

**Getting to a “Grand Bargain” for Aid Reform:  
The Basic Framework for U.S. Foreign  
Assistance**

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By Jean Arkedis

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**ABSTRACT**

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In this paper, Arkedis focuses on understanding why long-term development is often subjugated to other objectives in the day-to-day planning processes of the U.S. government. She proposes one way to ensure that funding choices are made more rationally and systematically: by aligning the differing goals of aid more explicitly with redefined foreign assistance budget accounts. Doing this would encourage the administration and Congress to set priorities while taking into account the tradeoffs, enable development proponents to defend programs with potential for long-term development results, and push the development community to better define ways to measure progress against those expected results. Since this paper was originally drafted, the Obama administration has undertaken a major initiative to strengthen and reform U.S. foreign assistance, but aligning objectives and budgets as suggested here seem not to be on the agenda. Arkedis helps clarify the challenges that development, diplomatic, and defense officials face in improving the impact of the United States’ foreign assistance programs on its multiple foreign policy objectives.

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## Foreword

This paper was drafted by Jean Arkedis while she was at the Center for Global Development as a presidential management fellow on detail from the State Department. The paper was largely completed in the spring of 2008. At that time, the landscape for aid reform looked very different than it does today. The prospect of a new administration had stimulated a great deal of discussion around how to reform the U.S. foreign assistance system. Much of this debate (led by us at CGD and others) focused on one problem, the subjugation of “long-term” development to short-term foreign policy needs. Proposed solutions to that problem emphasized process-related and institutional reforms such as new foreign assistance legislation and a new aid architecture with a more autonomous or even independent development agency at its center.

In this paper, Arkedis focuses on the need to step back and understand the source of development’s subjugation in the day-to-day planning processes of the U.S. government—namely that when it comes to deciding where and how to program development aid dollars, the goal of long-term development is often in competition with other goals, and that under the current system, sensible and informed allocation of resources against the various goals is difficult to achieve and sustain.

Some people would argue that it is possible to pursue multiple foreign policy goals in parallel with the same foreign aid dollar. In many cases it is: a number of aid programs and policy decisions are likely to have high returns in both development impact and advancement of other U.S. interests. And with aid budgets increasing in recent years, there has been more funding for development programs in the interests, for example, of national security—as in Pakistan. This sometimes makes tradeoffs between objectives seem less painful.

But even so, there are likely to be hard choices in the future as U.S. aid spending increases more slowly or even shrinks.

Arkedis proposes one way to ensure that funding choices are made more rationally and systematically: by aligning the differing goals of aid more explicitly with redefined foreign assistance budget accounts. Doing this would encourage the administration and Congress to set priorities while taking into account the tradeoffs. It would also enable development proponents to defend the budget lines for programs where long-term development results are expected and would push the development community to better define ways to measure progress against those expected results.

Since this paper was written, the Obama administration has undertaken a major initiative to strengthen and reform U.S. foreign assistance. But there is no indication that the idea of aligning objectives and budgets suggested here is on the agenda. Perhaps it is just too difficult in some technical sense; perhaps the current aid funding morass serves prevailing political and bureaucratic interests too well. Or, on the other hand, perhaps new pressures on the foreign policy budget broadly conceived will lead in this direction.

While we wait and see, I hope this paper helps clarify the challenges, both political and bureaucratic, that U.S. development, diplomatic, and defense officials face in improving the impact of U.S. foreign assistance programs on this country's multiple foreign policy objectives.

Nancy Birdsall  
President  
Center for Global Development

## Getting to a “Grand Bargain” for Aid Reform: The Basic Framework for U.S. Foreign Assistance

The problems of U.S. foreign aid are well documented. There are too many agencies and too many overlapping programs. There is too little flexibility due to too many earmarks, directives, and presidential initiatives. Development is underfunded and understaffed. At a fundamental level, there are questions about how much of the aid that results from this system is strategic or effective.

For every well-documented problem, there is a corresponding recommendation. Too many agencies? Consolidate them. Too little flexibility? Congress and the executive branch should make a deal to stop earmarks *and* presidential initiatives, and they should also pass new authorizing legislation. “Development” is underfunded? Increase budgets and elevate development’s standing within the bureaucracy. Effectiveness? Improve evaluation and target aid to well-governed countries. Strategic coherence? Write a strategy.

But often those making recommendations proceed from deeply held assumptions about what the primary purpose of foreign aid is or should be. Most commentators recognize that aid is used as a tool to advance development, to promote strategic interests, and to address humanitarian needs, but they often fail to recognize how and where these interests are at odds and where they may be mutually reinforcing. While development is commonly accepted as one component of U.S. national security interests, maximizing development impact points in a different direction than maximizing strategic or national security goals for the simple reason that the countries most relevant in strategic terms are seldom the best development partners. *Why* the United States gives aid is of central importance to determining how it is best managed and what outcomes and should be expected. This confusion over aid’s purpose leads to organizational and operational confusion *especially* in the U.S. context, which has an exceptionally fragmented executive branch, an unusually assertive legislative branch, and larger global security responsibilities compared to most other OECD donors.

Failure to distinguish between goals has hampered the United States’ ability to pursue strategic, humanitarian, and development objectives simultaneously. Clarity about aid’s purposes and the ability to make tradeoffs between the resources spent pursuing different purposes *is* the very definition of the “strategic coherence” that erstwhile aid reformers claim to seek.

Whether one sees the debate on U.S. aid reform from a development perspective or through a national security lens, reaching a “grand bargain” on foreign aid reform *requires first thinking through and developing a conceptual framework for identifying and distinguishing the core goals or purposes for foreign assistance*. Only then can a serious discussion be had about the rules, oversight, and organization that will allow us to achieve these different goals successfully.

This paper is not intended to offer the definitive and only possible framework for foreign assistance, but rather to serve as a foundation for and a catalyst to the discussion. Section I makes the case that there are distinct purposes of aid, and that distinguishing among the different purposes is important for the effectiveness of the foreign assistance system as a whole; Section II proposes a

framework that explicitly highlights the basic strategic tradeoffs for foreign aid. It recognizes the two overarching motivations for foreign assistance and further distinguishes between funding aimed at broad outcomes at the country level and funding tied to more narrow and specific functional or sectoral goals pursued as ends in themselves (e.g., achievements in education, health, democracy promotion, etc.). Section III makes the case that aligning foreign assistance *accounts* with a framework along these lines would facilitate more productive congressional and executive branch oversight and management of aid, thereby institutionalizing a process whereby opportunity costs of budgetary choices can be “seen” and weighed. Section IV proposes a set of principles that should be considered for rationalizing the account structure. Section V shows that these distinctions are practical and concrete—it is feasible to realign a recent foreign assistance budget with the goals laid out in this framework by adopting a transparent set of criteria. Section VI discusses some of the implications of this framework for organizational structure. Section VII concludes by reiterating the importance of clarifying and distinguishing among core operational goals as the primary task for aid reform, as the essential first step for tackling the broader aid effectiveness agenda and as the necessary prerequisite for a sensible discussion of organizational options.

## **I. The case for distinguishing the purposes of U.S. foreign aid**

The U.S. foreign assistance system does not allow policymakers to make rational tradeoffs between multiple objectives. Because there is no broadly understood and commonly accepted framework for identifying the purposes of foreign assistance, the system obscures, rather than clarifies, the key tradeoffs that are inherent in prioritizing a budget.<sup>1</sup>

On the one hand, existing legislation lists many overlapping and often redundant goals. As a result, it is impossible to address them all while maintaining policy coherence and strategic focus. On the other hand, rhetoric that conflates aid with a broad and nebulous definition of U.S. national interests is not particularly helpful either. While national interests can indeed cover just about anything that we use foreign aid for (development, defense, and diplomacy) and it may be a useful trope for advocating for a larger resource pie, stopping the debate at “foreign aid = national interest” does nothing to elucidate how to make more rational choices about how to divide up what is ultimately a finite pie.

To understand why this is so, consider the following questions: To which countries should the United States give aid? How much aid should it give? How should it deliver this assistance? By directly transferring resources to host country governments or through NGOs or aid contractors? By

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<sup>1</sup> An early contribution for distinguishing among the core purposes of foreign aid was drafted in USAID in 1999 for discussions with Office of Management and Budget on strategic management of foreign aid. For an updated version of this paper see Crosswell (2004).

providing technical assistance? By funding arms for allied regimes, or underwriting peacekeeping troops? Is U.S. aid effective?

The answers to these questions depend largely on the answer to one underlying, but often overlooked question: What are the purposes of foreign aid?

To see that there are at least two overarching purposes, consider a budget built only around one or the other extremes. A foreign aid budget drawn up based on solely geopolitical criteria would allocate large sums of money to allies in the war on terror and to counter terrorism programming more narrowly.<sup>2</sup> Such a budget would exemplify an instrumental view of aid as a reward for allies and as a “stick” to address both state and non-state threats.

At the other end of the spectrum is the idea that foreign aid is first and foremost about growth and poverty reduction. Under this view, assistance would be allocated solely on the basis of the aid effectiveness criteria embodied in best practice documents such as the *Paris Declaration on Aid Effectiveness*—need, host-country commitment, and performance. Assistance would *not* be used as a quid pro quo for diplomatic or other national security objectives (such as advancing peace in the Middle East or in support of bilateral trade pacts or other international agreements).

Anyone who has spent some time with the U.S. foreign assistance budget knows that the aid budget pursues both of these goals, and many others as well. The United States uses foreign assistance as tool to achieve defensive, threat-based objectives (e.g., counterterrorism, counternarcotics, etc.) as well as social and economic development that reduces poverty (e.g., economic growth as pursued through the Millennium Challenge Account).

Between the extremes, there are cases where the levels of assistance to a country may be motivated by geopolitical considerations, but the programs themselves attempt to achieve developmental results (e.g., many of USAID’s programs in Pakistan and Egypt). In addition, a major portion of foreign aid goes for specific concerns in developing countries (such as HIV/AIDS treatment) that are considered to be important in their own right, regardless of country-level outcomes.

It is easy to underestimate the tensions between aid for development and aid to advance strategic interests precisely because many of the security *threats* the United States faces are occurring in developing countries, and because many of the *programs* in strategic partner countries look like traditional development programs. But over time, a muddled process of marginal funding decisions (by both Congress and the executive) adds up to a portfolio of assistance investments which tells a story about where our strategic emphasis lies. Often the story told is unintentional because of the broken decision-making processes and accountability systems.

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<sup>2</sup> In fact, despite rhetoric about intentions to the contrary, analysis by the Center for Global Development showed that the foreign assistance budget in FY 2008 did in fact concentrate resources in a small number of strategically important countries. See Bazzi, Herrling, and Patrick (2007).

Currently, decisions are not typically framed in terms of the larger goals and purposes for foreign aid. Instead, budgeting is essentially “constraint-based” (what programs can or cannot be cut without violating earmarks and directives?) rather than strategic (what’s the right balance between funding for development and funding for other important foreign policy concerns?).

Any plan for reform of U.S. foreign assistance must address this most basic challenge. No reform process will lead to more productive oversight and fewer earmarks, more funding for development, strategic coherence, or improved effectiveness without truly teasing out which portions of our assistance are the tools of defense, diplomacy, and development.

Perhaps a useful lens through which to view possible foreign assistance reform proposals is to consider whether they systematically allow for better managing of resources. Regardless of whether one proposes one aid agency or many, and whether aid leaders report to the president or the secretary of state, by viewing the foreign aid architecture as a whole as a resource management system, it is easier to see there are several components which are essential to both a rational allocation of resources and a high level of operational performance. These include the following:

1. Transparent, clearly defined, and commonly understood strategic goals
2. Rational decision-making processes for how much to spend pursuing each goal (particularly at the margin)
3. Clear, commonly understood criteria for prioritizing where (which countries or global programs) and how (program approaches, foreign assistance instruments, etc.) to allocate the resources for each goal
4. The ability to evaluate and learn from experience and improve performance over time

Currently, the system fails to deliver on all four of these components, resulting in aid that is not as strategic, efficient, or effective as it can and should be. Delineating a clearer and more succinct set of goals is a necessary first step. Bringing more rationality and transparency to the process of determining where to invest resources will also raise a number of important related questions. Should there be different standards of effectiveness for assistance that is geopolitically motivated? What outcomes should be expected? Is there willingness to assume more risk in order to allow more flexibility in trying different approaches in unstable environments?

## **II. Toward a New Framework**

The idea that there are distinct goals for foreign assistance is not new. In fact, a 1963 article from *Harper's* on the Kennedy administration’s aid reform efforts refers to security aid, humanitarian aid, and development aid as three different types of assistance (Kraft 1963). There have been a number of different reports and commentaries about foreign assistance in the past several years from a variety of sources including USAID, the think-tank world, academia, as well as Congress and a

number of commissions and delegations it has sponsored. Despite their different perspectives, each of these reports identifies a broadly similar set of goals (See Table 1).

**Table 1: Comparison of Foreign Assistance Goals**

USAID White Paper (USAID 2004) and Bilateral Assistance Policy Paper (USAID 2006)	Brainard (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 U.S. national security and foreign policy goals	Pursue other diplomatic and security goals, for example, supporting Middle East peace, countering drug production and crime
Address global issues and other special concerns (includes both foreign policy concerns and special/specific development concerns)	Counter transnational threats	Support and advance U.S. national security and foreign policy goals	Address global problems
		Promote democratic principles	Fight terrorism

Each of the lists of goals above addresses the basic purposes of foreign aid in a reasonably compact way that avoids the current laundry list of overlapping concerns. Each acknowledges that there are a number of goals for foreign assistance and that development progress at the country level is not the only goal for which assistance should be held accountable.<sup>3</sup> However, to varying degrees, each set of goals fails to explicitly acknowledge the two basic distinctions that are essential to managing foreign aid well in the U.S. government context.

First, what are the criteria by which funding is allocated? To what degree do U.S. strategic and security interests influence the levels of funding to a country? Conversely, to what degree do developmental or humanitarian imperatives determine who receives aid?

The second distinction has to do with whether goals and outcomes are related to a specific sector or problem or whether they are best measured at the country level. When should aid be evaluated at the country level (where outcomes of interest might include economic growth or governance reforms)? Should country-focused aid allow flexibility for field missions to choose the

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<sup>3</sup> By contrast, the Foreign Assistance Framework developed prior to establishing the Office of the Director of Foreign Assistance focused on country progress through various stages of development and largely ignored the strategic and other foreign policy interests that motivate aid, both at the country and sectoral levels. See Arkedis and Crosswell (2008).

specific interventions and sectors? Conversely, when is it appropriate to dictate from Washington the amount of funding for specific functional objectives (e.g. achievements in health, education, democracy or counternarcotics interventions)? In other words, what are the functional goals that are considered important in and of themselves, whether or not they lead to broader, country-level developmental or foreign policy outcomes?

Explicitly recognizing these two distinctions—development/humanitarian interests versus strategic/security interests and “sectoral” versus country-level goals and approaches—leads to a general or “meta” framework for foreign aid. (See Table 2). The four boxes that make up the “meta” framework underlie and accommodate each of the frameworks mentioned above.

**Table 2: Summary Framework of Goals for Foreign Assistance**

		Where are results measured?	
		Country Level	Sectoral/Functional Level
Predominate Allocation Criteria	Development/ Humanitarian Interests	Box 1 <ul style="list-style-type: none"> <li>• Supporting transformational development</li> <li>• Addressing state weakness and fragility as a barrier to development</li> </ul>	Box 3 <ul style="list-style-type: none"> <li>• Improving global public health</li> <li>• Improving global education</li> <li>• Providing humanitarian relief</li> <li>• Financing international global public goods and countering development threats (e.g. climate change, environmental degradation, etc.)</li> </ul>
	Strategic/Security Interests	Box 2 <ul style="list-style-type: none"> <li>• Supporting, strengthening, and often promoting the development progress of strategic allies</li> <li>• Addressing state weakness, fragility, and failure as a strategic concern</li> </ul>	Box 4 <ul style="list-style-type: none"> <li>• Countering transnational and other security threats such as narcotics, terrorism, and nuclear proliferation</li> <li>• Promoting democracy<sup>4</sup></li> </ul>

Ultimately, the success of the U.S. foreign assistance program is measured against two main standards: strategic coherence and effectiveness. With a framework in place, we can begin to better understand what those two terms mean. Strategic coherence becomes a measure of the portfolio’s coherence and balance in light of the relative importance of the underlying interests represented by each of the goals and the ways in which the goals are interrelated. For example, does the relative

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<sup>4</sup> Democracy promotion is listed as a separate goal to acknowledge that a certain amount of foreign assistance resources are dedicated to the pursuit of democracy as an end in and of itself, rather than in as a means to economic growth. This is consistent with the HELP Commission Report (2007) which puts democracy as a distinct goal. Further, both Brainard (2006) and Lancaster (2008) discuss democracy as a separate and independent concern (from development) for foreign aid. Governance interventions which are designed to address a barrier or binding constraint to growth would fit in to the “transformational development” goal. See also Rodrik (2008).

amount spent on strategic states versus transformational development make sense in light of the U.S.'s short- and long-term national interests? Does the balance of funding between support for social services in developing countries (health and education) versus governance and growth support or undermine self-reliance and local capacity?

Effectiveness can be understood in terms of each of the distinct goals. For example, funding to support strategic allies, such as health and education money the U.S. gives to Pakistan, may not be able to be held accountable to the same standards of developmental impact as funding allocated free from strategic considerations.

### **III. Giving unto Caesar: The Case for Rationalizing Accounts and Goals**

Many of the symptoms of a dysfunctional foreign aid system can be traced to the fact that we do not explicitly manage aid with a transparent set of goals. The foreign assistance account system is at the root of the problem.

Foreign assistance accounts are the first level of Congressional authority over the foreign assistance budget. They are established in the Foreign Assistance Act or subsequent assistance appropriation bills and they essentially designate different “flavors” of money with distinct purposes (e.g., assistance to countries or organizations for peacekeeping operations or relief and rehabilitation after disasters), associated authorities (e.g., which agency or public official is responsible for establishing policy, and carrying out activities), statements of policy, and other restrictions (such as the length of time over which the funds will be available—one fiscal year or “until expended”).

Congress allocates funding to dozens of accounts whose purposes and authorities are seldom clear. A given account may be used to fund activities which are working toward separate and distinct goals; conversely, a particular goal may be funded from multiple accounts. For example the Development Assistance account (DA), the Economic Support Fund (ESF), and the Millennium Challenge Account (MCA) all fund (to varying degrees) activities in low and lower-middle income countries which are intended to advance economic development and governance reforms (see Table 3). But because DA and ESF are also used to fund other development concerns, such as environmental degradation and climate change activities, it is difficult for the administration to transparently and consistently measure effectiveness and for Congress to ensure accountability: An environmental project, for example, can be successful without necessarily contributing to the country's development. Similarly, an increase in basic education enrollment rates is a significant achievement in its own right, even when its contribution to a country's economic growth may not be immediately apparent.

This confusion over the purposes of these accounts is an often-overlooked cause of a number of dysfunctions of the foreign aid system. First, it incentivizes behavior that undermines strategic coherence and the effectiveness of all foreign assistance resources. Second, it imposes high costs on the efficiency of budgeting processes. It allows for some objectives to *unintentionally* crowd out others. Finally, it hampers consistent analysis and public accountability for aid budgets.

**Table 3: Comparison of Goals to Accounts: Each Account Funds Multiple Goals**

		Development Assistance	Millennium Challenge Account	Economic Support Fund	Support for Eastern European Democracy	Freedom Support Act	Development Credit Authority	Transition Initiatives	International Military Education and Training	Foreign Military Financing	Child Survival and Health	Global HIV/AIDS Initiative	Emergency Refugee and Migration Assistance	Migration and Refugee Assistance	Public Law 480 (Food Aid)	International Disaster and Famine Assistance	Peacekeeping Operations	Andean Counter Narcotics Initiative	Democracy Fund
<b>Goal</b>	Supporting Transformational Development	X	X	X	X	X	X												
	Addressing State Fragility as Barriers to Development	X		X	X	X		X											
	Supporting, Strengthening and Often Promoting the Development Progress of Strategic Allies	X		X	X	X			X	X									
	Addressing State Fragility as a Strategic Concern	X		X	X	X													
	Improving Global Public Health	X		X	X	X					X	X							
	Improving Global Education	X		X	X	X													
	Providing Humanitarian Relief and Supporting Disaster Mitigation and Management	X		X									X	X	X	X			
	Financing Global Public Goods and Countering Other Development Threats	X		X														X	
	Countering Transnational Threats	X		X	X	X													X
	Promoting Democracy	X		X															

First, lack of transparency about purposes and confusion over standards of effectiveness contributes to Congressional skepticism and mistrust of the executive aid agencies. In response, and to guarantee that resources are used for their intended purposes, Congress responds with earmarks. Once this practice became prevalent, the competition for resources became a competition for earmarks, to the detriment of longer-term goals. In both the annual budget request (an internal executive branch exercise) and the appropriations process (a Congressional exercise) it is much easier for individuals (whether members of Congress or individual offices or interests within the bureaucracy) to defend set-aside pots of money for a narrow purpose when there is no overarching set of global goals against which the earmark or small initiative can be evaluated.

**Table 4: Comparison of Resource Allocation to the Africa Region for ESF and DA**

Program Objective	2008 Request			2008 Estimate			Percentage Change Estimate to Request
	Development Assistance	Economic Support Fund	2008 Request Total	Development Assistance	Economic Support Fund	2008 Estimate Base Total	
1 Peace and Security	43,510	21,000	64,510	16,761	9,600	26,361	-59%
2 Governing Justly and Democratically	85,564	131,983	217,547	73,662	96,316	169,978	-22%
3 Investing in People	106,479	74,094	180,573	261,140	51,187	312,327	73%
4 Economic Growth	253,377	146,868	400,245	309,757	26,146	335,903	-16%
5 Humanitarian Assistance	1,515	350	1,865	1,170		1,170	-37%
6 Program Support**				22,166		22,166	**
<b>Grand Total</b>	<b>490,445</b>	<b>374,295</b>	<b>864,740</b>	<b>684,656</b>	<b>183,249</b>	<b>867,905</b>	

\*\*Program Support is included in the 653a levels, but not the request. This does affect the percentage change somewhat; it only accounts for 2 percent of the total funding.

Second, although it is technologically possible to track how each twist, turn, and hypothetical in a budget process affects the allocation of resources to any one country for any one of dozens of accounts (never mind taking in to consideration the priorities and desires of multiple agencies and hundreds of different bureaus, offices, and field missions), the information costs of negotiating the budget are huge (both for Congress and the executive). It is nearly impossible to maintain a focus on the strategic implications and trade-offs at a global level. Many people deplore the fragmented U.S. approach to aid without recognizing that the funding system itself promotes this outcome.

The result is not only a fragmented approach to aid, but the “crowding out” phenomenon mentioned above. An oft-cited example is when short-term foreign policy crises result in an emergency reallocation of resources from less strategically important countries or programs to a new geopolitical hot spot. A much less visible example has to do with the Development Assistance (DA) account. U.S. bilateral assistance has long been criticized for its ineffectiveness in promoting economic growth and improved governance. Yet the reality is that congressional earmarks and directives and presidential initiatives geared toward directly delivery of social services (education, health, etc.) often crowd out programs that address the most important barriers to growth, development, and thus the long-term sustainability of social service delivery programs.

This crowding out effect can be seen clearly by comparing the President’s FY 2008 budget request for the Africa Region with the Congressional appropriation (see Table 4). The request for DA and ESF resources allocated the majority of the resources to economic growth and governance. The FY08 Estimate includes the earmarks and directives stipulated in the appropriation in sectors such as basic education, and water and sanitation. As a result, a substantial amount of resources were shifted out of economic growth and governance and into health, education, and other social services. This crowding out of growth and governance resources further imbalances a regional portfolio that already has substantial investments in social service and health programs through two

other major accounts (e.g., the Child Survival and Health account, and the Global HIV/AIDS Initiative account associated with the PEPFAR program).

Finally, a lack of clear goals has costs in terms of public accountability for foreign aid by making it difficult for civil society to analyze and hold government accountable for the choices it makes. Many organizations, including the Center for Global Development, attempt to analyze budget requests. However, each ends up choosing a different set of metrics since the accounts by themselves indicate very little about the core purposes and priorities for foreign aid.

#### **IV. The Principles for Rationalizing Accounts and Goals**

The framework and the goals offered throughout this paper are not the only possible ways of wording or configuring the goals of foreign assistance. Similarly, there are likely a number of different ways to simplify the foreign assistance account structure. Nevertheless there are a number of principles that should be taken in to consideration, regardless of the exact configuration of accounts. They include the following:

- Strategically motivated funding and developmentally motivated funding should be separate, with each allocated and *evaluated* on the basis of their own criteria.<sup>5</sup> The criteria associated with developmental goals would emphasize need and performance, particularly policy performance, and not strategic calculations.<sup>6</sup> Because predictability of aid flows is an important ingredient for effectiveness, this funding should not be subject to re-obligation or reprogramming to meet strategic needs. For strategic and security related funding, allocation decisions would be made based on emerging foreign policy opportunities and threats. The flexibility to reprogram resources as these opportunities and threats shift is essential. Congressional earmarking and establishing country levels on an annual basis are arguably appropriate for security and other foreign policy goals. In particular, the implication of this principle is funding for key strategic countries such as Pakistan, Afghanistan, Iraq, etc., should not come out of development accounts.
- *Each account should be associated with only one goal, but a goal may be funded by more than one account.* Tying each account to only one goal clearly identifies the primary purpose of the assistance. This allows congress and the executive to establish appropriate, agreed expectations for what standards of effectiveness the funding should be held accountable. Accounts should be

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<sup>5</sup> The HELP Commission Report (2007) advocated “ring fencing” development accounts from security accounts.

<sup>6</sup> Humanitarian aid would continue to be allocated on the basis of urgent need. It is noteworthy that humanitarian aid provides a good example of close correspondence between account and goal, in sharp contrast to development assistance. And, it is no coincidence that humanitarian aid comes in for much less criticism, second-guessing, and micro-management by Congress and the Administration than development assistance.

consolidated when activities and approaches are truly substitutes, or if separate pots of money perpetuate irrational and redundant organizational structures.<sup>7</sup> For any one goal, however, multiple accounts may be desirable if each account truly represents a distinct operational or conceptual approach which can work in concert to achieve a goal. For example, there is a case for maintaining the integrity of the Millennium Challenge Account as distinct and separate from development assistance, part of which also promotes economic growth in a complementary way. One rationale is that the possibility of receiving large amounts of assistance through the MCC creates incentives for developing-country governments to undertake governance and other reforms which are also essential to development. In order for this “incentive effect” to work properly, MCC resources should be additional to (other) development resources.<sup>8</sup>

- Flexibility in the choice of interventions on the ground is important for the effectiveness of country goals. Separate accounts should be considered for transnational activities and any other specific activities such as health, education, or democracy promotion that are pursued as ends in themselves. The current account structure does not adequately distinguish between sector approaches and country approaches. This has led to a steady crowding out of so-called “discretionary resources” (i.e., resources that can be programmed to any sector at the discretion of field personnel). For development progress at the country level, the most effective intervention will often depend on the country context and circumstances on the ground. An approach that addresses a key bottleneck or binding constraint in one country may not have the same effect in another. Therefore, funding that can only be spent on predetermined functional interventions limits the flexibility of field personnel who are likely to have more information about which interventions may have higher returns in terms of country-level progress. Making all funding flexible is a nonstarter: Congressional earmarks and presidential initiatives often address concerns that are important in and of themselves, regardless of the implications for development progress at the country level. Determining an agreed list of functional goals, with their own accounts, allows for funding towards these goals to be allocated, programmed and evaluated based on their own specific criteria rather than on more general development criteria.<sup>9</sup>

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<sup>7</sup> This may be the case with certain activities funded out of the security accounts (e.g. military financing and training, and the counter-narcotics and law enforcement accounts and bureaus) or the humanitarian accounts (e.g., food security and the refugee assistance accounts and bureaus), and should be investigated more fully in the context of Foreign Assistance Act reauthorization and organizational reform.

<sup>8</sup> MCC compacts do not address all aspects of economic growth, however. There is plenty of room for economic growth focused aid to complement MCC compacts which are typically large and sharply focused resource transfers.

<sup>9</sup> Improving global health and education, and spreading democracy will hopefully coincide with and reinforce overall growth, poverty reduction, and transformation. But often, supporting basic social service delivery in some countries should be pursued regardless of whether there is a direct link to country-level progress.

- *Contingency funding to address political and humanitarian crises would help facilitate effective and timely response.*<sup>10</sup> Establishing a contingency fund would also ensure that funding for longer-term development is not reprogrammed to meet emerging needs, and would help to create predictability and enforce budgetary discipline which is currently lacking from a foreign assistance appropriations process that relies heavily on supplemental appropriations. Negotiated and streamlined notification procedures could ensure that this flexibility does not come at the expense of adequate Congressional oversight.

These principles are offered, like the list of goals in the framework, to stimulate further discussion and analysis. A summary table in Annex II applies the principles to the goals listed in the framework and gives additional detail on country and program eligibility criteria, allocation criteria, possible instruments that could be used to achieve the goals, and other important account authorities and characteristics to be considered in the context of a new Foreign Assistance Act.

## **V. The New Framework, the Old Accounts, and the FY07 Budget**

One test of the usefulness of the framework presented above is whether it is feasible to calculate how much we are currently spending against each of these goals.

As Annex 1 details, it is possible to assign 75 percent of the total FY 2007 funding to one or another of the new goals that this paper proposes, by using information presented in the Congressional Budget Justification (CBJ) for FY 2007<sup>11</sup> and by applying a transparent set of criteria.<sup>12</sup>

It is important to acknowledge that the criteria laid out in this paper are not the only possible criteria. In fact, the exercise itself involves a certain amount of “reverse engineering” in assuming what Congress and the Executive intended as the purpose of the aid. Certain low or lower-middle income countries such as Afghanistan, Sudan, or Egypt receive a blend of both development funding

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<sup>10</sup> The HELP Commission Report (2007) also advocated for contingency funding.

<sup>11</sup> FY 2007 was selected because it is the only year for which the actual appropriation and supplemental budget information was publicly available when this paper was written. See Congressional Budget Justification for Foreign Operations (2009).

<sup>12</sup> This is possible because a number of accounts can be attributed in their entirety to a single goal (e.g., the Global HIV/AIDs and Child Survival and Health accounts can be entirely attributed to Improving Global Public Health-- See Step 1). Further, for the remaining accounts, some of the functional areas that are reported in the Congressional Budget Justification are only associated with one goal (e.g., DA and ESF labeled as 3.1; Health and 3.2 Education are associated with their respective goals). For the remaining 25 percent of the funding, (in particular, aligning the remaining resources for the ESF, DA, FSA, and SEED accounts between the strategic and developmental country goals) involves some subjective judgment. Step 3 lays out the criteria that were applied.

and strategic funding, whereas for the purpose of this exercise, DA or ESF funds for these countries were sorted into the strategic goals.

The point of the analysis below, however, is to show that this new framework is a useful tool for strategic focus and budgeting. By aligning the resources with the goals, it is possible to at least initiate an informed discussion as to whether the budget is appropriately configured to support the various U.S. goals, both strategic and developmental. **Table 5** shows the results of this exercise with the absolute levels of resources allocated toward each goal in FY 2007.

**Table 5 - Aligning Funding to Country Goals, FY2007 Actuals (\$ thousands)**

	Country/Functional	Final Goal Name	2007 Actual Base	2007 Actual Supp	Grand Total
Development / Humanitarian Goals	Country	Goal 1 - Transformational Development*	3,487,766	17,200	3,504,966
		Goal 2 - Addressing State Weakness and Fragility as a Barrier to Development	241,779	19,750	261,529
	Country Total		3,729,545	36,950	3,766,495
	Functional	Goal 3 - Improving Global Education	708,404	17,250	725,654
		Goal 4 - Improving Global Public Health	5,275,482	164,800	5,440,282
		Goal 5 - Providing Humanitarian Relief and Supporting Disaster Mitigation & Management	2,811,968	834,500	3,646,468
		Goal 6 - Financing Global Public Goods and Countering Other Development Threats	511,227	231,500	742,727
	Functional Total		9,307,081	1,248,050	10,555,131
	Multilateral/Other Independent Bilateral Agencies	International Financial Institutions (IFIs)	1,273,219		1,273,219
		International Organizations and Programs (IO&P)	302,552		302,552
Other Independent Agencies (not including MCC)		342,429	2,750	345,179	
Multilateral/Other Independent Bilateral Agencies Total		1,918,200	2,750	1,920,950	
Development Total			14,954,826	1,287,750	16,242,576
Strategic / Security Goals	Country	Goal 7 - Addressing State Weakness and Fragility as a Strategic Concern	794,622	2,401,750	3,196,372
		Goal 8 - Supporting, Strengthening, and Often Promoting the Development Progress of Strategic Allies	957,045	182,000	1,139,045
	Country Total		1,751,667	2,583,750	4,335,417
	Functional	Goal 9 - Promoting Democracy	113,040	285,000	398,040
		Goal 10 - Financing Security and Countering Transnational and Other Security Threats	6,349,666	722,750	7,072,416
Functional Total		6,462,706	1,007,750	7,470,456	
Strategic Total			8,214,373	3,591,500	11,805,873
			<b>Grand Total</b>	<b>28,048,449</b>	

\* Includes entire MCA account (\$1.75 billion).

This realignment of resources helps to highlight that the majority of United States' assistance package is not programmed to reduce dependence and encourage graduation from developmental foreign aid, even though it is often criticized on these grounds:

- While nearly 58 percent of foreign assistance resources line up with development and humanitarian goals, the majority of this assistance (60 percent of development/humanitarian assistance, and 34 percent of the total) is motivated by crisis response (humanitarian funding and PEPFAR funding) and social service delivery (health and education). Another way to put this is that our bilateral assistance package is overwhelmingly focused on directly meeting basic

human needs, with relatively little emphasis on economic growth and governance programs in either stable or fragile low or lower-middle income countries.

- A related point is that because \$1.75 billion of the \$3.5 billion of funds in “Goal 1—Transformational Development” represents the Millennium Challenge Account, using FY07 figures overstates what the United States normally spends on advancing country progress. Since FY07, appropriations to the MCA have declined, and if the trend continues without offsets elsewhere, the absolute and relative amount of resources for economic growth and governance will continue to decline.

## **VI. Form Follows Function: Toward a More Rational Organizational Structure**

The case for reorganizing the foreign assistance bureaucracy has been well documented elsewhere.<sup>13</sup> So too have a number of different options for doing so. Much of the discussion has centered on the role of the State Department vis-à-vis other existing or potential agencies, and whether the development mission should be given “elevated” in an independent department with a seat at the president’s cabinet. Unfortunately much of this discussion proceeds without reference to or agreement on the core purposes of foreign aid – which should figure clearly in any discussion of which agency will ultimately control U.S. foreign assistance. And ultimately, however, the “devil is in the details” of who controls what funding and how in any new bureaucratic structure.

It is relatively clear that funding for certain functional goals (health, education, humanitarian relief, etc.) aligns most clearly with the development mission and should be led by the development agencies. Other security related goals (counter-terrorism, preventing nuclear proliferation, and determining where opportunities for democratic openings and democratic consolidations) align better with a diplomatic/foreign policy organization. The case for consolidating and clarifying the missions and mandates of the proliferation of foreign assistance agencies and programs (PEPFAR, MCC, Treasury, etc) and offices within the State Department has also been articulated well by others.<sup>14</sup> No doubt consolidation and establishment of clear lines of authority and responsibility are essential for coherence, the reduction of redundancy, and a better focus on results and performance.

There has been less focus and consensus on the how to handle the resources associated with security interests that are programmed for development results (e.g. much of the assistance in countries like Egypt, Pakistan, and Afghanistan), even though these “in between” cases are at the crux of the organizational quandary. Because the levels of resources for these kinds of programs are very high compared to other OECD countries, comparing the U.S.’s aid reform challenge to other

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<sup>13</sup> See the HELP Commission Report (2007), Lancaster (2008) and, Atwood, McPherson, and Natsios (2008).

<sup>14</sup> Ibid.

high-profile reforms, such as the United Kingdom’s 1997 creation of the Department for International Development (DfID), is not straightforward.

The framework offered above points to one possible solution: Recognize that there are a set of fragile and other low and lower-middle income countries<sup>15</sup> where foreign policy and security prerogatives are the driving force behind the levels of assistance and the content of the programs; and give control of the funding (or a portion of the funding) to either the State Department or an interagency committee with a national security mandate. In exchange, a development agency such as USAID should then be given back control over the remaining core development funding, the authority to allocate it across countries and among different instruments and activities. The responsibility for developmental impact would help to ensure a balance that helps to achieve both development progress and other strategic objectives.

Regardless of one’s preferred organizational structure (consolidation of foreign assistance in State, consolidation of development assistance in a cabinet-level agency, or a hybrid version as described above), the essential question for aid reformers remains the same: how do we create a policy framework and organizational structure that allows us to wisely and transparently determine the appropriate balance of resources between development-motivated assistance and assistance to support security and foreign policy objectives other than development?

## **VII. Conclusion: A New Framework and Improving Aid Effectiveness**

The focus of this paper has been on improving the strategic coherence of foreign assistance by understanding the reasons *why* we give aid, and how the underlying motivations impact where and how we spend our resources, and how can best manage aid for results. Aligning the purpose of aid with a system of simplified accounts would help to ensure that funding decisions are made deliberately, with a full understanding of the opportunity costs involved.

Beyond this, the next administration would be well-served to devise an aid reform agenda that also improves the likelihood that these so-called strategic interventions produce results. Regardless of whether the desired ends is development or supporting an ally, putting resources in the “right places” will make little difference if they are not effectively implemented. The challenge of making foreign aid effective for development, or any other goal, is a much bigger challenge that has spawned a debate about the pathologies of aid, and possible approaches to mitigate them. A new framework that allows for resources specifically for development will allow the next administration’s leaders to remake the United States’ development agencies into truly 21st-century learning organizations that are on the cutting edge of innovative aid approaches and also can use the other levers of U.S. policy to advance a coherent U.S. development strategy.

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<sup>15</sup> Various estimates put the number of such countries around 10 to 20.

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# ANNEX 1: Fund Sort

## Step 1. Align “Single Goal” Accounts with the Appropriate Goal

### Accounts that Only Fund One Goal

	Millennium Challenge Account	Development Credit Authority	Transition Initiatives	International Military Education and Training	Foreign Military Financing	Child Survival and Health	Global HIV/AIDS Initiative	Emergency Refugee and Migration Assistance	Migration and Refugee Assistance	Public Law 480 (Food Aid)	International Disaster and Famine Assistance	Peacekeeping Operations	Andean Counter Narcotics Initiative	Democracy Fund
Supporting Transformational Development	[MCA]	[DCA]												
Addressing State Weakness and Fragility as Barriers to Development			[TI]											
Advancing Bilateral Partnerships and Supporting Strategic States														
Addressing State Weakness and Fragility as a Strategic Concern														
Improving Global Public Health						[CSH]	[GHAI]							
Improving Global Education														
Providing Humanitarian Relief and Supporting Disaster Mitigation and Management								[ERMA]	[MRA]	[P.L. 480]	[IDFA]			
Financing Global Public Goods and Countering Other Development Threats												[PKO]		
Financing Security and Countering Transnational Threats				[IMET]	[FMF]								[ACI]	
Promoting Democracy														[DF]**

\*\*To calculate funding for the “Promoting Democracy” goal, in addition to the Democracy fund, we also include funding to the following countries other accounts where democracy promotion is presumed singular goal: ESF for Burma (\$3.39M), Cuba (\$12.69M), and North Korea (\$25M), as well as DA for China (\$2M).

**Accounts that Only Fund One Goal [Annual disbursement in FY2007 in thousands USD]**

Goal	Millennium Challenge Account	Development Credit Authority	Transition Initiatives	International Military Education and Training	Foreign Military Financing	Child Survival and Health	Global HIV/AIDs Initiative	Emergency Refugee and Migration Assistance	Migration and Refugee Assistance	Public Law 480 (Food Aid)	International Disaster and Famine Assistance	Peacekeeping Operations	Andean Counter Narcotics Initiative	Democracy Fund
	Supporting Transformational Development	1,752,000	7,920											
Addressing State Weakness and Fragility as Barriers to Development			39,600											
Advancing Bilateral Partnerships and Supporting Strategic States														
Addressing State Weakness and Fragility as a Strategic Concern														
Improving Global Public Health						1,901,425	3,246,520							
Improving Global Education														
Providing Humanitarian Relief and Supporting Disaster Mitigation and Management								110,000	963,533	1,664,711	526,350			
Financing Global Public Goods and Countering Other Development Threats												453,250		
Financing Security and Countering Transnational Threats				85,877	4,825,800								721,500	
Promoting Democracy														398,040**

\*\*To calculate funding for the "Promoting Democracy" goal, in addition to the Democracy fund, we also include funding to the following countries other accounts where democracy promotion is presumed singular goal: ESF for Burma (\$3.39M), Cuba (\$12.69M), and North Korea (\$25M) as well as DA for China (\$2M).

**Step 2. From the Remaining Accounts, Sort for Funding for Functional Areas which align with “Functional Goals”**

**Multigoal Accounts—Functional Areas which align with “Functional Goals”**

	Development Assistance	Economic Support Fund	Support for Eastern Europe Democracy	Freedom Support Act	International Narcotics Crime and Law Enforcement	Nonproliferation, Antiterrorism and Demining
Supporting Transformational Development						
Addressing State Weakness and Fragility as Barriers to Development						
Advancing Bilateral Partnerships and Supporting Strategic States						
Addressing State Weakness and Fragility as a Strategic Concern						
Improving Global Public Health	[3.1 Health]	[3.1 Health]	[3.1 Health]	[3.1 Health]		
Improving Global Education	[3.2 Education]	[3.2 Education]	[3.2 Education]	[3.2 Education]		
Providing Humanitarian Relief and Supporting Disaster Mitigation and Management	[5.1-5.3 Humanitarian Assistance] + [3.3 Social Services for Especially Vulnerable People]	[5.1-5.3 Humanitarian Assistance] + [3.3 Social Services for Especially Vulnerable People]	[5.1-5.3 Humanitarian Assistance] + [3.3 Social Services for Especially Vulnerable People]	[5.1-5.3 Humanitarian Assistance] + [3.3 Social Services for Especially Vulnerable People]		
Financing Global Public Goods and Countering Other Development Threats	[4.8 Environment]	[4.8 Environment]	[4.8 Environment]	[4.8 Environment]		
Countering Transnational Threats	[1.1 Counter-Terrorism] + [1.4 Counter-Narcotics]	[1.1 Counter-Terrorism] + [1.2 Combating WMD] + [1.4 Counter-Narcotics]	[1.1 Counter-Terrorism] + [1.2 Combating WMD] + [1.4 Counter-Narcotics]	[1.1 Counter-Terrorism] + [1.2 Combating WMD] + [1.4 Counter-Narcotics]	[1.1 Counter-Terrorism] + [1.2 Combating WMD] + [1.4 Counter-Narcotics]+ [1.5 Transnational Crime]	[1.1 Counter-Terrorism] + [1.2 Combating WMD] + [1.4 Counter-Narcotics]+ [1.5 Transnational Crime]
Promoting Democracy						

Goal

**Multigoal Accounts—Functional Areas which align with “Functional Goals” [Annual disbursement in FY2007 in thousands USD]**

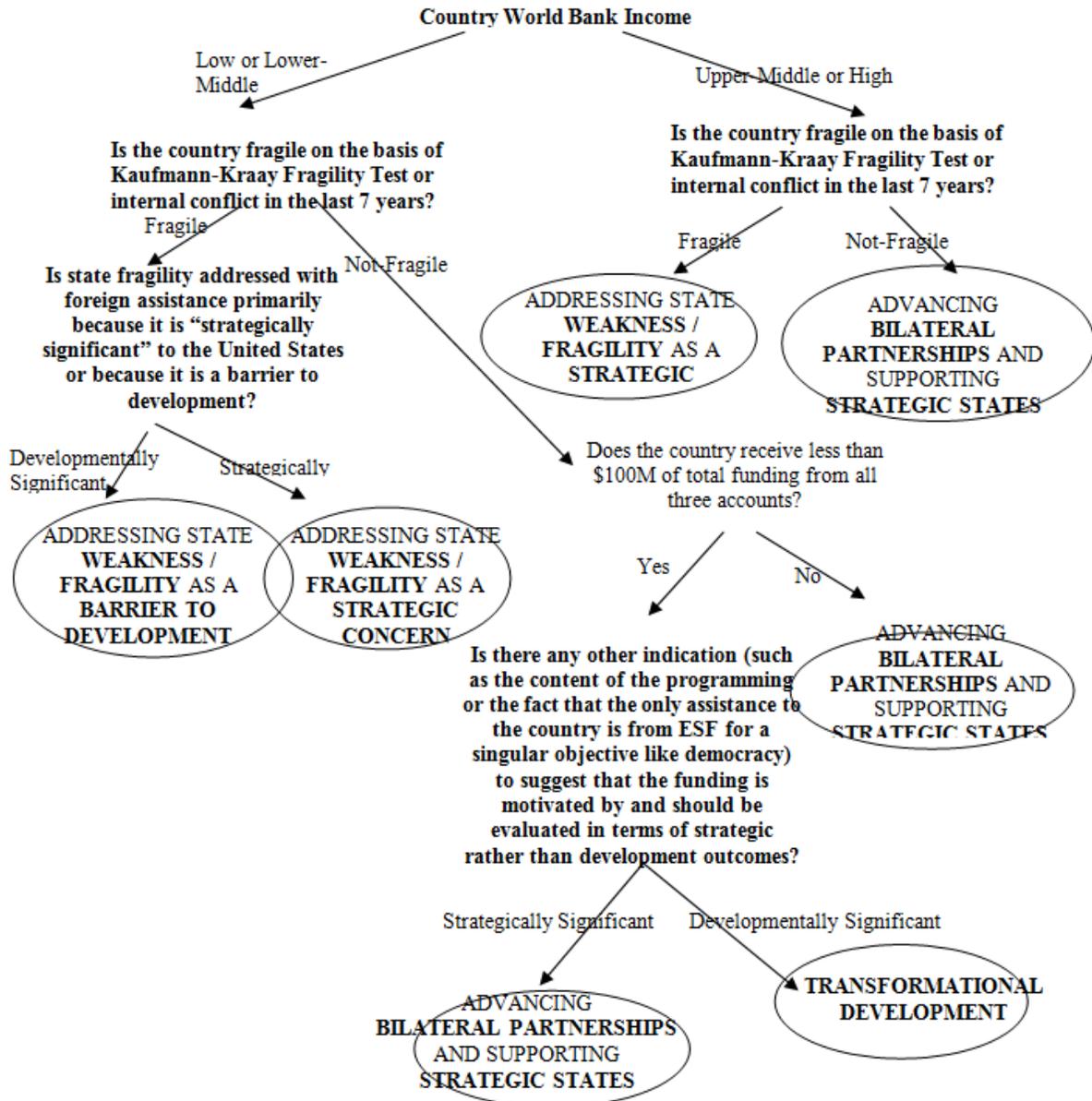
	Development Assistance	Economic Support Fund	Support for Eastern Europe Democracy	Freedom Support Act	International Narcotics Crime and Law Enforcement	Nonproliferation, Anti-Terrorism and Demining
Supporting Transformational Development						
Addressing State Weakness and Fragility as Barriers to Development						
Advancing Bilateral Partnerships and Supporting Strategic States						
Addressing State Weakness and Fragility as a Strategic Concern						
Improving Global Public Health	51,562	184,595	2,327	53,853		
Improving Global Education	311,380	390,746	11,307	12,221		
Providing Humanitarian Relief and Supporting Disaster Mitigation and Management	92,010	196,616	7,936	20,477		
Financing Global Public Goods and Countering Other Development Threats	231,467	57,116	214	680		
Countering Transnational Threats	26,375	243,840	3,362	41,046	338,631	382,497
Promoting Democracy						

Goal

**Step 3. Sort remaining funding**

**Aligning Funding for DA, ESF, FSA, SEED  
with Country Goals**

(Only the remaining program areas —1.3 Stabilization Operations and Security Sector Reform, 2.1-2.4 Governing Justly, 4.1-4.7 Economic Growth, and 6 Program Support)



## ANNEX 2: Developmental Goals

	Country Goals		Functional/Sectoral Goals			
	Supporting Transformational Development	Addressing state weakness and fragility as barriers to development	Improving Global Public Health	Improving Global Education	Providing humanitarian relief and supporting disaster mitigation and management	Financing global public goods and countering other development threats
Goal Description	Advance economic growth (with poverty reduction), and good governance/institutional development (as a means to achieving economic growth), until countries could sustain further development on their own, independent of foreign aid.	Address the sources and causes of state weakness and fragility which are barriers to medium-term economic development. These include stability, security reform, and capacity development in fragile and post-conflict countries.	Improve the quality of public health and access to public health services in developing countries. Mitigate public health crises through direct intervention and provision of services, and seek to improve public health institutions and local capacity so that recipient countries can sustain further public health improvements, independent of foreign aid.	Improve the quality of and access to education in developing countries. Seek to improve education institutions and local capacity so that recipient countries can sustain further improvements in education independent of foreign aid.	Provide humanitarian relief as a result of natural and manmade disasters. Provide support to refugees and internally displaced persons. Seek to improve local disaster management capabilities so that countries can mitigate disaster impacts and respond to disasters with local resources and capabilities, independent of foreign aid.	Finance international global public goods (e.g., advance market commitments for vaccines, international organizations, global peacekeeping, agricultural research, etc.) and countering other development threats such as environmental degradation and global climate change.
Country/Program Eligibility	Low income and lower-middle income countries, as per the World Bank's income classification system.	Low and middle income countries with significant fragility stemming from instability and weak governance (as indicated by Kaufman-Kraay and other third party indicators). Low and middle income countries which are recovering a conflict within the previous 10 (?) years.	Low and middle income countries with significant public health challenges. Upper middle income countries facing public health crises (e.g., Botswana and HIV/AIDs).	Low and middle income countries where provision and quality of education services is low.	Countries affected by natural and manmade disasters, regardless of income level.	For international global public goods, financing provided to global institutions or programs. For development threats, all countries affected by threats are eligible, regardless of income level.
Allocation Criteria	The criteria for allocating assistance among countries will largely depend on the instrument in question, as discussed below. In general, one would expect countries that fall in to the upper middle income category receive minimal amounts of assistance under this goal. Resources are allocated on the basis of development impact, geopolitical interests plays little or no role. Allocation criteria will vary with the instrument in question, but in general will take in to consideration the following factors to varying degrees: need, host-country commitment, civil society commitment and capacity, strategic opportunities, and results and past performance.	The criteria for allocating assistance among countries will depend on the instrument in question. Resources are allocated on the basis of impact, meaning countries in the midst of conflict, or with unfavorable policy environments. Would be unlikely to receive significant levels of resources, but rather smaller packages of assistance where opportunities or leverage points exist.	Assistance allocated on the basis of impact at the sector-level and the likelihood that successful public health interventions will also help support economic growth. Specific criteria include: Need, host-country commitment, civil society commitment and capacity, and public health crises.	Assistance allocated on the basis of impact at the sector level, and the likelihood that successful education interventions will also help support economic growth.	Relief assistance is allocated on the basis of need. Disaster management and mitigation assistance is allocated on the basis of disaster vulnerability, impacts at the sector level, and the likelihood that successful disaster mitigation and management interventions will also help mitigate the economic impacts of disasters. Specific criteria include: need, host-country commitment, civil society commitment and capacity, and disaster vulnerability.	Assistance allocated to instruments on the basis of development strategy. Assistance allocated within instruments on the basis of need and development impact.
Accounts Currently Funding this Goal	DA, MCA, ESF, FSA, SEED	DA, ESF, TI	DA, ESF, CSH, GHAI	DA, ESF, FSA, SEED	IDFA, P.L. 480 (both emergency and non-emergency), ERMA, MRA	DA, PKO

## Developmental Goals (Continued)

	Country Goals		Functional/Sectoral Goals			
	Supporting Transformational Development	Addressing state weakness and fragility as barriers to development	Improving Global Public Health	Improving Global Education	Providing humanitarian relief and supporting disaster mitigation and management	Financing global public goods and countering other development threats
<b>Instruments/ Approaches to be considered in Goal Strategy</b>	<p>Instruments and approaches (only some of which are currently being used by the United States.):</p> <ul style="list-style-type: none"> <li>Country-owned project-based aid (e.g., MCC compacts) in countries with relatively good policy performance</li> <li>Donor design project-based aid in countries with relatively worse policy performance, but there are opportunities for experimental strategic interventions</li> <li>General budget support (possibly based on a cash-on-delivery programs[1])</li> <li>Demand-driven and donor designed technical assistance[2] where knowledge and capacity gaps are barriers to the efficient governance and markets</li> <li>Civil society support where demand is essential for governance reforms and accountability</li> <li>Investment risk guarantees where risk is a barrier to investment.</li> </ul>	<p>Instruments and approaches (only some of which are currently being used by the United States) :</p> <ul style="list-style-type: none"> <li>Targeted donor designed project-based aid (particularly related to the development of critical infrastructure and institutional capacity)</li> <li>Cash-on-delivery based budget support</li> <li>Demand-driven technical assistance for relatively more committed governments</li> <li>Donor designed technical assistance</li> <li>Civil society support</li> <li>Military training and funding for peacekeeping operations (??)</li> </ul>	<p>Instruments and approaches (only some of which are currently being used by the United States):</p> <ul style="list-style-type: none"> <li>Cash-on-delivery based budget support</li> <li>Demand-driven technical assistance for relatively more committed governments</li> <li>Donor design project-based aid in countries with relatively worse policy performance, particularly projects designed as a sector-wide approach (SWAP)</li> <li>Support for civil society provision of social services when rapid scale-up is necessary</li> <li>Support for international and regional organizations</li> </ul>	<p>Instruments and approaches (only some of which are currently being used by the United States):</p> <ul style="list-style-type: none"> <li>Cash-on-delivery based budget support</li> <li>Demand-driven technical assistance for relatively more committed governments</li> <li>Donor design project-based aid in countries with relatively worse policy performance, particularly projects designed as a sector-wide approach (SWAP)</li> <li>Support for civil society provision of social services when rapid scale-up is necessary</li> <li>Support for international and regional organizations</li> </ul>	<p>Instruments and approaches (only some of which are currently being used by the United States):</p> <ul style="list-style-type: none"> <li>Cash-on-delivery based budget support</li> <li>Demand-driven technical assistance for relatively more committed governments</li> <li>Donor design project-based aid in countries with relatively worse policy performance, particularly projects designed as a sector-wide approach (SWAP)</li> <li>Support for civil society provision of social services when rapid scale-up is necessary</li> <li>Support for international and regional disaster management organizations</li> <li>Financing of disaster risk guarantees (e.g. flood insurance, weather indexed crop insurance, etc.)</li> </ul>	<p>Instruments and approaches (only some of which are currently being used by the United States.):</p> <ul style="list-style-type: none"> <li>Support, subsidies, incentives or prizes for global public goods</li> <li>Financing of risk guarantees</li> <li>Other instruments to create markets for investment by the private sector in these public goods (e.g., Advanced Market Commitments for drugs or vaccines).</li> </ul>
<b>Important Authorities/Characteristics for New Accounts</b>	<ul style="list-style-type: none"> <li>Multiyear.</li> <li>Discretionary among choice of instruments and project approaches.</li> <li>Aid flows should be predictable and transparent to recipient countries.</li> <li>Re-obligation or reallocation of funding based on performance, not to meet U.S. strategic needs or emerging crises.</li> <li>Funding is "untied" in that there would not be requirements to spend it on U.S. goods/services.</li> <li>Constructive Congressional oversight focuses on results and models, rather than country levels or specific interventions.</li> </ul>	<ul style="list-style-type: none"> <li>Multiyear.</li> <li>Discretionary among choice of instruments and project approaches.</li> <li>Aid flows should be predictable and transparent to recipient countries.</li> <li>Re-obligation or reallocation of funding based on performance, not to meet U.S. strategic needs or emerging crises.</li> <li>Funding is "untied."</li> <li>Constructive Congressional oversight focuses on results and models, rather than country levels or specific interventions.</li> <li>A contingency fund with similar authorities to the existing "Transition Initiatives" account would facilitate quick responses to opportunities when they emerge.</li> </ul>	<ul style="list-style-type: none"> <li>Multiyear.</li> <li>Discretionary among choice of instruments and project approaches, but account is sector specific.</li> <li>Aid flows should be predictable and transparent to recipient countries.</li> <li>Re-obligation or reallocation of funding based on performance, not to meet U.S. strategic needs or emerging crises.</li> <li>Funding is "untied."</li> <li>Separate account allows for funding above levels that would be funded if goal was pursued solely because of instrumental value in achieving economic growth.</li> </ul>	<ul style="list-style-type: none"> <li>Multiyear.</li> <li>Discretionary among choice of instruments and project approaches, but account is sector specific.</li> <li>Aid flows should be predictable and transparent to recipient countries.</li> <li>Re-obligation or reallocation of funding based on performance, not to meet U.S. strategic needs or emerging crises.</li> <li>Funding is "untied."</li> <li>Separate account allows for funding above levels that would be funded if goal was pursued solely because of instrumental value in achieving economic growth.</li> </ul>	<ul style="list-style-type: none"> <li>Multiyear.</li> <li>Discretionary among choice of instruments and project approaches, but account is sector specific.</li> <li>Aid flows should be predictable and transparent to recipient countries.</li> <li>Re-obligation or reallocation of funding based on performance, not to meet U.S. strategic needs or emerging crises.</li> <li>Funding is "untied."</li> <li>Separate account allows for funding above levels that would be funded if goal was pursued solely because of instrumental value in achieving economic growth.</li> </ul>	<ul style="list-style-type: none"> <li>Multiyear.</li> <li>Discretionary among choice of instruments and project approaches.</li> </ul>

### Strategic/Security Goals

	Country Goals		Functional Goals	
	Advancing Bilateral Partnerships and Supporting Strategic States	Addressing State Weakness and Fragility as Strategic Concerns	Countering transnational threats such as narcotics, terrorism, nuclear proliferation	Promoting Democracy
Goal Description	The United States seeks to advance bilateral partnerships by funding programs of mutual interest and mutual cooperation. It also provides additional funding to countries whose strategic significance motivates resource levels above what they would receive on the basis of the criteria related to developmental goals.	Address the sources and causes of state weakness and fragility insofar as they may present security threats to the United States.	Address the sources and causes of specific transnational threats such as narcotics, terrorism, and nuclear proliferation, <i>inter alia</i> .	Support the emergence and consolidation of democracy.
Country/Program Eligibility	Any country, regardless of income level.	Any country, regardless of income level, with significant fragility stemming from instability and weak governance (as indicated by Kaufman-Kraay and other third party indicators). Any country, regardless of income level, in conflict, emerging from conflict, or rebuilding after a conflict in the previous 10 years.	Any country, regardless of income level.	Any country, regardless of income level.
Allocation Criteria	Strategic interests/national security considerations and diplomatic objectives.	Strategic interests/national security considerations and diplomatic objectives.	Assistance allocated on the basis of impact in countering the specific threat and the likelihood that the specific intervention will also help support broader U.S. strategic interests and diplomatic objectives.	Assistance allocated in such a way as to advance democratic opening or to further consolidate democratic transitions. Interventions and allocations should mitigate or avoid instability or violence that would have negative development impacts.
Accounts Currently Funding this Goal	ESF, FSA, SEED, IMET, FMF, Ambassadors Self-Help Fund	ESF, FSA, SEED	SEED, FSA, ESF	Democracy Fund, ESF/DA for specific countries (Burma, China, Cuba, North Korea)

**Strategic/Security Goals, continued**

	<b>Country Goals</b>		<b>Functional Goals</b>	
	<b>Advancing Bilateral Partnerships and Supporting Strategic States</b>	<b>Addressing State Weakness and Fragility as Strategic Concerns</b>	<b>Countering transnational threats such as narcotics, terrorism, nuclear proliferation</b>	<b>Promoting Democracy</b>
<b>Instruments/Approaches to be considered in Goal Strategy</b>	<p>Instruments and approaches will vary depending on the income level of the recipient country, and the strategic objectives which motivate the assistance. In countries in the low and lower-middle income classifications, funding may be channeled through instruments and approaches designed under the developmental goals (i.e., resources may be transferred into USAID or other U.S. agencies' instruments). It may also take the form of general budget support to advance other security-related or strategic objectives and be channeled through State Department instruments. In upper middle and higher income countries, funding may be used to advance a specific diplomatic objectives (e.g. in exchange for support for a trade, peace, or non-proliferation agreement) or may be used to pursue a project of mutual concern.</p>	<p>Instruments and approaches will vary depending on the source of fragility (whether the recipient country is fragile but not in conflict, in conflict, emerging from conflict, or rebuilding after conflict) and the specific strategic interest or security threat that motivates the higher levels of assistance. In countries in the low and lower middle income classifications, funding may be channeled through instruments and approaches designed under the developmental goals (i.e., resources may be transferred into USAID or other U.S. agencies' instruments). It may also take the form of general budget support to advance other security-related or strategic objectives and be channeled through State Department instruments.</p>		
<b>Important Account Authorities/ Characteristics</b>	<ul style="list-style-type: none"> <li>• One year or multiyear funding.</li> <li>• Flexibility to re-obligate and reallocate funding to meet U.S. strategic needs or emerging crises.</li> <li>• Portions of resources may be set aside to fund contingencies under criteria and rules established between Congress and Executive branch.</li> <li>• Congressional oversight over country levels is appropriate and expected.</li> </ul>	<ul style="list-style-type: none"> <li>• One year or multiyear funding.</li> <li>• Flexibility to re-obligate and reallocate funding to meet U.S. strategic needs or emerging crises.</li> <li>• Portions of resources may be set aside to fund contingencies under criteria and rules established between Congress and Executive branch.</li> <li>• Congressional oversight over country levels is appropriate and expected.</li> </ul>		