

PPC and the 2006 Aid Reform (Michael Crosswell, PPL/P, December 2015)

Introduction: The bulk of this note was originally drafted in January 2009 as a “post-mortem” on the 2006 Aid Reform that abolished PPC (the Bureau for Policy and Program Coordination) and created F (the Office of the Director of Foreign Assistance, in State). This was later provided as background and input for the NSC team that initiated and led the 2009-10 presidential review of foreign aid. This is a revised and updated version, responding to a request for an account of what was lost when PPC disappeared. A new initial section contains a more detailed account of PPC’s work prior to the 2006 Aid Reform. And, a new final section reviews the February 2010 NSC White Paper that provided a “diagnosis” and “prescription” for how to better manage foreign aid.

1. **Prelude to the 2006 Aid Reform:** Three important, inter-related challenges for a policy bureau and policy office in AID have been to:
 - a. Establish and maintain a reasonable degree of *policy coherence* (i.e. a coherent set of distinct goals and objectives)
 - b. Produce *policies and strategies that are based on evidence and analysis*
 - c. Facilitate and promote *strategic management of foreign aid*.

The problem of *policy coherence* (as highlighted in numerous studies of foreign aid going back to the late 1980s, and including the 1992 Ferris report) is the problem of numerous, shifting, disparate, overlapping and sometimes conflicting goals and objectives for foreign aid. Ferris called this “policy confusion”. Many analysts have seen this as the primary problem facing foreign aid.¹ Ferris argued (correctly) that problems of aid effectiveness could not be solved without first addressing policy incoherence.²

The challenge of policy coherence was greatly aggravated by developments in the 1990s:

- a. With the demise of communism, the perceived importance of *development progress at the country level* as a pillar of national security and overarching goal for foreign aid steadily diminished.
- b. As a consequence, defenders of foreign aid and AID had to search for more politically attractive purposes for foreign aid – the more the better.³
- c. With globalization and increased interdependence, the number of specific concerns in developing countries that might merit foreign aid increased rapidly, as did the advocates and constituencies for such aid.

Apart from increasing policy incoherence and hampering strategic management, efforts to mobilize constituencies for foreign aid gradually undermined the emphasis on *evidence and analysis as the foundation for policies and strategies* – particularly where the evidence and analysis did not point in politically attractive directions. The role of

¹ More recent examples include *Challenging Foreign Aid*, by Steve Radelet (2003); and *George Bush’s Foreign Aid: Transformation or Chaos*, by Carol Lancaster (2008). Both were published by the Center for Global Development.

² Ferris argued incorrectly (as subsequent events confirmed) that the solution to policy incoherence was to integrate AID into State.

³ After the 1994 election AID’s very existence was at stake. The Agency underwent a very painful reduction in force including significant cuts in technical and analytical staff.

evidence and analysis increasingly became one of justifying choices ex post rather than guiding choices ex ante.

The terrorist attacks in September 2001 reminded the national security establishment of the importance of development progress at the country level – AID’s traditional, longstanding mission. The 2002 National Security Strategy enshrined “development” (seen as broad-based economic and social progress at the country level) as a pillar of national security, along with defense and diplomacy.

However, AID was poorly situated to respond. Earlier in 2001 the new Administration had launched a reorganization that elevated central/functional bureaus at the expense of regional bureaus. This tended to produce centralized, Washington-driven “stove-piped” programs at the expense of integrated country development strategies based on country needs, priorities, and opportunities. While this facilitated communications with Congress and other interested parties about the budget, it weakened AID’s inclination and capacity to take a strategic approach to development at the country level, particularly where policies and institutions were concerned. Creation of MCC both acknowledged and aggravated AID’s diminished focus on overall development.

In 2003 – on the heels of the 2002 National Security Strategy – PPC launched an effort to address policy incoherence, elevate the Agency’s focus on development progress at the country level, and manage foreign aid more strategically, with policies and strategies based on evidence and analysis. The Policy Office produced a draft White Paper that identified five *distinct* core goals for foreign aid:

- a. Promote Transformational Development
- b. Strengthen Fragile States
- c. Support Strategic States
- d. Provide Humanitarian Assistance
- e. Address Global Issues and Other Special Concerns.

More generally, the essential message of the paper was that for purposes of aid effectiveness and strategic management, we needed to *identify, clarify, and distinguish among core goals; identify and align the resources for each goal; and manage each “pot” of resources based on strategic guiding principles specific to each goal*. The framework explicitly allowed for foreign policy priorities, global issues, and other special concerns; but distinguished those from the core goals of promoting development at the country level and strengthening fragile states.

At the Mission Directors’ conference in October 2003 the White Paper was endorsed as setting strategic direction for AID. Work on implementation ensued, led by PPC. This included:

- a significant body of analytical work that verified technical soundness, feasibility, and coherence;
- a strategic budgeting model that identified resources for each goal and was used to set budget levels;

- a strategy for strengthening fragile states;
- guidance on policies and strategies that ensured both reliance on evidence and analysis and coherence within the overarching framework of core goals;
- conforming strategies for agriculture, education, and economic growth (draft);
- policy background papers on a variety of topics, including poverty reduction and the MDGs; strategic management of foreign aid; and trade and investment;.
- a draft “International Development Strategy” for the U.S.

After considerable testing and learning by doing, implementation was formalized and finalized in the January 2006 Policy Framework for Bilateral Foreign Aid.

Several months later, the 2006 aid reorganization was announced.

2. Basic purposes of the 2006 Aid Reform: The 2006 Aid Reform was ostensibly stimulated by the 2004 White Paper, but was developed mainly by OMB, NSC, and State. At various points there was consultation with AID. However, since the reorganization was fundamentally at the expense of AID – particularly where policy autonomy was concerned – AID’s views were assumed to be self-interested.⁴

According to public statements, the 2006 Aid Reform was intended to achieve two goals that are very difficult but not impossible to reconcile:

- Align aid more closely with foreign policy priorities, and
- Improve coherence.

While these are not entirely incompatible goals, there is considerable conflict and tension between them. More specifically:

The problem of *coherence* (as discussed above) is essentially the problem of numerous, shifting, disparate, overlapping and sometimes conflicting goals and objectives for foreign aid.

However, *foreign policy priorities* are (inevitably and inherently) numerous, disparate, shifting, and sometimes conflicting. The foreign policy agenda is large, complex, variable and multifaceted. So *aligning aid more closely with foreign policy priorities invites problems of incoherence* and accounts for much of the incoherence in foreign aid.

As mentioned, USAID’s White Paper (2004) and Framework for Bilateral Assistance Policy Paper (2006) aimed to thread this needle by acknowledging and distinguishing among five core goals for foreign aid. Two – pertaining to “strategic states” and “global issues and other special concerns” -- allowed for various foreign policy and other special concerns. The other three goals addressed transformational development, humanitarian aid, and fragile states. This work claimed to address the coherence issues (with the latter

⁴ Charles North and Polly Byers would have much more to say about the process and AID’s role.

three goals) while acknowledging and allowing for assistance directed towards an array of foreign policy and other special concerns.⁵

However, the core distinction between development and other foreign policy goals was largely discarded with the 2006 aid reform. So, aid reform was launched with a major handicap – a mandate for *both* coherence and alignment with foreign policy, but no framework that recognized and accommodated the tension between those two.

3. **The Tobias Era** – Randall Tobias moved from PEPFAR to become the first Director of F. During his one year tenure (May 2006 to May 2007), the *Foreign Assistance Framework* provided the guiding framework for foreign aid. This was a matrix with:

- five “objectives” across the top (Peace and Security, Ruling Justly and Democratically, Investing in People, Economic Growth, and Humanitarian Aid);
- five “country categories” down the side (Rebuilding, developing, transforming, sustaining partner, and restrictive); and
- a row at the bottom for global *programs* (not objectives).

The initial budgeting effort using this framework called for resource allocation – across countries and within countries – based on the “primary goal” of helping countries move to the next category (leaving aside “restrictive”).

With just one “primary goal”, this effort addressed the coherence issue. There was some recognition of global issues and of critically important countries from a foreign policy standpoint. But, the overall thrust was overwhelmingly developmental -- *without* due attention to other important foreign policy concerns and other special concerns addressed by foreign aid.

While there were major improvements in accounting, reporting, and coordination, efforts to achieve strategic coherence pretty clearly fell short, owing to four major problems:

- The Foreign Assistance Framework suffered from at least three conceptual flaws:⁶
 - A mistaken view of “stages of development”, particularly where *developing* versus *transforming* countries are concerned.
 - Failure to recognize the realities of a limited number (around 12) of major country assistance programs driven by foreign policy concerns.
 - Failure to allow for other special concerns addressed by foreign aid that were not motivated by overall country progress in a development sense.
- The PEPFAR model and “spider graphs” were applied inappropriately, in a misconceived effort to link resources to results.

⁵ Subsequent frameworks by Brainard, Lancaster, HELP Commission, and Arkedis took similar approaches. These are summarized in “Getting to Grand Bargain for Aid Reform: The Basic Framework for U.S. Foreign Assistance”, by Jean Arkedis, February 2009 Draft, and illustrated by a schematic in the Appendix. As we will see, the February 2010 White Paper by NSC staff adopted a similar framework.

⁶ For more detail see Arkedis and Crosswell, “Improving the Foreign Assistance Framework”, June 2008

- The policy office and policy function that came over from USAID were immediately abolished, thereby dismantling the institutional capacity to analyze policy and strategy issues; make mid-course corrections; and refine and maintain a coherent, strategic focus.⁷
- More generally the development knowledge, expertise, and experience of USAID were discounted in favor of the much narrower PEPFAR model.

These shortcomings largely explain the failure of F's ongoing efforts under Tobias to produce a strategy. Various drafts attempted to derive a coherent strategy from the framework, but inevitably fell short. In particular, it was unclear whether the strategic focus was on overall country progress or on the five functional areas.

More generally, the 2006 aid reform was based on very little in the way of serious analysis and homework and very little in the way of development experience and expertise.⁸ Evidence and analysis were brought to bear mainly to justify organizational decisions that had already been made.

4. The Post-Tobias era: With the departure of Tobias in May 2007, F swung to the opposite extreme – from rigid adherence to a (flawed) framework and a mechanistic approach in the name of coherence to an almost exclusive concern with aligning foreign aid with (diverse and sundry) foreign policy priorities as identified by State, NSC, etc. – without reference to *any* strategic framework or strategy.

In particular – and despite urging by staff -- F declined the opportunity to (re)establish a policy/strategy office that could have addressed the problems of the Tobias approach and produced a strategy and strategic framework for foreign aid that achieved coherence while paying due regard to foreign policy priorities.⁹

A 2008 commentary about strategy by Fareed Zakaria (with respect to foreign policy more generally) applied readily to foreign aid under F:

“Grand strategy sounds like an abstract concept – something academics discuss – and one that bears little relationship to urgent, jarring events on the ground. But in the absence of strategy, any administration will be driven by the news, reacting rather than leading. For a superpower that has global interests and is forced to respond to virtually every problem, it's all too easy for the urgent to drive out the important”.

⁷ The message that the services of USAID's policy office were no longer needed was delivered by Tobias' chief of staff, who explained that everyone in F was free to raise policy issues, and she would “tee them up” for decision by Tobias. This approach clearly put little or no emphasis on evidence and analysis.

⁸ A striking example was the 2004 OMB presentation prepared to help justify the eventual 2006 Aid Reform by alleging that major recipients of U.S. foreign aid had failed to make much progress. For a summary and critique, see “Economic Performance in the Top 34 U.S. Aid Recipients – Comments and Revisions to the OMB Critique”, AID/PPC, October 2004, available from me.

⁹ One discouraged F staffer concluded that F's idea of a policy framework was a framed picture of the Secretary of State.

This pretty clearly described F's approach to foreign aid in the absence of (and avoidance of) a strategy – an approach that emphasized flexibility, responsiveness, and opportunistic initiatives in response to the “cause du jour”.

This arguably has reflected the “culture” of diplomacy – one that is different from and at odds with the “culture” of development. Gordon Adams – ironically, an advocate of an even greater role for State in managing foreign aid – posed the key issue crisply and accurately in a 2009 article:

“Will the administration--and namely Secretary of State Hillary Clinton--create an institutionalized capability for strategic and budgetary planning, building on the Office of the Director of Foreign Assistance that was established in 2006? Or will State continue to default to a culture that resists planning, reacts to events as they happen, and disperse the nascent planning capabilities now in place?”¹⁰

Lael Brainard, in Security by Other Means (2007) recognized another important “cultural” issue. In analyzing the “confusion of objectives” for foreign aid, she noted that:

“Ambiguity often serves the interests of diplomacy even as it muddles the intended outcomes of aid dollars”.

The dominance of the culture of diplomacy over the culture of development in F under aid reform was reflected in:

- an organizational structure with no office for policy or strategy;
- instead lodging responsibility for “policy” with the chief of staff position;
- ad hoc policy and strategy tasks assigned to selected individuals acting in a personal rather than institutional capacity;
- approaching meetings and addressing issues as negotiating, “agreement-seeking”, and “message-seeking” exercises rather than analytical, “truth-seeking” exercises;
- little if any reference to analysis, evidence, and lessons learned to guide decision making;
- an “initiative” orientation in reaction to events rather than a proactive, strategic orientation focused on core goals;
- a development results orientation in which aid effectiveness considerations mainly come into play only AFTER resources are allocated across countries and within countries – often on the basis of political and foreign policy criteria rather than aid effectiveness criteria; and
- AID's role as simply the implementer of resource allocation decisions.

The 2009 stocktaking/post mortem concluded as follows: Insofar as foreign aid addresses both development and other foreign policy goals, F is *in principle* the correct and most logical organizational arrangement for managing foreign aid -- certainly compared with a “Department of Development”, which might have trouble dealing with

¹⁰ “Obama’s test: Bringing order to the national security policy process”, *Bulletin of the Atomic Scientists*, January 2009.

other foreign policy concerns. Nonetheless, it has become clear that *in practice* State has proven itself incapable of making the requisite adjustments in behavior, management style, and culture.¹¹ The culture of diplomacy is arguably very well suited to the practice of diplomacy. Foreign aid is an attractive resource for diplomacy. Absent a sea-change in OMB, it is extremely hard to imagine the incentives or forces that would lead State to voluntarily change its current, non-strategic approach (to refer back to Gordon Adams' description) to managing foreign aid.¹²

5. The February 2010 NSC (draft) “White Paper on Global Development Policy”

Following the transition, the NSC initiated an inter-agency review of development and foreign aid in late summer of 2009, which included mainly a formal interagency process and also periodic meetings of a small, informal group of senior economists from various agencies. In February 2010, NSC staff issued a “White Paper” for discussion and as background and foundation for the eventual Presidential Policy. It included a stocktaking of the current situation and proposals for reform.

The White Paper outlined four essential elements of a new approach to foreign aid:

- A focused development policy
- A new business model
- A stronger toolkit, and
- A modern architecture (for USG coherence and coordination)

It did not discuss the fourth element (pending further deliberations); but it DID include a fifth section on dealing with Congress.

The discussion of policy began with the following statement:

“The central challenge in formulating a U.S. policy on global development is to identify distinct policy objectives, prioritize among them, and then align resources and policy attention accordingly.”

The discussion continued with an analysis of the current problematic situation:

¹¹ S/P was sometimes cited as obviating the need for a policy/strategy capability in F. However, the 2008 description of “recent staffing” on the internal web site did not evidence much concern with development and foreign aid. “Recently, the staff has included Foreign Service Officers, academics from universities and think tanks, intelligence analysts, former congressional staffers, an emergency room physician, a retired military officer, a business consultant, an arms control expert, and an economist. The staff is responsible for covering the full range of foreign policy issues facing the United States, although staff members exercise discretion and judgement in identifying the areas they focus on.” While this description does not preclude development expertise, the casual reference to “an economist” is suggestive (and painful). More generally, the question for S/P would be whether and how it adjusted its staffing and mode of operating in response to the 2006 aid reform. I saw no sign of any adjustment at all.

¹² To elaborate, as long as OMB is content with an initiative-driven budget rather than a budget driven by policy and strategy; and as long as OMB sees due diligence on aid effectiveness primarily as a matter of insisting on results reporting and metrics, State can continue to do without policy and strategy as produced in the past by USAID and as produced by other development institutions.

“Over the last several decades, trade-offs among development objectives have been made implicitly rather than explicitly, and the budget process has more often driven rather than been informed by the articulation of clear development priorities. This annual exercise yields a de-facto development policy which dedicates the majority of resources – and policy attention – to ten [quite diverse] countries.....[detail]... What remains of the budget is then spread thinly across 132 countries. And in terms of the substance of our investments, we commit nearly two-thirds of U.S. assistance to meeting basic human needs, especially in the area of HIV/AIDS. Of course, the U.S. has a number of important objectives, but it is striking how little of our assistance and attention is invested in the long-term development of prosperous, well-functioning, market democracies.”

The White Paper went on to identify five “key pillars” of a new development policy:

- a. Focus our investments and effort on accelerating broad-based economic growth and strengthening democratic governance.
- b. Harness our resources and energy in support of the longstanding challenge of providing global public goods (examples included climate change, epidemic diseases, health and agricultural research; and other efforts to support innovations and new technologies.)
- c. Build sustainable systems of service delivery to meet people’s basic human needs (access to health, education, food, and other basic necessities, but with emphasis on “sustainable”)
- d. Set realistic development objectives for our engagement in stabilization and post-conflict reconstruction and program resources accordingly.
- e. Raise the profile of development in our diplomatic engagement with key strategic allies in order to make successful development outcomes more likely.

The draft White Paper directed that “Beginning with preparations for the FY12 budget cycle, executive departments and agencies shall include specific analysis and data to demonstrate how resources and activities will be deployed to prioritize and meet *these five objectives*. As soon as this policy is adopted, country and regional diplomatic strategies will be expected to reflect these objectives as well.”

Elsewhere in the 2010 White Paper there is emphasis on:

- “creation of a dedicated development policy capability with the mandate to do long-term thinking, develop strategies for achieving outcomes related to U.S. and global development policy issues, and produce for interagency consideration regular ‘white papers’ on development policy issues.”
- “establishment of a streamlined and simplified account structure for foreign assistance that reflects a common vision of U.S. development policy priorities and establishes clear objectives for the use of funds in each account with appropriate results frameworks.”
- “the release every four years of an interagency-endorsed global development strategy which outlines U.S. government objectives and priorities.”

In the final section of the 2010 White Paper, the authors note that:

“Many of the elements of this new policy can be implemented without legislation and be adopted immediately: by using the budget process to align resources and objectives, [tailoring] future budget requests to obtain the resources necessary to meet these objectives, establishing clear directives to agencies to drive action, taking greater advantage of the flexibilities contained in existing legislation, and employing a robust inter-agency process to drive toward greater coherence and to track implementation.”

It is noteworthy that there is at least a rough correspondence between these five objectives and the five core goals of the 2004 AID White Paper produced by PPC. (See the Appendix.) Both focus on development in terms of country transformation; fragile states; strategic states; global issues; and special concerns/meeting basic human needs. More importantly and more generally, there is a similar emphasis on identifying and distinguishing among core goals; aligning available resources for each of the core goals; and managing those resources so as to best pursue the relevant goal.

Conclusion: It is pretty clear that during 2003-06 PPC was doing at least a reasonably good (if not pioneering) job at policy coherence, strategic management, and evidence-based policies and strategies. The 2006 Aid Reform abolished PPC and disbanded the policy office, to the severe detriment of all three concerns. The 2009-10 NSC-led review of development policy and foreign aid recognized these problems, and made proposals that bore a strong resemblance to work carried out by PPC prior to its demise. How well the eventual 2010 Presidential policy was implemented is the subject for a separate “post-mortem”.

Appendix: Identifying Core Goals for Foreign Aid¹³

The PPD was the latest in a series of efforts to establish a coherent policy framework for development and foreign aid. These frameworks are broadly similar in that they identify “big development” (or transformational development) as the first goal, and then proceed to list others. By and large these frameworks satisfy the requirement that goals be distinct from one another; and that together they cover the foreign aid and development waterfront. A graphic from a recent CGD paper compares several of these frameworks:

Table 1 – Comparison of Foreign Assistance Goals¹⁴

USAID White Paper (January 2004) and Bilateral Assistance Policy Paper (January 2006)	Brainard et al. (2007)	HELP Commission Report (2007)	Lancaster (2008)
Promote transformational development	Support emergence of capable partners	Invest in recipients growth and development	Assist in development, i.e. poverty reduction and economic growth
Strengthen fragile states	Counter threats from poorly performing states		
Provide humanitarian aid	Counter humanitarian threats	Provide short- and medium-term emergency assistance to save lives	Provide relief in natural or man-made crises
Support key allies/strategic states	Counter security threats with foreign partners	Support and advance US national security and foreign policy goals	Pursue other diplomatic and security goals, for example, supporting Middle East peace,
Address global issues and other special concerns (includes both foreign policy concerns and special/specific development concerns)	Counter transnational threats	Support and advance US national security and foreign policy goals	Address global /transnational problems including drug production and crime
		Promote democratic principles	Fight terrorism

¹³ Excerpted from “Using the PPD to Make Sense of the MDGs”, Michael Crosswell, SE # 8, May 2012.

¹⁴ “Getting to a Grand Bargain: The Basic Framework for U.S. Foreign Assistance”, by Jean Arkedis, CGD Essay, February, 2011. (Drafted in 2009)

These frameworks are specific to **U.S.** bilateral foreign aid.

- each starts with some version of “big development”;
- each explicitly or implicitly refers to global and transnational issues;
- each makes reference to foreign policy and security goals.
- each mentions humanitarian aid
- two mention fragile states.
- one considers democracy a distinct/separate goal¹⁵

Subsequently, a 2009 CGD paper by Severino and Ray identified three core goals:¹⁶

- Accelerate the economic convergence of developing nations with industrialized economies (aka “big development”)
- Provide for basic human welfare (conceptualized by the MDGs as universal access to essential services);
- Find solutions for the preservation of global public goods.

This “framework” is intended to cover all donors, not just the U.S. It fits pretty well with the ones listed in the table, particularly in isolating and emphasizing “big development” and global issues. The second goal (and the paper itself) introduces a somewhat new distinction – development seen as addressing basic needs through direct delivery of goods and services.¹⁷ It associates the MDGs with this goal, but not with the others.

The 2009-10 PSD-7 review of foreign aid that culminated in the PPD identified five distinct core goals for development and foreign aid. These included (paraphrasing at some points, and using the PSD-7 White Paper language to highlight the similarities with the preceding frameworks) --

- Accelerate broad-based economic growth and strengthen democratic governance (to encourage the next generation of emerging markets)
- Support provision of global public goods
- Build sustainable systems of service delivery to meet basic human needs¹⁸
- Engage in stabilization and post-conflict reconstruction
- Raise the profile of development in programs supporting key strategic allies.

This is basically the Severino/Ray framework (the first three goals) expanded to include fragile states and support for key strategic allies. It lines up reasonably well with the other frameworks in Table 1.

¹⁵ Further, both Brainard and Lancaster point in this direction in their discussions of democracy and development. See “Security by Other Means”, p. 14, edited by Lael Brainard; and “George Bush’s Foreign Aid – Transformation or Chaos”, pp. 34-35, by Carol Lancaster.

¹⁶ “The End of ODA: Death and Rebirth of a Global Public Policy”, Jean-Michel Severino and Olivier Ray, CGD Working Paper #167, March 2009.

¹⁷ USAID’s 2004 White Paper and 2006 Policy Framework also allowed for this distinction in the fifth goal, where “special concerns” included programs aimed at directly meeting basic needs.

¹⁸ The PSD-7 White Paper considered the food security and global health initiatives as part of the basic human needs/service delivery goal. Climate change and S&T were prominently mentioned in connection with global public goods. See <http://inside.usaid.gov/PPL/offices/p/upload/PBPPSD-7WhitePaper.pdf>