1, 2014. See also Diana Ohlbaum, *The Illusion of Control*, February 2015 series at Devex.com.

<sup>148</sup> InterAction. *Procurement for Country Ownership and Better Results*, September 2012, pp. 4-5.

<sup>149</sup> Council of International Development Companies, Letters to Angelique Crumbly, Assistant Administrator, Bureau of Management, March 31, 2014 and May 2, 2014.

<sup>150</sup> Professional Services Council, *PSC Welcomes Supreme Court Action in Key Federal Contract Case*, April 22, 2015.

<sup>151</sup> PPD Fact Sheet, September 22, 2010, p. 6; QDDR, p. 76.

observers, to increasingly take possession of USAID policy and functions. The agency's weakened status within the U.S. government was said by many to have negatively affected its ability to meet its development objectives, coordinate assistance from other providers, determine the direction of its own resources to best advance development, and function administratively as an independent entity.

### ***Background: USAID's Role in the U.S. Government***

Through much of its history, USAID's autonomy and authority *vis-à-vis* both the Department of State and other agencies has been regularly challenged and changed. At some point during every Administration in the past 50 years, there has been some rethinking of aid policy, which has led to shifts in USAID's institutional position for better or for worse.<sup>152</sup>

In the beginning, the State Department was the lead agency on foreign aid policy, with the Foreign Assistance Act of 1961 clearly providing that "under the direction of the President, the Secretary of State shall be responsible for the continuous supervision and general direction of ... assistance programs."<sup>153</sup> In 1961, the act, not mentioning an Agency for International Development, authorized the President to exercise its provisions through any agency he chose. President Kennedy issued Executive Order 10973 on November 3, 1961, delegating to the Secretary of State most functions conferred to the President under the FAA and directing the Secretary to establish "an agency in the Department of State to be known as the Agency for International Development," which was subsequently carried out under State Department Delegation of Authority No. 104, also issued on November 3, 1961. The Secretary delegated to the new agency most of the development and humanitarian program functions authorized in the FAA.

The degree to which USAID felt the State Department's supervision and direction in its early years is not well documented. But USAID does appear to have functioned with considerable operational autonomy in its first 20 years. As a result of the 1973 New Directions legislation, USAID chaired a newly established Development Coordination Committee (DCC), an interagency organization to advise the President on assistance coordination issues, and chaired its subcommittee on bilateral aid as well, although it was thought at the time that these bodies had little impact on the agencies concerned.<sup>154</sup>

In September 1979, President Carter issued Executive Order 12163, to establish the International Development Cooperation Administration (IDCA), an independent agency within the executive branch that was given primary responsibility for establishing development assistance policy and the role of principal adviser to the President on these issues. According to the GAO, under the IDCA scheme, the State Department would now provide only broad policy advice and not specific recommendations on country programs. The IDCA Director was made chairman of the DCC, usurping the USAID Administrator.<sup>155</sup>

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<sup>152</sup> In addition, a range of private sector entities, public commissions, and congressional and non-government individuals have recommended reforms that touched on USAID's position, from suggestions for outright abolition to absorption by the State Department to independent cabinet status.

<sup>153</sup> P.L. 87-195, §621(c) of the original act, now §622 (c).

<sup>154</sup> GAO, *Coordinating U.S. Development Assistance: Problems Facing the International Development Cooperation Agency*, ID-80-13, February 1, 1980, p. 11.

<sup>155</sup> USAID also lost its chairmanship of the Overseas Private Investment Corporation to the IDCA Director. GAO, (continued...)

In the end, IDCA had little power or prestige. It was constituted without key players in development assistance: the State Department, Treasury, and even the Peace Corps. The Reagan Administration diminished the role of IDCA and, thwarting the plan's original concept of an independent arbiter for development policy, appointed the USAID Administrator as the IDCA Director. The most enduring end result of this phase, therefore, was that USAID was removed from the jurisdiction of the Department of State and became a more autonomous entity.

In April 1997, in part to respond to congressional critics who wanted to radically restructure or abolish USAID, the Clinton Administration proposed a foreign affairs reorganization that included absorption of the functions of the Arms Control and Disarmament Agency and the U.S. Information Agency into the State Department. The agreement with Congress allowed USAID to remain a separate statutory agency with its own appropriation, but with the Administrator reporting to and under the direct authority and foreign policy guidance of the Secretary of State. Congress approved legislation authorizing this approach in the Foreign Affairs Reform and Restructuring Act of 1998, which was signed into law on October 21, 1998.<sup>156</sup>

As required by the act, the President abolished IDCA through an amendment made to Executive Order 12163 (March 16, 1999). Under the order, functions vested in the President as they pertained to economic assistance were delegated by the President to the Secretary of State. Under a subsequent State Department Delegation of Authority No. 145 (as revised on March 31, 1999), the Secretary then delegated to the Administrator of USAID functions and authorities necessary to carry out USAID's mission. In other words, whereas previously USAID's authorities were delegated by the President, now they were to be delegated by the Secretary of State. The Delegation of Authority clearly noted the Secretary's role *vis-a-vis* USAID as follows:

(c) In keeping with the United States Agency for International Development's status as a distinct agency and recognizing that the Administrator is under the Secretary's direct authority and foreign policy guidance, the Secretary shall review the United States Agency for International Development's strategic plan and annual performance plan, annual budget submission and appeals, and allocations and significant (in terms of policy or money) reprogramming of development and other economic assistance.<sup>157</sup>

According to the Clinton Administration's Reorganization Plan and Report, submitted to Congress on December 30, 1998, the framework of relationships would be essentially the same as that which preceded the creation of IDCA.<sup>158</sup> The Secretary would coordinate development and other economic assistance and would ensure coordination among U.S. agencies in carrying out foreign aid programs. In carrying out its functions, USAID would consult with State as appropriate.

The reconfiguring and restating of USAID's position *vis-à-vis* the Department of State in 1998 set the stage for actions taken by the Bush Administration beginning in 2006.<sup>159</sup> In that year,

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*Coordinating U.S. Development Assistance*, p. 12.

<sup>156</sup> Inserted in the Omnibus Appropriations Act, P.L. 105-277.

<sup>157</sup> State Department Delegation of Authority No. 145, revised March 31, 1999, Section 4.

<sup>158</sup> Report submitted pursuant to Section 1601 of P.L. 105-277, available at [http://www.state.gov/www/global/general\\_foreign\\_policy/rpt\\_981230\\_reorg8.html](http://www.state.gov/www/global/general_foreign_policy/rpt_981230_reorg8.html).

<sup>159</sup> For a fuller account of challenges to USAID's position in government from the 1980s to 2009, see Gerald F. Hyman, *Foreign Policy and Development: Structure, Process, Policy, and the Drip-by-Drip Erosion of USAID*, Center (continued...)

Secretary of State Rice sought to increase coordination and integration of foreign aid programs into the foreign policy process by creating a new State Department position, Director of Foreign Assistance (DFA).<sup>160</sup> A key feature of this initiative was the decision to give the new DFA the concurrent positions of USAID Administrator and a State Department position equivalent to that of a Deputy Secretary, reporting directly to the Secretary of State. This step was a controversial one in the foreign assistance community, with some arguing that it diminished the status of USAID by enhancing the programming and budget allocation role of the Department of State, while others argued conversely that it strengthened USAID by elevating its access to foreign policy decisionmaking, though many in the NGO community made the former argument.

On the side of elevating its position, USAID, for the first time, chaired the International Development Policy Coordination Committee, one of 17 National Security Council entities that develop and manage cross-agency concerns. Also, under the Bush Administration, USAID saw its program responsibilities rise substantially, largely due to activities in national security conflicts such as Afghanistan and Iraq, likely raising its stature as a foreign policy principal.

On the other hand, USAID as an institution lost its budget and policy functions to this new DFA entity in the State Department. Its budget requests were made in conjunction with the State Department—the last independent USAID congressional budget justification was issued for the FY2007 budget year. The reform uprooted the mission-based decisionmaking model, adopting a more centralized planning process—the country assistance strategy (CAS)—focused on broad objectives but which, according to GAO, lacked “substantive content and details on how USAID is to achieve its objectives.”<sup>161</sup> Decisions on programming and any adjustments to those decisions in light of project experience were now made by a small staff in Washington. For several years during the transition from USAID’s former country planning process, many noted that the reform added uncertainty to mission planning and implementation and made achieving any long-term agreements with host country governments difficult.

These changes occurred on the heels of other setbacks to USAID’s role earlier in the Bush Administration. When the Administration proposed the establishment of two new and well-funded assistance programs in 2003—PEPFAR and the MCC—it chose to bypass USAID and house the former in an Office of the Global AIDS Coordinator in the Department of State and the latter as an independent entity. Only congressional pressure ensured that USAID would get a seat on the MCC Board of Directors, which had not been proposed originally by the Administration. Despite its lack of policy responsibility, USAID implements nearly two-thirds of PEPFAR’s program. On top of these new competitors in the development field, the non-traditional aid

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for Strategic and International Studies, September 2010.

<sup>160</sup> The DFA had authority over most State Department and USAID foreign assistance programs, although as a coordinating mechanism, it lacked authority over major aid programs such as the MCC and the Office of the Global AIDS Coordinator. For more on the DFA, see *Embassies Grapple To Guide Foreign Aid, Report to Committee on Foreign Relations, U.S. Senate*, by Minority Staff, 2007, S. Prt. 110-33, pp. 11-14.

<sup>161</sup> GAO, *Foreign Aid Reform: Comprehensive Strategy, Interagency Coordination and Operational Improvements Would Bolster Current Efforts*, April 2009, GAO-09-192, p. 6. In an effort to hold the agency to the same level as the State Department, the planning process also reportedly reduced more advanced USAID efforts to measure and report outcomes of projects rather than just outputs. One account cites a DFA office staffer calling the reform a “dumbing down [of] the indicators.” Many see the result as a weakening of USAID’s existing planning process. Gerald F. Hyman, *Assessing Secretary of State Rice’s Reform of U.S. Foreign Assistance*, Carnegie Papers, Carnegie Endowment for International Peace, Number 90, February 2008, p. 21.

providers in other parts of the U.S. government have expanded their activities in the past decade, in particular the Department of Health and Human Services, on disease programs, and the Department of Defense, in development (Iraq and Afghanistan) and humanitarian efforts.<sup>162</sup>

The erosion of support for the agency that had nearly led to its demise in the mid-1990s, the preference given alternative aid institutions in the early 2000s, and the absorption by the State Department of its powers a few years later had resulted from a combination of reinforcing factors building over the previous two decades. These included, in the 1980s and early 1990s, the loss of the anti-communist rationale for aid, blame for perceived aid failures, general anti-foreign aid rhetoric in Congress, and instances of waste highlighted by an “antagonistic” USAID Inspector General.<sup>163</sup> Funding cuts in the mid-1990s led to staff reductions and decreased morale, and persistent negative impressions of an agency, broadly thought of as being “multi-layered, bureaucratic, and slow to react,” and “slow, cumbersome, and unimaginative.”<sup>164</sup> Arguably, by 2007, the agency had reached its institutional low point.

### *Current Status*

Under the Obama Administration, the fortunes and standing of USAID appear to have shifted again, although it remains to be seen to what degree. As noted, the PPD and 2010 QDDR both endorsed efforts to make USAID the lead development agency, the QDDR making it the lead agency of the presidential Feed the Future Initiative and giving it the lead role in a new Interagency Policy Committee on Global Development.<sup>165</sup> The QDDR also endorsed USAID Forward reforms, among which were the restoration of the agency’s policy and budget functions. The State Department’s role in USAID’s business was made somewhat less expansive and, reportedly, more informal. The Director of Foreign Assistance became the Director of the Office of U.S. Foreign Assistance Resources, still charged with directing the transformation of the U.S. government approach to foreign assistance, but with a less elevated rank.<sup>166</sup> The State Department’s country assistance strategy has been replaced with the agency-generated and mission-focused country development cooperation strategy.

However, although the 2010 QDDR called for the “ultimate transition of leadership of the Global Health Initiative to USAID” by end of FY2012 if USAID met 10 benchmarks, the Administration decided to leave Initiative leadership in the Department of State. In any case, the QDDR decision did not affect PEPFAR, which accounts for most of health funding. This was to be left with the Office of the Global AIDS Coordinator.<sup>167</sup> Some question the extent to which USAID has regained its budget function—USAID and State continue to provide a joint congressional budget

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<sup>162</sup> The two departments were responsible for a total of about \$1.2 billion in development and humanitarian aid from their own budgets in FY2012. HHS’ Centers for Disease Control and Prevention also implements about one third of PEPFAR’s State-funded program.

<sup>163</sup> Natsios, *Clash*, pp. 16-20.

<sup>164</sup> Quotes drawn from *Embassies Grapple To Guide Foreign Aid, A Report to Members of the Committee on Foreign Relations, United States Senate*, November 16, 2007, p. 22; and Gerald Hyman, *Foreign Policy and Development: Structure, Process, Policy, and the Drip-by-Drip Erosion of USAID*, Center for Strategic and International Studies, September 2010, p. 21. See also, Andrew Natsios, etc.

<sup>165</sup> 2010 QDDR, pp. 81, 115, 107.

<sup>166</sup> No longer a Deputy Assistant reporting to the Secretary, but instead an Assistant Secretary rank reporting to the Deputy Secretary for Management and Resources.

<sup>167</sup> 2010 QDDR, p.84 and Appendix 2, p. 217.

request and issue a joint strategic plan, the most recent for the period FY2014 through FY2018.<sup>168</sup> Further, no rescission has been made of the delegation of authority that established the Office of Foreign Assistance and gave it final say on budget allocations and related decisions.<sup>169</sup> Although current personal relationships may provide USAID with some autonomy, there are no institutional assurances that the agency's "independence" will not be further challenged in the future.

### ***USAID and State at the Mission Level***

A recurrent concern of many who have observed the historic relations of these two agencies is that the development point of view of USAID is often supplanted by the diplomatic imperatives of the Department of State. An oft-cited supposition is that, given access to USAID funds, the embassy would be more likely to use funds to construct a bridge, which would lead to a ribbon-cutting ceremony, than for a less visible investment in education.<sup>170</sup>

One manifestation of this tension between agencies is the International Cooperative Support Services (ICASS) program. Partly at the behest of the GAO, the State Department and USAID in 2005 launched a pilot project in four countries to cut overseas costs by consolidating administrative services at embassies and missions. ICASS has since been extended worldwide and includes other U.S. agencies stationed abroad. Duplicative systems such as warehouses, motor pools, housing, and procurement operations are targets. As ICASS has been instituted, control of these systems has largely devolved to the Department of State, and numerous complaints have ensued from USAID FSOs regarding the way in which ICASS has been managed and the excessive drain it has become on USAID's operating budget. The GAO noted, for example, that USAID officials cite the unavailability of ICASS motor pool vehicles for travel to distant project sites "as a major impediment to achieving their mission."<sup>171</sup> Mission staff argue that State personnel tend to stay in the capital and do not understand the necessity to travel outside for project-monitoring purposes.

Another issue arguably impinging on USAID's ability to operate effectively is the result of consolidation of staff salary systems. USAID foreign national staff are intensively used for program purposes and, but for restrictions on management duties, often take on roles indistinguishable from U.S. direct hire personnel. They are generally considered well educated and well qualified for their posts. State foreign nationals, in part for security reasons, are often not employed at higher levels. The consolidation of employment systems, however, has severely restricted the pay levels for USAID foreign nationals and is viewed by many as a force making it difficult for USAID to retain its foreign staff whose skills are most attractive to other donor agencies and the private sector.<sup>172</sup>

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<sup>168</sup> State and USAID began publishing a joint strategic plan in 2003 (for FY2004 to FY2009) and issued another for the years FY2007 to FY2012.

<sup>169</sup> Former Administrator Andrew Natsios makes the further point that, by removing the two-hatted simultaneous leadership of both "F" and USAID Administrator, the Administration has cut USAID out of State Department decisions on development matters. Many in the development community, however, believe that, on balance, the dual posting had weakened USAID. Talk to Center for Global Development, June 19, 2014.

<sup>170</sup> J. Brian Atwood, former USAID Administrator, argues that development and diplomacy are different cultures in *Elevating Development Assistance*, PRISM, Vol I, Issue 3, National Defense University, February 2, 2010.

<sup>171</sup> GAO, *Embassy Management: State Department and Other Agencies Should Further Explore Opportunities to Save Administrative Costs Overseas*, GAO-12-317, January, 2012, p. 28.

<sup>172</sup> USAID, *USAID Five-Year Workforce Plan FY2011-FY2015*, December 2010, p. 53.

Since the 1998 Kenya embassy bombing, security concerns have increasingly intruded on customary USAID operations. While no one disputes the importance of ensuring the security of U.S. personnel, a number of USAID staff have suggested that the interpretation of the threat, in the hands of State Department security personnel, is perhaps more stringently and widely applied than would be the case if it were up to USAID. For the past decade, USAID missions and other offices have been gradually consolidated into the increasingly security-centered and less centrally located U.S. embassy compounds. The result according to USAID staff has been isolation from the agency's clients—local government and NGO personnel—who previously had easier access to mission offices and with whom regular interaction has been an essential part of USAID's culture. The 2015 QDDR addresses the concern that measures to prevent physical risk might also interfere with the accomplishment of State Department and USAID objectives. It promises a review that will “identify obstacles to our operations and programs, recommend ways to create additional policy flexibility where security is challenged, devise better options for operating in these environments, and maximize field input to inform high-level policy deliberations on complex crises.”<sup>173</sup>

National Security Decision Directive 38, issued by President Reagan in 1982, gave the Chief of Mission, and ultimately the State Department, final say on the size and composition of agency staff at diplomatic missions abroad. To some observers, the State Department's ability to put caps on the number of USAID staff negatively affects agency operations. A recent example concerns the disposition of USAID staff in East Africa. State Department efforts to cut the number of U.S. staff in Kenya, ostensibly for security reasons, has led to a 40% reduction in USAID's East Africa regional mission office in Nairobi despite strong opposition by the agency.<sup>174</sup> The regional office is responsible for programs that cross borders as well as in countries where there is no mission, including Burundi, Somalia, and Djibouti. USAID's localization efforts here as elsewhere entail more contracting officers and controllers to ensure that local organizations spend funds properly. The intensity of the interaction between these staff and local organizations requires that they be in close proximity. While the State Department wanted the regional staff to move outside the African continent entirely, USAID managed to get permission to disperse staff to various other African countries, including Ethiopia, South Africa, and Democratic Republic of Congo (DRC), as well as 13 destinations yet to be determined.<sup>175</sup>

## **Role and Impact of Congress on USAID**

As discussed earlier, Congress has several means to influence and direct the operations of USAID. It can authorize, appropriate, and provide oversight of USAID programs and funding. While it has not reauthorized funding since 1985 for many programs administered by USAID, it has on occasion added program language affecting USAID—recently authorizing assistance to Ukraine (P.L. 113-95, April 3, 2014), for example—and still standing is the cumulative detail of program authorizations, most in the Foreign Assistance Act of 1961 and approved more than three

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<sup>173</sup> Department of State, *Enduring Leadership in a Dynamic World, Quadrennial Diplomacy and Development Review, 2015*, pp. 58-60.

<sup>174</sup> A bilateral USAID mission remains in Nairobi. USAID, *Congressional Notification #77, East Africa Regional Transition*, April 16, 2015.

<sup>175</sup> Historically, the State Department's authority over the size of USAID's staff has worked both ways. The GAO reports that past USAID efforts to consolidate country programs into regional missions were foiled over State concerns that closing missions might damage bilateral relations with the host country. GAO, *Foreign Assistance: AID Strategic Direction and Continued Management Improvements Needed*, 93-106, June 1993, p. 29.

decades ago. This language is sufficiently broad to permit any likely USAID activity. The annual appropriations legislation, accompanied by committee report language, and annual oversight hearings held by both authorizing and appropriations committees offer more regular vehicles for congressional comment and guidance to the agency.

The effect of this body of legislation has been to shape the agency's programs and operations, as is Congress' role; however, many development policy analysts and practitioners have noted some negative consequences. The most common critique raised is the impact of congressional directives, known more widely in the development community as earmarks, on USAID operations.<sup>176</sup>

Though arguably diminished from the period when Congress would specify not only the sector but the country, and even at times the favored grantee, the requirement that USAID meet certain funding mandates can reduce mission flexibility in determining the best way to achieve development objectives and alignment of U.S. programs with country priorities. One sign of this and a regular occurrence at the end of a fiscal year is the announcement to USAID missions that additional funding is available in a specific sector if a mission can quickly put together a viable project. As a result, missions shoe-horn projects into country programs that otherwise would not be there, despite unmet funding requirements in sectors of existing activity less favored by Congress.<sup>177</sup>

Some observers have remarked on Congress' focus on funding for health sector programs, such as HIV/AIDS prevention, which has dominated agency programs in some African countries and limited available funding for other possible activities. One Senate committee staff report quotes a U.S. official at the Tanzania embassy, for example, as saying "USAID is turning into the U.S. Agency for Health."<sup>178</sup>

Critics also argue that Congress has piled on too many legislative objectives. An effort to compile a list of goals and purposes in U.S. foreign assistance legislation found at least 85 that applied to USAID.<sup>179</sup> In the run-up to *New Directions*, in 1972, USAID had envisioned a reformed program focus limited to several priority issues, with problems and projects in unrelated areas being phased down or eliminated, the purpose being to make USAID "less of a general purpose assistance organization and more of a specialized agency...where U.S. technical skill and experience can make a significant contribution."<sup>180</sup> Although *New Directions* emphasized a handful of specific sectors, a narrowing of focus did not occur, as Congress continued to add

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<sup>176</sup> This is a point long made by observers, including the 1993 government reform effort led by then Vice-President Al Gore. See National Performance Review, Office of the Vice President, *Creating a Government that Works Better & Costs Less: Agency for International Development*, September 1993, pp. 13-18. More recently argued by George Ingram, *Adjusting Assistance to the 21<sup>st</sup> Century: A Revised Agenda for Foreign Assistance Reform*, Brookings Institution, Global Economy & Development Working Paper 75, July 2014; Charles Flickner, "Removing Impediments to an Effective Partnership with Congress," in Lael Brainard, ed., *Security by Other Means*, Brookings Institution, 2006; Jean Arkedis, *Getting to a Grand Bargain for Aid Reform: The Basic Framework for U.S. Foreign Assistance*, Center for Global Development, February 2011, p. 7; John Norris, *U.S. Foreign Aid Reform Meets the Tea Party*, Center for American Progress, November 2010, p.17.

<sup>177</sup> Proponents of a locally-driven approach to development see the lack of mission discretionary funding as a significant obstacle. Oxfam, *To Fight Corruption, Localize Aid*, March 19, 2015, p. 23.

<sup>178</sup> U.S. Senate, Committee on Foreign Relations, *Embassies Grapple to Guide Foreign Aid*, November 16, 2007, p. 16.

<sup>179</sup> Dechert Law Firm for Oxfam America, *List of 140 Goals & Purposes in U.S. Foreign Assistance Legislation*, September 2008.

<sup>180</sup> USAID, *Congressional Budget Justification for FY1973*, p. A-1.

objectives and sub-objectives. Later, periodic reform efforts, generated by Congress or outside groups, continued to criticize the layering of objectives and recommended they be cut back to provide greater flexibility to USAID.<sup>181</sup> One aim of the USAID Forward reform effort has been to better focus efforts “where the needs and potential impact are greatest.” According to USAID, between 2010 and 2013, USAID reduced the total number of country program areas by 22%.<sup>182</sup> But the preference for funding mandates likely limits the extent of such an effort.

Including funding mandates, Congress, over the years, has approved a range of prohibitions and restrictions, procurement rules, limitations on types of funding, requisite administrative practices, and reporting requirements that have come to be known as “barnacles.” As early as 1970, a study group at USAID examined “barnacles” viewed as impeding agency operations and attempted to quantify the amount of time it took to implement them. Their conclusion: “It is probably not an overstatement to suggest that perhaps as much manpower talent and energy are spent in insuring compliance with specifically-imposed restrictions as is spent in the execution of programs and projects.”<sup>183</sup> Although it no longer estimates time consumed, USAID produces a “barnacles” checklist annually.

One such legislative requirement—that most P.L. 480 Title II food aid be acquired from U.S. producers and shipped on U.S.-flag vessels—has been the subject of Administration-Congressional debate in recent years. Critics have long argued that this practice raises the cost and slows delivery of emergency relief. The 2014 farm bill (P.L. 113-79) provided a measure of flexibility to USAID that allows it to provide some food in the form of cash-based assistance for local and regional commodity purchases nearer the site of a food crisis. Subsequent appropriations proposals have sought to further increase the agency’s flexibility on how it delivers emergency aid, although Congress did not approve more ambitious food aid reforms proposed by the Administration.

The limits on operational and program flexibility and the attention given by Congress to USAID operations at the project and country level have raised the question by some of whether Congress micro-manages USAID to a greater degree than other U.S. departments and agencies. That question is not easily answered, but one of the drivers of the Administration and Congress in creating the Millennium Challenge Corporation was to establish a program relatively free from such constraints.

Congress is sometimes held responsible for other impacts on USAID behavior that are viewed critically by some development proponents. Historically, USAID has been under pressure from Congress to obligate and disburse its funds as rapidly as possible. Unobligated funds could be tempting targets for other congressional priorities, and a slow disbursement rate was at times used as a reason for Congress not to approve higher USAID budgets. However, a rapid disbursement rate can run counter to efforts to provide funds through local governments and organizations, which may not have the absorptive capacity to spend quickly or to ensure proper accountability in

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<sup>181</sup> For instance, National Performance Review, Office of the Vice President, *Creating a Government that Works Better & Costs Less: Agency for International Development*, September 1993, pp. 5-12.

<sup>182</sup> USAID, *USAID Forward Progress Report 2013*, p. 8.

<sup>183</sup> USAID, *Barnacles*, January 1970, p. 4, available from the USAID Development Experience Clearinghouse, PN-AAY-200.

circumstances of internal conflict and political instability, where it is preferable to provide funds in gradual tranches as their appropriate use is certified.<sup>184</sup>

Further, observers believe that the lack of certainty regarding future funding—past suggestions that Congress appropriate multiyear funding have gone unheeded—prevents long-term planning.<sup>185</sup> And some analysts suggest that the determination to demonstrate quickly to Congress results from aid funding has led to ever shorter project time frames when specialists argue sustainable development requires long-term engagement.<sup>186</sup>

Finally, some observers place much responsibility on Congress for the reduction in USAID's staff and consequent decline of its capacity to design, administer, and monitor its programs during the period from the late 1980s until 2008.<sup>187</sup> As the rare agency whose operating expenses are mostly separated out from program costs in appropriations accounts, USAID has been especially vulnerable to cuts on personnel and other administrative costs disproportionate to its program requirements. This, some have argued, is what occurred after 2001 as Congress greatly increased program funds while allowing the ratio of OE to programs—a measure of the management burden imposed on personnel—to widen. Budget cuts since FY2012 may, arguably, again be affecting administrative accounts unequally.<sup>188</sup>

## Sustainability

Ensuring sustainability—where local systems (i.e., government, civil society and private sector), can produce and maintain a given set of development outcomes (e.g., an increase in literacy, a decrease in child mortality) beyond the life of the project—has at times been more an aspiration than an achievement of USAID. The broad lack of capacity, technical and financial, that defines most developing countries is the greatest obstacle to sustainability, but so too, many argue, has been the failure to align agency projects with partner government interests and gain a shared commitment early on to project objectives.

The USAID Inspector General has identified certain projects for which the prospect of sustainability appeared unpromising in recent years. Examples include a water and sanitation project in Lebanon that installed 33 water meters, which, at the time of an audit, were not working and the government had insufficient funds to repair or replace; a West Bank/Gaza project that constructed and renovated schools although the Palestinian Authority had had difficulty maintaining the already existing infrastructure; and a road construction project in South Sudan in

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<sup>184</sup> Natsios, *Counter*, p. 43.

<sup>185</sup> Congress has provided the Millennium Challenge Corporation with the ability to commit funds for five years to meet this need.

<sup>186</sup> USAID Inspector General, *Most Serious Management and Performance Challenges for USAID, FY2014*, undated, p. 10.

<sup>187</sup> InterAction, *Letter to Senator Richard Lugar*, July 2, 2007.

<sup>188</sup> There are multiple ways of measuring this trend, depending on which accounts are included, and confused by the fact that certain levels of program funds are available for administrative purposes. The historic and current evidence appears suggestive, not conclusive. Government Accountability Office, *Foreign Assistance: USAID's Operating Expense Account Does Not Fully Reflect the Cost of Delivering Foreign Assistance*, September 30, 2003, GAO-03-1152R.

which government representatives stopped attending meetings and did not take control of completed bridges.<sup>189</sup>

Many similar examples are to be found in Iraq (in the early 2000s) and Afghanistan, where USAID was directed by strategic foreign policy requirements to provide large amounts of infrastructure, among other assistance, in a short time frame regardless of recipient country capacity to maintain it.<sup>190</sup> To address the issue in Afghanistan, the USAID Administrator issued “sustainability guidance” in June 2011, suggesting that USAID work should reflect Afghan government or civil society priorities, and, if recurrent costs were associated with the project, the USAID mission had to determine if the government or civil society had the interest and resources to maintain it. If a project was deemed not sustainable, a decision had to be made to modify, end, or postpone the project.<sup>191</sup> In 2014 testimony, however, the SIGAR expressed the view that USAID may not have consistently adopted a realistic approach to the problem of sustainability in Afghanistan.<sup>192</sup>

Sustainability of U.S. assistance efforts was adopted in the 2010 QDDR as one of the main principles of an effective foreign assistance program.<sup>193</sup> USAID issued new project design guidance in December 2011 requiring that sustainability objectives be incorporated into all project designs, and subsequent training programs and administrative directives have supported this policy. A now mandatory sustainability analysis, conducted as projects are developed, is intended to identify potential sustainability challenges a project might face, and perhaps lead agency staff to design interventions to mitigate them.

Through its “local solutions” initiative, USAID anticipates fostering sustainability by engaging all local systems involved in project efforts and outcomes. The agency directly addresses the lack of financial capacity that undermines the ability of governments to maintain roads, schools, and other development outcomes through domestic resource mobilization projects. These efforts help governments expand their tax base, reduce tax evasion, and find ways to raise revenue that may support development. These actions may reduce, if not eliminate, future situations as those described in the USAID IG report.

## **Conclusion: Key Challenges Ahead for USAID**

USAID, as with any public or private institution, faces multiple challenges in the process of fulfilling its mission. The peculiar environment in which it operates—with multiple lines of authority, shifting priorities, uncertain budgets, unpredictable partners, and unstable settings—has ensured a degree of difficulty in implementing its programs. Even as the agency addressed old

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<sup>189</sup> Michael Carroll, *Acting USAID Inspector General, Memorandum for the Administrator: Most Serious Management and Performance Challenges for the U.S. Agency for International Development*, undated late 2014, p. 7; November 20, 2013, pp. 6-7; and October 15, 2012, p. 9.

<sup>190</sup> For example, see Special Inspector General for Afghanistan Reconstruction (SIGAR), *Health Services in Afghanistan: Two New USAID-Funded Hospitals May Not Be Sustainable and Existing Hospitals Are Facing Shortages in Some Key Medical Positions*, Audit 13-9, April 2013; Special Inspector General for Iraq Reconstruction (SIGIR), *Audit of USAID/Iraq’s Electoral Technical Assistance Program*, Audit E-267-12-003-P, March 22, 2012.

<sup>191</sup> USAID, *Administrator’s Sustainability Guidance for USAID in Afghanistan*, June 2011.

<sup>192</sup> SIGAR, *Testimony before the Subcommittee on National Security of the House Committee on Oversight and Government Reform*, April 2014, p. 4.

<sup>193</sup> QDDR, p. 110.

challenges with the USAID Forward reforms, new ones have emerged. Among the current continuing and new challenges that observers have noted and that Congress may track closely are the following:

**Human Resources.** Despite the increased numbers of USAID Foreign Service Officers in recent years, the agency may still face shortages of specific skill sets—e.g., contract officers to meet the needs generated by aid localization efforts or specialists to implement policy initiatives, such as agriculturalists to manage the Feed the Future initiative. Unlike the State Department and DOD, which have larger staff pools, USAID faces a challenge finding sufficient personnel to go to critical priority countries (Afghanistan, Sudan) and unanticipated crisis countries (Haiti earthquake) without leaving detrimental vacancies elsewhere. Providing sufficient training to new personnel in view of declining operational budgets is another concern. A related issue is whether the agency can retain the new staff it has recruited in the past few years amid concerns about lack of language and skill training, lack of travel funding to monitor projects, and an environment that, some argue, continues to constrain initiative.<sup>194</sup> Retaining quality foreign national staff in view of relatively low salaries and limited promotion opportunities also poses a challenge given the important role such staff traditionally play in mission operations.

**Scaling-Up.** USAID innovations in development practice and science and technology, such as those nourished by the Global Development Lab, are often introduced in one or two countries and, within those countries, one or two provinces. The history of USAID is replete with pilot programs that were never fully developed and adopted by a larger population. Will agency efforts to “scale-up” Lab innovations succeed? Some observers have suggested that one necessary element is creating a longer time horizon for USAID projects and making funding available for follow-up projects to see new ideas through to maturity.<sup>195</sup> Another factor for success is the extent to which knowledge of innovations in one place can be disseminated throughout the agency.

**Evaluation.** Under USAID Forward, the agency has given renewed attention to the number of independent evaluations it undertakes. A challenge for USAID is to improve the quality of evaluations—including conducting more long-term outcome analysis—and to ensure that evaluation results are used as “lessons learned” to make corrections for future programs.

**Local Solutions.** As discussed earlier in this report, working with local governments and the private sector to implement development efforts requires a commitment of agency personnel and funds, the flexibility to use those funds in a way that reflects country priorities, and a long-term planning and implementation time frame aimed at developing local capacities, while at the same time ensuring that accountability standards are met.

**Sustainability.** Building “country ownership” is one USAID response to the challenge of sustaining development efforts beyond the life of USAID’s interventions. Another is more resource mobilization efforts to develop a government’s capacity to collect revenue to support development. A clear path to sustainability, however, remains a work in progress.

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<sup>194</sup> See USAID Alumni Association, *Annual General Meeting Panel’s Summary of Discussions*, 2014; Federal Management Partners, *Evaluation of the Development Leadership Initiative Final Report*, undated; USAID Office of Inspector General, *Most Serious Management and Performance Challenges for USAID Fiscal Year 2014*, p. 6.

<sup>195</sup> USAID, *USAID’s Legacy in Agricultural Development*, p. 155.

**Security.** Lack of security for agency personnel overseas poses significant obstacles to successful project implementation. How to get past the security-centered structure that many U.S. embassies have become to regularly meet with government and civil society representatives in order to formulate suitable projects, and how to gain safe access to project locales for appropriate monitoring, are major concerns. Security concerns in so-called non-permissive environments, such as South Sudan, Afghanistan, Pakistan, and Yemen, pose considerably greater problems, including periodic evacuation of personnel, complications in finding contractors and grantees willing to undertake the risks of work in the field, and difficulty employing foreign national employees willing to undertake work under U.S. auspices.

**Program Flexibility.** USAID staff face multiple imperatives, including objectives listed in the Foreign Assistance Act, congressional mandates, presidential initiatives, direction from State department diplomats, priorities of partner governments, and the influence of the international community. USAID, as an agency, is challenged to reconcile these varied views, yet remain sufficiently flexible to fashion a coherent development program in priority countries.

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