

DATE: March 22, 2006

SUBJECT: CGD Program on Reorganizing U.S. Development Assistance

Overview: On March 17 the Center for Global Development (CGD) sponsored a debate on the Administration's proposal to reorganize U.S. development assistance. The debate attracted an overflow crowd, which included representatives from State, USAID, the NSC, academia, area think tanks, and Congress. Andrew Natsios, until January of this year the Administrator of USAID, defended the Administration's proposal. Carol Lancaster, former Deputy Administrator of USAID in the Clinton Administration, strongly criticized the proposed reorganization. Ms. Lancaster has written a book on this subject, *Transforming U.S. Aid: United States Assistance in the 21st Century*, published by the Institute for International Economics. The moderator of the debate was Steve Radelet, a Senior Fellow of the CGD. See also a January 2006 essay by CGD Director Nancy Birdsall: "Reforming U.S. Development Policy: Four Critical Fixes" (www.cgdev.org).

Presentations: Steve Radelet opened the debate by summarizing the Bush Administration's plan, announced January 19, 2006 (see www.State.gov, Issues and Press, International Assistance) to create a new Director of Foreign Assistance (DFA) who will serve as Administrator of USAID and also oversee all State Department foreign assistance funding and programs. The DFA is to develop a coordinated strategy for U.S. foreign assistance, including five-year plans for individual countries, and will provide guidance on the foreign assistance programs run by other U.S. Government agencies, including the Millennium Challenge Account and the Office of the Global AIDS Coordinator. Randall Tobias, currently the Global AIDS Coordinator, has been nominated to be the first DFA. Hearings were held before Congress on March 7, but his nomination has yet to be approved.

Mr. Radelet noted that the reorganization is more modest than some ideas that had been discussed, including the creation of a cabinet-level Department of Development that would have incorporated all foreign assistance programs run by U.S. Government agencies, including Treasury, Defense, Health and Human Services, and Labor.

Carol Lancaster gave an overview of the current problems with the organization of U.S. foreign assistance and why she thinks the Administration's proposed reorganization is a bad idea:

1. **Lack of coordination:** Almost every U.S. Government Department runs foreign assistance programs, with little or no coordination among them.
2. **Too little emphasis on economic development:** Administration focuses mainly on democracy building, freedom, and regime change. There is also a lack of emphasis on the promotion of institutional development.

3. **No systematic evaluation:** The U.S. has no policy to evaluate its assistance programs to determine which work and which do not.
4. **Reduced role and effectiveness of USAID:** The proposal is in effect a takeover of USAID by the State Department. It will politicize USAID's programs because State Department staff, with different objectives and skills, will make decisions in the future as to which countries should receive assistance. Economic development will be given even less attention.
5. **Too many tasks for Tobias:** The new DFA will not have time to run USAID if he is also responsible for creating a new development strategy, running State Department assistance programs, and providing guidance on other U.S. government assistance programs
6. **Create a new Department:** A better idea would have been to merge USAID and the Millennium Challenge Corporation (MCC), which runs the MCA, or to create a new Cabinet-level Department of Development—modeled after the UK's Department for International Development (DFID).

Mr. Natsios supports the reorganization proposal because he believes the current structure is not effective in achieving U.S. policy goals and leads to frequent internal disagreements.

1. **Misalignment of resources:** The U.S. currently spends too little on promoting economic growth and too much on education and health. The creation of the MCA has addressed this problem to some extent. A new U.S. assistance strategy could place greater emphasis on growth.
2. **No strategy:** Unlike the Defense Department with its four-year strategic plans, the Administration currently has no overall foreign assistance strategy.
3. **Congressional earmarks:** Congress currently tightly controls about 75% of USAID's spending with specific instructions regarding what USAID should finance in each country. He implied that the new structure would discourage earmarking by giving the Administration greater clout, including through the development of country assistance strategies.
4. **More authority to the DFA:** The new DFA, who will be given the rank of Deputy Secretary of State, will have more stature within the Administration than Natsios did as the Administrator of USAID. He thus should be able to promote USAID's objectives within the Administration more effectively. Natsios has a high opinion of the managerial talents of Mr. Tobias and disagrees with Ms. Lancaster's assertion that USAID will simply be folded into the State Department.
5. **Challenge of failed states:** The biggest challenge for the Administration is how to deal with failed states. The new structure should enable the government to coordinate programs run by the Department of Defense as well as State and USAID, and thus deal with the political, economic and diplomatic challenges of failed states.

There was some discussion **whether Congress will approve the new structure.** Mr. Natsios believes that there should not be a problem with Congress, while Ms. Lancaster thinks that it is already too late for major new initiatives, given the focus on Iraq and other foreign affairs priorities, as well as lack of budget flexibility. She thinks the reorganization will have to wait for

the next Administration. Mr. Natsios admitted that he would have preferred a more ambitious reorganization that would have included all U.S. Government foreign assistance programs.

Question and Answer Period:

The audience expressed some skepticism regarding how the new structure will address the current problems with U.S. foreign assistance, given the modest scope of the reorganization. Several agreed with Mr. Natsios' point that there are too many Congressional earmarks on USAID and that there needs to be greater emphasis on economic development. There was a further discussion of Mr. Natsios' point that the United States should spend more on promoting economic growth and less on health and education. Mr. Natsios said that programs that had been cut in the past, such as agricultural development, should be reinstated because of their effect on growth. In response to a question about USAID's democracy-building programs, Mr. Natsios said that, while USAID has a good program, too much of its assistance in this area is going to Iraq and Afghanistan. Ms. Lancaster agreed on the importance of democracy-building programs.

In response to a question on the legal authority for combining State and USAID programs, Mr. Natsios noted that legally the Secretary of State has authority over all U.S. development assistance and can delegate this authority to others, including the new DFA, Randal Tobias. He clarified that Mr. Tobias will have direct authority only for spending by the State Department and USAID.

In response to a question on the lessons learned from the U.S. assistance program for Afghanistan, Mr. Natsios said that the program has been a success because of the lack of Congressional earmarks and the fact that the Government of Afghanistan had been allowed to steer much of the spending to its own priorities. For example, it insisted on the rebuilding of roads within the country, something that U.S. officials were initially skeptical about. It is clear that the road rebuilding will have a strong effect on growth. He also claimed that programs initiated by the Department of Defense were ill conceived and that USAID had to correct them later. Ms. Lancaster said that the program for Afghanistan will only lead to success for the country if it is sustained by continued U.S. appropriations.