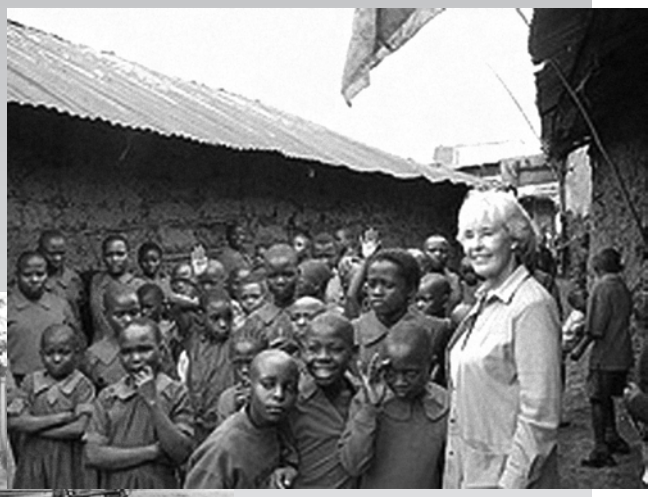
BEYOND ASSISTANCE

The HELP Commission Report on Foreign Assistance Reform

Helping to **E**nhance the **L**ivelihood of **P**eople around the Globe



Congresswoman Jennifer Dunn, who wanted America to be known not just for its strength, but for its compassion, was an invaluable member of the HELP Commission for twenty months. Jennifer's grace distinguished and defined her life; she honored our Commission with her friendship and her service; and our report is dedicated to her memory.

The United States Commission on December 7, 2007
Helping to **E**nhance the **L**ivelihood of **P**eople Around the Globe

Dear Mr. President, Madam Secretary and Members of Congress:

Pursuant to Public Law 108-199, the undersigned members of the Helping to Enhance the Livelihood of People Around the Globe Commission (The HELP Commission) respectfully submit this report for your consideration. The Commission appreciates the opportunity to have participated in this endeavor, and we stand prepared to discuss the contents of this report with you.

Sincerely,

The Honorable Mary K. Bush, Chairman

The Honorable Carol C. Adelman, Vice Chairman

Leo Hindery, Jr., Vice Chairman

Steven K. Berry, Esq.

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The Honorable Robert H. Michel

Eric G. Postel

Gayle E. Smith

David A. Williams

Alonzo L. Fulgham, Representative of the USAID Administrator

Members of the HELP Commission, and How They Voted

The Commission approved the following report by a vote of 19 to 1.

Commissioners Voting in the Affirmative:

The Honorable Mary K. Bush, Chairman
The Honorable Dr. Carol C. Adelman, Vice Chairman
Leo Hindery, Jr., Vice Chairman
Steven K. Berry, Esq.
Jerome F. Climer
Dr. Nicholas N. Eberstadt
Glenn E. Estess, Sr.
Lynn C. Fritz
Benjamin K. Homan
The Honorable Walter H. Kansteiner III
Thomas C. Kleine, Esq.
William C. Lane
C. Payne Lucas
Dr. Martin L. LaVor
The Honorable Robert H. Michel
Eric G. Postel
Gayle E. Smith
David A. Williams
Alonzo L. Fulgham, Representative of the USAID Administrator

Commissioners Opposing:

Dr. Jeffrey D. Sachs

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Executive Summary

Foreign assistance is critical. It conveys America's humanitarian values. It helps protect America's national security. And it helps countries address dire poverty and develop so that they can better provide for their own people.

Our foreign assistance system is broken. We ignore this reality at our peril.

The American people, and those in the developing world striving for a better life, deserve a better foreign assistance system.

The American people have a right to expect that when the United States Government spends their hard-earned dollars for international assistance and development programs the money is spent wisely on attainable objectives tied to our national and moral interests. The American people have a right to know that when they call upon our government to help people overseas stop the suffering from disease, famine, and other catastrophes, their tremendous compassion and generosity will yield tangible results. The American people have a right to demand that the best possible tools are in place to permit any administration to conduct a robust foreign policy.

For nearly 22 months, this bipartisan Commission interviewed, at home and abroad, many of the world's foremost experts on U.S. foreign assistance. We spoke with current and former Secretaries of State. We met with leaders of U.S. Government agencies involved with foreign assistance. We met for more than two days straight with an international group of experts, testing and examining our preliminary findings under multiple alternative scenarios for the future. We consulted scholars, contractors, non-governmental organizations (NGOs), businesses and aid recipients, and studied previous reform efforts and reports. Opinions and recommendations varied.

But not one person appeared before this Commission to defend the status quo.

It is shocking that the need for foreign aid reform is so widely recognized yet so little has been done to implement lasting and vital changes. The legislation mandating the U.S. system was written more than 45 years ago and is littered with competing goals, conflicting objectives, and vague directives. Our professional development corps has been eroded and replaced with people who must focus mainly on managing outside contractors. Some of our highest tariffs affect goods exported by some of the poorest countries. We have witnessed the steady proliferation of aid programs, accounts, instruments, and initiatives across multiple agencies and departments, but we still lack an effective mechanism to coordinate them within the U.S. Government. We also lack the means to ensure that our development assistance programs are definable, achievable, measurable and sustainable. Meanwhile, the vacuum created by our broken system is being filled in part, not by a reformed foreign aid system, but increasingly by the Department of Defense (DoD).

The Commission understands that weak states can readily spawn conflict, undermine regional stability, and threaten our own security. They can offer vast ungoverned spaces to any and all who would exploit them. We know that failed states are unable to participate effectively in the world economy. We know that failed states foment human suffering.

The Commission also understands that, just as modern technology brings many parts of America into the homes of people in the developing world, so too does it carry the problems of the developing world to our doorstep. When more than one-third of the people on the globe survive on less than two dollars a day, the contrast with developed countries is acute and unavoidable. Unless there is a way forward for the world's poor, America's own peace and prosperity can be put at risk as a result.

The United States must respond quickly and effectively to work with our partner countries as they address these and other challenges, whether they are manifest in the dearth of effective primary schools, the presence of lawless territories, the absence of the health infrastructure needed to manage HIV/AIDS in Africa today, an avian flu pandemic tomorrow, or unsafe drinking water.

The United States needs a strategy and the tools to address these challenges. We should start with a bipartisan agreement between the Executive and Legislative branches of government on the contours of a U.S. strategy for our development and humanitarian assistance programs.

That strategy would require that we attain new capabilities and consistent policies across all of our foreign affairs agencies. We also must fix our foreign aid system, restructure our agencies, strengthen our corps of development professionals, and involve new partners. Perhaps our greatest challenge will be adopting and sustaining a long-term approach to development assistance.

War-torn societies are not healed in 12 months; weak and failing states cannot be rendered capable in two years. Transforming countries that have suffered decades of misrule, political dysfunction, economic distortion, and unchecked violence requires building consensus in the U.S. Government around strategies that extend beyond our one-year budget cycle and presidential elections that occur every four years. Unlike highly visible emergency relief efforts, development assistance rarely produces identifiable results in days, weeks, or even months. But development assistance, if executed well and in concert with committed developing country partners, can in many cases prevent the need for costly diplomatic, military, or humanitarian interventions.

The HELP Commission's report is not aimed at either political party or any particular administration. It reflects our strong belief that our nation must enact sweeping policy and institutional changes to equip our country to meet the challenges of the day with a foreign aid system that works at home and abroad.

Findings

The final recommendations of this Commission are based on a variety of findings, including the following:

The world has changed and U.S. assistance programs have not kept pace. The development challenges of the 21st century differ from those of the 1960s, when the principal legislation governing America's foreign assistance took effect. Changes in economic conditions, demographics, technology, and in our understanding of the potential consequences of local and global environmental risks, require new ways of promoting development. In addition, the growing role of private actors and capital in development — from foundations to corporations to faith-based organizations to individuals sending remittances — has significantly changed the development landscape.

Yet, over the last several decades, our approach to development and the programs we fund have not kept pace with these changes. This means that the U.S. Government, NGOs, and the private sector must act collectively and proactively. Programs should be nimble, so that they can change when conditions warrant it. They must be innovative — which requires that our nation accept and learn from failure. Development assistance programs should be designed to achieve objectives that are definable, achievable, measurable, and sustainable. And they should be designed with an eye to the long term, based on the recommendations and active participation of our local partners.

Foreign assistance alone is not sufficient to help developing countries achieve long-term, sustainable economic growth. Development must be locally led and owned. Development occurs when countries make commitments to their own long-term, sustainable growth by implementing the right policies to achieve this. It follows that, for those recipient countries that are dedicated to development, the United States should make the necessary effort — both in terms of resources and commitment — to support them. We must invest in the capacity of these states to develop and sustain strong economies and serve their citizens. We must invest in the capacity of societies to live in peace, uphold the rule of law, and become attractive venues for private capital to generate the jobs, services, and goods needed to counter structural poverty. And we must invest in the capacity of individuals to lead more productive lives. Yet our assistance must include more than just foreign assistance dollars and the provision of consultants. Our contributions can and should be complemented by trade, investment, political diplomacy, and public diplomacy.

Long-term economic growth and job creation contribute the most to sustainable development. Many foreign assistance activities can help address humanitarian imperatives. Yet, sustained economic growth is necessary to ensure that a country can, over the long term, feed, educate, protect, house, and provide for the health of its citizens. The United States should help developing countries build their productive capacities so they will be able to sustain themselves. Moreover, expectations should match reality: When America provides humanitarian assistance, our nation should not be surprised if those humanitarian contributions fail to create long-term, self-sustaining development.

We need a clear and common vision for development across and throughout both branches of the United States Government. Our nation needs to create a coherent strategy for development assistance, shared by the Executive and Legislative branches and supported by the American people. This vision should translate into programs, designed together with each developing country, alone or in a regional context, which NGOs, philanthropists, multilateral organizations, and other donors can readily understand and support.

An integrated approach to our government's development assistance is needed. For decades, America has applied piecemeal fixes to complex development challenges, often through multiple U.S. Government agencies. For example, while we have devoted significant resources to health, education, and good governance, none of these initiatives, standing alone or even in combination, assures maximum impact in our efforts to promote development. Our assistance must be complemented by trade, investment, political engagement, and public diplomacy. Authority and accountability should not be scattered across the government.

We must play to our strengths and work with others. A development assistance strategy that aims to address all aspects of poverty almost invariably will be stretched too thin. A better approach is to root U.S. development assistance in our nation's comparative advantages: agriculture, technology, small business development, education, and other areas in which we excel. The United States should also leverage the activities and engagement of other donors, be they governments, multilateral agencies, businesses, charities, foundations, or faith-based organizations. Only then can we hope to achieve a practical and efficient division of labor that minimizes duplication of effort and reduces gaps in financing.

Funding should be a function of realistic, long-term goals agreed to by the Executive and Legislative branches, and we should only make promises that we intend to keep. Further, our nation should fully fund international commitments to which it has agreed.

Recommendations: The Need for Change

Members of the Commission have different views regarding specific recommendations, but *all think that substantive changes are needed in the way*

America's development programs are led, coordinated, delivered, and financed. The HELP Commission recommends the following actions:

Rewrite the Foreign Assistance Act. We must rewrite the Foreign Assistance Act (FAA) to reflect new development goals and programs in a vastly different world. The new act must also consolidate legislation enacted over the last 45 years, and it should address many of the recommendations contained in this report.

Do more to help developing countries build vibrant private sectors. Business can and should be the engine of growth in the developing world, as it is in the developed world. Thus, we recommend increasing technical assistance and funding for small and medium enterprises that do not have access to private capital. We also propose establishing a fund for research and development, to be modeled on the research arm of the Department of Defense. This organization would strive to create and commercialize technological products that could improve the lives of people in developing countries. Finally, we recommend that renewed attention be paid to increasing the productivity of agriculture and related industries in the developing world, especially in those countries that are small, resource-poor, and land-locked.

Create a new business model and engage new non-governmental partners. Foreign assistance has too often been delivered in a top-down fashion and driven by universal prescriptions that might or might not be relevant for every country. Where possible, U.S. foreign assistance programs should be carried out in concert with local private or public partners that are themselves committed to development. Programs should be demand-driven so that they respond to local needs and therefore have a better chance of creating lasting solutions. We must also actively engage new non-governmental actors and leverage the resources from the explosion of growth in philanthropy and private investment. We believe that new initiatives, increased funding and, most importantly, lasting results will occur if we more proactively collaborate with non-governmental actors.

Align America's trade and development policies. U.S. trade and development policies often conflict. For example, the very countries that are eligible for funding from the Millennium Challenge Corporation (MCC) — the new U.S. Government agency that aims to help a select group of countries that have demonstrated a commitment to growth —

often pay more in tariffs than they receive in aid. To support development, we recommend allowing duty-free, quota-free provisions for MCC-eligible countries and, if possible, for the poorest countries with a per capita Gross Domestic Product (GDP) below $2,000. Countries receiving these trade preferences should be encouraged to liberalize their trade policies accordingly.

Strengthen the management capacity of our nation's assistance agencies. The U.S. Government should significantly improve the monitoring and evaluation, human resources, and procurement and contracting capabilities of its agencies. First, unless our government better evaluates projects based on the outcomes they achieve, it will not improve the effectiveness of taxpayer dollars. In addition, the workload imposed on our assistance agencies has significantly increased while the staff has been cut. These reductions hurt America's assistance efforts. Human resources needs must be addressed. Our government must also halt the artificial and unhelpful budgeting that divides project and internal costs (the so-called Operating Expense account). At the same time, our nation must prepare and train its foreign assistance professionals, just as it does its armed forces: by providing, for example, increased language training and educational programs on local cultures and on effective methods for implementing change. Finally, the government must overhaul procurement and contracting functions.

Reorganize all U.S. international affairs functions. The Commission strongly believes that development should be elevated to equal status with defense and diplomacy and that dramatic changes to the existing structure are required. Although the Commission has varying views on what form that structure should take, we agree on the objectives that it must meet. Some Commissioners prefer that a new stand-alone Department of Development be created, as has been done successfully in the United Kingdom. This department would oversee all primary development assistance and be comprised of the United States Agency for International Development (USAID) — the government body that now has primary responsibility for carrying out U.S. foreign assistance programs — and other U.S. development agencies. Other Commissioners prefer that our development agencies be merged into the existing Department of State so that the Secretary of State manages all aspects of U.S foreign policy and foreign assistance.

A majority of Commissioners, however, advocate developing a structure that achieves the advantages of both of those two options. While the Legislative and Executive branches would have to conduct an exhaustive review to affirm our conclusion, a majority of Commissioners believe that all civilian international affairs functions and funding might best be reorganized into a next-generation Department of State with four sub-Cabinet agencies that report to the Secretary. They would focus on (1) trade and long-term development; (2) humanitarian crises and post-conflict states; (3) political and security affairs; and (4) public diplomacy. This structure would not simply move USAID into the current Department of State. It would completely reorganize these and other agencies and departments by functions to ensure a coordinated, coherent approach.

Regardless of whether a new development structure is created, there will always be some government entities engaged in foreign assistance that are not part of the primary assistance agency. The Commission also recommends that the White House — through the Executive Office of the President — establish a high-level mechanism (possibly within the National Security Council) to coordinate policy for all U.S. Government agencies involved in development and humanitarian programs.

Determine funding from the bottom up, based on the needs and commitment of developing countries and on the national and security interests of the United States. Commissioners have different views of the timing and magnitude of potential increases in funding. All support greater funding for disaster relief and other humanitarian needs when called for. All Commissioners believe that all other types of funding should be increased, but under varying conditions. The majority recommends that more funding should come along with implementation of major reforms such as those set forth in this report; some believe that we should see measurable evidence of success prior to increasing funding; and some believe that such increases are warranted regardless.

One additional reform that the majority of Commissioners recommends is to create a National Security Budget, combining Defense and International Affairs spending, with as much as ten percent devoted to international affairs activities. These funds would enhance the other tools of "smart power" and allow our nation to align public diplomacy, security assistance, and development and humanitarian aid in order to help prevent crises and promote peace and prosperity. If implemented at the ten percent level,

for example, this proposal would result in a doubling of current foreign aid levels.

This report includes additional recommendations that support our key findings, such as:

- Forge a new relationship between the Executive and Legislative branches that acknowledges the need for accountability and flexibility.
- Bolster our nation's humanitarian efforts and establish a $500 million fund as a permanent Humanitarian Crisis Response Facility to use when natural disasters occur.
- Create a permanent $500 million Foreign Crisis Fund to allow for maximum flexibility when confronted with security challenges in failed and failing states.
- Simplify the funding account structure to allow for more clearly defined responsibility and authority.
- Clarify DoD's role in development assistance.
- Use public diplomacy and branding more effectively.
- Emphasize infrastructure and agriculture.

The developing world matters more than ever to the United States. The Commission applauds the efforts of our foreign assistance professionals, as well as countless individual Americans and NGOs, who are making extensive efforts in these countries. We commend the many elected officials who care deeply about this subject. And we welcome President Bush's efforts, supported by the U.S. Congress, to expand development aid funding for Africa, launch the Millennium Challenge Corporation, and introduce powerful initiatives to fight HIV/AIDS and malaria. The Administration's call to put development on a par with diplomacy and defense matches our own convictions. Yet much remains to be done. We encourage the next administration and the Congress to take the necessary steps to overhaul America's approach to development assistance, and we urge Americans to support our call for change.

Chapter 1: Introduction

Almost one billion people exist on less than one dollar per day. Another two and a half billion people live on less than two dollars per day. When the U.S. Congress established the HELP Commission, it specifically found that ". . . despite the long-standing efforts and resources of the United States dedicated to helping needy people around the world, despair remains and in many areas is growing." Accordingly, this Commission examined why extreme poverty persists and what we can do about it. In conducting this inquiry, our Commission developed the following specific goals that should guide America's foreign assistance efforts:

1) Support and advance U.S. national security and foreign policy goals and objectives in measurable ways.
2) Provide short- and medium-term emergency assistance to save lives in times of crisis and in environments of desperate need.
3) Invest in recipients' economic growth and development in order to provide assistance to people who cannot fully help themselves; help recipients become self-reliant and achieve sustained economic development; and promote trade within and among nations.
4) Promote democratic principles for well- and justly-governed nations that are accountable to their citizens.

Much of this report focuses on how and why the Commission believes foreign assistance programs can be improved. It contains many pointed critiques and recommendations for immediate change. But we also recognize the notable successes in development and humanitarian assistance programs, some of which are highlighted below.

<u>The Asian Green Revolution</u>

During the 1950s and 1960s, the Rockefeller Foundation, along with other donors, spurred the development of high-yield seed varieties and new techniques to modernize farming. USAID helped to finance the rapid uptake of these new technologies. Dramatic successes were achieved in the 1960s in India and Pakistan, and were later seen in China and Southeast Asia.

Smallpox Eradication

In 1967, the World Health Organization (WHO), with funding from the United States, established the Smallpox Eradication Unit and launched a donor-supported worldwide campaign to eradicate the disease. In 1980, the WHO declared the world free of smallpox.

Rural Electrification Program

The Rural Electrification Program in Bangladesh was started in 1978 through a partnership with the National Rural Electrification Cooperative Association of the United States, and was funded by USAID. The program is based on the concept of member-owned systems and was designed and carried out as a peer-to-peer effort between the Association in the United States and its counterparts in Bangladesh. The average annual income of households with electricity is 64.5 percent higher than that of the households of non-electrified villages, and 126 percent higher than that of households without electricity in electrified villages.

River Blindness Control

In 1987, Merck Pharmaceuticals began the Mectizan Donation Program (MDP) to combat onchocerciasis (river blindness). Their donation served as the catalyst to bring together a public-private partnership including the World Bank, WHO, USAID, the Center for Disease Control, the Carter Center, and at least 20 private voluntary organizations, community-based distributors, and ministries of health, social welfare, and agriculture in the recipient countries. As a result, it is estimated that over 600,000 cases have been prevented in West Africa alone, and 25 million hectares of previously unusable land are now safe for agriculture and settlement there.

Response to Hurricane Mitch

After Hurricane Mitch struck parts of Honduras, Nicaragua, and the Yucatan Peninsula in 1998, international relief efforts began almost immediately. USAID's efforts in Honduras provided not only immediate relief to the communities affected, but also generated a sustainable long-term impact through financing the Food-for-Work program, clean-up efforts, and reconstruction of local infrastructure.

In addition to project-related successes such as those outlined above, some developing countries have realized substantial economic growth and improvements in living standards for their people. In parts of the developing world, economies are being opened, children are healthier, education is spreading, private investment is growing, civil society is alive and well, and the future promises a life better than the past. Strides made in places like Estonia, Costa Rica, and Tunisia would not have been possible without the political will of their people to implement enlightened policies conducive to growth, development, and free enterprise such as good governance, a sound trade and investment climate, rule of law, free press, free markets, and private property rights.

In spite of these successes, many continue to suffer. Conditions that are incomprehensible in our nation constitute daily reality for many in the world. Consider the following:

- Of the one billion people who live on one dollar per day or less, many suffer from poor health.
- Malaria kills an estimated one million people a year.
- Approximately 68 percent of the 33.2 million people infected with HIV/AIDS worldwide live in sub-Saharan Africa.
- 10.5 million children die before their fifth birthday each year, mainly from preventable causes.
- In some countries, electrical generating capacity is remarkably scarce: Liberia has only enough public electricity to power the equivalent of 1,600 American homes.
- 815 million people in developing countries are undernourished.
- 771 million adults in the world are illiterate. Of that number, 64 percent are women.

The problems are vast in scope and their solutions are long-term.

When more than one-third of the people on the globe must survive on less than two dollars a day, the contrast with developed nations is acute and unavoidable. People who believe they have no chance for a better life or who believe that they have no control over their fates can be persuaded to vent their frustration and anger in violence. States that do not have control over their own territory, as was the case with Afghanistan, can become havens for terrorist groups. The inability of poor countries to manage and control public health problems appropriately can lead to

pandemics spreading more quickly. America's peace and prosperity are put at risk if we fail to address these challenges.

Providing humanitarian assistance is part of the solution. Time and again, the American people have responded to international emergencies with compassion and generosity. Similarly, Americans expect the U.S. Government to respond effectively to humanitarian crises, and our humanitarian efforts represent one of the best aspects of the American character.

Today, however, the United States is attempting to address these challenges with an outdated Foreign Assistance Act written more than 45 years ago. Our delivery of foreign aid is outmoded and does not reflect economic and demographic changes in the developing world. After decades of attempting piecemeal fixes, our government's foreign assistance structure includes a hodge-podge of approximately 20 departments and agencies,[1] many of which carry out overlapping, inefficient programs. *The U.S. Government's development efforts must be materially reformed to ensure that taxpayers' money is spent effectively.*

Further, some policies of the United States and other developed countries can unintentionally harm the efforts of some developing countries to grow. For example, tariffs on certain goods make it difficult for developing countries to export their products. Also, subsidies for domestic farmers can depress the world prices of some developing country agricultural exports. Reforming our nation's foreign assistance agencies without addressing these kinds of problems is not enough.

An honest assessment of development and humanitarian efforts must begin with realistic expectations:

- It typically takes decades for an economy to grow out of poverty.
- Government assistance alone cannot achieve success.
- Growth in developing countries is primarily affected by the policies and leadership of those countries.
- Government funding has been modest compared to the need: the U.S. Government's economic assistance to sub-Saharan Africa amounted to about $3.36 per person per year from 1962-2005.
- Government assistance has often been provided for political reasons, as it was during the Cold War, and not necessarily to those countries most committed to reform and development.

When struggling to understand how our development efforts could better serve America's national interests, the Commission tried to think beyond conventional and bureaucratic solutions. Instead, we looked at how best to get the job done.

The Commission decided that the United States must implement a more comprehensive approach. U.S. foreign assistance efforts are essential to our own national interests and should be better integrated with our foreign policy objectives. Further, U.S. assistance should be delivered through a new model, and the HELP Commission believes that it must be one that includes the shared vision of the Executive and Legislative branches. In addition, Americans are more and more energized about helping people around the world. The HELP Commission welcomes this surge in involvement and the emergence of a constituency of "Americans for Development" and believes that the new model must encompass the active engagement of the American people and private institutions.

Just as Americans came to understand that waging the Cold War against an implacable enemy would require years of sustained concentration and effort, Americans are now beginning to understand that resolving the challenges faced by the developing world will also require a long-term commitment. Congress and the current Administration have taken important new steps to work with recipient countries to address global poverty. Since 2000, the United States has increased Official Development Assistance (ODA) from $10 to $23.5 billion in 2006; it has created the Millennium Challenge Account; and it has introduced major initiatives on HIV/AIDS and malaria in Africa. These projects are important. However, the problems described above still exist.

As the challenges created by the most vulnerable states become clearer, and as America continues to understand better what is truly at stake, our nation must commit to a new, comprehensive strategic approach to development. We can do more and we can do it better.

Chapter 2: Apply a New Integrated Approach to Development

U.S. Government efforts to promote development are focused primarily on providing assistance. There is a growing understanding, however, that aid alone, while important, cannot spark the changes necessary for economic growth and shared prosperity. We believe that U.S. Government assistance must be part of a more comprehensive approach of engagement with the developing world that also includes diplomacy, trade, public diplomacy, security cooperation, and the full range of private sector resources.

Our deliberations underscored the importance of distinguishing between the *tool* of assistance and the *goal* of development, which are separate and distinct:

- Foreign assistance is a tool that can be used effectively by the U.S. Government for a number of legitimate purposes, among them humanitarian relief, security, political persuasion, and development.
- Development, on the other hand, is a goal which other states aspire to achieve, and that America can support through foreign assistance and foreign policy.

Any attempt to reform our development and humanitarian programs must take a coherent approach as they cannot succeed in isolation. This was made evident in the Marshall Plan. The Marshall Plan provided assistance as part of a much larger government-wide effort that also focused on trade, diplomatic initiatives, and the involvement of our military, security assistance, and public diplomacy. While supporting the development of the world's poorest countries is a different task from rebuilding developed countries, the lesson drawn from the Marshall Plan — that aid alone is not the answer — remains as relevant today as it was 60 years ago.

The remainder of this Chapter considers how reforms in three areas other than foreign aid can, along with foreign aid reform, enhance our nation's ability to promote development in a comprehensive manner. These areas are trade, security, and public diplomacy. Other vital areas, such as investment, agriculture, education, and greater engagement of the private sector, are discussed in Chapter Five. Our recommendation is that these three areas be evaluated in conjunction with foreign aid reform to ensure

that the United States pursues an integrated, comprehensive approach to development.

2.1 Support Trade and Infrastructure

Volumes have been written on the importance of trade and investment to development. Since 1973, the value of global trade (exports plus imports) has increased nearly 18-fold. Trade — in particular, exports — is of particular importance to low-income countries: between 1995 and 2005, the value of exports of these economies nearly tripled. The increase in foreign direct investment in developing countries and emerging markets has also been significant, rising 170 percent between 1995 and 2005. As these trends make clear, the importance of trade to economic growth and development is increasing.

While critical to low-income countries, trade has been hampered by both government trade policies and by natural, physical barriers. Removing the physical barriers by improving infrastructure takes a hard hat, while eliminating the policy barriers takes an open mind. The Commission recommends the following policy reforms regarding both types of impediments to trade.

2.1-1 Offer Duty-Free, Quota-Free Access to More Countries

Because exports are so crucial to developing countries, attention must be paid to policies that affect both sides of the trade equation: developed-country imports as well as their exports. Yet today, the United States and Europe apply their highest trade barriers to imports from the poorest countries. In fact, many poor countries, even the most reform-minded of them, pay far more in U.S. import taxes than they receive in development aid.

Table 2.1 Selected effective 2006 tariff rates for poor countries

2006	Trade-weighted Tariff Rate	Per Capita Income
Bangladesh	14.91%	$451
Cambodia	16.75%	$503
Laos	14.84%	$567
Mongolia	17.21%	$1,081
Sri Lanka	12.92%	$1,355
High Income Countries	1% (Average)	$10,726 or more

Source: The Trade Partnership (Washington, DC) from U.S. Census data.

For example, the United States assessed more duties on imports from countries eligible for the Millennium Challenge Corporation (MCC) — the new initiative that rewards poor countries that have good governance, follow sound economic policies, and invest in their people — than it provided through the MCC appropriation. In 2006, the United States received $1.77 billion in U.S. duties from MCC countries. This is $20 million more than the $1.75 billion in aid appropriated for the MCC for fiscal year 2007. Table 2.2 illustrates how regressive U.S. trade policy has become, with the highest tariffs imposed on the lowest income countries.

Table 2.2: U.S. Duties Assessed in 2006, by Income Level

Countries by Income per Capita	Imports in $U.S. millions	Duties in $U.S. millions	Average Duty
High Income ($10,726 or more)	$983,620	$9,433	1.0%
Upper Middle Income ($3,466-$10,725)	$366,142	$1,689	0.5%
Lower Middle Income ($876-$3,465)	$405,858	$11,176	2.8%
Low Income ($875 or less)	$72,527	$2,637	3.6%
Total	$1,828,147	$24,935	1.4%

Source: The Trade Partnership (Washington, DC) from U.S. Census data.

These high tariffs result in discrimination against the products developing countries are trying to export at competitive prices: textiles, apparel, footwear, and agricultural products.

Table 2.3 Selected countries that paid the U.S. more in duties than they received from the U.S. in aid in 2006

2006	Tariffs 000 $	Aid 000 $	Aid Minus Duties 000 $	Per Capita Income
Bangladesh	$487,240	$80,978	-$406,262	$451
Cambodia	$366,496	$60,055	-$306,441	$503
Nicaragua	$105,366	$52,415	-$52,951	$908
Mongolia	$19,602	$13,615	-$5,987	$1,081
Philippines	$403,510	$127,066	-$276,444	$1,345
Sri Lanka	$276,644	$22,647	-$253,997	$1,355
Indonesia	$799,259	$150,907	-$648,352	$1,640

Source: The Trade Partnership (Washington, DC) from U.S. Census data.

In addition to changing U.S. policies, it is important to help developing countries enhance the knowledge, skills, and policy mechanisms conducive to increased trade.

The HELP Commission recommends that the U.S. Government adopt the following policies to expand trade opportunities for the developing world:

- **Recommendation:** Grant duty-free, quota-free access to U.S. markets to those countries that are eligible for an MCC Compact or Threshold Program.

- **Recommendation:** Provide the same duty-free, quota-free status to those countries with a per capita Gross Domestic Product (GDP) under $2,000. Those countries that are otherwise ineligible for U.S. foreign assistance would be denied such access.

- **Recommendation:** Encourage duty-free quota-free eligible countries to embrace trade liberalization by committing to: (1) reduce their trade barriers gradually toward Most Favored Nation (MFN) status; (2) provide greater respect for worker rights; and (3) enhance environmental protections.

- **Recommendation:** (1) Provide through legislation, improved and expanded Trade Adjustment Assistance (TAA) to help displaced American workers and communities retrain and retool for the future; and (2) promote labor rights and environmental protections as part of bilateral trade negotiations with developing countries.

- **Recommendation:** Promote trade capacity building in the governments, regulatory agencies, and trade and business associations of developing countries.

2.1-2 Consider the Adverse Effects of Agricultural Subsidies

Because such a high percentage of the world's poorest people rely on agriculture, American agricultural subsidies are especially pernicious to growth in developing countries. Former Secretary of State Colin Powell has suggested that removing agricultural barriers that distort trade could produce an extra $72 billion of income and investment in poor parts of

the world, where 70 percent of the population engages in agriculture. The Copenhagen Consensus, an organization of top economists that strives to quantify the most cost-effective solutions to the world's greatest challenges, concurs. In a recent report, it concluded that offering "first-world access to third-world agriculture" was one of the most economic and effective endeavors our nation could undertake to reduce global poverty.

The Commission strongly recommends that the U.S. Government:

- **Recommendation:** Exert leadership within the Group of Eight (G8) in encouraging its members, individually and collectively, to take practical and immediate actions to minimize the adverse effects of their respective domestic agricultural subsidies and practices on the economies of developing countries and their own agricultural industries.

2.1-3 Remove Physical Trade Barriers with Infrastructure

Where physical barriers impede trade and commerce, as they do in many landlocked countries and those with difficult terrain, the U.S. Government should invest in infrastructure to help reduce these barriers. Building bridges, roads and ports is costly and the need for infrastructure is often immense. The United States should consider investing in concert with other donors, both bilateral and multilateral, when possible. It is indisputable that developing countries want more infrastructure; many MCC-eligible countries, for example, identify infrastructure investments as a top priority.

These sentiments were echoed in a recent statement to the Congressional Black Caucus by Akinwumi Adesina, Vice President of the Alliance for a Green Revolution in Africa:

> But lack of infrastructure (roads, rails, ports, electricity and irrigation) continues to hamper the development of African agriculture. High transport costs make it difficult for traders to supply areas beyond good market roads, which inevitably are in the poorer areas….Poorly developed infrastructure also limits opportunities for intra-regional trade and lowers competitiveness in international markets….There is an urgent need to drastically

increase investment in rural infrastructure in Africa
in order to achieve a green revolution.

The Commission therefore recommends that the U.S. Government:

- **Recommendation:** Increase the profile of infrastructure in our development programs and be receptive when countries make requests for infrastructure support. Give priority to landlocked countries and regions. This is recommended with a specific interest in removing barriers to trade and does *not* propose a specific earmark.

- **Recommendation:** Lead the G8 countries in supporting an increase in infrastructure investment in developing states.

- **Recommendation:** Urge the World Bank to continue to support infrastructure lending and investment. We understand that the Bank reversed its long-standing decline in infrastructure lending in 2002; we commend that reversal.

2.2 Ensure Coordination between Security and Development

Once thought to be distinct and removed from one another, security and development now intersect regularly in two essential ways. First, making sustained economic progress in countries plagued by insecurity, where peoples' lives are regularly threatened by violence and anarchy is difficult, if not impossible. During our field research, Commissioners saw a number of instances where danger and instability inhibited development. In Haiti, for example, it was clear that unless the security situation is resolved, there can be no meaningful progress toward sustained development.

Oxford University Economist Paul Collier quantifies the problem in his book, The Bottom Billion: "73 percent of people in the societies of the bottom billion have recently been through a civil war or are still in one. …the risk that a country in the bottom billion falls into civil war in any five-year period is nearly one in six….Growth directly helps to reduce risk; cumulatively it raises the level of income, which also reduces risk." Collier summarizes starkly: "Civil war is development in reverse." Where security and stability are lacking, assistance will likely have a limited impact. Security and development reinforce one another. Because

insecurity undermines development, the Commission believes that as the United States reforms its foreign assistance apparatus, it must develop new capabilities for preventing, mitigating, and responding to the crises that fuel insecurity.

2.2-1 Be Prepared to Respond to Failed and Failing States

Moving states from failed and failing to capable requires going beyond assistance, linking trade, democratic principles of governance, and security with traditional assistance. Our nation needs to build the context in which traditional development can be implemented. A multinational approach is often required to address the problems faced by failed and failing states; America should work together with other donors such as the European Union and multilateral organizations such as the United Nations to build the context for recovery through application of our collective tools. Additional measures to address the failed and failing state problem include a rapid-response crisis fund, discussed in Chapter Three; our recommendation later in this chapter to strengthen the Office of the Coordinator for Reconstruction and Stabilization (S/CRS) at the Department of State; and the Civilian Reserve Corps recommended by this Administration, which would be applicable in any of the proposals to reorganize USAID and the State Department outlined in Chapter Six.

2.2-2 Respond to the Increasing Role of the Department of Defense

Given the growing evidence of the linkages between security and development, it comes as no surprise that the U.S. Government's primary security institution, the Department of Defense (DoD), is increasing its engagement in the development realm. DoD has grasped and is increasingly acting upon the recognized need to promote development in order to achieve security. In fact, Secretary of Defense Robert Gates referred to the shrinking of USAID as a mistake. Driven in part by its practice of engaging in long-term planning, and informed by the increasing evidence that weak states are unable to manage effectively a host of transnational threats that transcend borders, DoD has developed new programs and capacities that address these development challenges.

This new role surpasses the discreet position that DoD traditionally has taken in America's assistance programs, such as supporting humanitarian operations and bolstering drug interdiction campaigns. While troops have been engaged in small civil affairs activities for many years, the scope of these programs has expanded significantly. DoD's share of U.S. Official Development Assistance grew from 12.7 percent in calendar year 2004 to

18 percent just two years later, largely, but not only, because of Iraq and Afghanistan. A recent Associated Press story on the Pentagon's humanitarian efforts, published at the home port of the largest Navy base in the world, stated, "The strategy reflects a broader Defense Department effort to use aid, training and other cooperative efforts to encourage stability in fledgling democracies and create relationships around the globe that can be leveraged if a crisis does break out in a region."

As the Commission witnessed during its visits to the Republic of Djibouti and other locations, military forces now build schools and health clinics, protect aid workers, support aid operations, and carry out other traditional development activities. In Djibouti, the Commission witnessed troops deployed as part of the Combined Joint Task Force — Horn of Africa engaged in traditional development activities which USAID cannot undertake for lack of funding.

While DoD's engagement in development and humanitarian assistance programs can be beneficial, it also poses some difficult new questions. There is no better illustration of this than the controversy surrounding the creation of DoD's new, unified Africa Command (AFRICOM). A recent article in *The Botswana Gazette* typifies this discussion: "By emphasizing AFRICOM's role in development and humanitarian tasks, U.S. officials might have actually amplified African concerns. The fear is that henceforth the main lens through which development efforts in Africa will be perceived will be the Pentagon's."

Even if its genesis is understandable, DoD's "mission creep" comes with significant implications. The Senate Foreign Relations Committee found in 2006 that DoD's expanded role was complicating the already complex inter-agency coordination in embassies overseas and would likely foment department turf wars in Washington. In addition, some host countries are quietly beginning to ask why the most prominent face of America is increasingly a military one. Even more problematic, the American military is being asked to carry out missions that deviate from its primary war-fighting and defense roles. Meanwhile, the civilian organizations that were created to address these concerns with sustainability in mind are denied adequate resources.

Our government must position the military with roles, responsibilities, and resources that make it an important asset in the delivery of American foreign assistance, but coordinate its actions with overall government

strategies and activities. Rather than transfer to DoD the development responsibilities that should fall more properly to trained civilians, our government needs to focus DoD's responsibilities on its core competencies. The American military is superb at building infrastructure, supporting relief operations, and providing security, and it should continue to carry out these functions. On the other hand, America's civilian organizations should be fully equipped to support the long-term development needs of states. To that end, the HELP Commission strongly believes that our government should adopt the following recommendations:

- **Recommendation:** Adequately fund the State Department and USAID in areas where DoD has taken on their traditional development responsibilities in recent years so that DoD can remain focused on its core functions.

- **Recommendation:** Bolster the legislative requirements to require concurrence between the Secretary of State and DoD on all foreign aid activities consistent with scale and scope of projects carried out by DoD. (This is currently true for Section 1206 and 1207 Defense Department programs for military and police training.)

- **Recommendation:** Strengthen and fund the capacities of the State Department Office S/CRS and assign it responsibility for coordinating State and Defense Department programs for security-related aspects of addressing crises and weak and failing states.

- **Recommendation:** Encourage Congressional Armed Services and Foreign Relations/Foreign Affairs Committees to hold joint hearings on the coordination of aid activities between DoD on the one hand and the State Department and USAID on the other. Congress should also consider sequential referral of legislation that affects foreign aid matters of both DoD and State/USAID.

2.3 Expand Public Diplomacy

Many believe that the relationship between public diplomacy and foreign assistance suffered after our nation's primary organization for public diplomacy, the United States Information Agency (USIA), was merged into the State Department in 1999. We welcome the recent renewed

emphasis on public diplomacy and we believe that additional resources should be allocated for enhanced public diplomacy efforts.

The Commission believes that our renewed investment (including technology and personnel) in public diplomacy must continue and that informing the public in developing countries about U.S. assistance to their country is a vital element of our foreign policy. Yet during overseas site visits, Commissioners saw few places where the American people were acknowledged adequately for the assistance they provide. This connection seems to be especially weak in the Muslim world. The FY 2008 budget request for Economic Support Fund assistance to Egypt is $415 million. HELP Commissioners were told when they visited Egypt that, despite this sizable investment, 64 percent of respondents in a recent survey had not heard of any USAID projects. As Secretary of Defense Robert said recently in a lecture given at Kansas State University, "Public relations was invented in the United States, yet we are miserable at communicating to the rest of the world what we are about as a society and a culture, about freedom and democracy, about our policies and our goals."

Rather than credit going to the American people, the lion's share of it tends to go to the NGO that oversees the activity or to the foreign government or multilateral organization (such as UNHCR, the United Nations refugee agency, or the World Food Program) that physically receives and delivers the aid. This tends to be the rule rather than the exception. However, the Commission understands that it is sometimes necessary for security reasons to not show that the origin of the aid is from the U.S. Government.

Contrast this with the recognition the United States receives when the U.S. military is involved in the delivery of assistance. Reconstruction assistance to Pakistan after the 2005 earthquake, much of it carried out by the American military, is illustrative. Pew Research studies reveal that attitudes in Pakistan toward America improved following these reconstruction efforts.

One promising approach that has been successfully tested by USAID is the use of an integrated media campaign (including TV and radio advertising, billboards, and newspaper bulletins) to promote the work that USAID is already doing in a given country. Trial programs launched in Jordan, the West Bank and Gaza, and Indonesia have produced good results. Despite its limited budget, the effort in the West Bank and Gaza

was able to reach 46 percent of Palestinians; of these, 49 percent said that it gave them a greater appreciation of American contributions. Sixty-two percent said that their perceptions of the American people and the United States had changed because of the campaign.

Both at home and abroad, the United States should stop being shy about the substantial contributions it makes to development. Development programs and policies should be highlighted in the press, and far more recognition should be given to our nation's Foreign Service Officers and Foreign Service Nationals. When our nation provides aid through third parties, it needs to take additional steps to ensure that the American people share the credit for the successes. And almost all of the Commissioners strongly believe that *the best brand for U.S. development assistance is the American flag.*

Specific recommendations to improve public diplomacy include the following:

- **Recommendation:** Enhance the public diplomacy capabilities of U.S. field personnel by strengthening the training and coordination of country spokesmen, and by expanding collaborative efforts between the United States and foreign governments or NGOs.

- **Recommendation:** Encourage each USAID mission to undertake surveys — conducted by local professionals — that can help U.S. development officials: better understand how their programs are perceived; assess how people get their information (as done by USAID in Egypt); expand relationships with in-country media outlets; and determine how outreach and communication efforts can be improved. This should help inform an overall communications strategy that is coordinated, long-term, and evaluated through appropriate metrics.

- **Recommendation:** Use integrated media campaigns in host countries to increase awareness of U.S. assistance programs.

- **Recommendation:** Harmonize public diplomacy efforts by all U.S. Government agencies engaged in overseas development. Focus branding messages on a single core message, such as "From the American People." Select and apply only one or two prominent

identifiers for all civilian assistance (e.g., the American flag or "clasped hands") as opposed to using the logos of many agencies.

- **Recommendation:** Brand with sensitivity. Ambassadors should be able to waive branding regulations when it might be dangerous for employees or for other reasons appropriate to local circumstances. In addition, there should be clear and open avenues for grantees and contractors to discuss branding concerns with Ambassadors.

- **Recommendation:** Affirm and expand to all foreign assistance USAID's existing policy regarding identifiers for "acquisition awards" (e.g., contracts). That policy requires that the USAID logo be placed on these goods or services delivered and paid for by the U.S. Government.

- **Recommendation:** Affirm and expand to all foreign assistance USAID's existing branding policy on "assistance awards" (e.g., grants), with one exception: whenever USAID's cost-sharing burden is 90 percent or more of the total project cost, the Commission recommends that the acquisition branding policy should apply.

- **Recommendation:** Consider how to improve awareness of U.S. Government funding for multilateral relief and development organizations, including the World Food Program and others.

2.4 Extend the Integrated Approach to the Legislative Branch and Include Private Stakeholders

The comprehensive approach outlined above does not apply only to the Executive branch. A shared strategic vision for a coherent approach must include the Legislative branch as well. Both branches must ensure that development is viewed as vital to America's national security and economic and moral interests, and then put mechanisms in place to translate that vision into action. A discussion of what the Legislative branch can do follows in Chapter Three.

Additionally, it is critical that the U.S. Government be proactive in its outreach to and coordination with the full range of actors outside the public sector, including the private sector, NGOs, foundations, and philanthropies. With proactive coordination, our nation can capitalize on the respective strengths of private entities and the U.S. Government. This

is discussed in greater detail in Chapter Five. One finding that emerged from the Commission's strategic planning exercise built on Project Horizon[2], in which members of the Commission and a broad range of invited participants tested our recommendations against five future scenarios, was that official foreign aid, regardless of the nature or structure of future reforms, is no longer the only major provider of development resources. As such, and in order to ensure both efficiency and coverage, our nation's foreign aid system must allow for deliberate coordination with the other prominent providers of development assistance and support.

Chapter 3: Forge a New Executive/Legislative Relationship

Getting foreign assistance right requires the full engagement of both the Executive and Legislative branches of government. The decisions made within and between these branches directly affect the policies that drive foreign assistance programs, decisions as far-reaching as U.S. commitments to allies and friends, country qualification criteria, funding levels, and the designation of implementing partners. (For a history of this relationship, see Appendix Nine.)

These realities lead to the following recommendations:

3.1 Rewrite the Foreign Assistance Act

The Foreign Assistance Act (FAA) includes provisions that clearly delineate the role of each branch. But just as the current FAA proves cumbersome with respect to the goals and objectives of foreign aid, its convoluted content — layered on by efforts to reform and revise the Act since it was enacted in 1961 — makes it a clumsy tool for defining foreign aid policy. A new Act setting out basic foreign aid authorities without voluminous specific restrictions, prohibitions, programs, and issue-specific earmarks would be a good start. The process of producing a comprehensive and coherently rewritten FAA would give both branches an opportunity to forge a more trusting relationship.

The HELP Commission therefore recommends that for the first time since John Kennedy was President, the Congress and the White House come together to rewrite the Foreign Assistance Act. A new FAA should have the following attributes:

- Establish broad practices and parameters for pursuing our national interests through effective and efficient foreign development policies and program authorities;
- Allow for adequate Executive branch flexibility;
- Be leaner and more effective; and
- Provide a strong and streamlined Legislative branch role in oversight and information gathering.

3.2 Re-engage the Authorizing Bodies

For the past 20 years, the Congressional authorizing committees that oversee foreign assistance have taken a smaller role compared to the appropriating committees. Although both must be engaged, greater activism on the part of the authorizers is necessary to ensure that Congressional oversight is not restricted to the management of funds, but also includes the consideration of the effectiveness of aid and aid policies. A rewritten FAA should re-engage Congressional authorizers in the process.

The Commission therefore recommends that the authorizing committees re-engage and enact bi-annual reauthorization measures. The authorizing committees should focus on becoming policy and program experts. Specifically, this means that the Executive branch must notify and fully inform authorizers on an equal basis with the appropriators before implementing new initiatives. On occasion, this has been done successfully. Congress considered and enacted authorizing legislation to implement the Millennium Challenge Corporation and the President's Emergency Plan for AIDS Relief (PEPFAR). But this process should become the rule rather than the exception.

On the authorizers' part, they must spend time reviewing policy initiatives and other Executive branch recommendations. The Senate Foreign Relations Committee recently re-established a global subcommittee dedicated to oversight of foreign assistance programs. The Commission applauds this action and recommends that *authorizing committees permanently maintain a dedicated foreign assistance subcommittee*.

Some think that another way to enhance the role of the authorizing committees would be the consolidation of defense and foreign policy authorization bills into a unified National Security authorization that would mirror the creation of a National Security budget, recommended in Chapter Seven.

Increasing the number of foreign aid site visits on the part of the authorizing committees and their members would be a further asset. Indeed, seeing our assistance programs firsthand is essential for officials in both branches. Site visits would enable them to examine the context of aid programs, to understand the opportunities and challenges that must be considered to ensure effective implementation and delivery, and, more

importantly, to determine how well policies and procedures developed in Washington achieve success on the ground.

- **Recommendation:** Encourage members of authorizing committees to take part in site visits to countries receiving foreign assistance. Encourage the President to invite members of Congress regularly as participants in official American delegations to important international conferences and forums on global development. While this occurs on occasion, the systematic inclusion of lawmakers would elevate the stature of U.S. representation and foster greater partnership between the Legislative and Executive branches.

3.3 Adopt Common Procedures

While procedures governing initial and subsequent allocations of foreign assistance might strike some as obscure bureaucratic details, they allow the two branches to make mid-course adjustments and manage reallocation of our nation's foreign aid resources. Reprogrammings, Congressional Notifications (CNs), legislative holds on proposals to shift funds, transfers of money, and other procedures enable Congress and the White House to determine what countries and programs receive aid and how to address changing circumstances that demand alterations in resource priorities.

At present, the interpretation, management, and operation of these procedures is at best unwieldy and at times unworkable. Furthermore, different procedures govern the two branches. Within the Legislative branch itself, the authorizers and appropriators follow different procedures, and the House and Senate obey their own distinct processes. Moreover, some of these procedures are informal, while others are modified by changes made by Executive branch agencies or Congressional committees of jurisdiction.

To address this problem, the Commission recommends that an agreement be struck between the two branches, the two houses of Congress, and between authorizers and appropriators on uniform procedures for reprogramming, Congressional Notifications and holds, and other procedures governing the movement and allocation of funds. While rendering the process of allocating, shifting, or withholding funding more efficient, the adoption of common procedures would also permit increased transparency between the two branches and allow a clearer and

more comprehensible budget process and accounting. For example, at present the Chairmen and ranking members of the committees of jurisdiction can hold up a minor reprogramming submission for months with no formal mechanism in place to close the matter. Congress has taken steps recently to instill more transparency in the Congressional earmark process and should consider doing the same for the foreign aid reprogramming and "hold" procedures.

- **Recommendation:** Strike an agreement on uniform procedures for reprogramming, Congressional Notifications and holds, and other procedures governing the movement and allocation of funds.

One improvement would be for the Executive branch to include more substantive information and justification in its submission of reprogramming notifications, something that would help avoid delays caused by legitimate Congressional requests for additional information. From the Legislative branch, "holds" that exceed the normal 15-day notification requirement should be submitted in writing by the Chairman or Ranking Minority Member of committees of jurisdiction so that the issue is elevated in subsequent consultations between the two branches.

3.4 Consolidate, Eliminate, and Realign the Large Number of Foreign Assistance Accounts

One of the constraints on the agility of our foreign aid system derives from the existence of multiple budget accounts within the International Affairs Budget. The Commission believes that a necessary step in reform is to align budget accounts with the organizational structure(s) that manage our foreign aid, as addressed in depth in Chapter Six. Regardless of the institutional arrangement, the Commission recommends that Congress and the Executive branch merge the plethora of foreign assistance accounts within the International Affairs Budget. The Office of Management and Budget (OMB) should start by consolidating the existing accounts into four or five major accounts that support development, humanitarian, post-conflict and failing states, and security aid activities.

The Commission also believes that consolidated or realigned accounts, while providing flexibility, should also be governed by clear limits on the use of funds in each account. Many remain concerned that development policy and programs could be compromised if the long-term nature of

America's development goals is subsumed by the short-term imperatives of foreign policy and national security. The Commission shares this concern and believes that transfers of development funds should be monitored closely. However, the Commission also recognizes that our nation's foreign policy requires that a portion of our foreign assistance resources be available to support U.S. strategic and security interests. Although the Economic Support Fund (ESF), or security assistance account, was designed to ensure that these short-term imperatives are met, real-time imperatives continue to prompt policymakers to seek additional sources that often result in shifts from Development Assistance accounts.

- **Recommendation:** Fund the ESF account appropriately and ensure that management of the foreign assistance budget includes provisions making clear that ESF is for short-term economic needs. Further, the Development Assistance Account must be ring-fenced so as to ensure that funding for long-term goals is protected.

3.5 Create Two Rapid-Response Funds: a Humanitarian Crisis Fund and a Transitional Security Crisis Fund

The Commission strongly supports the creation of two rapid-response crisis funds to help relieve the constant pressure to respond to crises by using existing resources already dedicated to important priorities. An appropriate size for each fund might be on the order of $500 million dollars.

When an unforeseen crisis occurs that demands a quick response, administrations typically pay for the emergency by moving money from traditional aid programs, including those focused on long-term development. As a result, often when the Executive intervenes, our nation's well-planned, long-term assistance programs suffer, sometimes very seriously.

To relieve such pressures, a rapid-response mechanism needs to be established, modeled after the existing Emergency Refugee and Migration Assistance Fund (ERMA). The process and procedure to access these funds must be very precise. It should begin with a Presidential finding, a justification and program implementation plan presented to Congress, a clear understanding of the process to submit to oversight information requests from Congress, and a requirement that each utilization will

require the administration to submit a request for replenishment of the funds at the first supplemental budget request or the annual budget request, whichever comes first. If the conditions are not met, the Executive must also run a risk, such as suspending authority to use the funds until the administration requests replenishment.

> **Recommendation:** The HELP Commission recommends that Congress authorize two rapid-response crisis funds:
> (1) A permanent Humanitarian Crisis Response Fund that can be drawn upon to respond to natural disasters; and
> (2) A Foreign Crisis Fund to allow for maximum flexibility when confronted with security challenges.

3.6 Improve Executive/ Legislative Budget Justification Submissions

Most Executive/Legislative branch differences manifest themselves in the Congressional exercise of the "power of the purse." Congress has the upper hand, but it begins with the President's budget submission. Executive and Legislative branch leaders could initiate productive steps to reduce the friction over budget and expenditures in the foreign assistance accounts.

- **Recommendation:** Adopt the following procedures to improve relations:

  1. The Executive should offer a "fenced" or consolidated National Security and Foreign Assistance budget that establishes appropriation levels for defense and foreign aid, including development assistance. In turn, the Legislative branch should consider the consolidated budget as a whole, maintaining the combined National Security and Foreign Assistance resources.

  2. The Executive should consider joint guidance from the National Security Council (NSC) and Office of Management and Budget (OMB) that sets program goals, benchmarks and timing. Such guidance should be detailed enough to guide individual agencies.

  3. Eliminate the Operating Expense (OE) account as a separate line item in the budget in the 150 account, as discussed in Chapter Four.

4. Align priorities of both branches under the actual budget processes, timetables, and accounts. Under one possible option, the Executive would submit to Congress an optional, revised Congressional Budget Justification (CBJ) closer to the time of Congressional legislative action on the pending foreign aid budget. This modified CBJ would reflect changes in administration priorities, money transfers, and significant Executive branch policy adjustments that occurred after the President's budget was set late in the previous calendar year. This revised CBJ would allow both sides to identify where the most problematic differences remained prior to passage of the final appropriations and authorization bills. Some of these differences might be worked out in advance of enactment and reduce the often extensive and time-consuming consultation process that can dramatically delay program implementation after passage. A revised CBJ could also inform Congress of how the current-year program is operating, including the effects of reprogramming. Care must be taken, however, not to over-tax the Executive branch with an overwhelming reporting burden. The Executive should view this as a last opportunity to justify resource realignment, not for launching new initiatives. Such new activities should require the submission of a budget amendment that would include a request for additional funds.

3.6-1 Improve Budget Processes

- **Recommendation:** Invest in a new unified accounting system for long-term planning, near-term budget formulation, current budget execution, and real-time and historical reporting for our development activities, regardless of organizational location. As elaborated on in Chapter Seven, coverage of the system would extend to all foreign assistance activities of all U.S. Government departments and agencies.

- **Recommendation:** Create a single point of contact within the U.S. Government for reporting to the public and the Congress on financial, program, and budget information.

Budgetary processes, Congressional Notifications, consolidated accounts, and the OE budget are not among the most exciting aspects of U.S.

development assistance; indeed, they evoke unpalatable notions of government bureaucracy. But, these seemingly mundane and often complex procedures, rules and systems ultimately determine whether our nation's foreign assistance is conceived wisely, programmed transparently, or managed effectively. The Commission believes that government rules should be designed to provide policymakers with efficiencies and taxpayers with accountability; our proposals to modernize these rules and regulations aim to do no less.

Chapter 4: Improve Human Resources; Fix the Procurement Process

For the United States to execute development and humanitarian assistance programs effectively, it must have both sufficient capacity and accountable means of managing U.S. resources. Regardless of whether foreign assistance and humanitarian programs remain under USAID, as designated by the "F Process" recently undertaken by the State Department, or are moved to a successor agency, the Commission strongly believes that America's development and humanitarian aspirations require more skilled people with adequate training to undertake the challenging work expected of them. In addition, the Commission proposes that the procurement and contracting system at USAID be reformed.

4.1 Increase the Number of U.S. Direct-Hire Employees

Over time, USAID has evolved from an agency that administered government-to-government programs into one that conducts aid projects through contracts and grants. This changed role has increased employee workloads and brought the Agency new and varied responsibilities. In addition, many current program activities are more staff-time intensive than the aid activities of the past. Most of these responsibilities require trained and skilled U.S. direct-hire employees, but the number of Civil Service and Foreign Service employees within USAID has shrunk from 3,163 in 1992 to 2,040 in 2006. Although the Agency has recently increased the number of direct hires, current levels are insufficient to keep pace with increased program activities.

In 1992, the Government Accountability Office (GAO) issued a report stating that USAID had too many mandates as successive administrations and Congresses added new priorities and programs that left the Agency with no clear priorities or meaningful direction. The GAO concluded, "AID's program has grown too large and unfocused for its operating expense budget and staff levels." Despite this warning, over the next decade, the Agency cut the number of U.S. direct-hire employees and increased program funding.

Program funding has increased significantly in recent years: it grew from $7.68 billion in 1996 to $10.66 billion in 2006 (in constant 2006 dollars),

funding the President's Emergency Plan for AIDS Relief (PEPFAR), rebuilding and reconstruction programs in Iraq and Afghanistan, and other Legislative and Executive branch priorities. The Commission believes that this proliferation of initiatives, with the administrative and human resources requirements they impose, along with the increase in program appropriations, impedes the Agency's ability to execute its duties properly. This is particularly problematic given the smaller direct-hire workforce.

In 2003, GAO repeated its warning in its "Report on Workforce Planning" and explained the effect of these cuts on USAID effectiveness: "Having fewer U.S. direct hires managing more programs in more countries has resulted in a workforce that is overstretched, raising concerns about USAID's ability to provide effective accountability for program results and financial management."

To compensate for its human resource shortfalls, USAID has tried a variety of strategies, each with varying degrees of success. The Agency relies mainly on U.S. and Foreign Service National Personal Services Contractors (PSCs), as well as detailees from other agencies (which are reimbursable), Intergovernmental Personnel, Presidential Management Fellows, and interns to provide staffing services. The Director of Human Resources does not control all, or even the majority of, these different hiring mechanisms. In all, the Agency can use from 14 to 24 different hiring mechanisms to acquire staff.

The lack of central control of Agency hiring is problematic and impedes human resources long-term planning. Non-direct hiring mechanisms tend to fall outside of the Agency's human resources management structures, and deprive the government of the important added value that can be achieved through a well-managed workforce, planning, recruitment, employee training, and career development program.

The HELP Commission believes that staffing must be aligned with program mandates and funding to ensure proper oversight and accountability. We therefore propose the following specific remedies:

- **Recommendation:** Substantially increase and better train the U.S. foreign assistance agency's direct-hire workforce. Merely to fulfill current mandates, USAID or its successor agency needs a substantially larger, better-trained workforce to reduce its

dependence on PSCs. Restoring staff to a level twice that of current direct-hire employees would not be unreasonable.

This report recommends reforms to our programs and foreign assistance structure that will require additional staff as well. For example, an important aspect of the funding proposal discussed in Chapter Seven calls for ensuring appropriate staffing once country goals and plans are determined. A new strategy for human capacity will be needed that incorporates these changes and anticipates staffing needs for the future. Much of USAID's current human resource management practice is based on the expectation that individuals will remain with one entity in a closed, bottom-entry Foreign Service system until they retire. Such a system is ill-suited to today's mobile employees, who might change jobs several times over the course of their careers.

- **Recommendation:** Adopt the best practices of modern human resources management within our nation's foreign assistance agency. In keeping with employee wishes for greater mobility, USAID should accept mid-career hires, unpaid sabbaticals, and other flexible employment practices, including granting employees the option to leave the Agency and then return.

4.2 Lengthen Overseas Postings and Improve Training

Development requires social, political, and economic change. These changes range widely and include complex intervention in fields that include, for example, combating government corruption, changing land tenure patterns, modernizing entrenched traditional farming techniques, and reforming the domestic laws and customs regarding marriage and family. To be effective, employees operating in such arenas need to develop in-depth knowledge of local cultural practices, values, and languages. Yet the depth of understanding and experience that this work requires cannot be created under the current personnel practices. The average length of an overseas assignment is three years.

- **Recommendation:** Lengthen overseas assignments of foreign assistance agency staff when feasible. Moving personnel from country to country or region to region on short rotations prevents foreign assistance staff from developing the level of expertise they need.

Another challenge for USAID is the limited training it can offer employees. Because training and salaries for U.S. direct hire staff must come from the Operating Expenses (OE) budget, USAID lacks the resources to develop its own training programs. (OE will be discussed in greater detail below.) It also has insufficient staff to provide a "training float" for appropriate instruction. The result is that foreign aid personnel cannot get the training they need to do their best work. Given that more than half of all Foreign Service Officers joined the Agency in the last eight years, USAID needs to provide Agency-specific training to enable them to perform as fully qualified managers for the ever more complex missions they will undertake. To help repair these shortfalls, the HELP Commission proposes these actions:

- **Recommendation:** Recruit and train the development agency workforce to the same standard of language and cross-cultural sensitivities as its counterpart in the Foreign Service at the U.S. Department of State. Provide sufficient funding for training in critical competencies.

4.2-1 Support Change Management Techniques

Because the vast majority of U.S. foreign assistance dollars and programs are designed to stimulate change in recipient countries, foreign assistance should promote change. Our nation does not invest in health care, education, justice and anti-corruption, infrastructure, agriculture, and jobs to maintain the status quo. Our nation spends money because we think it will enhance both our national interests and the interests of the recipients. We do so to encourage change.

Whether acting as direct employees of the government or through NGOs, religious institutions, educational groups, or contractors, those representing the United States should be knowledgeable about the nature and process of change. If change is America's objective, a fundamental shift in this critical field of knowledge by U.S. employees and our agents is necessary to improve results.

Leading change is much more than just making the right policy decision or selecting the best leaders. Proven methodologies for managing change make clear that advocates, sponsors, agents, and targets of change all have specific roles they must play for change to be effective and enduring. If those relationships are understood, the challenge for the U.S.

Government's representative becomes much clearer and the probability of success much greater.

In some cases, leaders and mentors need to recognize that change produces resistance, which should be made visible so that it can be addressed, and that a certain level of resiliency should exist before the beneficiaries of the change can adopt a new way of doing things. Those same leaders and mentors should also understand their essential roles in the process and how their commitment and communications are key to effective implementation of change.[3]

- **Recommendation:** Train U.S. foreign assistance personnel in change management techniques.

4.3 Eliminate the Requirement for a Separate Operating Expense (OE) Account

A common view of administrative expenses is that they are useless or wasteful overhead costs. Worried that USAID was spending too much on overhead costs as a percentage of program costs, in 1976 the Senate Appropriations Committee added a line item account, the so-called Operating Expense account, to the appropriations to separate the cost of doing business from the cost of development and humanitarian programs. The intention was to prevent the day-to-day costs of running the Agency from diverting funds from program implementation.
Over time, the effectiveness of a separate OE budget has eroded. During the past 30 years, Congress and the Executive branch have allowed program funds to be used to pay for the costs of activities once funded from the OE account while cutting the OE budget. In a 2003 GAO report, USAID officials reported: "Congress has increasingly encouraged the Agency to use program funds to support certain administrative costs." The average amount of program funds that the Agency managed between 2002 and 2006 was $11.8 billion, which represented a 46.8 percent increase over the average program funds obligated from 1997 to 2001. During the same period, OE obligations only increased by 7.8 percent.

In 2006, Operating Expense obligations were $740 million, which is just 6.9 percent of total program fund obligations. That same year, USAID spent an additional $660 million from program funds on administrative costs. When the Commission interviewed USAID employees overseas, they reported that budgetary constraints imposed by the OE account

resulted in the missions not having sufficient funds to visit projects in remote areas and that they were thus unable to provide proper oversight.

The existence of an Operating Expense account side-by-side with an ability to use program and project funding to perform the same tasks has undermined the original intent of the OE account.

- **Recommendation:** Abolish the OE account and replace it with a more accurate accounting process.

The Commission believes that the USAID OE account no longer serves a useful purpose. While it might have been constructive in bringing clarity to the cost of doing business in the 1970s, another system should be developed that calculates true administrative and management expenses, including those now funded with program or project funds. *This new system needs to allow administrative expenses to be properly managed and monitored and needs to ensure that Congress receives clear, timely and transparent information regarding these expenditures.*

4.4 Reform Procurement and Grant Functions[4]

The grant and contract award procedures applied to foreign assistance programs that were developed in response to the severe shortage of direct hire personnel do not meet the highest standards of public confidence and transparency. These processes and their outcomes have provoked widespread complaints both inside and outside of government.

Agencies in modern governments of all kinds rely more and more upon outside nonprofit and commercial entities to carry out functions that their own employees once performed. Over the last 20 years, the contract and grant award processes used by U.S. Federal agencies have transformed from an occasional administrative support function into what is now often the agencies' main responsibility. Agencies currently accomplish their missions principally by awarding grants and contracts to non-federal entities. The consequences of this shift across the government are underappreciated.

At USAID, the contract and grant award processes have not received the management attention and support commensurate with the central role they play in the Agency's mission. An inadequate number of people are assigned to these duties, and the Agency's central Office of Acquisition

and Assistance is currently short by about 16 percent of its authorized staffing level.

Partly in response to chronic management problems in the grant and procurement award systems, USAID during the past 12 to 15 years has altered its operations. It has turned to umbrella grants and contracts and other mechanisms that do not provide as full, open, and transparent competition as previous procedures provided. As a result, opportunities for smaller contractors and non-governmental organizations to compete for USAID funding have been restricted or even eliminated. Many believe that the adoption of umbrella mechanisms will eventually drive out all but a handful of firms and large NGOs from the U.S. foreign aid program. Indeed, the share of Agency contracts awarded to the top five contractors rose from 33 percent ($57.3 million) in Fiscal Year 1996 to 52 percent ($1.4 billion) in Fiscal Year 2005.

Federal laws and regulations permit these mechanisms. But when used as extensively as they are now with many USAID grants and contracts, these mechanisms become questionable.

The established principle of government contracting is that full and open competition for well-defined goods or services produces the best value for the taxpayers. The Commission believes that more such full and open contracting will produce positive benefits for the American taxpayer and for the aid recipient countries.

America requires the foreign governments we assist to adopt procurement procedures that meet high standards of accountability and transparency. The United States would improve its credibility if all of our nation's foreign assistance programs, regardless of the agency in charge of them, could serve as models for full and open competitive procedures.

The key recommendations that the U.S. Government should adopt are:

- **Recommendation:** Recognize contract personnel as key contributors to program success. Devote sustained high-level attention to the substance of program design, the selection of implementers, the post-award surveillance of performance, and the processes by which these are accomplished.

- **Recommendation:** Provide U.S. foreign assistance agencies with sufficient staff and related funding so that grant and contract operations can proceed appropriately. Use transparent and competitive processes to the maximum extent possible, which will require a substantial increase in U.S. procurement personnel at USAID — perhaps as many as 125 additional people.

- **Recommendation:** Limit the size, range of activity, and number of umbrella contracts and grants that are awarded. Ensure that large, multi-year, multi-million dollar projects are subject to full and open competition.

- **Recommendation:** Harmonize procurement practices, guidelines, and policies across all major foreign assistance programs when possible, and incorporate state-of-the-art procurement practices. Adopt and enforce policies and procedures within the foreign assistance agency that: (1) are uniformly followed both in Washington and in the field missions; (2) resolve common contract and grant issues consistently; and (3) handle post-award interventions similarly. Such policies and procedures can be crafted to achieve the sought-after uniformity of process without compromising the ability of overseas missions to tailor development assistance to local conditions.

- **Recommendation:** Minimize "tied aid" procurement requirements. According to the Center for Global Development's publication "U.S. Assistance for Global Development," U.S. laws on development assistance require that "…70% of these funds must be spent on U.S. contractors and goods. This 'tied aid' may be good for the U.S. economy, but it substantially reduces the value of U.S. assistance by up to 25%, because poor countries are not permitted to purchase less expensive goods and services of equal quality elsewhere."

- **Recommendation:** Permit only direct-hire employees of the U.S. Government to write Requests for Proposals (RFPs) and Requests for Applications (RFAs), barring extraordinary circumstances.

- **Recommendation:** Design new procurement processes and vehicles to help implement other recommendations of this

Commission. Take into account through these processes the increased participation of recipient countries in their own assistance plans, as well as new efforts to monitor and evaluate the effectiveness of development assistance.

- **Recommendation:** Enact legislation to include host country recipients, civil society, and government officials as substantive participants in the grant and contract scoring and award processes in order to ensure country ownership of the projects.

In order to achieve a best-practices standard of procurement and contracting, these additional steps should be taken:

1. Foreign assistance agencies must be given the funding necessary to develop and implement a professional training program for all employees participating in the grant and contract award processes. Program office personnel who have a key role in defining government requirements, drafting solicitation documents, evaluating proposals, and conducting post-award surveillance of grant and contract performance must be included. The Defense Acquisition University's rigorous and extensive training for DoD acquisition personnel could serve as a model. Done correctly, the program would go beyond a one-time course.

2. The Administrator of USAID should immediately strengthen the independent evaluation unit to monitor contract officers' performance and help ensure checks and balances. USAID needs a stronger central operations unit within its contract and grant functions to develop these higher standards and put them in place.

3. The Inspector General (IG) at USAID should elevate to a higher priority the program audits of the Agency's contract and grant functions performance. An independent voice can help the Administrator address what are believed to be entrenched management and administrative failings. While the IG's current focus on fraud and abuse should continue, paying more attention to inefficiencies and other waste in grant and contracting processes might yield even greater savings. We recommend that additional funding be provided to the IG's office if needed to carry out this work.

4. The USAID Administrator should take steps to ensure that leadership at the Agency's Office of Acquisition and Assistance will commit to at least five years of service. Re-invigorating the Agency's grant and contract award systems and inculcating the values of the new systems will require at least that great an investment of time.

5. The USAID Administrator should establish an ambitious internal goal to develop partnerships that encourage greater use of minority, disadvantaged, women-owned, and other small businesses, as well as minority and smaller NGOs, as prime contractors and grantees. The Administrator should also launch more initiatives to reach new types of development partners and funding sources, such as is the case with PEPFAR's New Partners Initiative,[5] provided they are not done via formal set-asides.

6. USAID policies that serve no significant public purpose should be abolished. This would include, for example, restricting an individual's salary while ignoring the total costs charged for his or her services.

7. The distinction set forth in the Federal Grant and Cooperative Agreement Act of 1977 among grants, cooperative agreements, and contracts should be respected. Program and contract officers should be trained to apply consistent criteria in choosing among the different mechanisms, and their decisions should be subject to stringent review.

Chapter 5: Create a New Business Model for Growth to Capitalize on What the U.S. Does Best

Assistance can alleviate suffering, provide some of the know-how to compete in the global marketplace, help remove obstacles to economic growth, and encourage reform-minded leaders to challenge the status quo. But sustainable development is primarily a function of leadership within the recipient country. Leaders who recognize the importance of good governance and the rule of law are often best suited to drive development.

While one goal of U.S. foreign policy is to promote good governance and human rights in the developing world, an equally challenging objective is to assist countries in their efforts to create sustainable economic growth. A new, flexible business model should include a broader "basket of tools" than solely foreign aid, and should allow for flexibility on some policies that can affect development. The new business model also needs to focus on building local management capacity and leadership skills in order to help countries promote growth. Our nation's foreign assistance programs do not have to address every problem in every sector; we should capitalize on what we do best.

- **Recommendation:** Create a new business model for foreign assistance programs based on the following eight core principles.

5.1 Core Principles of the New Business Model

5.1-1 Principle 1: Understand that Development Must Be Locally Led and Owned

Development assistance is by its nature cooperative and is most effective when undertaken as a partnership between the donor and the recipient. The United States cannot force a country to develop; at best, our nation can help identify and remove external obstacles to growth and encourage national and local leaders to take the necessary steps for change.

The ultimate responsibility for development falls squarely on the public and private leadership of developing countries. When leaders and the people dedicate their energies to development and institute policies that drive toward self-reliance, the United States should do everything it can to

assist them in accomplishing their goals. The U.S. Government must work alongside public and private partners to create plans tailored to each country's cultural, social, and economic conditions, and reject "cookie-cutter" plans and programmatic earmarks. Recipient states must detail how and when the United States can be most helpful, and our leaders must listen and help them achieve their priorities. When listening to recipients, we need to listen to both women and men because experience teaches us that sometimes the answers are quite different.

A country-driven approach to development not only ensures that programs are adapted to fit the country's unique circumstances, but also increases the chance that development gains will be sustained long after U.S. funding ends. By adopting policies and programs based on collaboration and joint commitment, America will enhance the ability of people in the developing world to sustain pro-growth policies able to propel their countries toward political, civil, and economic stability. Partnership requires a long-term commitment from both parties. When all agree on common priorities and make investments that are commensurate, everyone is accountable for the results, and sustainability is achieved through mutual accountability.

5.1-2 Principle 2: Acknowledge the Importance of Private Partners

Although many think only of Official Development Assistance (ODA) when considering foreign assistance or development, the role of private philanthropy should not be overlooked. Private philanthropists and foundations, multinational corporations, non-governmental organizations, co-operatives, faith-based organizations, and universities are increasingly engaged in the developing world through charitable giving and through development activities which were formerly the exclusive purview of governments.

Philanthropy is important not only because of its size, but also because of its nature. It can be flexible and adapt easily to circumstances on the ground. Philanthropic organizations often have a higher tolerance for risk than does the government. Some organizations approach philanthropy as a form of venture capital. They bring innovation to the developing world and expect to see tangible results from their investments of material and intellectual capital.

Our elected leaders should capitalize on the unique skills and assets that other segments of our society can bring to bear. They should look to

outside sources of investment in developing countries as opportunities to leverage our own foreign assistance expenditures. And if the private sector and/or the philanthropic community can achieve a desired outcome more efficiently, the U.S. Government should consider stepping aside.

The Global Partnership Center (GPC), an outgrowth of the Secretary of State's Advisory Committee on Transformational Diplomacy, is important to building a partnering capacity that will engage the private sector in a unified manner. Expanding on the lessons learned from USAID's well-received Global Development Alliance (GDA), the GPC could be one vehicle for integrating the partnering efforts of the Department of State with other agencies overseas. This could align our nation's collective efforts, reduce duplication, and enhance the ability of the U.S. Government to partner with the private sector. The result would likely be more robust, outcome-oriented, multi-sector international partnerships that fulfill our nation's strategic objectives.

5.1-3 Principle 3: Embrace Risk and Innovation

Some of the greatest contributions to economic growth and development have come through technological advances. New technologies help societies grow, and America has historically been a leader in promoting technological innovation. For example, the U.S.-led Green Revolution of the 1960s delivered hundreds of millions of people from starvation by providing a broad range of inputs including genetically improved seeds. Success has not always come from a major breakthrough; often it comes from consistent application of a known solution. Bed nets for malaria, vaccines for smallpox and polio, oral rehydration salts for diarrhea, and "smart cards" for business loans to organizations without bank accounts in poor areas are solutions that have improved human lives and boosted local economies.

Yet, our naturally risk-averse government prefers to see immediate results and tends to reuse traditional methods when designing development assistance programs. While America remains committed to research and development (R&D) in defense matters, particularly through the Defense Advanced Research Projects Agency (DARPA), the United States in recent years has failed to apply our nation's R&D expertise to the challenges of the developing world. The HELP Commission believes that our nation's leaders must get past their fear of failure and should be

willing to accept the risk that comes with more innovative approaches to these critical problems.

5.1-4 Principle 4: Increase Flexibility

The world is complex, with no two countries in the developing world facing identical challenges. Political, economic, and social characteristics of each country are unique and so generate different problems and capacities for change. In addition, events ranging from changes in weather patterns to natural disasters to commodity price fluctuations can send the economy of a promising and growing country into chaos.

Accordingly, the Commission believes that development programs should be designed in ways that allow them to adapt to changing conditions on the ground over the long term. What makes sense when a particular program is first designed might no longer work two years later. Monitoring and evaluation mechanisms should be used to obtain information about the effectiveness of a program while it is in progress, and our foreign assistance system should allow for change when necessary. Such flexibility will ensure that development assistance is effective and efficient over the long term.

5.1-5 Principle 5: Reward Graduation

A significant portion of our development assistance does and should support countries as they put in place the necessary policies and procedures for change. It is not an indefinite commitment: political reform, poverty reduction, and economic growth should reach levels that allow a developing country to be designated "beyond assistance," to graduate, and to stand on its own.

In the past, successful development assistance efforts often culminated in graduation when foreign aid recipients had grown their way out of absolute poverty and could sustain their own development without further international economic assistance. Taiwan and South Korea are two of the most celebrated and familiar examples. For some time, both countries received significant amounts of aid, but developed past the point of needing it. Botswana had a similar experience. According to the Center for Global Development, for Botswana and South Korea both, "U.S. assistance…[in] the early stages of their development amounted to 5% to 10 % of their national incomes and helped them become the two fastest-growing low-income countries over the past 40 years. As their incomes grew, U.S. assistance tapered off, and both countries now rely on private

capital markets to finance their development." As outcomes like these are obviously the goal of most of our foreign assistance, the U.S. Government must develop a clear understanding of what graduation involves and measure progress toward its achievement when evaluating program performance.

As we gain a clearer understanding of how all the "tools in the toolbox" can be used to help countries that are implementing the necessary policies and procedures to raise living standards, we need to celebrate those countries that are graduating from receiving foreign assistance. We should not reward a country's successes by prematurely cutting off all aid. And moving beyond development assistance does not mean that a former aid recipient no longer needs our support. Moving beyond development assistance means that the U.S. Government will have new types of relationships with the graduated counties' institutions, both government and private, when they are successfully managing their own affairs. The new relationships will in part revolve around opening new avenues for trade and investment, as well as sharing best practices and ideas.

5.1-6 Principle 6: Focus on Programs that Will Lead to Economic Growth

Only with steady jobs and long-term economic growth can those countries with the proper policies emerge from poverty. In its 2007 report to the Canadian Senate, *Overcoming 40 Years of Failure: A New Road Map for Sub-Saharan Africa*, the Standing Committee on Foreign Affairs and International Trade concurred: "African people do not want us to provide their social programs; they want viable economies, skills and technology, and jobs."

To be successful, U.S. assistance programs must help countries create the economic foundation for growth. They also must enhance the capacities of people in developing countries to address the cultural, political, and social obstacles to growth.

The HELP Commission finds merit in the Canadian Senate's conclusion:

> The international community of donors must also shift its focus on Africa towards the things that African citizens and leaders actually want — assistance in generating investing [sic], creating jobs, and facilitating trade. The Committee has concluded that forty years of

> foreign aid has done little to propel Africa from economic stagnation or to improve the quality of life on the continent…. Developed countries must redirect international assistance towards building stronger economies on the continent.

5.1-7 Principle 7: Concentrate on Results and Improve Monitoring and Evaluation

As discussed in Chapter Seven, all assistance programs must have robust monitoring and evaluation, as well as an improved feedback mechanism to ensure effectiveness. Noted economists from MIT's Poverty Action Lab, Esther Duflo, Rachel Glennerster, and Michael Kremer, emphasize the point. In an article on randomized evaluations, they assert that:

> Having strong evidence about what works is important for many reasons. Non-governmental organizations (NGOs) and governments can use this evidence to focus their limited budgets on those programs that are most effective. With widespread cynicism about the effectiveness of aid, providing clear evidence on the impact of different programs can also help galvanize support for more development assistance.

The HELP Commission believes that programs should have objectives that are measurable and achievable. We also support sustained monitoring to ensure effectiveness and to allow for mid-course corrections. Finally, we believe that independent evaluations must be focused on outcomes. Interventions in states must be quantifiable, with numerical goals and timetables, and programs must have specific objectives, which could be measured, evaluated, and re-assessed. (See also Section 7.6-4.)

5.1-8 Principle 8: Support the Promotion of Democratic Principles and Recognize that Good Governance and Accountable Leaders Advance Development

The U.S Government's Democracy and Governance (D&G) assistance activities, which include efforts associated with rule of law, human rights, good governance, political competition, consensus-building, civil society, and election assistance, have grown from $509 million in 1999 to $1.2 billion in 2006. They have risen to be of such magnitude and moment because a fundamental problem confronting much of the developing world today is a lack of good governance.

The HELP Commission unanimously believes that one of the prominent stated goals of U.S. foreign assistance should be to promote democratic principles so that nations are well and justly governed and accountable to their citizens.

Democracy embodies political liberty and is therefore the best opportunity to realize free elections, independent judiciaries, and a representative legislature. In turn, political systems that incorporate the principles of just governance and accountability to citizens also usually produce greater economic opportunity for more of their citizens. However, because free elections alone do not necessarily guarantee either economic liberty or equality of opportunity, D&G activities should also support and reward developing countries which fundamentally seek to protect human rights, reduce corruption, increase the quality of governance, and undertake other reforms to promote democratic principles.

The Commission recognizes and agrees that the U.S. Government sometimes appropriately uses foreign assistance to help meet the needs of citizens of countries whose governments have not embraced democratic practices. And the Commission also understands that, in all cases, local leadership and country ownership are critical to long-term economic and political development. Former Secretary of State Colin Powell recognized this latter condition as well when he commented in November 2003: "Economic and political reform cannot be imposed. It must come from within, from the people themselves freely using tools of their own prosperity. Liberty must be earned. But the friends of liberty can make a loan, so to speak. A loan of experience. A loan of encouragement."

5.2 Applying our Principles in Recommendations

This Chapter has outlined core principles and best practices that the U.S. Government should incorporate into its program design and implementation to increase the effectiveness of its development assistance and promote growth. Below are several examples that illustrate how following these recommendations would improve the effectiveness and outcomes of our programs and policies. Included also are several examples of how specific development priorities — including, for example, small business, technology, agriculture, and education — might incorporate this innovative business model.

5.2-1 Create an Initiative to Support Small and Medium Enterprises

In the developed world, small- and medium-sized enterprises (SMEs) are the backbone of the national economy and the foundation of the middle class. In the United States, SMEs have created over 60 percent of net new jobs each year for the past decade, and more than half of "non-farm private gross domestic product" comes from SMEs. In the economies of most developing countries, however, small and medium businesses in sectors beyond basic retail are rare and struggling. While an average of 51.5 percent of GDP comes from SMEs in high income countries, SMEs account for only 15.6 percent of GDP in low income countries. As a result, they often employ only a few workers and cannot grow or trade across borders.

To be sure, small and medium businesses in developed countries have countless advantages over start-ups in the developing world. But to maximize the opportunities for enterprises there, the U.S. Government should, perhaps in partnership with private entities, expand upon the efforts of other development agencies to provide technical assistance to aspiring small business owners. We should also consider providing modest-sized loans, loan guarantees, and equity investments to support the growth of financial, commercial, and industrial enterprises which do not have access to private capital.

This initiative would have to be rigorous and systematic in many ways. A government's eligibility for assistance would be determined by objective criteria. If the government meets these eligibility criteria, assistance would then flow to those non-micro enterprise entrepreneurs — generally, those who employ between ten and 250 people — who would be most apt to benefit from assistance and who do not have adequate access to private capital markets for equity and debt financing.

- **Recommendation:** Provide technical assistance from the U.S. Government to aspiring small business owners in developing countries.

- **Recommendation:** Consider offering modest-sized U.S. Government loans, loan guarantees, and equity investments to support the growth of financial, commercial, and industrial enterprises. Require within the authorizing legislation that all investment capital be repaid to the U.S. Treasury. This is designed to spur increased job creation, and to lead to sustainable economic growth.

5.2-2 Create an Institute to Support Technology Research

One way to ensure that risk-taking and innovation are fully integrated into our nation's foreign assistance programs is to establish a research and development organization to create the technology that will change people's lives in the developing world. Technology is increasingly becoming a part of daily life even in poor countries. More importantly, the scientific and technological capacity of developing states is also growing. The African Laser Centre, for example, is a virtual organization of scientists from across Africa working on, among other things, laser-guided means for assessing the condition of crops. Biotechnology, climate research, other physical sciences, science-based approaches to mitigating local environmental stresses, biofuels, information technology (IT), communications, and other technologies all provide opportunities for partnerships with American organizations.

- **Recommendation:** Create a new U.S. Government organization that can develop and apply innovative technologies to development problems in order to jumpstart research and development aimed at reducing global poverty.

This organization, which we suggest be called the "Development Applications Research Institute" (DARI), could be modeled on DARPA and focus on building technology in all relevant development areas, including agriculture, health and education. DARI would also incorporate change management techniques into its operations in order to spur adoption of new breakthroughs. Like DARPA, it would take on long-term projects and welcome risk-taking, with the understanding that risk-taking implies potential losses as well as gains. In addition, much of the organization's work would be carried out in partnership with the developing countries themselves, as a way to spur the development of local R&D capabilities and to ensure that local expertise informs solutions destined for local use.

DARI would have to be carefully structured to ensure accountability and performance in the service of developmental goals. To create a flow for communicating real-world problems, the head of DARI could serve as science advisor to the lead U.S. Government official in charge of development policy. At the same time, staff could proactively seek new ideas for funding from private enterprise and research universities to ensure the broadest range of inputs. All research would be subject to peer

review to ensure quality. DARI would have to be able to contract with non-U.S. public and private institutions as well as with U.S. private, educational and philanthropic entities to provide the broadest possible access to ideas. In addition, DARI would only fund projects that would lead to practical application of technology by poor people in the developing world.

America needs to build a successful new R&D organization that is devoted to development. The cost would be relatively small, on the order of $50 to $100 million a year, but DARI could transform countless lives. Its cost is easily justified by solving a "market failure." In other words, private markets probably have not responded to these needs because of the anticipated small market and low expected private return. However, these are outweighed by the high expected social return. DARI also could help alleviate suffering around the world and restore our country's reputation for leadership in innovation.

5.2-3 Increase Local Purchases of Food Aid

A key example of the need for flexibility can be found in the U.S. food aid program. America donates more food than any other country in the world; our nation provides more than half of all global food aid. Since 2003, the United States has provided nearly two billion dollars per year in annual and supplemental funding for U.S. international food aid programs, and in 2006, our nation's largest food aid program, Title II of P.L.480, aided more than 70 million people. By any measure, food provided by American farmers has ameliorated hunger and saved the lives of millions.

Yet CARE — one of the world's largest charities and a major participant in American food aid programs — intends to phase out the approximately $45 million of funding it receives through U.S. food aid programs because of the potentially harmful effects of America's food policies on developing countries. Other organizations that carry out food programs, including Adventist Development and Relief Agency, Food for the Hungry, and World Vision have suggested that American-sourced food aid makes the most sense when a low-income country already relies on commercial imports for sufficient supplies of a given commodity.

With modest changes in policy, American food aid could be made much more efficient and effective. As of now, P.L. 480 requires 75 percent of the food aid delivered from America to be carried on ships carrying the U.S. flag. That means nearly two-thirds of total funds for U.S. emergency

food aid now goes to pay for transportation and associated costs rather than for actual food. If America allowed food purchases to take place closer to the points of delivery, while holding alternative suppliers accountable for quality and food safety, ocean transportation costs and delivery times would be cut. In addition, U.S. assistance could help to stimulate local markets and thus have a positive impact on local producers.

The Bush Administration has indicated the need to amend U.S. laws to increase the amount of food our nation's aid dollars provide by increasing the amount of food that is purchased from markets in close proximity to areas of need. The HELP Commission strongly endorses these changes in P.L. 480 to permit more local food buying. Senator Tom Harkin has proposed a pilot program to improve the efficiency of food aid, saying, "The goal is to help us respond more quickly to dire humanitarian emergencies." Although we recognize the substantial political impediments to changing the P.L. 480 purchasing regulations, the HELP Commission believes these changes are appropriate and will go far toward helping developing countries.

5.2-4 Engage the American People in Development Partnerships

For us to succeed, the American people need to be engaged in support of development and humanitarian assistance programs. When the United Kingdom revamped its foreign aid program, the reform was carried out in concert with an extensive domestic public diplomacy campaign to educate the British people about the importance of foreign aid to their lives. We believe that American citizens, companies, philanthropies, NGOs, cooperatives, universities, and faith-based organizations can be very effective at promoting understanding, in the United States, of positive change in developing countries. These combined efforts can be as modest as an individual farmer from Iowa collaborating with a farmer in Kenya, or as extensive as the Bill & Melinda Gates Foundation's work on HIV/AIDS. The HELP Commission refers to this phenomenon as "Americans for Development" and believes that Americans' involvement in our nation's foreign assistance programs will lead to a better future for the millions of people trapped in poverty around the globe. To the extent that Americans are aware of opportunities to be involved in development activities, we can magnify the potential for partnership.

- **Recommendation:** Overhaul, rejuvenate, and adequately fund Biden-Pell Development Education Programs, an initiative begun 27 years ago in order to promote better engagement of Americans and

foreign nationals living in the United States regarding development issues.

The late HELP Commissioner, former Congresswoman Jennifer Dunn, was passionate about increasing the engagement of the American people in promoting poverty reduction. Therefore, we recommend that a revised and expanded Biden-Pell Development Education Program be enacted and that the legislation be named the Biden-Pell-Dunn Act.

The Commission regards USAID's "Lessons Without Borders" initiative as a possible means of encouraging engagement. This program was started in the mid-1990s to bring lessons learned in developing countries to the United States for application to similar problems.

- **Recommendation:** Clarify the intent of the statutory provisions (Sec. 539 of the Foreign Operations, Export Financing, and Related Programs Appropriations FY2006, as continued in FY2007 and FY2008) that have, at times, been interpreted by Executive agencies to limit their ability fully to explain U.S. development activities to the American people. The Commission believes that this clarification would facilitate the government's communication with the American people aimed at raising their level of understanding about and support for foreign assistance.

5.2-5 Shore up Agricultural Development Programs

The United States has long been recognized as a worldwide leader in agricultural research, training, and innovation. One needs to look no farther than the history of the Green Revolution and the involvement of USAID and the Rockefeller and Ford Foundations for evidence of our country's past commitment to agricultural development. According to former USAID Administrator Andrew Natsios, the Agency is "restoring a focus on agricultural development that was diminished in the 1980s because of budget cuts." This change in policy could not come at a better time.

The World Bank reports that 75 percent of the world's poor still live in rural areas. Many of these people live in land-locked countries that lack a competitive advantage in manufacturing and so depend on what they can produce locally. One of the most immediately useful types of assistance for the rural poor is that which supports agricultural development. According to one study of 62 countries, agriculture's direct contribution to

GDP growth per worker averages 54 percent, while the non-agricultural sector accounts for only 17 percent.

Indeed, during the HELP Commission's visit to Malawi, we saw that a family's income increased 12-fold when it was provided with one cow. It should not come as a surprise that the MCC has budgeted about three-quarters of compact funding in Africa for transportation and other infrastructure projects (37 percent) and agriculture and rural development projects (39 percent).

Shortly after becoming President of the World Bank, Robert Zoellick declared that a Green Revolution for Africa would be among his top priorities, and he devoted his first World Development Report to agriculture. The Report asserts that a yield for cereal crops in sub-Saharan Africa is less than half of South Asia's and about one-third of Latin America's.

Innovation in agricultural development programs will make already-available technology accessible to developing countries and adapt strategies for dry-land farming, irrigation, insect control and soil erosion management to the situations on the ground. In fact, a lot of progress and technological advances have already been made in African agriculture, such as the development of high-yield maize, biological control for cassava, and genetically engineered rice. America should support these initiatives and others like them, encourage risk-taking, and look for ground-breaking new ideas.

Partnership is also important when designing agricultural assistance programs. As in the original Green Revolution, major actors in the private sector are already ably working toward a Green Revolution for Africa. Among these are the Bill & Melinda Gates and the Rockefeller Foundations, which joined together to create the Alliance for a Green Revolution in Africa (AGRA) in 2006. According to the group's website AGRA began with $150 million in funding and aims to improve agricultural development in Africa over the long term "by addressing both farming and relevant economic issues, including soil fertility and irrigation, farmer management practices, and farmer access to markets and financing." Our government should support the efforts of AGRA and organizations like it and work with them whenever possible to promote agricultural development.

In addition to partnering with private actors, American agricultural assistance programs must be designed and implemented with the full participation of national and local leaders. In his remarks to the Congressional Black Caucus, AGRA's Vice President, Akinwumi Adesina, praised the technological innovations that have brought success to some areas of agriculture in Africa, but he also cautioned against an overly optimistic outlook:

> While these are all significant achievements, technically, the challenge has been lack of bold policy, pricing and institutional support systems to accelerate adoption by hundreds of millions of farmers as was the case during the Asian green revolution. The missing role of the state in providing the needed incentives and market support systems to allow for large-scale adoption of these technologies is the major reason why Africa has not achieved a green revolution of similar scale in Asia.

Other elements of successful agricultural programs are flexible design and a fully integrated approach. However marvelous a technological breakthrough might be, unless it is accompanied by incentives and channels to spread it through the population, it will be nothing more than a laboratory curiosity. These incentives and channels include:

- Policy reform supported by technical assistance to the central government that will permit markets to function;
- Technical assistance to farmers to support adaptation of the new technology;
- Development assistance to build roads to transport agricultural produce economically from farm to market, and to build irrigation systems;
- Support for reforming the financial sector so that credit will flow to seed, fertilizer, and equipment suppliers and will allow consolidators to purchase many small crops and move them more efficiently to large urban markets;
- Reformed land tenure policies, because the lack of secure rights to use or own the land has discouraged farmers from making the long-term investments that the land requires to achieve food security; and
- Open trade policies that permit exports, so that Africa's share of global trade can grow from its current level of about two percent.

Any one of these activities is alone insufficient to transform the lives of the poor, and sustainable real impact requires attention to all the necessary elements for change.

- **Recommendation:** Increase U.S. Government support for agricultural development programs that capitalize on our technological expertise, designed and implemented with partnerships between American and developing country organizations and based on the principles listed above. This is not a recommendation for specific earmarks for agriculture programs.

5.2-6 Encourage Education to Build Human Capital

A well-educated populace has greater capacity to advance the welfare of a country. Yet one billion adults around the world are illiterate and approximately 25 percent of the children in impoverished countries do not finish primary school. Achieving the Millennium Development Goal of universal primary school enrollment by 2015 will require tremendous effort. In its report; "The United States and the MDGs, InterAction, the nation's largest coalition of development NGOs, states: "When a country educates girls, its mortality rates usually fall, fertility rates decline, and the health and education prospects for the next generation improve." MCC changed its indicator from "Primary Completion Rates" to "Girls' Primary Completion Rates" as a way to reflect "not only the importance of primary education generally but also the high economic return from the education of women in particular."

The U.S. Government has long supported basic education, training, workforce development and higher education programs. While full national development might take generations, educational programs that address a broad array of recipients (teachers, farmers, small business entrepreneurs, governmental workers and public-sector leaders, etc.) can expedite development. This kind of education goes beyond the traditional classroom education.

- **Recommendation:** Support education as an important component of development assistance.

- **Recommendation:** Encourage U.S. citizens, be they farmers, business leaders, or local government officials, to help train their

counterparts in developing countries, through exchange programs and other initiatives.

- **Recommendation:** Apply technological tools and other innovative new approaches to increase education and literacy in partnership with recipient countries.

Chapter 6: Change the Structure

Over the last half century, our development and humanitarian programs have been modified approximately once every decade. They are perhaps the most reformed programs in the U.S. Government. Yet the Commission could not find a single current or former government official or development expert who believes that the current organizational structure works.

Not a single person defends the status quo.

In 1961, the U.S. Agency for International Development was created to end the scattering of responsibilities for development and humanitarian assistance around the departments and agencies. As President John F. Kennedy said in a special message to Congress:

> [N]o objective supporter of foreign aid can be satisfied with the existing program — actually a multiplicity of programs. Bureaucratically fragmented, awkward and slow, its administration is diffused over a haphazard and irrational structure covering at least four departments and several other agencies. The program is based on a series of legislative measures and administrative procedures conceived at different times and for different purposes, many of them now obsolete, inconsistent and unduly rigid and thus unsuited for our present needs and purposes. Its weaknesses have begun to undermine confidence in our effort both here and abroad.

Under Kennedy's reorganization, the Administrator of USAID was to be the official responsible for bilateral development and humanitarian assistance programs. The Administrator was charged with creating an overarching strategy and executing coherent, integrated, and effective aid projects in foreign countries. Although it worked for a while, program coherence gradually unraveled. Today, the system is widely viewed as ineffective.

The remainder of this chapter is organized as follows:

- First, five major recommendations that all Commissioners believe are applicable to any structure;

- Second, our agreed objectives for any structure; and
- Third, a description of three structural options, ending with the option supported by a significant majority.

The three structural options considered were the creation of an independent, Cabinet-level Department of Development; folding existing U.S. Government development organizations into the current Department of State structure (called "State Integration" in this report); and reorganizing both the development agencies and the existing Department of State into a new organization, which is called the "International Affairs Department" (IAD) in this document, but which would still be called the "Department of State." The latter was the structure supported by the majority.

The descriptions of each of the three options do not reflect the views of all Commissioners.

6.1 Recommendations Applicable to Any Structure

All Commissioners support the following five major recommendations, regardless of the structural option they endorse.

6.1-1 Reduce the Number of Agencies Responsible for Development

Among the key challenges is that there is a plethora of U.S. Government agencies operating separate development and humanitarian assistance programs: 20 largely uncoordinated departments, agencies, initiatives, and programs manage U.S. assistance. And while the head of the U.S. Agency for International Development is ostensibly the lead official responsible for development and humanitarian programs, a significant share of development assistance — including the Millennium Challenge Account (MCA) and Department of Defense funding — falls outside the jurisdiction of the USAID Administrator. Almost half of non-military official foreign assistance is now designed and/or executed by other agencies.

Many of the disparate elements of the foreign aid program are small-scale programs but some, including the MCC and PEPFAR, are multi-million dollar programs that, in some countries, dwarf the traditional USAID program. Also, in some countries, the United States does not speak with one voice; separate policy and program decision-making processes lead to

multiple conclusions and conflicting recommendations on program priorities.

For example, our nation may not have reconciled advocacy for fiscal restraint made by the IMF (which receives input from the U.S. Government through the Department of the Treasury) with advocacy for spending on priority sectors made by other U.S. agencies. When our government does not reconcile these positions, our country sends confusing signals. During the Commission's visit to one African state, we found that conflicting economic advice was given to the country's government by USAID, MCC, and the African Development Foundation. This is a predictable result of today's fractured structure.

Another predictable result of multiple agencies with overlapping interests is a large amount of bureaucratic friction. Without policy coherence, various actors in the Executive and Legislative branches frequently pursue narrow or parochial agency agendas and measure their successes and failures by different standards.

In the field of democracy and governance (D&G), the separation of our efforts into a State Department program and a USAID program has led to such a lack of agreement on core issues that the Senate Committee on Appropriations noted: "The Committee remains concerned that the State Department and USAID do not share a common definition of a 'democracy program.'"

Meanwhile, although the Department of State pursues long-term solutions, it often needs to use foreign assistance as a tool to promote critical short-term diplomatic and political objectives. This can lead to a diminution of foreign aid's longer term economic and social development objectives and compounds the lack of clarity that characterizes the U.S. approach to development.

The current structure produces confused lines of authority, responsibility, accountability, and in some instances, creates a disconnect between authority, responsibility, and accountability. Moreover, in recent years, a growing number of coordinators have been appointed for issues of special concern. The Commission believes that the fact that so many of these coordinators were deemed necessary reflects the inefficiencies in our foreign assistance system.

- **Recommendation:** Reduce the number of agencies responsible for development.

6.1-2 Rewrite the Foreign Assistance Act to Reflect Today's World

As described in Chapter Three of this report, our foreign aid policies and programs are guided by a Foreign Assistance Act that was written in 1961 and has since grown to include 247 directives and 33 goals. Due to the proliferation of aid accounts within the Act, and the increasing number of aid actors across U.S. Government agencies, our development and humanitarian assistance programs are more diffuse than focused. Long-term planning is impeded by the different and uncoordinated goals and objectives of multiple agencies. We therefore believe that a new foreign assistance act is needed.

- **Recommendation:** Rewrite the Foreign Assistance Act to reflect today's world.

6.1-3 Improve Interagency Coordination

Regardless of which structural option might be pursued, some resources and instruments will fall outside the mandate of that structure. For example, the Department of Defense has capabilities that are and will remain of use in development and humanitarian work, and it is unlikely that the Department of the Treasury will ever relinquish its jurisdiction over the international financial institutions.

- **Recommendation:** Establish a high-level policy coordinating mechanism in the Executive Office of the President (EOP).

This high-level coordinating mechanism could be run out of the National Security Council (NSC) and/or be jointly managed by the NSC and the National Economic Council (NEC). It should bear responsibility for coordinating all U.S. Government agencies involved in development and humanitarian policies and programs and for ensuring policy coherence.

6.1-4 Link Authority and Accountability

For decades, those who set policy for the U.S. Government's foreign assistance programs have not been responsible for program design, implementation, or operations. This lack of parity between authority and accountability violates one of the most basic principles of good management.

Policy decisions about foreign assistance made without the participation of those with practical experience in the field are inevitably less effective at achieving U.S. objectives than those made with the input of experienced professionals. At the same time, project execution by those who fear they will be blamed for the outcomes of poor policy decisions in which they had no input is likely to be bureaucratic, self-protective, and oppositional.

- **Recommendation:** Vest both authority and accountability in the same decision-making structures. Ensure that those with the authority to set development policy are also accountable for its execution.

6.1-5 Create a New Structure for Foreign Assistance Activities

Many believe that our nation's current foreign aid structure reinforces the tendency to focus assistance on short- rather than long-term priorities. Unlike the State and Defense Departments, USAID is not a Cabinet-level agency. It has a lesser stature and has always had an ambivalent relationship with the State Department. Hence, foreign aid is perceived by many as a tool to support other foreign policy objectives, rather than being focused on the goal of promoting long-term development.

The Commission spent considerable time deliberating on structural options and took into account the experience of the reorganization of the intelligence community and the creation of the Department of Homeland Security. Our discussions were driven by the consensus view that the current structure provides neither focus nor agility and does not ensure that foreign aid serves national interests.

Throughout the Commission's deliberations, considerable attention was also given to the roles of the Department of State and the Department of Defense in managing America's role in an increasingly complex global environment. In addition, Congress, recognized experts, and sitting and former foreign policy officials are all engaged in an important debate, which also informed the Commission's views, about how the United States should best address a host of new foreign policy challenges. The Commission has consulted widely with leading participants in the debate about the future of foreign assistance and the roles of the Departments of State and Defense.

Recommendation: Create a new structure for foreign assistance activities based on the seven objectives below.

6.2 The Commission's Objectives for Structure

All Commissioners agreed that any development and humanitarian assistance structure should accomplish the following objectives:

1. Elevate development to a more equal footing with defense and diplomacy.

2. Enable the U.S. Government to define and promote an integrated foreign assistance strategy by having one organization responsible for coordination across the government, and then speaking with one voice.

3. Provide access to all the tools necessary to implement the long-range strategic vision for U.S. foreign assistance in a cohesive manner.

4. Ensure that policy formulation, program design, implementation and operations reside within the same organization with clear lines of authority, accountability and responsibility for the management of foreign assistance.

5. Provide Congress with means for ensuring accountability through the clear alignment of goals, accounts, and performance metrics. (This issue is discussed more fully in Chapter Three.)

6. Enable strong partnerships with the many American private sector and non-governmental organizations that increasingly are engaged in addressing development challenges.

7. Ensure that policies and programs are rooted in the realities of what foreign assistance can and cannot do.

6.3 Options for Structure

Commissioners considered three alternatives for restructuring our foreign assistance agencies. The two minority views are presented immediately below and elaborated on in Additional Views in Appendix 11. The alternative ultimately favored by the majority is presented last.

6.3-1 The Department for International Development (DID): A New, Independent Development Agency

Some Commissioners believe that the United States should create a new, independent development agency led by a Cabinet-level Secretary, as described hereafter and in Additional Views ("Revamping U.S. Foreign Assistance" and "Advocating for an Independent Cabinet-Level Department of Development") in Appendix 11. According to this view, an independent development agency is the structure best suited to elevate our nation's development priorities and ensure a strategic and sustained focus on development, as distinct from diplomacy. It is also necessary, they believe, to ensure optimum impact of the development component of America's long term development strategy — a strategy grounded in leading a world where a majority of capable and well-governed states join us in pursuit of common goals. These Commissioners believe that the development challenges we face are so vast and so distinct that a specialized independent agency is necessary for success, just as is the case for defense and diplomacy.

This model is informed in part by the decision of former British Prime Minister Tony Blair's government in the 1990s to create a Cabinet-level Department for International Development (DFID) in the United Kingdom. This new independent agency has since been strengthened by Prime Minister Gordon Brown's appointment of two additional ministers to DFID. The HELP Commissioners who support an independent Cabinet-level department concept believe that development and diplomacy are different and distinct functions, each requiring its own expertise. They also believe that U.S. development policy, and strategic and programmatic goals cannot be attained if development continues to be viewed as a lesser priority than either defense or diplomacy.

These Commissioners argue that the current structure and other options considered by the Commission, at best, blur the lines between diplomacy and development. They also argue that the current structure and other options preclude the United States from formulating and pursuing a government-wide, long-term development strategy that is consistent with but distinct from our necessarily shorter-term diplomatic activities. These Commissioners believe that the model of USAID — as an autonomous but sub-Cabinet agency — led to development's being viewed as secondary to defense and diplomacy. These Commissioners also see the new arrangement under the "F Process" as subjecting development to the

State Department's distinct and highly political culture and risking development being defined as a function of — rather than complement to — diplomacy.

These Commissioners also believe that an independent agency with Cabinet-level leadership would provide development a seat at the foreign policy table and bring a long-term development perspective to relatively shorter-term foreign policy deliberations. As well, it would ensure that the allocation of foreign aid resources targeted for development is undertaken on the basis of long-term development objectives rather than shorter-term diplomatic imperatives. The creation of an independent agency would also allow for the development of a professional development corps able to make the most of development dollars. It would fill a leadership gap by (1) ensuring that a senior member of government has singular responsibility and authority for leading and managing U.S. development policy and assistance, and (2) easing existing constraints to coordination by providing a clear focal point for development within the Cabinet.

The new, independent agency would be mandated, for the first time, to set U.S. development policy at the Cabinet level — just as the Department of the Treasury sets fiscal policy, and the Department of Education sets education policy. It would also lead in the formulation of a government-wide development strategy, manage the primary development and humanitarian assistance accounts, and implement the U.S. Government's development and humanitarian assistance programs.

The creation of DID would entail the reallocation of foreign aid resources based on the need to draw a clear line between those resources that are targeted to development and humanitarian affairs functions and those that serve either security or diplomatic objectives. This would allow all major development accounts to fall under the leadership of a single, high-level official and to conform to a comprehensive strategy, thus allowing for greater development policy coherence. Specifically, DID would oversee all traditional development accounts as well as the Millennium Challenge Account, the President's Emergency Program for AIDS Relief and other major initiatives now situated in the State Department or Executive Office of the President. As well, humanitarian assistance would fall under the DID, just as resources from Title II of P.L. 480 and resources supporting the Office of Foreign Disaster Assistance have traditionally been under the authority of USAID.

Given our nation's need to buttress security and diplomatic efforts with resources, some foreign aid funding would remain under the jurisdiction of the State and Defense Departments. Economic Support Funds (ESF) — flexible funding designed to meet security-related, short-term imperatives — would remain in the State Department, but be programmed jointly with the new Department. International Military Education and Training (IMET) and other programs designed to support foreign militaries would also remain in the State Department.

While development funding for international organizations, including the World Bank and the UN's specialized development agencies, would fall under the authority of the DID, other international funding — for peacekeeping, arms control and narcotics, and other security-related functions — would remain under the authority of the Department of State. Meanwhile, although it would retain funding and authority for clearly-defined foreign assistance programs designed to support operations or specific missions, the Department of Defense would slow its current efforts to tackle long-term development and cede that responsibility to the DID.

The DID would also manage the primary humanitarian assistance accounts to (1) ensure consistency between humanitarian and development policies and programming, (2) ensure that the Department is able to manage what experts call the "relief to development continuum," and (3) prevent gaps in policy or programming in the crisis, stabilization and development phases of a given country's transition. As has been the case for decades, the Department of Defense would continue to provide logistical support. Commissioners who support the independent agency model share the consensus that it — and indeed all options for structure considered by the Commission — must be complemented by a coordinating mechanism housed in the Executive Office of the President — probably as a joint function of the National Security Council (NSC) and National Economic Council (NEC).

The new Department of International Development would be led by a Cabinet-level Secretary appointed by the President and confirmed by the Senate. The DID Secretary would, along with counterparts at the Departments of State, Defense, and other agencies, be a member of the NSC. Also, along with the Secretaries of Treasury and Commerce and other Cabinet members, the DID Secretary would serve as a member of the NEC. The Department's internal structure would include regional but

also, and importantly, functional bureaus focused on the priorities established by the Department's development policy. Buttressed by DID's authority to set development policy, these functional bureaus would allow the United States to address key development challenges that are distinct from diplomatic imperatives but that currently suffer from the structural absence of designated leadership within the Executive branch. Agencies that are exceptionally well run and easily coordinated and that do not manage primary development assistance accounts but do provide critical and discrete contributions to U.S. development efforts — such as the Peace Corps, U.S. Trade and Development Agency (TDA), Overseas Private Investment Corporation (OPIC), and the Export-Import Bank (Ex-Im Bank) — would be independent of the new Department.

The Commissioners who support the Cabinet-level option point out that the United States Trade Representatives Office (USTR), created in a 1979 reorganization that consolidated and broadened the former Special Trade Representative that had been located in the Executive Office of the President and was strengthened under legislation enacted in 1988 that effectively raised the USTR to Cabinet level, has been an enormous success. Giving the trade function, a Cabinet rank enhanced the importance of trade within the Executive branch. As a result, USTR was able to attract and retain highly professional staff and build a reputation for being both agile and effective. In contrast, the attempt to improve the effectiveness of public diplomacy by merging the United States Information Agency (USIA) with State has not been considered a success.

Commissioners who support the independent agency model suggested that, in addition to an adapted Office of U.S. Foreign Disaster Assistance (OFDA) and cones for management and human resource development, functional bureaus should be established. This would bolster the DID's comparative advantage, ability and authority within the Executive branch to lead critical development strategies rather than simply oversee project funding in key sectors. Specifically, this would mean focusing on:

1. Capacity-building in support of production and trade, infrastructure development, and good governance necessary to strengthen weak and failing states and assist their integration into regional and the global economy;
2. United States support for the Millennium Development Goals and basic human needs;
3. Infectious diseases; and

4. Addressing strategic vulnerabilities, including the full range of transnational threats — such as climate change, international crime, and illicit trade — that can undermine development gains.

Commissioners supporting the creation of a new, Cabinet-level agency mandated to lead U.S. development policy cited as their primary rationale the need, given a rapidly-changing world, to enhance America's ability to pursue long-term national interests by vesting leadership, authority, and resources in a department dedicated to promoting development. While these Commissioners believe that the other options might intend to elevate development, they concluded that an empowered independent agency best ensures that development achieves the status it deserves, alongside defense and diplomacy.

6.3-2 State Integration (SI): Folding U.S. Government Development Organizations into the Department of State

Integrating U.S. Government foreign assistance activities into overall U.S. foreign policy by folding most of them into the Department of State is a model favored by some other Commissioners. These Commissioners believe that this model is closer to successful integration programs tried over the years. In the 1960s, the Alliance for Progress co-located State Department and USAID personnel. One individual was given dual appointment as the Assistant Secretary of State and Assistant Administrator for USAID. At some Latin American posts, Ambassadors were given appointments as USAID Mission Directors. Similarly in Vietnam, USAID and State Foreign Service Officers staffed the CORDS program for rural development. In the 1990s, State Department-led coordinators worked closely with USAID employees in designing and running the U.S. Government assistance programs in Central and Eastern Europe and then the former Soviet Union.

A similar type of merger currently exists with the appointment of a Director of U.S. Foreign Assistance with the rank of Deputy Secretary of State who also serves as Administrator of USAID. This position also coordinates foreign assistance activities housed in different U.S. Government bureaus and agencies. Thus, while personnel and contracting systems have not been merged, there are precedents for the State integration model in policy formulation, program design, and oversight and evaluation.

The Commissioners supporting this option believe that the reasons for integrating foreign aid activities more fully and formally into the State Department are threefold:

First, the post- 9/11 world is one where United States national security is threatened by anti-Americanism and terrorism. Thus, the underlying principle for integrating USAID and other aid activities into State is geo-political. As a superpower with the largest presence and political exposure in the world, the United States must bring its foreign aid tools into the full context of its foreign policy framework, including continued close coordination with DoD and a Secretary of State with direct access to the President, whose NSC has a serious commitment to foreign aid policy matters.

Second, the developing world has changed dramatically since foreign aid was conceived. As described in greater detail elsewhere in the report, the economic and political growth in the majority of developing countries has spawned new actors in development — entrepreneurs, new corporations, new political movements, media outlets, local foundations and charities, and a better educated workforce — with whom the State Department has traditionally had more active ties. As U.S. private sector activities in the developing world have grown increasingly important as compared to U.S. Government official aid, these new players and institutions have become drivers of growth in the developing world. Thus, the State Department has skill sets in economics, trade, business, politics, the media, and civil society, and important networks for foreign aid resources as a new world of public-private partnerships supplants traditional donor-recipient models. Moreover, its public diplomacy apparatus is more sophisticated and uniquely geared to better publicizing aid programs and the good deeds of the American people — critical to our national security interests.

Third, the State Department already has numerous programs that duplicate or parallel USAID programs in democracy-building, internally displaced persons, and economic and trade policy reform promotion. Merging these programs with USAID and other aid projects will help avoid duplication and improve results. USAID skill sets in procurement, project management and certain technical areas will complement State skill sets in this new foreign aid business model. At the same time, any new structure must reform how foreign aid is delivered and reduce the top-down approaches that prescribe universal prescriptions to problems which, in many cases, are no longer even relevant in developing countries.

Under this new structure, Under Secretaries of State would be in charge of key functional foreign aid areas. Illustrative areas, but not definitive, include: (1) Economic Development and Trade Support, which would include all sectors of development such as agriculture, energy, health and education; (2) Disaster Relief, Refugees, Migration, and Humanitarian Assistance, which would include disaster and refugee programs and support for transnational pandemics and other overarching humanitarian needs; and (3) Political Affairs, Democracy Support, and Public Diplomacy.

Existing offices and personnel from State and USAID working in the above areas would be re-assigned to work together within these bureaus according to newly combined work plans and budgets. A complete merger would require the two personnel systems of USAID and State to merge. In this way, lines of authority and accountability would be clearly established. This would allow senior positions to be filled by either State or former USAID employees, depending on the job requirements and skills. The personnel details, however, should be further studied. If it makes more sense to keep the two systems separate with both ultimately reporting to the Secretary of State through a Deputy Secretary of State for Assistance, then this option should be adopted. The important part of the integration is that foreign aid programs are consolidated and developed within the context of total U.S. foreign policy.

An example of this merger is existing State Department and USAID democracy programs being designed and managed in the same office with both State and USAID personnel. The Under Secretary would represent the foreign aid issues directly to the Secretary of State using the skills of both State Department and USAID personnel. Educational exchanges, communications, and public diplomacy programs would be run out of this bureau as well. In this way, democracy and civil society programs could draw more on the political expertise, prestige and support of the U.S. ambassadors and other senior American diplomats here and abroad. With foreign aid programs and budgets integrated into State, long-term programs can be better coordinated with more immediate short-term assistance requirements including disasters, conflicts, and national security requirements.

Assistant Secretaries traditionally have managed their political relations, diplomatic functions, and numerous representational duties in Washington

by way of parallel geographic offices that correspond to the functional bureaus mentioned above. Assistant Secretaries and their geographic bureaus should continue to perform these duties, and it is essential that they be located in Washington in order to interact with the above constituencies and to provide the critical interaction with the Secretary of State and functional bureaus in foreign aid policy formulation.

The MCC, TDA, and regional development banks could also come under the purview of the State Department integrated model. Peace Corps, OPIC, and Ex-Im Bank could stay independent as long as there is good coordination and a strong NSC role in foreign aid affairs.

Advocates of this model believe it would accomplish all the goals adopted by the Commissioners with the least bureaucratic displacements and disruption of on-going activities. But, most importantly, this model responds to critical U.S. national security needs that result from the increased threats of terrorism since 9/11 and that require foreign aid to be an integral part of our nation's diplomatic and military strategies. The model also responds to the significant political and economic changes in the developing world that now require a business model that draws upon a wider base of expertise in the U.S. Government and new partners in developing countries themselves.

6.3-3 Option Favored by the Majority — The International Affairs Department (IAD): Elevating, Integrating, and Operationalizing International Affairs for a New Era

As we considered the independent agency and integration options, some Commissioners began to look for an alternative that might start a discussion about how our nation can "get the best of both worlds." In the end, a significant majority of Commissioners supported the creation of an International Affairs Department (IAD) that reconstitutes the Department of State, USAID, and most of the other organizations funded by the International Affairs Budget into a single, new Cabinet department that "replaces" the Department of State. Although likely to retain the name "Department of State" because of its historical prominence, the model we propose is not the existing Department of State. We refer to it as the "International Affairs Department" because it entails a radical restructuring and so that it is not confused with the State-Integration option outlined above. In fact, unlike the merger option, it assumes that issues surrounding foreign assistance are symptomatic of larger areas of concern that have to do with policy creation in international affairs. The

Commissioners who support this option believe that the successful execution of development and other international affairs programs requires the reorganization of the entire community to address the following:

1. As discussed in Chapter Two, the U.S. Government's development efforts require an integrated approach. Supporters of the IAD believe that such an approach requires that development issues be managed, not only by a Cabinet-level department, but one with the political strength of the Departments of Defense, State, or Treasury. We feel that in order to improve overall operations in international affairs, of which development is a significant and important part, all international affairs implementers (at all organizational levels) must begin to work together in an environment where they can constructively and systematically work out their differences. When this becomes the norm, we believe the U.S. Government will be better positioned to meet all of its foreign policy goals.

2. The second-tier status of development in relation to diplomacy within the international affairs community leads supporters of IAD to believe that the 60 year-old model for the international affairs community — where diplomacy is housed at the Department of State with primacy over all other international affairs concerns located in "independent" agencies — is fundamentally flawed. We believe that significant structural steps must be taken to place development, and probably other international affairs functions, on par with diplomacy.

3. Supporters of the IAD believe that there is a disconnect between those who determine international affairs policy, including development policy, and those who are responsible for the implementation of these policies. The Commissioners in favor of the IAD model believe that the ability to set good policy is strengthened by implementation experience, preferably across multiple areas. Such experience makes the policymaker attuned to what is achievable and to what the challenges, complications, and limitations might be of different situations. Therefore, the personnel system of any reform should be changed to reward field and operational experience across multiple sectors.

The key components of the IAD address these beliefs as well as the principles recommended by all Commissioners in 6.1 and 6.2. They are outlined below.

Create Sub-Cabinet Departments Organized by Function

All existing organizations funded through the International Affairs Budget (the 150 account) would be organized by function and transformed into distinct sub-Cabinet departments. Each would be headed by a sub-Cabinet Secretary. This structure is analogous to the Department of Defense, where the Secretaries of the Army, Air Force, and Navy report to the Office of the Secretary.

This is not a simple aggregation of existing legacy organizations under one Secretary. Instead, *regardless of the organization in which they currently reside, functions would be grouped together in sub-Cabinet departments, and current duplication would be eliminated.* Although there are a number of ways that the sub-Cabinet Departments could be organized, those favoring the IAD propose the following:

- *Political and Security Affairs*: Manages state-to-state interactions (including traditional diplomacy) and promotes political reform, human rights, and security. Manages assistance intended for political or security impact, such as existing Economic Support Funds.
- *Economic Affairs, Development, and Trade*: Oversees U.S. activities involving economic affairs and works with willing states and societies to improve government functions; builds institutions, including sustainable health care systems; and helps create jobs and economic growth by focusing on activities that can be sustained over the long term.
- *Humanitarian Services and Stabilization*: Delivers humanitarian services in international environments to prevent and/or recover from violence, instability, and natural disasters; also provides health care and other services to alleviate the conditions of poverty.
- *Public Diplomacy and Consular Affairs*: Shows the face of America to the world through personal interaction, media and culture. Consular Affairs could also be placed within Political and Security Affairs, but was placed here because, like Public Diplomacy, it is focused on people-to-people interactions.

While those favoring the IAD prefer as much consolidation and integration as possible, they recognize that there might be organizations whose operations would exist outside of the sub-Cabinet Departments,

such as the Ex-Im Bank and Peace Corps. Even if some of these independent agencies were not consolidated into the sub-Cabinet Departments, they should report nonetheless to the person responsible for all international affairs operations and funding, the Secretary of the new IAD.

Significantly, the IAD approach would *align different funding accounts with the distinct sub-Cabinet Departments*. For example, the Economic Support Fund would be aligned with the Department of Political and Security Affairs, and Development Assistance would be aligned with the Department of Economics, Trade and Development. A firewall would be erected around each account. We believe this is particularly important to protect the long-term development funding and to address any concerns that development funding would be "borrowed" or "taken" for other purposes and priorities. Supporters of the IAD believe that restructuring accounts would more clearly align expectations and accountability with the purpose for which any program is designed. Too often, programs funded to achieve humanitarian or political goals are expected to achieve development goals. This can lead to the spending being labeled a failure (e.g. security assistance for Egypt or Pakistan). The IAD's separation of functions and alignment of functions and accounts is intended to reduce this confusion and introduce logical performance metrics to each sub-Cabinet Department. This is consistent with our recommendation in Chapter Three to rewrite the Foreign Assistance Act with a reduced, consolidated, and simplified account structure.

Integrate at the Regional Level

Alongside the sub-Cabinet Departments, the IAD would contain regional operational platforms covering the different areas of the world. Both operational regional platforms and embassies would be staffed by officers from each of the sub-Cabinet Departments on a rotating basis. Each sub-Cabinet Department would be represented in every region, and particular regions would call on IAD staff most appropriate to their challenges. Europe, for example, would likely draw more staff from the Department of Political and Security Affairs, while Africa would likely claim more staff from the Department of Humanitarian Services and Stabilization and from the Department of Economic Affairs, Development and Trade. Built on the lessons gleaned from promoting inter-service cooperation and preventing "stove-piping" through the Goldwater-Nichols Act, this team approach should lessen the adversarial relationships that sometimes exist among functions today.

Each regional platform would be headed by a Regional Assistant Secretary. Ambassadors would report through these platforms as they do today and continue to be the representative of the President and the Officer-in-Charge of all U.S. Government activities in the country. Staff who are posted to a region or an embassy would report to their Regional Assistant Secretary and/or Ambassador, and not to their sub-Cabinet Secretary. Regions would be defined by the National Security Council and would likely have the same definition for both the IAD and DoD. We believe this would promote collaboration between IAD regional teams and DoD combatant commands for each region. The Commissioners supporting IAD suggest that consideration be given to locating each regional platform outside Washington and close to its actual area of responsibility.

Train Across Different Areas to Gain Broad Expertise

Training staff across sub-Cabinet Departments is an essential part of this model: political officers should get experience in humanitarian relief, and those trained in security should understand development. Thus, any official who was appointed an Ambassador or to other senior leadership positions would be required to have spent time training in a different civilian international affairs function. Similarly, officials from all sub-Cabinet Departments would have opportunities to study several areas of expertise and be promoted into advanced positions. This is a key component of the model: professionals from the development or humanitarian sub-Cabinet Departments would have an excellent chance to become an ambassador to a developing country after having spent some time cross-training in political affairs or public diplomacy. Similarly, career ambassadors whose primary training is in political affairs would have had to have spent some time cross-training in the areas of public diplomacy, development or humanitarian relief. No single sub-Cabinet Department should be permitted to dominate leadership positions within the Office of the Secretary, the regional platforms, or in countries, especially during the initial implementation period. Maintaining balanced representation is necessary to ensure an integrated approach to international affairs.

Articulate the Vision through the Office of the Secretary

The Office of the Secretary is the nexus of the IAD and spans all of the U.S. Government's international affairs functions. Functions in this office would include strategy, policy, planning, budgeting, management,

intelligence, Congressional relations, research, and media. This office would be staffed by political appointees, career civil servants, and staff on assignment from the sub-Cabinet Departments, who ideally would have experience across the different sub-Cabinet Departments. The Office of the Secretary would also run a unified planning, budgeting, and evaluation system that would allow for integrated, long-range planning, further described in Chapter Seven. Most importantly, until the sub-Cabinet Departments are successfully collaborating, the Office of the Secretary would need to pay careful attention during the transition to ensure that one sub-Cabinet Department does not come to dominate any other.

Supporters of this option believe *the IAD provides both the advantages of an independent department and the benefit of residing within the most senior Cabinet department in the U.S. Government*. They believe it accomplishes this by preserving the integrity of development while increasing its importance in overall foreign policy. It does so in the following ways:

1. Each of the sub-Cabinet Departments offers a safe and stable environment for the respective international affairs functions to continue to develop and strengthen their own profession. The proposed sub-Cabinet Departments are grouped so that they are inhabited by people of similar cultures. Furthermore, each Department will have its own style of performance metrics.
2. Well-trained representatives from each of the different international affairs functions have equal access to leadership positions throughout the Department. Further, these leaders are cross-trained in different functions in order to better understand the work of their peers.
3. The creation of a clear chain of command, from the country team to the regional platforms to the Office of the Secretary, and the staffing of all these units with people from each of the different sub-Cabinet Departments, provides a system where each of the different functions should be able to work out their differences constructively. IAD supporters believe the development view (as well as those of other functions) will be well heard across the department, not just at senior levels.
4. Instead of each separate organization fighting for a bigger share of the international affairs budget, we believe these organizations would be united by a common vision and strategy and thus work together to seek appropriate funding levels.
5. We believe that the size of this new department — $37.5 billion for all international affairs compared to $12.6 billion for USAID alone and

$13.3 billion for State alone (in FY 2005) — combined with the stature of the Department of State within the Executive branch, would allow it to compete more effectively for resources.

6. Further, we believe that if development officials have appropriate influence over the policy-making process, the stature of the Secretary of the International Affairs Department (State) would provide more effective representation in the interagency process for development concerns than other options. Alternative structures might give development officials more flexibility in expressing their views, but supporters of the IAD believe they will have significantly less stature.

The IAD was designed using organizational lessons learned from the Department of Defense. When DoD was created in 1947, the different branches of armed services were not asked to change their unique cultures. Due to lack of coordination, the organizational structure was subsequently changed to require them to work together in an integrated fashion via the Goldwater-Nichols reforms. Our intent is similar: to enable all levels of the organization to interact regularly and to work out competing demands. While adherents of this option support the recommended NSC coordination mechanism, they also believe that through this structure, many other issues will not have to rise to the NSC level. Those items, we believe, can best be worked out when all parties are under a single roof.

The Commissioners favoring the IAD believe that it would strengthen development rather than isolate it. Supporters of the IAD believe that the British experience with DFID is not necessarily comparable because the British parliamentary system is very different from our nation's governmental system.

All Commissioners recognize the importance of ensuring that development and humanitarian priorities are not made secondary to other foreign policy priorities in the planning process. While recognizing this concern, those who favor the IAD believe that a more important issue is the need for strong planning, budgeting, and evaluation capability to set and achieve a long-range strategic vision for both foreign assistance and foreign policy. Accordingly, a core capability of the IAD is such a unified system (discussed in more detail in Chapter Seven) which can be implemented without needing frequent White House coordination or having development and humanitarian priorities made secondary in the planning process to other foreign policy priorities.

Commissioners supporting the IAD believe it is the best option to marshal the tools needed to compete in today's world. They believe that this approach embodies the concepts espoused by Secretary of Defense Robert Gates when he said in a speech at Kansas State University:

> My message is that if we are to meet the myriad challenges around the world in the coming decades, this country must strengthen other important elements of national power both institutionally and financially, and create the capability to integrate and apply all of the elements of national power to problems and challenges abroad. In short…, I am here to make the case for strengthening our capacity to use "soft" power and for better integrating it with "hard" power.

The Commissioners in favor of IAD recognize that this is a bold option and one that some might believe is beyond the Commission's purview. While practical consideration of this option requires rigorous research, analysis and debate, a majority of Commissioners believe that it is worth the time and effort required. It is our belief that this new organization embodies a new approach. Make no mistake; we acknowledge the significant and numerous challenges that would be faced in its implementation. However, we believe that a new approach — which both emphasizes the strengths of the different core disciplines and brings them together — is needed for this new era.

6.4 It is Time to Change

Commissioners believe that piecemeal structural changes will not fix existing problems and will not prepare our nation's international affairs agencies for the challenges America faces. Comprehensive structural changes are needed.

We understand that implementing any of the three structural options outlined above would be difficult and time-consuming. But the imperative for this kind of change far outweighs the challenges of its implementation. Of the three, putting in place every aspect of the IAD might be the most disruptive to every day business. We acknowledge that for any of the three options to succeed, leadership, and goodwill at the

highest levels of the government, from both the White House and the Congress, would be necessary to implement such a far-reaching change.

A failure to act leaves a vacuum at a time when development assistance must be improved. If no other solution is found, the result might well be the continued migration of duties to the Department of Defense, despite its stated preference not to be heavily involved in such matters. In a November 2007 speech, Secretary of Defense Robert Gates said much the same: "…[U]ntil our government decides to plus up our civilian agencies like the Agency for International Development, Army soldiers can expect to be tasked with reviving public services, rebuilding infrastructure, and promoting good governance."

The HELP Commission believes that a new era with new challenges demands a fresh structural approach to foreign assistance. *The U.S. Government simply cannot repair what must be fixed without taking on a significant challenge that requires commensurate effort from the Executive and Legislative branches. There is no dispute: our current system has been broken for decades.* Now is the time to do something new, something effective, and something enduring.

Chapter 7: Base Funding on Long-Term Strategy

Commissioners have different views of the timing and magnitude of potential increases in funding. All support increased funding for disaster relief and other humanitarian needs when called for. All Commissioners believe that all other types of funding should be increased, but under varying conditions. The majority recommends that increases in funding should come along with implementation of major reforms such as those set forth in this report; some believe that our nation should see measurable evidence of success prior to increasing funding; and some believe that such increases are warranted regardless.

The late Congresswoman Jennifer Dunn, a member of the HELP Commission, captured the views of many Commissioners when she had this to say about American funding of foreign assistance:

"Let's prioritize U.S. funds properly and restructure the process, establish greater collaboration, and then evaluate the need for increased funding to support the program. If these recommendations are enacted, the funding level should be increased in order to support the new process."

7.1 Recognize America's Current Commitment to Foreign Assistance

From 2001 to 2006, the U.S. Government increased its net Official Development Assistance (ODA) from $9.581 billion to $22.739 billion. In terms of net amount, the U.S. Government is the largest provider of ODA, providing approximately $11 billion more than the next largest donor, which is Japan. Measured as a percentage of Gross National Income (GNI), the percentage of funds devoted to ODA by the United States has risen from 0.11 percent in 2001 to 0.17 percent in 2006. Some Commissioners believe that this percentage, relative to the size of our GNI, should be greater.

7.2 Base Funding on Needs

As with the ODA/GNI percentage calculation, many donor countries believe that development and humanitarian assistance should be based on the respective national wealth of each contributing country.[6] While sympathetic to increasing ODA, most Commissioners reject the practice

of basing funding on targets related to national wealth. Those Commissioners believe that this approach overemphasizes the ability of donor countries to contribute rather than focusing on the true needs of the recipient countries. Further, such formulas usually account for only ODA and ignore substantial contributions that fall outside this definition, such as diplomatic interventions, security arrangements, and trade allowances.[7]

Subject to the timing and magnitude criteria previously described in this chapter, the majority of Commissioners believe that our government should invest more in development and humanitarian efforts.

7.3 Provide Funds Based on Strategy

Determining the right amount to invest in our foreign humanitarian and development efforts is a complex and sometimes controversial undertaking. Our funding must be based on a clear vision of the U.S. Government's intentions for helping each developing country. The Commission believes that funding determinations are best made on the basis of strategic considerations, some of which might include:

- What are the countries' plans for helping their people?
- What are other actors, including bilateral donors, multilateral institutions, the private sector, and philanthropies, doing to help?
- What is our nation's comparative advantage in helping these countries?
- What are the best areas in which to focus our efforts: education, maternal and child health, HIV/AIDS, malaria and tuberculosis, infrastructure, good governance, or others, and what levels of funding are needed in these areas?

Therefore, the HELP Commission recommends that the Executive and Legislative branches, working together:

- **Recommendation:** Make realistic decisions on a country-by-country or region-by-region basis about strategic conditions; establish achievable goals for U.S. Government assistance to each developing country; and determine the cost of achieving these goals based on a long-term commitment with the partner countries.

This is quite different from the current disconnect between goals (which might or might not be supported by the Congress, and which might

change from administration to administration) and funding levels (which are largely determined by current budget resources and which might change based on diplomatic requirements and are often based on a currently favored sector).

7.4 Make Promises We Can Keep

The U.S. Government historically has made a number of very significant commitments to fund development efforts. For example, President Bush has reaffirmed the long-standing U.S. support of the Millennium Development Goals. The United States, when making international commitments, should be prepared to remain committed to those obligations for the duration.

- **Recommendation**: Honor the U.S. Government's long-term commitments to international development goals and make only those commitments the U.S. is prepared to honor.

The majority of Commissioners support funding programs that focus, as much as possible, on achieving very specific goals. While imperfect, specific goals provide tangible benchmarks that help create the momentum to achieve U.S. Government foreign assistance objectives and more consistent funding. One of the best examples of a successful program with concrete goals is PEPFAR.

7.5 Consider Government Contributions beyond ODA and the Importance of Private Giving

In determining and assessing the appropriate level of U.S. Government contributions to foreign assistance, it is vital also to assess both the government's direct and indirect contributions to assistance beyond ODA and the increasing importance and magnitude of private giving.

U.S. Government contributions to the development of low-income regions cannot be measured solely by ODA. The government also makes very substantial contributions — in some cases uniquely among the developed countries — through: its support of an international economic structure that encourages free trade and free international financial flows; its global defense commitments, that, *inter alia,* reduce risks and enhance security for market-based development in the world economy; and its indirect subsidization of philanthropy through tax policies. The Center for Global Development rates 21 developed countries on how much they

help poor countries build prosperity, create good government, and promote security. Of the seven critical policy areas they evaluate, the United States scores well in trade, investment, and security.

Also not included in ODA, American multinational corporations, non-governmental organizations, faith-based institutions, and universities are substantially engaged in assisting the developing world through charitable giving and through development activities, which used to be the main sphere of the U.S. Government. And since many of these contributions are deductible from revenue for federal income tax purposes, they represent an indirect but material contribution by the U.S. Government to foreign assistance.

Although the precise amounts of foreign assistance philanthropy are not fully known, the methodologies have improved substantially to measure it, and these amounts are significant. The Office of Global Development Alliance of USAID has prepared a report providing estimates which show a sharp and substantial increase in philanthropic giving.[8] Another source, the Hudson Institute's *Index of Global Philanthropy* has provided higher estimates for philanthropic giving.[9]

- **Recommendation:** Develop strategies that better acknowledge and include the impacts from these very substantial private sector activities in developing countries. Create opportunities for the U.S. Government to invest in and partner with emerging local organizations and businesses in developing countries.

For further discussion of the leveraging of private resources by the U.S. Government, see Chapter Five.

7.6 Create a Unified Policy, Budgeting, and Evaluation System

To generate effective development and humanitarian programs and the support to fund them, we believe our nation must take the following five steps:

1. Develop a clear picture of the circumstances that cause poverty in each country, driven by a local assessment of the country's own Poverty Reduction Strategy Papers (PRSP), and by an assessment of our nation's ability to work with the country to address these issues. Produce Country Development Estimates based on this input.

2. Create a coherent long-term strategy that acknowledges conditions in each region and country and sets forth specific and realistic development targets that Americans can support.
3. Formulate budgets based on our nation's strategy and desired level of effort, the country's commitment, and other donor activities.
4. Monitor our government's efforts, evaluate their impact, and feed this knowledge back into the management and resource allocation processes.
5. Commit to funding these plans over the long term, in concert with the Congress.

- **Recommendation:** Create an integrated policy, budgeting, and evaluation system for civilian foreign affairs to unify and integrate our nation's approach to strategy, budgeting, programming, and evaluation.

No such system exists today within the Department of State or USAID, nor does one span the dozens of other government organizations now involved in foreign assistance. Such a system would consolidate the functions from the existing State Department Policy Planning, Resource Management, and Director of Foreign Assistance offices into a single, integrated office, expanded in scope to cover all international affairs spending. These steps are discussed in greater depth below.

7.6-1 Step 1: Produce Country Development Estimates

- **Recommendation**: Produce a Country Development Estimate (CDE) for each country assisted by the United States as a collaborative effort between the U.S. and recipient governments. Draw on the PRSP, which is already prepared by the host country in conjunction with the IMF and the World Bank,[10] in order to reduce the burden on the partner country. Consider aid recipients' relationships with other bilateral and multilateral donors as the CDE is developed.

  Include information in the CDE on a variety of important factors such as policies, infrastructure, education, healthcare, quality of governance, security, political leadership, macroeconomic conditions, business environment, natural resource and geographic endowments, trade position, and geopolitical position.

Phase this procedure in over a five-year period. Produce a CDE for all countries once every five years, or when a major event occurs, in order to maintain relevance. Extend these estimates over a combined 20-year horizon.

Throughout this process, the U.S. Government must rely on all tools of government, not merely assistance, to figure out what it can do or promote. Our nation should start by considering the particular needs of each country before assessing the extent to which it is in America's national interest. Our government must put in perspective the challenges of helping any state develop, with the understanding that our effectiveness is limited by the political and social climate of that partner state. Further, our nation must understand that U.S. Government assistance will have to focus on achieving specific objectives in each country.

As a result, the U.S. Government plan should determine not only the appropriate level of assistance, but also should set forth a comprehensive set of actions to mobilize the necessary resources across and beyond the U.S. Government. These should include security, trade, investment promotion, diplomacy and public diplomacy.

7.6-2 Step 2: Determine Specific Development Assistance Goals

Although our government has supported many specific poverty-reduction initiatives, neither the Executive and Legislative branches nor the American people embrace a common vision for how to help countries attack global poverty. Our nation has no apparent overriding common goal, as it did in Europe with the Marshall Plan, to help struggling states develop working economies and build stable societies. Currently, no coherent strategy exists to achieve even the Millennium Development Goals. On the basis of the "art of the possible" as defined in the CDEs, and in collaboration with other bilateral, multilateral, and private actors, the U.S. Government should lay out clear and coherent development and humanitarian assistance goals within its overall foreign policy.

The Commission believes that civilian foreign affairs would be well-served by imposing the standard of rigor to our nation's foreign assistance planning that we demand in formulating the nation's security and defense policies. These security policies are guided by long-term strategies, developed by the Executive branch, and presented regularly to the Legislative branch.

- **Recommendation:** Create two new strategy documents, in addition to the existing National Security Strategy (NSS), that will articulate our nation's development and humanitarian goals in a comparable formal process.

The new strategy documents recommended by the Commission are:

1. **National International Affairs Strategy (NIAS)**: A derivative document of the National Security Strategy, this new document would further elaborate U.S. international affairs objectives on both global and regional levels as well as on a country by country basis. It would also outline government-wide capabilities and assistance needed to achieve these objectives. This strategy would cover all efforts funded by the International Affairs (150) budget function.

2. **Quadrennial Development and Humanitarian Assistance Review (QDHR)**: Given their complexity, U.S. development efforts should be reviewed every four years to evaluate their effectiveness. This review should propose any needed changes to U.S. objectives and to how the government approaches them. The contents of this document should influence both the NSS and NIAS and should be modeled on the Quadrennial Defense Review. Reviews might also be conducted for other functions of civilian foreign affairs.

Each individual embassy's Mission Performance Plans (MPPs) should work to implement these objectives in a specific country, and should be expanded to cover all international affairs activities in a country.

7.6-3 Step 3: Improve Budget Formulation

The documents described above should inform the budget process, which should be further improved by the steps outlined below.

- **Recommendation:** Create a Unified National Security Budget that includes both the Defense and International Affairs budget functions.

A unified National Security budget could be one way to improve budget formulations. This would especially be true if an agreed-upon proportion

of the unified budget were spent on the International Affairs function. Currently, civilian foreign affairs resources represent approximately five percent of the combined Defense and International Affairs Accounts. Although most of us believe that this percentage should be higher — and many of us believe that it should be as high as ten percent — we agree that the precise amount must be an outcome of the process described above.

Secretary of Defense Robert Gates said in November 2007, "Funding for non-military foreign-affairs programs has increased since 2001, but it remains disproportionately small relative to what we spend on the military and to the importance of such capabilities." He went on to say, "What is clear to me is that there is a need for a dramatic increase in spending on the civilian instruments of national security — diplomacy, strategic communications, foreign assistance, civic action, and economic reconstruction and development.…We must focus our energies beyond the guns and steel of the military….We must also focus our energies on the other elements of national power that will be so crucial in the coming years."

Unifying the National Security budget and increasing the foreign policy portion of it would be a prudent use of resources. Indeed, an integrated approach to foreign affairs would require a unified national security budget that in turn would subject both defense and civilian instruments to the same disciplined oversight. This would enable Congress to vote for America's "smart power" goals in the same budget as our country's "hard power" goals. Similarly, at great savings and benefit to the country, this approach would put more resources to work to prevent or solve crises before they explode into full-blown emergencies requiring expensive military involvement.

- **Recommendation**: Provide National Security Guidance through a mandatory process to implement strategy through a biennial National Security Planning Guidance.

Just as a unified planning process is needed for civilian international affairs, such an approach is also essential for effective coordination. This would likely mean establishing a mandatory process to implement strategy through a biennial National Security Planning Guidance (NSPG). This classified guidance, provided by NSC and OMB with the participation of other agencies involved in national security, would focus on U.S. national security priorities. It would fill gaps and eliminate overlapping program

coverage while directing agencies to emphasize certain activities and programs over others. In addition, a joint exercise with strategy and policy designers and budgetary enforcers would ensure that agencies focus on the most important activities and coordinate them effectively. Also, because it would be enshrined in law, this reform would be less susceptible to the vagaries of any particular administration, as Congress would have oversight vis-à-vis changes to it. In spite of some weaknesses, the Pentagon's Planning, Programming, Budgeting and Execution System (PPBES) works because it survives the variations among administrations.

7.6-4 Step 4: Enhance Feedback through Continual Monitoring and Evaluation

Sixty years of foreign assistance have taught us much about what works and what does not work to generate development. However, the systems our government uses to evaluate development and humanitarian assistance programs are either in disarray or do not exist. Current systems tend to focus more on outputs, such as counting how many books are delivered to a school, rather than on outcomes, such as measuring how many children can actually read. Indeed, out of 26,285 impact evaluations that USAID conducted between 1996 and 2005, only 30 measured the impact of projects. Everyone to whom members of the Commission spoke about monitoring and evaluation expressed concern about the inadequacy of the existing process.

The Commission recognizes the vital need for timely and on-going performance evaluations of all foreign assistance programs. Some programs that promote political and social transformation defy easy measurement, but the Commission believes that the investment of taxpayer dollars must be effectively monitored and that progress toward defined outcomes needs to be clear to all stakeholders. Accurate evaluation and measurement allow the creation of institutional knowledge of what works and what does not. They will also enable adjustments to be timely while programs are still in effect.

The HELP Commission recommends that the U.S. Government:

- **Recommendation:** Reestablish an independent Office of Monitoring and Evaluation (OME) within the agency responsible for U.S. foreign assistance operations and provide it with sufficient funding to monitor and evaluate performance. Make this independent office accountable to Congress as well as to the Executive branch.

- **Recommendation:** Harmonize the reporting formats, benchmarks, and frequencies of the various government entities providing development or humanitarian assistance to eliminate unreasonable burdens on foreign assistance recipients.

- **Recommendation:** Collaborate with other donors throughout the world to adopt the good donor initiatives that have been established through multilateral agreements.

- **Recommendation:** Adopt best practices in monitoring and evaluation by working closely with the private sector, educational institutions, cooperatives, private voluntary organizations, and NGOs.

- **Recommendation:** Ensure that evaluation strategies rely as much as possible on control groups and randomization, particularly as project settings become more mature and rich with data.

- **Recommendation:** Consider new ways evaluators can assess projects, including using professional associations or accreditation agencies.

- **Recommendation:** Build, in collaboration with other bilateral and multilateral donors, the capacities of recipient governments to create and report on reliable baseline data.

7.6-5 Step 5: Work Closely with Congress to Improve the Funding Process

The Commission strongly believes that up-front Congressional support for the foreign assistance funding process is critical if the United States is to achieve its long-term goals. At every point in the process, the Legislative branch must be involved in: concurring with the long-term vision set out by the Executive branch; agreeing to fund the programs that fit the strategy; monitoring progress toward achieving the vision; and continuing to fund those programs that are achieving results and successfully fulfilling the mission. *An integrated government commitment to fund development goals over the long term must be shared not only by the top officials of the aid agency and the State Department, but also by the President and by the leadership of both parties of the House and Senate.*

7.7 Spend Enough to Achieve America's Goals

This report recommends many changes to our nation's current foreign assistance programs. If our nation carries them out, our national investment will be more effective and will allow the United States better to address vast global needs. Some of the specific recommendations that will require new funding include the following:

- Setting up a robust monitoring and evaluation system;
- Increasing support to small and medium-sized enterprises;
- Creating emergency response funds;
- Increasing development agency staff and their capabilities;
- Expanding funding for technology for developing countries;
- Increasing funding for public-private partnerships; and
- Strengthening the capacity to deal with new challenges posed by failed and failing states.

The HELP Commission recommends that funding decisions be based on country needs and be consistent over the long term. Until the United States determines what needs to be done, it cannot determine the overall cost, as host country resources and other donor efforts affect the U.S. share. In turn, inconsistent funding damages our nation's relationships with other countries and interferes with meaningful reform. When the United States withdraws or reduces its commitments prematurely, regardless of the logic of the explanation, it can hurt public perception of the United States as a donor, as well as harm the leaders of the recipient country.

The Commission believes that if assistance is delivered in a new business model based on real partnerships; if the assistance is demand driven; if it creates lasting institutions and human capabilities; and if impacts can be responsibly monitored and evaluated, then our government should increase assistance funding substantially. These funds should focus on increasing peoples' productivity and on rewarding recipient countries that take steps to open their markets, improve their governments, abide by the rule of law, respect property rights, and reduce corruption, so that they can move toward full integration into the global community.

In all cases, we understand that additional spending will create expanded expectations, and thus we acknowledge and believe in the need for heightened accountability to the American people, including high-quality

monitoring and evaluations communicated through increased public education and involvement.

To be clear, *no one is advocating an increase in funding simply to preserve the status quo.* The HELP Commission's recommendation to boost funding is based on the assumption that more money would be applied to better programs and to supporting developing countries' own commitments to reform. The Commission believes that our nation's institutions can indeed perform better. In the end, the Commission's funding recommendation emerged from our desire to strike a balance between looking at past failures realistically and developing a hopeful and intelligent vision for the future.

President Bush said in a speech to the United Nations in September 2007,

> …we can build a world where people are free to speak, assemble, and worship as they wish; a world where children in every nation grow up healthy, get a decent education, and look to the future with hope; a world where opportunity crosses every border. America will lead toward this vision where all are created equal, and free to pursue their dreams. This is the founding conviction of my country…. And with our determination, it can be the future of our world.

It is incumbent on Americans to recognize the duty we owe to the world, and to ourselves. *Blind to partisanship, we unanimously believe in investing today to help those in the developing world improve their lives and fully participate in building a more stable and prosperous world.*

Chapter 8: Reform is Needed Now

Over the past 45 years, many exceptional groups have produced sound and creative recommendations for reforming U.S. development and humanitarian programs. The HELP Commission has benefited greatly from this work and has drawn from these reports in making our own recommendations for change.

The Peterson and Carlucci Commissions created powerful work that sought to make better use of our nation's foreign aid during the Cold War. The Wharton Report and Hamilton-Gilman Task Force offered proposals for reforming America's foreign assistance once the showdown ended with the Eastern bloc. Yet these proposals and initiatives have been largely ignored or only partly carried out.

More recently, the Bush Administration established, with the Congress, the Millennium Challenge Corporation (MCC) to link foreign aid to country performance. In addition, via a non-legislative initiative, the Administration started to coordinate the fragmented efforts of USAID and the State Department.

The HELP Commission believes that only when bold leadership is prepared to enact bold, enduring changes through legislation, can our nation fix the now long-standing problems. It must be grounded in policy agreement between the Executive and Legislative branches. It must elevate development in the foreign policy establishment. And it must create a new model for foreign aid that expands the tools available for use.

The development challenges our partner countries face today require the focus of the entire U.S. Government. They demand that the substantial efforts of private individuals and institutions be integrated into the delivery of foreign assistance. We urge our national leaders to concentrate the varied and powerful tools across our government institutions to help developing countries reduce poverty.

Our nation must confront these global challenges not only out of moral duty. Helping move the world's poorest into the global marketplace, working to eliminate preventable scourges, and bringing hope to those in despair also serves America's own national interest.

The following must guide our nation's reform efforts:

- Development is strategically important to our country to secure our nation, bolster our economy, and uphold our moral responsibilities.

- The world has changed since the last Foreign Assistance Act was written more than 45 years ago. Our programs, as well as the structures that manage the programs, have not kept pace.

- Foreign assistance by itself will not generate growth.

- Economic growth and jobs are needed to build long-term sustainable development. The key ingredients to sustainable economic growth are pro-growth policies and committed local leadership.

- Our nation must be willing to support the countries that make these necessary policy reforms. The United States needs to listen to its local partners, help them adapt to change, and measure to achieve real results.

- America needs an integrated, coherent approach to development assistance. Getting it right will require using a new model that involves the private sector and takes a comprehensive approach to development. This means implementing trade, investment, security measures, and public diplomacy and partnering with non-governmental actors and other donors.

- America needs a clear and common vision for development, shared by the Executive and Legislative branches of government. This shared vision must encompass the belief that development is truly on a par with defense and diplomacy, and both branches must work together to achieve it.

The HELP Commission acknowledges the challenges that other reformers have faced when it came time to implement their recommendations. The diverse opinions and countless vested interests in foreign assistance programs no doubt interfered with change. But we believe that our country cannot wait any longer for genuine and far-reaching reform. Our nation's approach to development and humanitarian crises must change.

The Commission believes that the international system today is going through a dramatic re-ordering that rivals the period after each World War in its potential for opportunity and danger. Our experience after World War I should show us what can happen when we ignore potential threats. Just as President Truman and the Congress made changes after World War II to strengthen our collective ability to face new challenges, so too must our leaders now take bold action. Our nation must take the right steps today to keep us from facing greater costs and more pernicious dangers in the future.

Former Secretary of State George C. Marshall asserted sixty years ago in his speech announcing the Marshall Plan:

> Aside from the demoralizing effect on the world at large and the possibilities of disturbances arising as a result of the desperation of the people concerned, the consequences to the economy of the United States should be apparent to all. It is logical that the United States should do whatever it is able to do to assist in the return of normal economic health in the world, without which there can be no political stability and no assured peace. Our policy is directed not against any country or doctrine but against hunger, poverty, desperation, and chaos. Its purpose should be the revival of a working economy in the world so as to permit the emergence of political and social conditions in which free institutions can exist. Such assistance, I am convinced, must not be on a piecemeal basis as various crises develop. Any assistance that this Government may render in the future should provide a cure rather than a mere palliative.

Although the goal of the Marshall Plan — to rebuild Europe — was very different from today's challenge, it offers some lessons. After World War II, the United States determined that it was in its own national interest that Europe be restored to its former place in the world. We understood that our own prosperity was dependent on a restoration of Europe's economy.

Our nation's efforts succeeded because we worked with willing countries and mobilized four integrated and powerful tools which were all necessary for success: aid; enlightened trade policies, including an authoritative new trade agreement and the reversal of trade barriers; support for democracy and good governance; and security. The HELP Commission believes that

eliminating extreme poverty and promoting development in poor countries is, like the reconstruction of Europe, in America's own national interest.

The Marshall Plan was funded at a level that was sufficient to achieve its objectives because Americans were serious about helping Europe rebuild. Today, America is asking the developing countries to take difficult steps and to be serious about their own growth. We are asking them to reform their governments, to win the battle against corruption, and to commit to democratic principles. We are asking the leaders of our partner countries to show commitment and provide accountability and principled responsibility.

In return, the United States must decide to be serious about reforming our foreign assistance. The Commission knows that we need to involve all of the government in a coordinated, coherent, strategic approach. We know that the President, the Congress, and the American people must commit to a common vision of a better world. We must be willing to put in place the policies and programs that reflect the world today, by reaching out to the private sector and capitalizing on its strengths. And we must be willing to commit the resources to help the developing world achieve more rapid economic and social progress.

If our nation takes such bold steps, it increases the prospects for those brave people in the developing world who are fighting for a better life for their children. For in the end, a better life for those children means a better world for everyone.

Endnotes

[1] This number refers to the entities that disburse Official Development Assistance. In Calendar Year 2006 These entities were: Departments of Agriculture, Commerce, Defense, Energy, Health and Human Services, Justice, Labor, State, the Interior, and the Treasury, and the following independent agencies: African Development Foundation, Environmental Protection Agency, Export-Import Bank, Inter-American Foundation, Millennium Challenge Corporation, Open World Leadership Program, Peace Corps, Trade and Development Agency, U.S. Agency for International Development, and U.S. Institute for Peace. In some years they are joined by other departments and agencies.
[2] See Appendix 7 for more information on the strategic planning exercise
[3] See Appendix 9 for an elaboration on the dynamics of change, endorsed by some Commissioners.
[4] See Appendix 9 for an elaboration on the procurement and grant functions, endorsed by some Commissioners.
[5] According to the PEPFAR website, the New Partners Initiative "includes a competitive process for $200 million in grants" for organizations that "have the capability to reach people who need HIV/AIDS services, but which lack experience in working with the U.S. Government and its processes. Community and faith-based organizations, in particular, represent vital but underutilized resources. Many such organizations are well-established within communities and well-placed to reach out to those infected and affected by HIV/AIDS."
[6] The original target of .7% of GNP was first articulated by the UN General Assembly in 1970 and refers to the target as a calculation of ODA (see definition in footnote 8 above. United Nations General Assembly Resolution 2626: International Development Strategy for the Second United Nations Development Decade, 24 October, 1970, page 43. Link available at: http://www.un.org/documents/ga/res/25/ares25.htm
[7] The OECD's Development Assistance Committee (DAC) defines ODA as: "Grants or Loans to countries and territories on Part I of the DAC List of Aid Recipients (developing countries) which are: (a) undertaken by the official sector; (b) with promotion of economic development and welfare as the main objective; (c) at concessional financial terms [if a loan, having a Grant Element (q.v.) of at least 25 per cent]. In addition to financial flows, Technical Co-operation (q.v.) is included in aid. Grants, Loans and credits for military purposes are excluded. For the treatment of the forgiveness of Loans originally extended for military purposes, see Notes on Definitions and Measurement below. Transfer payments to private individuals (e.g. pensions, reparations or insurance payouts) are in general not counted." DAC's Glossary, Development Cooperation Directorate-DAC. Link available at: http://www.oecd.org/glossary/0,3414,en_2649_33721_1965693_1_1_1_1,00.html#1965586
[8] USAID,"Guide to the 2005 Resource Flows Analysis; USAID Global Development Alliance, June 2007 http://www.usaid.gov/our_work/global_partnerships/gda/pie_analysis.pdf
[9] "The Index of Global Philanthropy, 2007" Center for Global Prosperity, the Hudson Institute, Pages 18-23: http://gpr.hudson.org/files/publications/IndexGlobalPhilanthropy2007.pdf

- $13.4 billion from private voluntary organizations;
- $2.8 billion in volunteer time
- $5.4 billion from faith-based groups;
- $4.6 billion from universities and colleges;
- $2.2 billion from U.S. foundations; and
- $5.1 billion from American corporations.
- $61.7 billion from individual remittances

APPENDIX 1: Members of the HELP Commission

The Honorable Mary K. Bush, Chairman

Mary K. Bush has served three U.S. Presidents — as the U.S. Government's representative on the IMF Board, head of the Federal Home Loan Bank System, and Board member of Sallie Mae. She has led the creation of ground-breaking financial transactions in the private capital markets — for Fannie Mae and several Fortune 500 companies — and at the IMF — the Structural Adjustment Facility (the SAF, later called ESAF). Since 1991, Ms. Bush has been President of Bush International, LLC, and she currently serves on the boards of United Airlines, Discover Financial Services, ManTech International, Briggs & Stratton, Private Export Funding Corporation, and the Pioneer Family of Mutual Funds.

The Honorable Carol C. Adelman, Vice Chairman

Carol Adelman is a senior fellow and director of Hudson Institute's Center for Global Prosperity, where she publishes the annual *Index of Global Philanthropy,* the first comprehensive guide to philanthropic flows to developing countries. Adelman served as a Presidential appointee at USAID, heading U.S. foreign aid programs to Asia, the Middle East, and Central and Eastern Europe when the Wall fell. She is currently the Vice Chair of USAID's Advisory Committee on Voluntary Foreign Aid, a Vice Chair of the Atlantic Council, member of the Council on Foreign Relations, and is a frequent commentator and writer on global development issues in the national media.

Leo Hindery, Jr., Vice Chairman

Leo Hindery, Jr. is currently Managing Partner of InterMedia Partners. He is an Executive-in-Residence at Columbia Business School, a member of the Board of Advisors at Columbia School of Journalism, a member of the Council on Foreign Relations, and the author of two books. Mr. Hindery founded the YES Network and served as its Chairman and CEO until 2004. Prior to that he served as President of Tele-Communications, Inc. (TCI) and CEO of AT&T Broadband.

Steven K. Berry, Esq.

Steve Berry is executive vice president for government and consumer affairs at the Direct Marketing Association. Previously, he was President of Steven K. Berry, LLC and a consultant to The Livingston Group. Mr. Berry has an extensive background in government service and has held such positions as Republican Chief of Staff for the House Foreign Affairs Committee; Assistant Secretary of State for Legislative Affairs, Department of State; and Chief Counsel and Director of International Operations and European Affairs for the Senate Foreign Relations Committee.

Jerome F. Climer

Jerome F. Climer was President of both the Congressional Institute, Inc. and the Public Governance Institute, Inc. at the time of his appointment. Mr. Climer's experience in public administration began in the late '60s and early '70s, when he served as Assistant to the Secretary of Agriculture. He also served as Chief of Staff to Congressman Ed Bethune of Arkansas and later as a member of the U.S. House Republican Leadership staff.

Congresswoman Jennifer Dunn

The HELP Commission deeply regrets the passing of their friend and colleague Jennifer Dunn.

Jennifer Dunn was a Member of Congress from Washington State (1993–2005) where she became the highest ranking woman in the House of Representatives when she was elected Vice Chair of the House Republican Conference. She represented both the Reagan and Bush Administrations at meetings of the U.N. Commission on the Status of Women and traveled extensively during her time in office. Most recently, she was employed as a senior advisor in DLA Piper Rudnick Gray Cary's Government Affairs practice group specializing in issues relating to tax, trade, and homeland security.

Dr. Nicholas N. Eberstadt

Dr. Nicholas Eberstadt holds the Henry Wendt Chair in Political Economy at the American Enterprise Institute and is Senior Advisor to the National Bureau of Asian Research. He frequently serves as a consultant for the U.S. Census

Bureau and other government organizations on such topics as demography, international development, and East Asian security. Dr. Eberstadt is a prolific author; he has published over 200 studies and articles in scholarly and popular journals and has written or edited over a dozen books.

Glenn E. Estess, Sr.

Glenn Estess was elected Chairman of the Rotary Foundation, one of many leadership roles he has held in the organization. Through his work with Rotary, Mr. Estess has visited numerous humanitarian aid programs around the world and he has received several awards for his distinguished service. Among other positions, Mr. Estess has served as chairman of the Baptist Health Systems, President of the Birmingham Sales and Marketing Club,and Director of the Better Business Bureau of Central Alabama.

Lynn C. Fritz

Lynn Fritz is the founder of Fritz Institute, a non-profit specializing in the application of processes and performance standards from the business world to humanitarian aid organizations. Until May 2001, Mr. Fritz was the Chairman and CEO of Fritz Companies. He serves on several boards, is a member of the World Economic Forum's Logistics and Transportation Governors, and is founder and member of WEF's Disaster Response Network.

Alonzo L. Fulgham (representative of the Administrator of USAID, who serves *ex-officio*)

Alonzo Fulgham is the Chief Operating Officer at USAID and serves as the USAID Administrator's representative for the HELP Commission. Mr. Fulgham is a member of the Senior Foreign Service. Most recently, he served as Mission Director in Afghanistan from June 2005 to July 2006. Prior to that, he served as the Director for South Asian Affairs in the Bureau for Asia and the Near East (ANE). Mr. Fulgham joined USAID in 1989 and was a Peace Corps Volunteer in Haiti from 1984-1986.

Benjamin K. Homan

Benjamin Homan has been the Chief Executive Officer of Food for the Hungry since 2001. He is a past President of the Association of Evangelical Relief and Development Organizations (AERDO) and a former Chairman of USAID's Advisory Committee on Voluntary Foreign Aid. Previously, Homan taught on the faculties of Chaffey College, Biola University, the University of Nebraska, and the University of California-Irvine, and served on boards of several businesses in the People's Republic of China.

The Honorable Walter H. Kansteiner III

Walter Kansteiner is a founding Principal of The Scowcroft Group. In addition to his business experience in emerging markets, Mr. Kansteiner served three years as Assistant Secretary of State for African Affairs and was the President's personal representative to the G8 Africa Process. He chairs the Africa Policy Advisory Panel, and serves on various private corporation boards in the U.S. and Africa.

Thomas C. Kleine, Esq.

Thomas C. Kleine, Esq., is a partner with the international law firm of Troutman Sanders LLP.
From 1996-1997, Mr. Kleine served as Chief Counsel to the United States Committee on Foreign Relations. Prior to his service to the Foreign Relations Committee, Mr. Kleine served as an Associate in what is now Troutman Sanders LLP. From 1989 to 1991, and periods from 1992-1994, he served as a Professional Staff Member for the Senate Foreign Relations Committee.

William C. Lane

William C. Lane is Washington Director for Governmental Affairs for Caterpillar. Mr. Lane is co-chair of the U.S. - Latin America Trade Coalition and the U.S. Global Leadership Campaign. Previously, Mr. Lane founded and chaired the USA Engage Coalition and helped lead the business advocacy efforts in support of the Australia and Chile Free Trade Agreements, as well as Trade Promotion Authority. Mr. Lane is an Adjunct Professor at the Elliott School of International Affairs at George Washington University.

Dr. Martin L. LaVor

Marty LaVor is a freelance photojournalist. Much of his international work has focused on under-developed countries experiencing famine, refugees, and related difficulties. Prior to becoming a photojournalist, Mr. LaVor held several senior staff positions in Congress, including Senior Professional for the House Education and Labor Committee; Senior

Professional for the Senate Committee on Aging; and Senior Consultant for the House Select Committee on Hunger.

C. Payne Lucas

C. Payne Lucas is chief executive officer of Lodestar, LLC, a domestic and international business consulting firm. In 1971, Mr. Lucas co-founded Africare, the oldest and largest African-American nonprofit organization specializing in aid to Africa. He served as its president until retiring in 2002. Mr. Lucas's service in the Peace Corps as an overseas representative began in 1971. He later went on to serve as director of the Africa Region and director of the returned volunteers for the organization. He is co-author of a book on the Peace Corps.

The Honorable Robert H. Michel

Robert Michel is Senior Advisor for Corporate and Governmental Affairs with Hogan & Hartson LLP. He joined the firm in 1995 after serving 38 years in Congress as the United States Representative from the 18th Congressional District of Illinois, including 14 years as House Republican Leader. He was elected to his first leadership position as Chairman of the Congressional Campaign Committee in 1972, and then served as Republican Party Whip from 1974 until he was elected House Republican Leader in 1980.

Eric G. Postel

Eric G. Postel is the founder of Pangaea Partners, an international investment banking and consulting company focusing on emerging markets. Mr. Postel served on the Sub-Saharan African Advisory Committee at the U.S. Eximbank in 1999-2000, the second year as Chairman. He is an active Board member for multiple organizations and an author of a number of professional articles. Mr. Postel also served as Vice President at Citibank in Tokyo and New York from 1983 to 1989.

Jeffrey D. Sachs

Jeffrey Sachs is Director of the Earth Institute, Quetelet Professor of Sustainable Development, and Professor of Health Policy and Management at Columbia University. He is also Special Advisor to United Nations Secretary-General Ban Ki-Moon. From 2002 to 2006, he was Director of the UN Millennium Project and Special Advisor to United Nations Secretary-General Kofi Annan on the Millennium Development Goals. Professor Sachs is a Research Associate of the National Bureau of Economic Research. He has been an advisor to the IMF, the World Bank, the OECD, the World Health Organization, and the UNDP, among other international agencies, and is the author of numerous books and articles.

Gayle E. Smith

Gayle Smith is a Senior Fellow at the Center for American Progress. She served as Special Assistant to the President and Senior Director for African Affairs at the National Security Council from 1998-2001, and as Senior Advisor to the Administrator and Chief of Staff of the U.S. Agency for International Development from 1994-1998. As a journalist, Ms. Smith was based in Africa for almost 20 years. She has also consulted for a wide range of NGOs, foundations, and governmental organizations.

David A. Williams

David Williams is president and CEO of the Make-A-Wish Foundation. Before joining the Make-A-Wish Foundation, Mr. Williams spent 10 years at Habitat for Humanity International, rising to executive vice president and chief operating officer there. Mr. Williams began his work in nonprofit leadership by serving as executive director of The Houston Food Bank for 11 years.

Appendix 2: The Writers Group

Mary K. Bush
Chairman

Leo Hindery, Jr.
Vice Chairman

Thomas C. Kleine, Esq.
Commissioner

William C. Lane
Commissioner

Eric G. Postel
Commissioner

Gayle E. Smith
Commissioner

Margot E. Machol
Chief of Staff

Linda Flanagan
Executive Editor

Wesley Wilson
Director of Policy Development

Larry Nowels
Consultant

APPENDIX 3: HELP Commission Staff

Margot E. Machol, Chief of Staff

HELP Commission Senior Staff

Thomas Briggs, Executive Director

Phil Christenson, Senior Advisor

Wesley Wilson, Director of Policy Development

HELP Commission Staff

Elizabeth Becton, Scheduler

Megan Blackburn, Policy Analyst

Christopher Fava, Management and Program Analyst

Melissa Griswold, Research Analyst

HELP Commission Part Time Staff

Linda Flanagan, Executive Editor

Larry Nowels, Consultant

Ellen Yount, Consultant

HELP Commission Former Staff

Catherine Cleland, Consultant
Liana del Papa, Research Analyst
Monica Dudas, Research Analyst
Christina Duffy, Executive Director
Bob Lester, Consultant
Cecily Mango, Advisor
Joseph Pegues, Consultant
Susan Raymond, Consultant
Jeffrey Spector, Consultant

HELP Commission Interns

Katharine Davis
Clare Gallager
Melike Harfouche
Anne Pacheco
Emily Prichard
O. Dillon Smith
Brittany Vasseur

APPENDIX 4: Study Tours by the HELP Commission

The members of the HELP Commission, in fulfilling their mandate to observe and analyze current and past US foreign assistance programs and recommend ways to improve them, traveled to 18 developing countries over a span of 10 months. These trips provided us with invaluable insight into the way foreign assistance works on the ground in a wide variety of situations. Meetings with USAID mission and Embassy personnel, private contractors and NGO workers in the field, government officials, and aid recipients greatly contributed to the Commission's final recommendations.

Countries Commissioners visited, in chronological order:

- Haiti — August 5-9, 2006
- Dominican Republic — August 9-13, 2006

- Honduras — October 16-19, 2006
- Colombia — October 19-24, 2006

- Egypt — January 7-11, 2007
- Jordan — January 11-15, 2007

- Sri Lanka — January 21-24, 2007
- India — January 24-25, 2007
- Pakistan — January 25-28, 2007

- Ethiopia — March 19-20, 2007
- Djibouti — March 20-23, 2007
- Kenya — March 23-26, 2007
- Uganda — March 26-28, 2007

- South Africa — May 5-7, 2007
- Malawi — May 7-9, 2007
- Mozambique — May 9-12, 2007

- Liberia — May 13-16, 2007
- Ghana — May 16-19, 2007

APPENDIX 5: HELP Commission Meetings

The HELP Commission officially convened on the following dates:

- February 22, 2006
- March 29, 2006
- April 24, 2006
- May 8, 2006
- June 8, 2006
- June 26-27, 2006
- July 31-August 1, 2006
- September 14-15, 2006
- October 5, 2006
- October 31-November 1, 2006
- November 29-30, 2006
- January 18-19, 2007
- February 8-9, 2007
- March 12, 2007
- April 25-26, 2007
- May 21-22, 2007
- June 26-27, 2007
- July 16-18, 2007
- September 19-20, 2007
- October 10, 2007

APPENDIX 6: Experts Consulted during official Commission meetings

Gordon Adams, Professor at George Washington University, April 25, 2007

John Ambler, Senior Vice President for Programs at Oxfam America, April 24, 2006

Paul Applegarth, former CEO of Millennium Challenge Corporation, February 8, 2007

Richard Armitage, former Deputy Secretary of State, March 7, 2006

J. Brian Atwood, former Administrator of USAID, May 8, 2006

Akhtar Badshah, Senior Director of Community Affairs for Microsoft, October 5, 2006

Joel Barkan, Senior Consultant on Governance in the Public Sector Reform Unit of the Africa Region at the World Bank, January 19, 2007

Thomas Barnett, Senior Managing Director of Enterra Solutions, LLP, January 18, 2007

David Beckmann, President of Bread for the World, April 26, 2007

François Bourguignon, Senior Vice President for Development Economics and Chief Economist at the World Bank, April 20, 2007

Lael Brainard, Vice President and Director of the Global Economy and Development Center at the Brookings Institute, April 24, 2006, January 18, 2007

Sam Brownback, U.S. Senator, June 8, 2006

Lisa Chiles, Deputy Assistant Administrator at the Bureau for Asia and the Near East at USAID, November 1, 2006

Paul F. Clayman, Minority Chief Counsel for the Senate Foreign Relations Committee, November 30, 2006

Robin Cleveland, former Counselor to former World Bank President Paul Wolfowitz, April 20, 2007

Paul Collier, Professor of Economics at Oxford University Economics Department and Director of the Centre for the Study of African Economies, September 28, 2007

Patrick M. Cronin, Senior Advisor at the International Institute for Strategic Studies, April 25, 2007

Nisha K. Desai, Democratic Clerk and Staff Director for the Foreign Operations Subcommittee on the Committee on Appropriations in the U.S. House of Representatives, November 30, 2006

Thomas C. Dawson II, former Director of the External Relations Department in the International Monetary Fund, November 30, 2006

Dirk Dijkerman, Chief Operating Officer in the Office of the Director of Foreign Assistance at the U.S. Department of State, October 31, 2006

William Easterly, Professor of Economics at New York University and Co-Director of NYU's Development Research Institute, June 26, 2006

David Eckerson, Chief Human Capital Officer at USAID, November 29, 2006

Michèle A. Flournoy, President of the Center for a New American Security, February 8, 2007

Christian J. Foster, Assistant Deputy Administrator for International Cooperation and Development at the U.S. Department of Agriculture's Foreign Agricultural Service, March 29, 2006

Edwin Futa, General Secretary of Rotary International, May 8, 2006

William H. Gates, Sr., Co-Chair of the Bill & Melinda Gates Foundation, October 5, 2006

Sam Gejdenson, former U.S. Congressman, April 25, 2007

Michael Gerson, Senior Fellow at the Council on Foreign Relations, January 18, 2007

Thomas R. Gibian, CEO of Emerging Markets Partnerships (EMP) Africa, July 31, 2006

Thomas Gibson, President of the Institute for SME Finance, July 31, 2006

Newt Gingrich, former Speaker of the House, July 10, 2006

Rachel Glennerster, Executive Director of the Abdul Latif Jameel Poverty Action Lab at the Massachusetts Institute of Technology, March 12, 2007

Robert Goldberg, Deputy Associate Director for International Affairs at the Office of Management and Budget, October 31, 2006

David Gordon, Director of Policy Planning at the U.S. Department of State, July 17, 2007

Andre Groenewald, First Secretary of the Socio-Economic Section at the Embassy of South Africa, February 8, 2007

Lawrence E. Harrison, Senior Research Fellow and Adjunct Lecturer at the Fletcher School at Tufts University, March 12, 2007

Karen Hughes, Under Secretary for Public Diplomacy and Public Affairs at the U.S. Department of State, March 16, 2007

Tamela Hultman, Co-founder, Chief Strategy and Content Officer, and Director of AllAfrica, June 27, 2007

Jennyfer Jones, acting Deputy Assistant Secretary of State for Foreign Assistance Programs and Budget, March 29, 2006

Craig Kennedy, President of the German Marshall Fund, June 26, 2006

Janet Kerley, former Team Leader for USAID's Initiative to Re-Vitalize Education, August 1, 2006

Mark Kirk, U.S. Congressman, June 8, 2006

Jim Kolbe, former U.S. Congressman, April 25, 2007

Stephen Krasner, former Director of Policy Planning at the U.S. Department of State, January 18, 2007

Christopher J. Lamb, Senior Research Fellow at the Institute for National Strategic Studies at the National Defense University, February 8, 2007

Carol Lancaster, Associate Professor and Director of the Mortara Center for International Studies at Georgetown University and former Deputy Administrator of USAID, June 26, 2006

Nancy Linborg, President of Mercy Corps, March 12, 2007

James Locher, former Assistant Secretary of Defense for Special Operations and Low-Intensity Conflict, January 19, 2007

Rudolph Lohmeyer, Senior Policy Analyst in the Office of Strategic and Performance Planning at the U.S. Department of State's Bureau of Resource Management, April 26, 2007

Clay Lowery, Assistant Secretary for International Affairs at the U.S. Department of the Treasury, November 30, 2006

Robert Mallett, Senior Vice President for Corporate Affairs for Pfizer Inc., June 26, 2006

Dale Mathias, Founder of GlobeVest, LLC, June 27, 2007

Dick McCall, Senior Vice President for Programs at Creative Associates International, Inc., January 18, 2007

David McCormick, Deputy National Security Advisor for International Economic Affairs at the National Security Council, April 20, 2007

Michael McNerney, Director of International Capabilities- Stability Operations in the Office of the Secretary of Defense, May 8, 2006

Sue Mecklenburg, Vice President for Sustainable Procurement Practices at Starbucks Coffee Company, June 26, 2006

Douglas Menarchik, Assistant Administrator for Policy and Program Coordination at USAID, March 29, 2006

Todd Moss, Senior Fellow at the Center for Global Development, April 26, 2007

Kenna Mphonde, Deputy Chief of Mission at the Embassy of Malawi in Washington, February 8, 2007

Jeffrey Nadaner, Deputy Assistant Secretary of Defense for Partnership Strategy at the Department of Defense, February 8, 2007

Andrew S. Natsios, former Administrator of USAID, April 24, 2006

Rodney W. Nichols, Consultant on Science and Technology Policy, February 9, 2007

John Niepold, Portfolio Manager for Africa and the Middle East at Emerging Markets Management, LLC, July 31, 2006

Jeremiah Norris, Senior Fellow at the Hudson Institute, April 24, 2006

Scott Norwood, Deputy Director for Global Strategic Partnerships, Joint Chiefs of Staff, February 8, 2007

Marina Ottaway, director of the Middle East Program at the Carnegie Endowment for International Peace, January 19, 2007

Carlos Pascual, Vice President and Director of and Senior Fellow in Foreign Policy Studies at the Brookings Institution, November 1, 2006

Thomas Pickering, former Under Secretary of State; Vice Chairman of Hills & Company, July 17, 2007

Roy Prosterman, Founder and Chairman Emeritus of the Rural Development Institute (RDI), October 5, 2006

Colin Powell, former Secretary of State, March 7, 2006

Steve Radelet, Senior Fellow at the Center for Global Development, April 24, 2006

Condoleezza Rice, Secretary of State, March 16, 2007, September 10, 2007

Daniel F. Runde, Head of Partnership Development at the International Finance Corporation, June 26, 2006

Brett Schaefer, Jay Kingham Fellow in International Regulatory Affairs at the Heritage Foundation, April 24, 2006

Caroline Sergeant, Alternate Executive Director to the United Kingdom at the World Bank, November 29, 2006

Charles O. Sethness, Vice President for the Department of Accountability at the MCC, August 1, 2006

Ira Singh, Manager at the Consultative Group to Assist the Poor (CGAP), July 31, 2006

Amy Smith, Instructor at the Edgerton Center at MIT, February 9, 2007

Andrew Stern, Associate Partner at Dalberg's Washington, D.C. office, September 15, 2006

Peter A. Stollery, Chair of the Standing Senate Committee on Foreign Affairs in the Canadian Senate, April 17, 2007

Patty Stonesifer, CEO of the Bill & Melinda Gates Foundation, October 5, 2006

Julia Taft, former President and CEO of InterAction, April 24, 2006

Robin Tilsworth, Acting Deputy Administrator for Export Credits at the U.S. Department of Agriculture's Foreign Agricultural Service, March 29, 2006

Randall L. Tobias, former Administrator of USAID and Director of U.S. Foreign Assistance, May 8, 2006

Ian Vasquez, Director of the Cato Institute's Project on Global Economic Liberty, April 24, 2006

John M. Walker, Jr., United States Circuit Judge of the United States Court of Appeals for the Second Circuit, January 19, 2007

George F. Ward, Jr., Senior Vice President for International Programs at World Vision, April 24, 2006

Dennis Whittle, Chairman and CEO of GlobalGiving, May 8, 2006

Paul Wolfowitz, former President of the World Bank, April 20, 2007

Clayton Yeutter, former US Trade Representative, and Secretary of Agriculture, January 18, 2007

Andrew Young, Chairman of GoodWorks International, March 12, 2007

Philip Zelikow, Counselor of the U.S. Department of State, May 22, 2007

APPENDIX 7: Scenario Planning Workshop

The HELP Commission used the scenario-based planning approach and the "future worlds" created for *Project Horizon* to assess the viability of twenty of its draft recommendations against a range of alternative future operating environments (or "scenarios"). Taken as a set, these five scenarios attempt to capture the full range of future challenges and opportunities that the nation will face over the next 25 years. Project Horizon is an effort initiated by the Department of State to create a standard planning tool for all U.S. Government agencies involved in offshore operations. The scenarios used by the HELP Commission were first used by the United States Coast Guard.

Almost 60 experts in international development and foreign policy from across the country participated in the two and a half day workshop. They were asked to "live" in one of the Project Horizon worlds, developing an in-depth understanding of the challenges and opportunities it would present for the U.S. Government. Each group discussed the requirements of their world and then utilized their perfect "foreknowledge" of the world of 2030, as well as their expectation of what that environment would demand of the U.S. foreign aid establishment, to assess whether the U.S. Government's pursuit of a particular HELP Commission draft recommendation in 2007 would improve the US Government's preparedness for the future of 2030.

The scenario planning exercise helped the Commission clarify the effectiveness of development and humanitarian assistance programs over the next quarter century. The exercise provided insight into how our proposed reform of foreign assistance could best work in an uncertain future.

The Commission would like to thank those who took time out of their busy schedules and devoted their knowledge, experience and creativity to the exercise. Participants and their affiliations are listed below:

Ted M. Alemayhu	Founder and President	US Doctors for Africa
Robert E. Anderson	Consultant	
Dolika Banda	Special Assistant to the Vice-President, Asia and Latin America	International Finance Corporation
Tony Barclay	CEO	DAI
John Becker	Southern Africa Regional Coordinator	Office of the Director of US Foreign Assistance, US Department of State
Karol Boudreaux	Senior Research Fellow	Mercatus Center, George Mason University
Steve Brent	Chair, Department of Acquisition	Industrial College of the Armed Forces
Reuben Brigety	Assistant Professor of Government and Politics Department of Public and International Affairs	George Mason University
Mike Brody	Senior Environmental Scientist	USEPA, Office of the CFO
Robert Calderisi	Author	

Joe Call	Strategic Advisor to Commandant	USCG
Judith Chambers	Consultant	
Cynthia Clapp-Wincek	Consultant	
RAdm Robert Clark	Director, Maritime Partnership Programs, U.S. Naval Forces Europe—Sixth Fleet	U.S. Navy
Don Cooke	Office of Strategic and Performance Planning	US Department of State
Deb Derrick	Executive Director	The Better World Campaign
David Devlin-Foltz	Director, Global Interdependence Initiative	The Aspen Institute
Richard N. Dreiman	President and CEO	Chemonics
Sally Everett	Consultant	DTS
Sarah Farnsworth	Consultant	
Jane Floyd	Assistant Professor/Senior Advisor	National Defense University
Glenn Gardner	Global Security Affairs (Partnership Strategy)	Office of the Secretary of Defense
Capt. Sinclair Harris	Chief, Security Assistance Division Strategic Plans and Policy Directorate	Joint Chiefs of Staff, DoD
Charles Ho	COO	Lithcon Group of Companies
Stephen Horblitt	Director External Relations	Creative Associates International, Inc
Bob Houdek	Retired	National Intelligence Council
Tami Hultman	Chief Strategy Officer	AllAfrica.com
Kenneth A. Lanza	Managing Director, Emerging Markets	BearingPoint
Craig Lasher	Senior Legislative Policy Analyst	Population Action International
Heather Lauver	Assistant Director, Global Operations Worldwide Public Affairs and Policy	Pfizer
Ellen Levinson	President, Levinson Associates; Executive Director, Alliance for Food Aid	Levinson & Associates; Alliance for Food Aid
W. Meredith Long	Vice President, Planning and Integration	World Relief
Rebecca Maestri	General Business Specialist	USAID, Asia Bureau
Dick McCall	Sr. VP for Programs	Creative Associates International, Inc.
Christine McDaniel	Deputy Assistant Secretary for Policy Coordination	US Department of the Treasury
Jim McDonald	Vice President, Policy & Programs	Bread for the World

Malcolm Morris	Chairman	Millennium Water Alliance
Rod Nichols	Consultant on Science and Technology Policy	
Raymond C. Offenheiser	President	Oxfam America
Steven Parker	Lead Economics and Trade Advisor	DAI
Don Pressley	Principal	Booz Allen Hamilton
Anne C. Richard	VP, Government Relations & Advocacy	International Rescue Committee
Shelia Ronis	Chair, Vision Working Group	Project on National Security Reform
Dan Runde	Head of Partnership Development	International Finance Corporation
Tessie San Martin	VP for International Development	Abt and Associates
Enrique Sanchez-Armass	Senior Investment Officer	International Finance Corporation
Brett Schaefer	Jay Kingham Fellow	Heritage Foundation
Jeannine Scott	Senior Vice President	Africare
Dennis Shin	Strategic Issue Advisor for Foreign Assistance	Catholic Relief Services
Fred Tipson	Sr. Policy Counsel & Director for International Development Policy	Microsoft
Noam Unger	Senior Manager, Foreign Aid Reform Project	Brookings
Connie Veillette	Specialist in Foreign Assistance	Congressional Research Service
George Ward	Sr. VP for International Programs	WorldVision
Oren Whyche- Shaw	Senior Advisor, Office of African Nations, International Affairs Department	US Department of the Treasury
Gregg Willhauck	Congressional and Public Liaison	Center for International Private Enterprise
Laura Wilson	Policy Director	Center for US Global Engagement
Tom Woods	Vice President of International Development	Hudson Consulting Group
Sam Worthington	CEO	InterAction

APPENDIX 8: Legislative Mandate and the HELP Commission Report

HELP Commission Act, P.L 108-199

The Commission Shall—

(A) ***Identify the past and present objectives of United States development assistance, identify cases in which those objectives have been met, identify the beneficiaries of such assistance, and what percentage of the funds provided actually reached the intended beneficiaries***

- The study of past and present objectives of our development assistance programs, successes in meeting them, and our relationships with beneficiaries served as the basis for much of the report, particularly Chapter 5: Create a New Business Model for Growth to Capitalize on What We Do Best and Chapter 6: Change the Structure. Several successful programs are outlined in Chapter 1: Introduction. Finally, the "What Works What Doesn't" Working Group also conducted a detailed analysis of these topics (see appendix 10).

(B) ***Identify cases in which United States development assistance has been most successful, and analyze how such successes may be transferable to other countries or areas***

- Select examples of past success are outlined in Chapter 1. In addition, Chapter 5 discusses best practices for development programs on the ground and makes recommendations on how to create a new approach to development assistance based on eight core principles.

(C) ***Study ways to expand educational opportunities and investments in people, and assess infrastructure needs***

- In Chapter 5, Section 5.2-6, the report details the importance of education in the building of human capital.
- The Commission addresses the need to invest in people in Chapter 5. Specifically, Principle 6: Focus on Programs that will lead to Economic Growth, discusses the need to focus on job creation, skills development, and technology transfer in developing countries in order to foster long term growth. The Commission supports the creation of an initiative to support small and medium enterprises and the expansion of agricultural assistance as two ways of filling that need.
- Infrastructure is addressed in Chapter 2: Apply a New Integrated Approach to Development, section 2.1-3: Remove Physical Trade Barriers with Infrastructure.

(D) ***Analyze how the United States could place conditions on governments in countries receiving United States development assistance, in light of and notwithstanding the objectives of the Millennium Challenge Account***

- The Commission's view was that country or recipient "ownership" of projects, particularly the establishment of a robust partnership for development, is one of the most important conditions for development assistance. Several sections in the report discuss this and other important conditions as well as MCC's model for assistance.

(E) ***Analyze ways in which the United States can coordinate its development assistance programs with those of other donor countries and international organizations***

- The Commission looked repeatedly at issues involving 1) coordination with other donors, 2) different donors focusing on what they do best and 3) the challenges inherent in different donor states having different styles of government. The report contains statements about cooperation among donors.

(F) ***Analyze ways in which the safety of development assistance workers can be ensured, particularly in the midst of conflicts***

- The Commission discusses the important relationship between security and development in Chapter 2 Section 2.2: Ensure Coordination between Security and Development.

(G) ***Compare the effectiveness of increased and open trade with development assistance, and analyze the advantages and disadvantages of such trade and whether such trade could be a more effective alternative to United States development assistance***

- The need for a trade policy that better complements our development activities is outlined in Chapter 2 Section 2.1: Support Trade and Infrastructure.

(H) ***Analyze ways in which the United States can strengthen the capacity of indigenous non-governmental organizations to be more effective in grassroots development***

- In Chapter 5, one of the core principles of the new business model is promoting local ownership and leadership. Adopting policies and programs based on collaboration with national leaders and civil society within a country will strengthen these groups and enable them to be more effective in serving the needs of citizens in the future.

(I) ***Analyze ways in which decisions on providing development assistance can involve more of the people of the recipient countries***

- Local ownership is the first core principle of the new business model outlined in Chapter 5. The principle is also discussed in Chapter 7 Section 7.6: Create a Unified Policy, Budgeting, and Evaluation System. The section outlines the importance of basing our development strategies on individual country development estimates and consultation with the recipient countries.

(J) ***Analyze ways in which results can be measured if United States development assistance is targeted to the least developed countries***

- Monitoring and Evaluation strategies are found in Chapter 7 Section 7.6-4: Enhance Feedback through Continual Monitoring and Evaluation and improved monitoring and evaluation is one of the principles of Chapter 5's new business model.

(K) ***Recommend standards that should be set for "graduating" recipient countries from United States development assistance***

- Country graduation is discussed as one of the principles in Chapter 5 Section 5.1-5: Reward Graduation.

(L) ***Analyze whether United States development assistance should be used as a means to achieve United States foreign policy objectives***

- Integrating our development and humanitarian efforts more closely into our foreign policy is one of the main ideas upon which the Commission's assertions about the need for change was based and one of the major themes running through the report. Chapters 1, 2, 6, and 8 contain sections on elevating development assistance to the same level as diplomacy and defense in America's foreign policy.

(M) ***Analyze how the United States can evaluate the performance of its development assistance programs not only against economic indicators, but in other ways, including how to measure the success of United States development assistance in democratization efforts; and evaluate the existing foreign assistance framework to ascertain the degree of coordination, or lack thereof, of the disparate foreign development programs as administered by the various Federal agencies, to identify and assess the redundancies of programs and organizational structures engaged in foreign assistance, and to recommend revisions to authorizing legislation for foreign assistance that would seek to reconcile competing foreign policy and foreign aid goals***

- Monitoring and Evaluation strategies are found in Chapter 7 Section 7.6-4: Enhance Feedback through Continual Monitoring and Evaluation and improved monitoring and evaluation is one of the principles of Chapter 5's new business model.
- Democracy and Governance programs are discussed in Chapter 5, Section5.1-8.
- Chapter 6 discusses the need to eliminate redundancies in foreign assistance and strategies for doing so.

(N) ***And study any other areas that the Commission considers necessary relating to United States development assistance***

- Other topics considered by the Commission include:
    i. The role of the Department of Defense: Chapter 2 Section 2.2: Ensure Coordination between Security and Development
    ii. Public Diplomacy: Chapter 2 Section 2.3: Expand Public Diplomacy
    iii. The Role of Congress: Chapter 3
    iv. Funding and the Budget Process: Chapter 7
    v. Human Resource issues: Chapter 4 Sections 4.11and 4.2
    vi. Operating Expense Budget: Chapter 4 Section 4.3
    vii. Procurement and Contracting: Chapter 4 Section 4.4
    viii. Support for Small and Medium Enterprises: Chapter 5 Section 5.2-1: Create an Initiative to Support Small and Medium Enterprises
    ix. Technology: Chapter 5 Section5.2-2: Create a Technology Research and Development Institute
    x. Food Aid: Chapter 5 Section 5.2-3: Increasing Local Purchase for Food Aid
    xi. Agriculture: Chapter 5 Section 5.2-5: Agriculture Development Programs

APPENDIX 9: A History of Executive-Legislative Relations

The two branches of our government share responsibility for ensuring that foreign development is viewed as vital to America's national security, economic and moral interests, and then for putting mechanisms in place to translate that vision into action.

Reforming the organization, structure, and management of development programs is dependent on a healthy relationship between the Executive and Legislative branches that is built on trust and respect for the roles each branch plays in our system of government. Creating a responsible process to balance the legislative powers of the purse with the executive powers vested in the President to conduct foreign policy is critical to manage U.S. foreign assistance programs effectively.

Each branch has critical, but in some cases unique, roles to play: The Executive branch proposes and conducts policy, as directed by the President. The Legislative branch enacts those polices, oversees executive policy implementation and decides how to best allocate taxpayer resources.

Unfortunately, however, the Executive and Legislative branches, as they have through successive administrations, frequently clash when it comes to foreign assistance. Policy differences between the two branches, of course, are hardly limited only to foreign aid matters. But at various points over the past several decades, the relationship concerning foreign assistance issues has been especially antagonistic and unconstructive, leading to a sense of mistrust, and an imprecise and at times contradictory interpretation of the division of labor between the two branches on the management of foreign aid.

Some tension and differences between the two branches are to be expected, in fact, are desirable in the interplay of checks and balances that help to ensure that foreign assistance is used effectively and is responsive to the American people. But some fundamental reforms in the relationship are long overdue. As we move forward, it is important that rather than falling back on complex rules and other antics to invalidate or modify policy decisions, that the principals should maintain respect for each branch's prerogatives. To question the other branch's intentions and motives first, rather than address the differences directly is not constructive, and often serves to delay aid delivery. Improved communications and strong leadership from the Executive and Legislative branches are needed to overcome these problems. One former chairman of the Senate Foreign Relations Committee advised that the two branches "must agree to disagree, agreeably" in matters of foreign aid. The members of the HELP Commission believe this is the spirit in which a better and more effective relationship can be forged.

The history of this relationship suggests that friction transcends partisan politics and is more imbedded in institutional tensions. For example, a bi-partisan legislative effort (Hamilton-Gilman Task Force) in the late 1980s to re-write the Foreign Assistance Act broke down when the Administration felt it had not received adequate flexibility in the draft legislation. More recently, when the Democratic Party controlled both branches in the early 1990s, executive efforts to produce a new Foreign Assistance Act (the Peace, Prosperity and Democracy Act) collapsed over policy differences between Administration officials and Senate leaders.

Perhaps the most difficult confrontation between the two branches came during the mid-to-late 1990s when Congress and the White House argued about improving the accountability of foreign assistance, focusing primarily on where and how to position USAID within the Executive branch. The Republican-led Congress contended that USAID should be merged into the State Department, while the Democratic White House countered that the aid agency should be given greater autonomy from the Department of State. Both positions had merit in their time, and the debate — about the placement, structure, stature and nature of development resources, as well as accountability for implementation — continues today. In fact, where our nation's primary assistance organization belongs remains one of the central elements of the current discussion about aid reform. Ultimately, an uneasy compromise was reached in which USAID became an independent agency but whose Administrator came under the direction and policy guidance of the Secretary of State. But the "reform effort" of the late 1990s has repercussions that linger today. These outstanding problems, detailed below, must be addressed if the legitimate roles of both branches of government are to be effectively balanced and channeled in pursuit of common goals.

First, the debates about USAID's position cemented views within the Executive branch that it must tighten its control over foreign assistance, based on its mandate to conduct foreign policy, and resist Congressional interference. This reinforced a parallel view within the Legislative branch that the Executive branch must be watched closely, constrained from too much independent action by legislative means, and forced to be both more consultative and more transparent. A year ago, for example, the Department of State argued that it had the legal authority to undertake the reform that led to the recent creation of the Foreign Aid Bureau within the Department without a legislative act by Congress. At the same time, both parties in Congress argued that the reform process, whether or not legislation was needed, required far more consultation with lawmakers and a much higher degree of transparency. Both sides are correct. But both sides are distracted from the critical task of making foreign assistance an effective instrument by engaging in a rhetorical argument about who is in charge. Unfortunately, flexibility and innovation have been the unintended casualties of these internecine battles. It is time to move forward in a positive spirit of cooperation.

Second, the debate reinforced the long-standing notion that each branch needs to take independent actions perceived as necessary to prevent the other branch from exercising too much control. From the legislative side, this means earmarking funds for certain programs. For the Executive branch, this means introducing "Presidential Initiatives" to target specific policies and programs, or operating new programs out of non-150 account agencies to avoid Congressional funding restrictions. From the legislative side, growing mistrust translates into increasing policy and spending directives opposed by the administration. For the Executive, it means providing to Congress only the minimal budgetary detail required by law and ignoring Congressional spending priorities in newly submitted budget plans. The Commission recognizes that earmarks are a reflection of Congress' representational role and its duty to reflect the priorities of constituents, and that Presidential Initiatives are intended to reinforce and lend stature to Executive branch priorities. Nevertheless, excessive earmarking and Presidential Initiatives frequently reduce resources available for other worthwhile activities and can be disruptive to maintaining coherency of development goals and strategies. The Commission would hope that both branches recognize the consequences — often unintended — of earmarks and new Initiatives and explore options for minimizing these effects.

Third, and perhaps most important, a fundamental and growing mistrust causes both branches to focus more on who controls foreign assistance than on how they can effectively co-manage these

resources or work together to overhaul a system that needs major reform. Indeed, one of the great disappointments of the foreign aid reform debate of the late 1990s was that the focus on USAID's status distracted both parties and both branches of government from examining larger questions of strategy, coordination, coherence, and accountability. As we enter a new era, leaders must determine what policies, tools and institutional arrangements are needed to tackle global poverty and serve our national interests. Real reform cannot sidestep these challenges.

The HELP Commission believes that the distinct but potentially compatible roles played by the Executive and Legislative branches, including a certain degree of tension, are of equal importance. We believe that the Executive branch legitimately demands flexibility and respect for the President's mandate to conduct foreign policy. At the same time, Congress is right to insist on consultation, respect for its power of the purse and oversight role, and its representative function of the American people. But we also believe that strategic and effective aid reform cannot be achieved unless and until the two branches can operate on the basis of a common vision, a clear division of roles, the bureaucratic means to collaborate, and a process of reform that encourages trust.

APPENDIX 10: Issue Papers

Issue Papers, in each case, provide an expanded discussion on specific recommendations contained in the main body of the Help Commission report. They do not necessarily represent the views of all Commissioners, but all Commissioners accept their inclusion in the report.

Foreign Assistance Grant and Contract Procurement Processes

The following paper represents the views of the authors and the signatories:

Written by C. Payne Lucas, Eric G. Postel, and Phil Christenson

Endorsed by HELP Vice Chairmen Carol Adelman and Leo Hindery Jr., and Commissioners Steven K. Berry, Jerry Climer, Nicholas N. Eberstadt, Glenn Estess Sr., Lynn Fritz, Benjamin Homan, Walter Kansteiner III, Thomas Kleine, William C. Lane, Marty LaVor, Robert H. Michel, Gayle Smith, David A. Williams

Introduction

The processes used to award foreign aid grants and contracts may first appear to be an unimportant topic for the Commission to address. Many mistakenly believe that these processes are administrative matters of little intrinsic importance. We strongly disagree.

Since 1980 foreign aid has shifted from government-to-government programs. Today aid is delivered in most countries by U.S. agencies awarding grants and contracts directly to private sector entities to implement projects. The key to accomplishing an agency's mission today has therefore become excellence in designing projects, defining requirements, drafting solicitations, determining performance standards, evaluating proposals, awarding grants and contracts, and monitoring performance.

The shift from government-to-government programs substantially increased the workload on aid agencies because foreign governments no longer assume the responsibilities for project implementation.

Other U.S. foreign aid agencies also depend on grants and contracts to deliver aid programs abroad.

The Commission's conclusion, after studying grant and contract processes, particularly at USAID, is that while many aspects of these activities are performed well despite multiple mandates and pressures, they nonetheless suffer from chronic neglect dating back two or three decades. This neglect cannot be attributed solely to USAID's management. The agency is also affected by management decisions at the State Department, OMB and Congress that have led to the neglect we found.

More recently, the very large recent increases in USAID responsibilities in difficult environments, such as Iraq, Afghanistan, and southern Sudan, have stretched the agency's management systems

beyond the breaking point. These systems have been so starved for personnel and other resources that today it is an open question whether the agency is able to conduct its business at the high standard a foreign policy activity requires.

The Commission interviewed U.S. Government procurement officers and other employees engaged in the grant and contract processes, representatives of aid contractors and grantees, and nationals of the recipient countries. We encountered many examples of good contracting, not to mention many dedicated and competent staff. However, it was also clear that there are multiple and important deficiencies in the U.S. grant and contract award process, among them:

1. Constriction of Competition in USAID Grant and Contract Awards

A major coping mechanism in recent years increased workload and personnel shortfalls at USAID has been a concerted effort to reduce or constrict the use of fully competitive grant and contract award procedures. These mechanisms also appear to have been adopted to cope with a budget and congressional notification process that delays the availability of funds until very late in the fiscal year. This creates an unnecessary crisis atmosphere, and a need to rush to obligate funds before the end of the fiscal year.

USAID has transformed its grant and contract activities to rely heavily on indefinite quantity contracts or "IQCs", on a newly created "Leader with Associates" (LWA) grant mechanism, on umbrella grants and grants-under-contract mechanisms, on "annual program statements" mechanisms that require applicants to apply first for permission to apply for grants, and on a broad use of amendments to existing grants and contracts to launch new activities. These mechanisms are allowable under federal law and regulation. Their use, however, can raise questions about their desirability when used as extensively as now is the case with many USAID grants and contracts.

Under the IQC mechanism, as implemented by USAID, the agency packages some of its possible needs within an expansively-defined sector into a single Request for Proposals and seeks proposals from organizations, almost invariably consortia, that can offer the very expansive list of services. The agency then awards multiple multi-year contracts but each group receives only a nominal award ($25,000-50,000) that it will be paid even if it is unsuccessful in bidding on task orders under the IQC. Successful bidders are, however, then eligible to compete among themselves for individual task orders that can be valued at $100 million or more that are issued against the contract.

The range of services bundled into a single IQC can be surprising. Under its Water IQC the agency demanded that contractors be able to provide services ranging from household point of use (leaking faucets and toilets), hydroelectric power generation, agricultural irrigation, weather forecasting, coral reef protection, ocean fishing, aquaculture, urban sewer systems, gender mainstreaming, global climate change, and water-related tourism. An RFP for a health, population and nutrition IQC called for the contractors to be able to provide services in agriculture, community organizing, education, gender dynamics, micro-finance, peace building, refugee resettlement, poverty, private sector investment and development, water and sanitation.

Under an IQC, the rights of unsuccessful bidders for a task order are limited. They can complain to an in-house "task order ombudsman" but cannot appeal to the GAO. The ombudsman cannot overturn task order awards and has no obligation to investigate a complaint. Federal law requires the ombudsman to be a senior agency official independent of the contracts officer. While the

ombudsman at other agencies is a Deputy Assistant Secretary or equivalent, at USAID the job is held by a mid-level (GS-15) employee in the contracting office with little independent authority or influence. One leading contractor also reported that "countless issues have been submitted to the ombudsman and remain unresolved."

In 1999 USAID created a "Leader with Associates" grant mechanism under which it holds a competition for a small grant — at times less than a million dollars spread over several years — but the small grant carries the right to receive an unlimited number and dollar amount of "associate" grants without further competition. LWA awards are for five years, can be approved for extension for another five years without further competition. The associates awards can extend five years beyond the life of the LWA.

The LWAs blur the distinction between grants and contracts. Correspondence from USAID staff to the authors described the distinction as follows: "We believe that LWAs, when awarded and managed as intended, are true grant programs in that the purpose of the grant is to deliver development or assistance, not to ultimately benefit the US Government or to provide goods or services to the US Government."

Yet, LWA awardees market themselves to USAID missions as providing services to the missions. For example, one grantee's web site states (emphasis added) "FIELD-Support, the Financial Integration, Economic Leveraging, Broad-Based Dissemination and Support program, is a single award, five-year, Leader with Associates (LWA) cooperative agreement created to advance the state-of-the-practice in microenterprise development and microfinance <u>and assist USAID Missions and other Operating Units to design and implement innovative, integrated, and market-based approaches to sustainable economic growth with poverty reduction.</u>" This example clearly shows that USAID is indeed a beneficiary of this grant.

A grant is supposed to be to an organization to carry out an activity for the grantee's own purposes. In correspondence with the Commission, USAID stated that "to access an associate award, the project officer <u>defines the requirement within a pre-negotiated scope of work,</u> receives a proposal from the LWA awardee, and then awards a 'grant'." In our opinion, this statement with its use of contract language about "requirements" and "scope of work" illustrates the blurring between contracts and grants.

Like the IQC contracts, LWAs package a surprising array of activities within a single award. A recent request for applications (RFA) for a global health LWA, for instance, went far beyond the healthcare to encompass the right to noncompetitive grants in fields such as democracy and governance, agriculture, anti-corruption, women's rights, biodiversity and natural resources.

To conduct any given activity, USAID project officers may be able to choose from multiple overlapping IQCs and multiple overlapping LWA grants. To conduct a democracy project, for instance, a project officer may choose a democracy IQC contract or perhaps choose to use the healthcare LWA grant that includes democracy and governance.

LWAs for a specific activity may be awarded to more than one NGO. In such instances, USAID employees are free to choose one NGO over another to award a multimillion dollar associate grant without further competition or justification. The LWA consortia are quite large. One has 10

principal consortium partners and 17 "resource organizations." Having won an LWA award in 2005, these 17 organizations quickly obtained $70 million in additional non-competitive grants in the first year, and expect to receive $350 million over the initial five-year term of the award.[1]

USAID has also expanded its use of umbrella grants and grants-under-contract mechanisms. There has been a long history of using umbrella grant mechanisms to administer small grant programs for grants too small to justify a direct USAID management. Today individual sub-grants under umbrella mechanisms are normally less than $100,000, but a recent RFA USAID indicated it planned to use the grant to award individual sub-grants up to $20 million and that the sub-grantees had already been chosen prior to the issuance of the RFA.

Another mechanism, once rarely used, has soared in popularity at USAID in the past few years. Under the Annual Program Statement (APS) mechanism, USAID issues a description of its program interests in a country and groups are invited to submit a concept paper to seek federal funding. These concept papers, often limited to five pages, are reviewed by USAID and then applicants are notified whether the agency is willing to consider a formal proposal from them. Although an APS is officially intended for use when "USAID intends to support a variety of creative approaches by the non-governmental community to develop their own methodologies in assessing and/or implementing activities which are in keeping with strategic objectives," the current practice include using an APS as an alternative to contracting for services. One $160 million APS makes clear that "one of the purposes of the APS is for the UGM [umbrella grants manager] to relieve USAID from some of the management function," and that the prime grantee will work under close USAID supervision.[2]

Another USAID initiative to reduce competition in grant and contract award activities has been to use grant and contract amendments to launch new activities. This was essentially how the Presidential Emergency Program for AIDS Relief was launched using a waiver to competition. During its first year it was decided that rather than engage in competitive procedures, the program would "ramp up" existing grants and contracts, and $776 million was awarded noncompetitively through that mechanism. It is not unusual for the agency to amend an existing grant or contract without further competition to launch a new program activity, and later issue a competitive solicitation for its continuation. By creating streams of funding and helping one organization build capacity for that activity prior to the competitive solicitation, other potential grantees and contractors are often placed at an overwhelming disadvantage. While true emergencies may call for such efforts to short-circuit the competitive process, the use of this process in non-emergency situations has expanded.

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[1] Statement of USAID Assistant Administrator Jacqueline Schafer to the House Committee on International Relations, July 27, 2006.
[2] APS 674-07-001, "Pre-bid conference", 19 October 2006

2. Failure to Distinguish Between Different Types of NGOs

USAID has a large group of not-for-profit organizations that receive grants and compete for contracts from the agency. Some of them are genuinely public charities, while others appear to be little more than employee-controlled government consulting firms whose founders decided to organize as not-for-profit instead of for-profit entities in order to qualify for federal grants. Some of the groups USAID classifies as "private, voluntary organizations" are so dependent on the agency that their private character is in doubt, while the salary and benefit packages for their senior employees appear to be out of character for a supposed charity. One grantee whose president and senior vice president are husband and wife paid the two of them a combined total of $1,572,891 in salary, pension plan contributions and deferred compensation in 2005. On a lower scale, but still quite generous, one NGO created by USAID in the 1970s pays its CEO $300,000 a year for a three-day workweek and responded to its windfall from USAID's increased spending on HIV/AIDS by raising the salaries of its senior staff by 40% over a period of two years.

Congressional and public support for USAID's work with the nonprofit sector has been based on an assumption that these were public charities paying adequate but far from luxurious salaries and benefits. There appears to be little differentiation at USAID between public charities that pay moderate salaries and bring to the table a deep commitment to development and humanitarian assistance, often with significant private resources, and those nonprofit entities that are indistinguishable from any other contractor seeking business from the agency.

3. USG Often Not Designing Its Own Programs

An essential element in the grant and contract award process is the drafting the solicitation documents to define the government's requirements and project design and set forth criteria for evaluating proposals. Increasingly USAID relies on outside contractors to conduct assessments, define requirements and draft these documents. This creates subtle or potential conflicts of interest as many of the individuals who design projects and draft solicitation documents are free-lancers who revolve constantly among the contractor and grantee communities.

In addition to overtly relying on outside contractors to draft solicitation documents, even where the USAID staff draft the documents, the solicitations are often so general or value that the contractors end up defining the U.S. Government's requirements and designing the projects.

Best practice in government and private sector procurement of outside services first defines requirements through extensive internal consultation and analysis, and seeks the buy-in of senior management and other stakeholders before deciding on the precise goods or services to be provided by the contractors. It then calls for solicitation documents (Requests for Proposals for contracts, Requests for Applications for grants) that set forth in detail the requirements identified through this consultation and analysis. Due to staff cutbacks, it appears USAID is losing or has lost the internal capacity to carry out these crucial steps.

4. Suspicions of Pre-Determined Outcomes

It is a basic principle of government that the actions of an agency must not only avoid impropriety, they must avoid the appearance of impropriety to maintain public confidence in the public service. Some outside groups consider USAID contract and grant procedures to be less than fair and believe

that many solicitations are issued with pre-determined outcomes. Others note that the revolving door between USAID and its contractors fuels these suspicions.

It was possible to find USAID solicitations specifying individuals by unusual and detailed descriptions of the key personnel qualifications which suggest that a contractor had already been chosen prior to issuing the solicitation. Retired USAID employees and contractors have indicated that one frequent technique to produce a pre-determined outcome is to pick the "right" IQC for a project. One example cited was of a contracting officer who had a personal dislike of one firm, and who therefore competed projects via task orders under an IQC in which the firm was not awarded the umbrella contract, thus barring them from the project. Another example was of a firm asked by the mission to choose the vehicle under which it would then "compete" for an award.

Artificially short deadlines are sometimes imposed. This can lead to suspicions that this was done to benefit certain contractors. One solicitation was issued in late afternoon on Christmas Eve giving potential bidders only six working days to prepare a bid during the most popular time of the year for long-scheduled family vacations. In other instances, specifications clearly indicate to potential bidders or applicants that the deal is already done. One solicitation issued by a USAID mission in Central Asia specified that the consortium submitting a proposal had to include a minority-serving U.S. educational institution. This is allowable under the Federal Acquisition Regulations, but since there was only one such consortium operating in-country, this supposedly full and open competition appeared to resemble a sole-source award and predictably ended up with the award going to a consortium with that institution as a member.

5. Excessive Use of Grant Mechanisms Weakens Program Responsibility

USAID has over the past two or three decades moved a large portion of its projects from contracts to grants (either grants or cooperative agreement grants).[3] This was done partly because grants are simpler to award and cannot be protested, and because continuing cuts in the workforce created incentives to find ways to spend funds with fewer agency personnel.

Grants have a proper use in the conduct of foreign aid. Many outside groups with whom the Commission consulted have indicated that in some circumstances the lines between grants, cooperative agreements and contracts have been blurred. Using a grant when a contract would be more appropriate weakens program effectiveness and responsibility. Multiple USAID officers reported they had fewer avenues to use when faced with poor project performance by a grantee.

Another consequence has been a loss of the foreign policy and public diplomacy benefit from well-publicized "branded" projects. Many grantees in trying to raise private funds to meet matching requirements and other needs tend to minimize the level of credit given to USAID or other government.

6. Contracting Methods Not Always Conducive to Performance

Most USAID contracts are done on a "time and materials" or "cost plus fixed fee" basis. As such, contractors are paid for every hour they work up to a maximum budget amount. While many

[3] For example, in FY 1995 USAID spent 46% of its funds for acquisition and assistance through contracts, in FY 2006 contracts were 31% of its total spending

projects' dependence on external actors or the open-ended nature of the assignments makes this a logical method of contracting, the system has few incentives for fast, efficient work or for attention to the big picture. To use a time and materials or cost plus fixed fee contract often requires that agency personnel involved with the contract devote extensive attention to project design, contractor oversight and project design revision as circumstances on the ground change.

One feasible alternative in some cases would be to use completion-type contracts with fixed fee payments tied to things which the contractors can control. Without qualified, trained personnel to design projects that can be awarded as a completion-type contract USAID has been unable to take advantage of this form of contracting.

In a few circumstances, such as projects involving tangible goods or services with carefully designed outcomes within the contractors' control, some contracts could be performance-based contracts that many believe would provide incentives for better completion of fixed, controllable requirements. However, performance-based contracting requires a federal agency to make substantial up-front investments of time to define project objectives and detailed performance measures.

Since USAID suffers from a chronic lack of human resources, it lacks the capacity to move toward performance-based or completion type contracting.

7. Inconsistent Rules on Working Capital

Smaller for-profit organizations and overseas NGOs are handicapped as a result of their inability to fund working capital (money used to pay costs prior to receiving payment). U.S. non-profits have the advantage that they can get advance funding from the agencies with which they are working. Large for-profit firms have such a large book of business that they can more easily obtain bank financing for the working capital needed and absorb its costs. Smaller for-profit firms cannot draw on government advanced funding or obtain bank financing.

8. Weak Discipline

For almost twenty-five years, successive Administrators have attempted to stop the agency's employees from requiring prior USAID experience for individuals or organizations to work under agency contracts and grants. In 2003, Administrator Andrew Natsios prohibited the use of prior USAID experience as a mandatory or preferential requirement. Yet, the Commission was easily able to identify USAID solicitations in 2007 that stated "prior USAID experience preferred" or "prior USAID experience is desired but not required," or lengthier qualifications that require prior experience in working with U.S. Government agencies and in the field of foreign assistance that are just wordy ways of saying "prior USAID experience required." Regardless of the merits of Natsios's decision, the inability of the Administrator to get the agency staff to comply with directives after four years suggests the overall weakness in management discipline.

Similarly, according to a wide range of sources, USAID has so blurred the distinction set forth in the Federal Grant and Cooperative Agreement Act of 1977 between grants, cooperative agreements and contracts that it has become almost meaningless.

At one time USAID had an performance evaluation office responsible for inspecting overseas mission contract and grant procedures as a means to impose agency-wide policies and standards. According to USAID, due to funding and staffing shortages this agency for several years was unable to perform as intended. USAID reports that for the past three years it has focused its efforts on revitalizing evaluations and that more needs to be done.

9. Lack of Country Ownership

Elsewhere in the Commission report we discuss the importance of country ownership. According to a leading development executive host country involvement in technical proposal review varies widely and unpredictably from mission to mission, and there is less involvement that there used to be. Grant and contract mechanisms provide no reliable mechanism for host country civil society and/or government personnel to participate as equals in the development of solicitation documents, determination of outcomes sought, setting of evaluation criteria, or evaluation of proposals.

USAID correctly points out any move to increase host country involvement may require changes in existing US procurement integrity and competition-in-contracting laws. Enforcement of proper conflict of interest and anti-corruption standards would also be needed. But, these issues must be solved if we are to make country ownership a reality. Certainly, a common agency standard to determine how missions approach host country involvement in proposal review is achievable within existing law and regulation.

10. Excessive, Inconsistent or Micro-Managed Rules and Practices

USAID acquisition and grant rules and regulations often attempt to micro-manage every single aspect of USAID grants and procurement. At a Commission meeting with five large USAID contractors, they reported that it is not unusual for thousands of dollars of labor to be used up discussing such minor matters as whether to pay foreign nationals working for the contractors 2.70 or $2.74 an hour.

There is a lack of a consistent approach to decision-making — there is no "USAID way" to do business. Contractors, both large and small, reported that there is "too much entrepreneurship" by contracting officers and no apparently accountability to the Office of Acquisition and Assistance when they work overseas. One contractor described two almost identical solicitations issued simultaneously by the same contracting officer. One called for a "time and materials" contract, the other for "cost plus fixed fee." When he asked for an explanation, none was forthcoming. An NGO described how one overseas mission requires that NGOs to submit financial reports using QuickBooks, while the mission in a neighboring country requires a different accounting package. NGOs also find that the process to establish NICRA (Negotiated Indirect-Costs Recovery Agreement) rates is sometimes opaque, confusing, and out-of-date.

USAID has unique rules that cap the reimbursement for the salary or individual consulting fee paid to any individual working on an aid project to a rate often below private sector rates. It is a limit on salary and fee and not a limit on the all-in unit cost per hour or day that a contractor firm can charge for that individual's services after adding fringe benefits, overheads and other markups. Even though two contractors may have the same all-in billing rate, the one with higher salaries yet lower

other costs may be rejected. USAID is reported to be unique among federal agencies in its salary cap practices.

Some firms who do business with other government agencies report that they do not impose this salary cap. They report they use their regular employees for work at other agencies, but rely on "custom recruitment" for employees and consultants to work on USAID projects at the lower rates. This inevitably handicaps the agency's ability to obtain the best available services.

The expansion of the number of U.S. agencies conducting foreign aid programs in each country has led to confusion among recipients as different agencies interpret and apply federal rules differently. Inconsistencies in advice and decisions about routine issues such as what is an allowable expense can add unnecessary complexities for the partner organizations.

11. Inability to Move Rapidly

In Djibouti, a first class Petty Officer told the Commission that when he identified projects to undertake there, such as a school addition, he could initiate projects up to $100,000 within a matter of days with only the approval of his direct superiors on location. He estimated he could undertake projects up to $500,000 upon receipt of approvals from CentCom, which normally take less than 30 days to obtain. At USAID this would be impossible. While there are significant differences between the DoD program and the USAID program, the fact that another government agency could act with such speed while USAID cannot does suggest that USAID management, and perhaps the Congress, need to explore ways that USAID could be allowed to move more rapidly to meet the expectations of both senior Executive Branch officials and the Congress.

The Office of Foreign Disaster Assistance and the Office of Transition Initiatives stand out as the major exceptions through their liberal use of their "notwithstanding authority"[4]

Fully competed USAID contracts took upwards of 150-245 days to complete in FY2006. This could be shortened if the agency had more staff and stuck to firm deadlines. One expert noted firm deadlines would be the more important of these measures and that "there is no reason why technical panel reviews should take more than a few days — many take weeks or months."

Causes

1. Inadequate Senior Level Commitment and Attention

In 2006 a GAO report on government-wide contracting issues noted that "ensuring the federal workforce has the capacity and capability to manage contractor-reliant operations is a critical challenge." It noted that "agency leaders have not recognized or elevated the importance of the acquisition profession within their organizations." The report further noted that unlike government "many companies have recognized the bottom-line importance of the acquisition function, essentially transforming and adopting a supply management focus and putting into those positions top managers and highly paid professional staff. The private sector treats procurement of services

[4] "Notwithstanding authority" is the term of art used to describe the law that authorizes emergency assistance to be provided "notwithstanding any other provision of law" or other restrictions.

as essential to company success, and thus considers those responsible for that procurement as occupying very strategic, high-value positions in the company."[5]

The foreign aid program suffers from these handicaps. Senior managers do not appear to comprehend the crucial role that activities funded through grants and contracts play in the agencies' ability to accomplish their missions. They treat these activities as administrative support functions of little intrinsic importance.

Illustrative of the lack of high level attention is the continuing workforce shortages in the USAID Office of Acquisition and Assistance (M/OAA). The office experiences a chronic 20-30% vacancy rate because of high turnover. There appears to be no senior appointee leadership to fill these vacancies or to raise salaries to a more competitive level. On July 5, 2007, a search of job listings on the USAID website and its job listings on the Office of Personnel Management's website did not indicate it was recruiting contracting officers. Instead, the agency appears to have focused its human resources efforts on hiring of additional generalist project officers.

Senior leadership has also failed to stem the rapid turnover in the management of the office. The office director position was filled by three different individuals in the first six years of the current Administration. No organization can prosper with a 50% turnover rate in the leadership of one of its core functions.

M/OAA is part of the Bureau for Management at USAID. In recent years the Bureau has also been plagued by long-term vacancies at the Assistant Administrator and Deputy Assistant Administrator levels. This has led to both a lack of supervision over the Office and a lack of support for its leadership and employees.

There is also a surprising lack of participation by senior level management of the agency's largest contracting decisions. A billion dollar contract, representing the equivalent of 8-12 percent of the agency's entire budget, can be awarded without senior managers' reviewing and approving the solicitation, evaluation and award. Given the key role contract and grant solicitations and awards now have in the accomplishment of the agency's mission, these activities should be closely supervised by assistant administrators and their deputies. A contract review board reviews all contracts greater than $10 million, but this is no substitute for agency leadership taking direct interest in the project design, the specifications for government requirements placed in the RFPs, and the determination of evaluation criteria.

2. Inadequate Staffing

Over the course of more than two decades, multiple Congresses and Administrations have reduced USAID's funding for direct hire personnel without making an in-depth study of the relationship of the personnel staffing to the nature and volume of work to be performed. While there may have been "fat" in the system, that day is long past. The decisions to abandon government-to-government aid programs had practical consequences of requiring a larger workforce in USAID grant and contract offices to handle the increased workload. The massive expansion of foreign aid under USAID management in recent years, while desirable as a foreign policy decision, had

[5] Highlights of a GAO Forum: Federal Acquisition Challenges and Opportunities in the 21st Century, October 2006. GAO-07-45SP, p. 14

workload consequences that have been ignored when OMB and Congress have failed to provide the agency with the operating expense budget it needs to hire additional staff to perform the increased work.

This general phenomenon is illustrated in the narrow area of USAID's Office of Acquisition and Assistance (M/OAA) in Washington. This office has an authorized staffing level of 132 employees, down from 154 in 2006, and from 175 in 1999/2000. It currently has an 8% vacancy rate. Even if fully staffed at the 2006 authorized level, there is reason to question whether the total of 154 employees in this core function is adequate. At 132 employees, the M/OAA office is asked to handle almost five times the per-capita contracting volume of other U.S. Government procurement offices.

3. Weak Oversight

The Commission was informed by the USAID Office of the Inspector General (IG) that while the IG office is charged with reviewing government agency activities for waste, fraud and abuse, the IG has rarely conducted performance management reviews of the agency's processes for contracts and grants to identify possible waste of government resources through inefficiencies and/or management deficiencies. With training in how to evaluate program planning, contracting, and implementation of development projects, the IG staff could make a major contribution to improved agency's efficiency.

USAID management oversight of grant and contract processes appears weak to non-existent. Some of this may be due to the decision to eliminate the formal performance review process for its overseas contract officers cited earlier.

Currently most contracting officers assigned overseas have their performance ratings (which serve as the basis for promotion decisions) written by their clients (mission directors) which creates potential conflicts of interest.

4. Inadequate Training for Project Officers

Good contracting requires the involvement of both contracting specialists and project officers who are well trained to carry out their responsibilities in the process. Project officers are responsible for developing the solicitation documents, deciding on the evaluation criteria, and sitting on the evaluation panels. Unfortunately many have little or no training to carry out their key role in the process.

Training project officers is particularly difficult when USAID relies on a constantly changing pool of personal service contractors on short-term (two-three year) contracts to serve as overseas project officers. Moreover, the chronic shortage of funds for operating expenses, from which training programs must be funded, makes it difficult if not impossible for the agency to design and implement a training program at the level of intensity needed for the agency to address long-term failure in the past to train its workforce.

Consequences

The circumstances described above have negative consequences for the foreign aid program and its intended beneficiaries.

1. The USG and intended beneficiaries do not get best value from foreign aid spending

It is a well-established principle in government contracting that the government gets best value by contracting for well-defined requirements through full and open competition. By limiting competition to a narrow group of IQC contract holders or relying on other umbrella mechanisms, the government loses the possibility of getting the nation's best expertise and services for a specific project activity at the best prices. As a former USAID contract manager notes, these umbrella mechanisms are awarded to entities that at some earlier point in time appeared to be well-qualified based on general qualifications, but may not be the best qualified organizations to execute a specific project in a specific country a year or more later.

Awarding recipients of grants and contracts on the basis of bureaucratic ease is not a process to guarantee best outcomes.

2. Excessive Concentration of Foreign Aid in the Hands of a Few Entities

There has been a dramatic shift in the concentration of USAID contract and grant awards into the hands of a handful of groups, mostly concentrated in Washington, D.C. and its suburbs. According to numbers provided to the Commission by USAID, two all-purpose consulting firms in the Washington area received almost $810 million out of the agency's $2.2 billion in contracts in FY2005.

During the early years of the Clinton Administration, a senior presidential appointee at USAID promised to open up the contract process and stated that if the same contractors were still dominating the agency's contract awards, he would consider it a failure. In February 2004, the agency's Procurement Executive told the Senate Foreign Relations Committee that Secretary of State Colin Powell and USAID Administrator Andrew Natsios placed a high priority on bringing in new partners and opening up the agency's contract and grant processes. The Procurement Executive assured the Committee that the agency was fully committed to this goal. Despite the bi-partisan commitment by senior agency leadership to open the grant and contracting processes, the agency has continued to move rapidly in the opposite direction. From fiscal year 1996 to fiscal year 2005, according to USAID, the share of agency contracts awarded to the top five contractors rose from 33% or $57.3 million to 58% or $1.4 billion[6].

While some of this concentration may be due to large contracts for programs in Iraq and Afghanistan, it is clear that there are other causes as well. The IQC and LWA mechanisms have the effect of limiting awards to entities willing to be all-purpose, worldwide USAID grantees or contractors. Combining tourism with hydro-electric power generation and climate change into a single contract, for instance, does not attract prime bidders with genuine expertise and global reputation in any one of these disciplines. Entities, including NGOs and faith-based groups, with

[6] Data provided by USAID Washington DC procurement personnel to the HELP Commission

particular strengths in particular regions or activities cannot compete for these global, all-purpose grants and contracts. Faith-based organizations are particularly disadvantaged since their mission does not include seeking to become general government contractors.

USAID and the large contractors holding these IQCs and LWAs argue that smaller, more specialized firms, faith-based organizations and other non-governmental organizations can participate in the IQCs as sub-contractors. This is partially correct, but such roles can be little more than serving as "temp agencies." Sub-contractors complain that prime contractors take as much work as possible for themselves before tasking the sub-contractors. Being relegated to a sub-contractor status often leaves organizations frozen out of the chances to run projects. Moreover, prime contractors can credential themselves with the work done by the sub-contractors.

The excessive concentration is also contrary to overall government policy that small business and minority-, women-, and Veteran-owned business enterprise. In the FY 2006 SBA Small Business Prime Contracting Achievement and Small Business Procurement Scorecards, USAID received the lowest possible score.

3. Lack of Transparency

The IQC, LWA and other non-competitive processes have the effect of removing much of foreign aid spending from public view. Unlike full and open solicitations that are posted for public inspection, under the IQCs system the requests for task order proposals are issued privately to pool of IQC contractors. The task orders are normally awarded without public disclosure. Similarly, the Associate awards under the LWA grant system are conducted by private negotiations with the grantee.

4. Failure to Work Effectively with Public Charities Working Abroad

Given the rising levels of private philanthropy and its increasing role in international humanitarian and development efforts, USAID's inability to distinguish between public charities that have substantial private financial support and the NGOs that are only non-profit government contractors may be hindering the development of closer public-private partnerships with foundations and other sources of private resources.

5. Too Much Project Spending Devoted to Overhead - Not Project Deliverables

The use of umbrella contract and grant mechanisms can create additional layers of program administration and add to program costs because it injects a prime contractor as the intermediary between the agency and the sub-contractor executing the project. While some of these expenses are costs that would be incurred as operating expenses if USAID or another federal agency dealt with the sub-grantees directly, there is an inevitable increase in costs when an agency must conduct all its business with the sub-grantees or sub-contractors through an intermediary. USAID was unable to provide figures to the commission concerning the cost consequences of using layered procurement and grant mechanisms.

These mechanisms, while more costly, appear to be imposed on the agency because of a lack of staff. The additional costs are passed to the program funds while saving money would require using

more scarce Operating Expense funds. Ironically, while the OE account was originally established to reduce administrative expenses, it may be producing an opposite result.

6. U.S. Foreign Aid Programs Fail to Serve as a Model for Other Countries

U.S. foreign aid programs today heavily promote full and open competition and transparent processes for other countries' grant and contracting activities. U.S. officials, grantees and contractors engage in advocacy campaigns in recipient countries to demand transparency, to demand that contract specifications and evaluations not be tailored to benefit favored contractors and grantees, and everything be done through full and open competition.

High standards for government acquisition and assistance activities are part of the good governance criteria by which the U.S. Government measures foreign governments for possible qualification for Millennium Challenge Corporation assistance.

The U.S. Government undermines its own policy goals when its own systems are moving in an opposite direction and reducing transparency and full and open competition, and when solicitations at times appear to be tailored to produce pre-determined results.

Recommendations

The U.S. foreign aid program should conduct its grant and contract procedures in a manner that sets a global standard for public integrity, transparency, and full and open competition. Key recommendations to accomplish that are:

1. Senior agency leadership, especially at U.S.AID, should recognize that grant and contract awards are at the heart of the agencies' ability to accomplish their mission. They must devote sustained high-level attention to the substance of program design, the selection of implementers, the post-award surveillance of performance, and the processes by which these are accomplished. The personnel involved in these processes should be recognized as key contributors to each agency's success.

2. U.S. foreign aid agencies should be given sufficient staff and related funding so that grant and contract operations proceed in a timely fashion, and use to the maximum extent practicable transparent, competitive processes. This will require, at a minimum, a major increase in U.S. procurement personnel (e.g., perhaps as many as 125 additional personnel) at USAID.

3. When umbrella contracts and grants are used, they should be limited in size, range of activity, and number awarded. Large, multi-year multi-million dollar projects should be subject to full and open competition. The use of umbrella contracts and grants reduced or eliminated.

4. Procurement practices, guidelines and policies across all major foreign assistance programs should be harmonized as much as possible and reflect state-of-the-art procurement practices. We recommend USAID adopt and enforce policies and procedures that a) are uniformly followed, both in Washington and in the field missions; b) resolve common contract and grant issues consistently; and c) handle post-award interventions similarly. Such policies and procedures can be crafted to achieve the sought-after uniformity of process without

compromising the ability of overseas missions to tailor development assistance to local conditions. Because "tied aid" requiring the sole use of American suppliers often significantly adds to the costs borne by taxpayers, use of such procurement rules should be minimized.

5. Barring extraordinary circumstances, only well supervised and trained, direct-hire employees of the U.S. Government should be called upon to write Requests for Proposals (RFPs) and Requests for Grant Assistance (RFAs).

6. As a consequence of other Commission recommendations that recipients be integrated into the process of determining how development assistance will be used, and that there be an increased effort to monitor and evaluate the effectiveness of development assistance, new procurement processes and vehicles should be designed which help implement these recommendations.

7. Legislative authority should be sought to include host country recipients, civil society and government officials as substantive participants in the grant and contract scoring and award processes, in order to assure country ownership of the projects being implemented.

In order to achieve a best-practices standard of procurement and contracting, additional steps to be taken include:

- Foreign assistance agencies must be given the funding and invest those funds to develop and implement a world-class training program for all employees participating in the grant and contract award processes, including intensive training for program office personnel who have a key role to play in properly defining government requirements, drafting solicitation documents, evaluating proposals and conduct post-award surveillance of grant and contract performance. A model for such a training program (which would not be a one-time or single course) may be found in the Defense Acquisition University's rigorous and extensive training for DoD acquisition personnel.

- The Administrator of USAID should immediately strengthen the independent evaluation unit within M/OAA to monitor contract officers' performance and help ensure checks and balances. USAID needs a strengthened central operations unit within its contract and grant functions to develop, implement and monitor a renewed emphasis on the highest standards.

- The Inspector General at USAID should make program audits of the agency's performance of its contract and grant functions a high priority so that an independent voice can assist the Administrator address what are believed to be a large number of entrenched management and administrative failings. While the IG's current focus on fraud and abuse is admirable, even greater savings might be achieved by more attention to issues of inefficiencies and other waste in grant and contracting processes. To the extent the IG has been unable to work in this area due to inadequate resources, we recommend additional funding be provided to the IG's office.

- We recommend the USAID Administrator take effective steps to provide the agency's Office of Acquisition and Assistance with leadership that will remain in place the minimum of five years[7]

[7] The purpose of the five year term is to give sufficient time to identify the problems, find solutions, implement them and be accountable for the results.

that we project will be necessary to re-invigorate the agency's grant and contract award systems and to inculcate the values of the new systems.

- The USAID administrator should establish an ambitious internal goal for developing partnerships that encourage greater use of minority, disadvantaged, women-owned and other small business and minority companies and with minority and smaller NGOs as prime contractors and grantees. Increased initiatives to access new types of development partners and funding sources, such as is the case with PEPFAR's New Partners Initiative[8], should be undertaken as much as possible provided it is not done via formal set-asides.

- USAID policies that serve no significant public purpose, such as restricting the amount an individual can be paid in salary, should be abolished.

- The distinction set forth in the Federal Grant and Cooperative Agreement Act of 1977 among grants, cooperative agreements and contracts should be respected. Program and contract officers should be trained to maintain a consistent application of criteria in choosing among the different mechanisms, and their decisions should be subject to stringent review.

Closing

These recommendations seek to address systemic problems in the foreign aid grant and contract processes that are, to a large extent, due to the drastic cuts in USAID's direct-hire personnel levels. Agency employees have for too many years been placed in situations in which they do not have the personnel and other resources to do the agency's mission properly. There has been relentless pressure to find what are called "work-arounds" that involve short-cutting the proper process just to get the work done on time. No matter how dedicated an employee to doing a job right, ultimately he or she needs the time to do it right.

As personnel ceilings were cut from 3,400 US-citizen direct-hire employees in 1992 to 2,400 today, much of the agency's management structure has been cannibalized to provide personnel to do the day-to-day work and handle the daily crises. Workforce planning, the human resources needed to design and implement training programs, the personnel "float" needed to provide for employees to be absent from their duties to attend training programs, the personnel in the human resources offices needed to recruit to fill vacancies, and the personnel needed to make, promulgate and enforce agency policies — all have largely disappeared over the past 20 years.

We do not seek to assign individual culpability. One has sympathy for office managers and employees placed in the impossible position of not having enough personnel to do the work properly while being relentlessly attacked for the predictable and inevitable results of that shortage. Instead we emphasize that many of these problems are the pernicious effects of repeated

[8] PEPFAR's New Partners Initiative provided approximately $200 million in grants to organizations have the capability to reach people who need HIV/AIDS services, but which lack experience in working with the U.S. Government and its processes. Community and faith-based organizations, in particular, represent vital but underutilized resources. Many such organizations are well-established within communities and well-placed to reach out to those infected and affected by HIV/AIDS.

decimations of the agency's workforce taking place simultaneously with constant additions to the work expected of the agency.

We recognize that much of the authority to solve these problems ultimately resides outside the agency. We urge these recommendations be adopted.

Appendix 1: Sources

1. Extensive interviews were conducted on a confidential basis in the United States and overseas with a wide range of organizations and individuals with long experience in the foreign aid grant and contract award processes.

2. Multiple project site visits in Africa, Latin America and Asia

3. Private correspondence from a number of individuals working on donor-funded projects

4. "Federal Contracting: Use of Contractor Performance Information," testimony by William T. Woods, US GAO Director - Acquisition and Sourcing Management, before the Subcommittee on Government Management, Organization, and Procurement, House Committee on Oversight and Government Reform. GAO-07-1111T, July 18.

5. Figures on Concentration, NGOs vs. For-Profits and Lead Times provided by USAID January 22, 2007 and October 18, 2007

6. "In Washington, Contractors Take On Biggest Role Ever," New York Times, February 4, 2007

7. "Iraq Reconstruction: Lessons in Contracting and Procurement," Special Inspector General for Iraq Reconstruction, July 2006.

8. "Iraq Reconstruction: Lessons in Human Capital Management," Special Inspector General for Iraq Reconstruction, January 2006.

9. "Iraq Reconstruction: Lessons in Program and Project Management," Special Inspector General for Iraq Reconstruction, March 2007.

10. IRS form 990s filed by US Non-Profits receiving USG funding

11. "More Dollars, Less Sense: Worsening Contracting Trends Under The Bush Administration," United States House Of Representatives Committee On Oversight And Government Reform, Majority Staff, June 2007

12. "Testimony of Samuel A. Worthington (CEO of InterAction) Before the Senate Foreign Relations Subcommittee on Foreign Assistance," June 12, 2007 and "InterAction Response to Question for the Record: Senator Lugar," July 2, 2007.

13. "U.S. Jobs Shape Condoms' Role in Foreign Aid," New York Times, October 29, 2006

14. "USAID Contracting Policies," Hearing Before the Senate Foreign Relations Committee, Subcommittee on International Economic Policy, Export and Trade Promotion, February 25, 2004

Appendix 2: Data Provided by USAID

FY	TYPE	AMT_OBLIG	PERCENT	LEGEND
1996	ACQUISITION	$172,921,180.05	46%	**GOVERNMENT TRANSFERS**
1996	ASSISTANCE	$205,799,055.98	54%	GOVERNMENT OF GERMANY
1996	Inter Agency Agreements	$1,069,906.00	0%	GOVERNMENT OF ISRAEL
		$379,790,142.03	100%	GOVERNMENT OF ISRAEL (MASHAV)
				GOVERNMENT OF PAKISTAN
1997	ACQUISITION	$190,012,083.90	34%	INTERNATIONAL FUND FOR IRELAND (IFI)
1997	ASSISTANCE	$308,658,410.88	56%	
1997	GOVERNMENT TRANSFER	$39,200,000.00	7%	**ASSISTANCE**
1997	Inter Agency Agreements	$17,623,831.47	3%	A-Cooperative Agreement
		$555,494,326.25	100%	G-Grant
				F-Associate Grant
1998	ACQUISITION	$910,656,433.34	36%	X-Ribbon PASA
1998	ASSISTANCE	$1,557,862,750.79	62%	
1998	Inter Agency Agreements	$54,962,869.45	2%	**Inter Agency Agreements (US GOVERNMENT) TRANSFERS**
		$2,523,482,053.58	100%	P-Participating Agency Service Agreement (PASA)
				R-Resources Support Services Agreement (RSSA)
1999	ACQUISITION	$983,673,485.87	28%	T-Participating Agency Program Agreement (PAPA)
1999	ASSISTANCE	$2,339,686,821.03	67%	
1999	GOVERNMENT TRANSFER	$39,200,000.00	1%	**ACQUISITION**
1999	Inter Agency Agreements	$123,279,579.53	4%	B-Basic Ordering Agreement (BOA)
		$3,485,839,886.43	100%	C-Contract (other than BOA, DQC, IQC, PO, RC and PSC)
				D-Definite Quantity Contract (DQC)
2000	ACQUISITION	$2,642,687,567.37	31%	E-Blanket Purchase Agreement (BPA)
2000	ASSISTANCE	$5,151,333,731.68	61%	I-Indefinite Quantity Contract (IQC)

2000	GOVERNMENT TRANSFER	$17,000,000.00	0%	M-GSA Schedule Order (DO)
2000	Inter Agency Agreements	$600,821,281.66	7%	N-Other Federal Schedule Order
		$8,411,842,580.71	100%	O-Purchase Order (PO)
				Q-Requirements Contract (RC)
2001	ACQUISITION	$1,326,861,381.60	25%	S-Personal Services Contract
2001	ASSISTANCE	$3,685,221,817.59	68%	V-VISA Transaction
2001	GOVERNMENT TRANSFER	$47,470,000.00	1%	Z-Ribbon Contract (Buy-In)
2001	Inter Agency Agreements	$352,493,773.12	7%	
		$5,412,046,972.31	100%	
2002	ACQUISITION	$607,639,026.17	12%	
2002	ASSISTANCE	$2,924,120,158.16	58%	
2002	GOVERNMENT TRANSFER	$1,322,000,000.00	26%	
2002	Inter Agency Agreements	$222,264,725.23	4%	
		$5,076,023,909.56	100%	
2003	ACQUISITION	$3,375,757,182.55	42%	
2003	ASSISTANCE	$3,746,345,411.59	46%	
2003	GOVERNMENT TRANSFER	$646,936,724.00	8%	
2003	Inter Agency Agreements	$327,455,919.90	4%	
		$8,096,495,238.04	100%	
FY	**TYPE**	**AMT_OBLIG**	**PERCENT**	
2004	ACQUISITION	$3,917,576,118.11	48%	
2004	ASSISTANCE	$3,585,428,856.13	43%	
2004	GOVERNMENT TRANSFER	$477,328,000.00	6%	
2004	Inter Agency Agreements	$262,045,867.76	3%	
		$8,242,378,842.00	100%	
2005	ACQUISITION	$2,688,855,105.66	33%	
2005	ASSISTANCE	$4,662,848,530.94	58%	
2005	GOVERNMENT TRANSFER	$393,862,784.00	5%	
2005	Inter Agency Agreements	$290,319,883.83	4%	
		$8,035,886,304.43	100%	
2006	ACQUISITION	$2,517,379,270.12	31%	
2006	ASSISTANCE	$5,085,664,732.14	63%	
2006	GOVERNMENT TRANSFER	$240,000,000.00	3%	
2006	Inter Agency Agreements	$274,609,292.71	3%	
		$8,117,653,294.97	100%	

USAID TOP 10 VENDORS (ASSISTANCE AND NON-PROFIT)

FY1996

	VENDOR NAME	AMT_OBLIG
1	FONDO MEXICANO PARA LA CONSERVACION DE LA NATURALEZA (FMCN)	$19,500,000.00
2	AMERICAN UNIVERSITY IN BULGARIA	$14,882,670.00
3	COOPERATIVE FOR ASSISTANCE AND RELIEF EVERYWHERE, INC. (CARE)	$9,534,857.00
4	WINROCK INTERNATIONAL INSTITUTE FOR AGRICULTURAL DEVELOPMENT (WINROCK)	$8,748,500.00
5	WORLD WILDLIFE FUND, INC. (WWF)	$7,282,796.00
6	THE ASIA FOUNDATION (TAF)	$7,243,740.00
7	MANAGEMENT SCIENCES FOR HEALTH, INC. (MSH)	$6,750,000.00
8	APPROPRIATE TECHNOLOGY INTERNATIONAL (ATI)	$5,739,107.00
9	INTERNATIONAL FOUNDATION FOR ELECTION SYSTEMS (IFES)	$5,300,000.00
10	FINANCIAL SERVICES VOLUNTEER CORPS, INC. (FSVC)	$3,515,237.00

FY1997

	VENDOR NAME	AMT_OBLIG
1	SOUTHERN AFRICA ENTERPRISE DEVELOPMENT FUND (SAEDF)	$20,000,000.00
2	WORLD EDUCATION, INC. (WEI)	$15,319,238.00
3	WORLD VISION RELIEF AND DEVELOPMENT, INC. (WVRD)	$11,332,121.00
4	NATIONAL ASSOCIATION OF THE PARTNERS OF THE AMERICAS, INC.	$8,653,020.00
5	INTERNATIONAL RESCUE COMMITTEE, INC. (IRC)	$8,348,718.00
6	INTERNATIONAL REPUBLICAN INSTITUTE (IRI)	$8,055,253.95
7	SAVE THE CHILDREN FEDERATION, INC. (SCFI)	$7,637,650.00
8	COOPERATIVE FOR ASSISTANCE AND RELIEF EVERYWHERE, INC. (CARE)	$7,391,503.00
9	PATHFINDER FUND, INC.	$7,034,487.00
10	ADVENTIST DEVELOPMENT AND RELIEF AGENCY INTERNATIONAL (ADRA)	$6,601,086.36

FY1998

	VENDOR NAME	AMT_OBLIG
1	COOPERATIVE FOR ASSISTANCE AND RELIEF EVERYWHERE, INC. (CARE)	$100,855,375.02
2	JOHNS HOPKINS UNIVERSITY (JHU)	$92,639,838.00
3	SAVE THE CHILDREN FEDERATION, INC. (SCFI)	$88,578,645.89
4	ASSOCIATION FOR VOLUNTARY SURGICAL CONTRACEPTION (AVSC)	$87,469,353.00
5	EURASIA FOUNDATION	$67,816,000.00
6	CITIZENS NETWORK FOR FOREIGN AFFAIRS, INC. (CNFA)	$45,628,227.00
7	PEOPLE-TO-PEOPLE HEALTH FOUNDATION, INC. - PROJECT HOPE (PH)	$30,876,734.00
8	WORLD VISION RELIEF AND DEVELOPMENT, INC. (WVRD)	$27,936,816.36
9	CATHOLIC RELIEF SERVICES (CRS)	$26,096,471.43
10	WINROCK INTERNATIONAL INSTITUTE FOR AGRICULTURAL	$21,046,695.46

	DEVELOPMENT (WINROCK)	

FY1999

	VENDOR NAME	AMT_OBLIG
1	CATHOLIC RELIEF SERVICES (CRS)	$103,869,959.71
2	COOPERATIVE FOR ASSISTANCE AND RELIEF EVERYWHERE, INC. (CARE)	$99,703,830.64
3	INTERNATIONAL EXECUTIVE SERVICE CORPS (IESC)	$98,265,424.25
4	JHPIEGO CORPORATION	$68,728,618.03
5	INTERNATIONAL MAIZE AND WHEAT IMPROVEMENT CENTER (CIMMYT)	$52,558,998.00
6	SAVE THE CHILDREN FEDERATION, INC. (SCFI)	$50,906,207.01
7	INTERNATIONAL INSTITUTE OF TROPICAL AGRICULTURE (IITA)	$50,337,260.00
8	INTERNATIONAL RICE RESEARCH INSTITUTE (IRRI)	$46,910,000.00
9	MERCY CORPS INTERNATIONAL (MCI)	$39,039,940.70
10	EASTERN VIRGINIA MEDICAL SCHOOL	$34,876,890.00

FY2000

	VENDOR NAME	AMT_OBLIG
1	COOPERATIVE FOR ASSISTANCE AND RELIEF EVERYWHERE, INC. (CARE)	$217,201,531.18
2	GEORGETOWN UNIVERSITY	$195,177,957.86
3	PATHFINDER FUND, INC.	$176,028,195.59
4	CATHOLIC RELIEF SERVICES (CRS)	$175,712,339.25
5	FAMILY HEALTH INTERNATIONAL (FHI)	$175,167,691.00
6	SAVE THE CHILDREN FEDERATION, INC. (SCFI)	$114,721,815.78
7	EURASIA FOUNDATION	$89,856,762.00
8	AMERICAN INTERNATIONAL HEALTH ALLIANCE, INC. (AIHA)	$87,408,955.00
9	MANAGEMENT SCIENCES FOR HEALTH, INC. (MSH)	$75,820,883.56
10	WORLD WILDLIFE FUND, INC. (WWF)	$72,005,057.84

FY2001

	VENDOR NAME	AMT_OBLIG
1	POLISH-AMERICAN ENTERPRISE FUND, INC. (PAEF)	$254,500,000.00
2	JOHNS HOPKINS UNIVERSITY (JHU)	$181,232,786.00
3	UNITED STATES RUSSIA INVESTMENT FUND (TUSRIF)	$162,000,000.00
4	FAMILY HEALTH INTERNATIONAL (FHI)	$142,488,922.00
5	COOPERATIVE FOR ASSISTANCE AND RELIEF EVERYWHERE, INC. (CARE)	$138,073,159.13
6	WESTERN NIS ENTERPRISE FUND (WNISEF)	$129,000,000.00
7	CENTRAL ASIAN AMERICAN ENTERPRISE FUND (CAAEF)	$106,000,000.00
8	CATHOLIC RELIEF SERVICES (CRS)	$93,709,527.72
9	POPULATION COUNCIL	$78,906,441.00
10	HUNGARIAN-AMERICAN ENTERPRISE FUND	$72,500,000.00

FY2002

	VENDOR NAME	AMT_OBLIG
1	COOPERATIVE FOR ASSISTANCE AND RELIEF EVERYWHERE, INC. (CARE)	$113,661,088.78
2	FAMILY HEALTH INTERNATIONAL (FHI)	$92,745,402.00
3	EURASIA FOUNDATION	$86,392,464.00

4	CATHOLIC RELIEF SERVICES (CRS)	$75,873,405.75
5	POPULATION SERVICES INTERNATIONAL (PSI)	$61,671,372.00
6	COOPERATIVE HOUSING FOUNDATION (CHF) INTERNATIONAL	$60,200,064.00
7	SAVE THE CHILDREN FEDERATION, INC. (SCFI)	$53,949,397.41
8	VACCINE FUND	$53,000,000.00
9	PATHFINDER FUND, INC.	$43,977,257.00
10	JOHNS HOPKINS UNIVERSITY (JHU)	$42,932,175.00

FY2003

	VENDOR NAME	AMT_OBLIG
1	FAMILY HEALTH INTERNATIONAL (FHI)	$155,522,931.00
2	CATHOLIC RELIEF SERVICES (CRS)	$140,734,593.13
3	COOPERATIVE FOR ASSISTANCE AND RELIEF EVERYWHERE, INC. (CARE)	$107,080,528.02
4	WORLD VISION, INC. (WVUS)	$105,052,004.73
5	SAVE THE CHILDREN FEDERATION, INC. (SCFI)	$70,859,927.43
6	ACADEMY FOR EDUCATIONAL DEVELOPMENT (AED)	$67,015,922.00
7	RESEARCH TRIANGLE INSTITUTE (RTI), INC.	$60,249,916.00
8	VACCINE FUND	$58,000,000.00
9	JOHNS HOPKINS UNIVERSITY (JHU)	$51,515,936.00
10	COOPERATIVE HOUSING FOUNDATION (CHF) INTERNATIONAL	$50,465,235.00

FY2004

	VENDOR NAME	AMT_OBLIG
1	CATHOLIC RELIEF SERVICES (CRS)	$150,554,858.68
2	CONSORTIUM FOR ELECTIONS AND POLITICAL PROCESSES STRENGTHENING (CEPPS)	$136,635,348.00
3	FAMILY HEALTH INTERNATIONAL (FHI)	$116,788,490.00
4	WORLD VISION, INC. (WVUS)	$101,946,833.47
5	COOPERATIVE FOR ASSISTANCE AND RELIEF EVERYWHERE, INC. (CARE)	$98,708,865.26
6	ACADEMY FOR EDUCATIONAL DEVELOPMENT (AED)	$78,931,001.03
7	EURASIA FOUNDATION	$68,073,045.00
8	SAVE THE CHILDREN FEDERATION, INC. (SCFI)	$63,895,017.20
9	VACCINE FUND	$59,640,000.00
10	JOHNS HOPKINS UNIVERSITY (JHU)	$58,425,717.00

FY2005

	VENDOR NAME	AMT_OBLIG
1	CATHOLIC RELIEF SERVICES (CRS)	$171,093,308.37
2	COOPERATIVE FOR ASSISTANCE AND RELIEF EVERYWHERE, INC. (CARE)	$167,727,637.80
3	CONSORTIUM FOR ELECTIONS AND POLITICAL PROCESSES STRENGTHENING (CEPPS)	$146,938,255.00
4	FAMILY HEALTH INTERNATIONAL (FHI)	$140,020,281.00
5	SAVE THE CHILDREN FEDERATION, INC. (SCFI)	$101,713,805.06
6	INTERNATIONAL RELIEF AND DEVELOPMENT, INC. (IRD)	$97,962,054.22
7	ACADEMY FOR EDUCATIONAL DEVELOPMENT (AED)	$71,974,833.00
8	VACCINE FUND	$64,480,000.00
9	JOHNS HOPKINS UNIVERSITY (JHU)	$63,860,465.15
10	WORLD FOOD PROGRAM (WFP)	$62,954,694.00

FY2006

	VENDOR NAME	AMT_OBLIG
1	COOPERATIVE FOR ASSISTANCE AND RELIEF EVERYWHERE, INC. (CARE)	$175,541,357.00
2	FAMILY HEALTH INTERNATIONAL (FHI)	$123,320,024.00
3	WORLD VISION, INC. (WVUS)	$116,766,249.20
4	CATHOLIC RELIEF SERVICES (CRS)	$114,262,423.98
5	COOPERATIVE HOUSING FOUNDATION (CHF) INTERNATIONAL	$105,643,300.00
6	ACADEMY FOR EDUCATIONAL DEVELOPMENT (AED)	$96,751,582.31
7	INTERNATIONAL RELIEF AND DEVELOPMENT, INC. (IRD)	$78,810,231.00
8	SAVE THE CHILDREN FEDERATION, INC. (SCFI)	$78,193,317.18
9	VACCINE FUND	$69,300,000.00
10	PRIVATE AGENCIES COLLABORATING TOGETHER, INC. (PACT)	$61,714,848.00

USAID Top 5 Contractors: FY 1996-2005

FY1996

	CONTRACTOR NAME	AMT OBLIG	%
1	PACE INTERNATIONAL, INC.	$14,999,971.00	8.67%
2	DEVELOPMENT ALTERNATIVES, INC. (DAI)	$11,941,620.00	6.91%
3	TETRA TECH EM, INC.	$10,789,707.00	6.24%
4	KPMG PEAT MARWICK MAIN & CO.	$10,046,650.72	5.81%
5	LOUIS BERGER INTERNATIONAL GROUP, INC.	$9,500,000.00	5.49%
	TOTAL OBLIGATIONS (ACQUISITIONS)	$172,921,180.05	

FY1997

	CONTRACTOR NAME	AMT OBLIG	%
1	CHEMONICS INTERNATIONAL, INC.	$20,629,204.00	10.86%
2	DATEX, INC.	$13,479,359.49	7.09%
3	ASSOCIATES IN RURAL DEVELOPMENT, INC. (ARD)/CHECCHI - JOINT VENTURE	$11,410,001.00	6.00%
4	DEVELOPMENT ASSOCIATES, INC.	$8,343,739.00	4.39%
5	JOHN SNOW, INC. (JSI)	$7,651,961.00	4.03%
	TOTAL OBLIGATIONS (ACQUISITIONS)	$190,012,083.90	

FY1998

	CONTRACTOR NAME	AMT OBLIG	%
1	WYETH-AYERST INTERNATIONAL, INC.	$59,669,205.31	6.55%
2	KPMG PEAT MARWICK MAIN & CO.	$55,147,143.77	6.06%
3	FUTURES GROUP INTERNATIONAL, INC.	$54,646,266.33	6.00%
4	POPULATION COUNCIL	$53,361,354.72	5.86%
5	ABT ASSOCIATES, INC.	$53,040,864.11	5.82%

	TOTAL OBLIGATIONS (ACQUISITIONS)	$910,656,433.34	

FY1999

	CONTRACTOR NAME	AMT OBLIG	%
1	PARTNERSHIP FOR CHILD HEALTH AND CARE, INC.	$95,045,120.13	9.66%
2	KPMG PEAT MARWICK MAIN & CO.	$89,460,203.26	9.09%
3	ORC MACRO INTERNATIONAL, INC. (MIRI)	$49,738,459.73	5.06%
4	LONDON INTERNATIONAL GROUP, INC.	$38,362,500.00	3.90%
5	CHEMONICS INTERNATIONAL, INC.	$36,135,916.84	3.67%
	TOTAL OBLIGATIONS (ACQUISITIONS)	$983,673,485.87	

FY2000

	CONTRACTOR NAME	AMT OBLIG	%
1	PRICEWATERHOUSECOOPERS, LLP. (PWC)	$149,236,926.15	5.65%
2	JOHN SNOW, INC. (JSI)	$146,176,995.15	5.53%
3	ACADEMY FOR EDUCATIONAL DEVELOPMENT (AED)	$141,573,836.47	5.36%
4	DEVELOPMENT ALTERNATIVES, INC. (DAI)	$95,011,468.03	3.60%
5	CHEMONICS INTERNATIONAL, INC.	$93,359,635.79	3.53%
	TOTAL OBLIGATIONS (ACQUISITIONS)	$2,642,687,567.37	

FY2001

	CONTRACTOR NAME	AMT OBLIG	%
1	DEVELOPMENT ALTERNATIVES, INC. (DAI)	$92,451,736.07	6.97%
2	ABT ASSOCIATES, INC.	$79,161,554.25	5.97%
3	INSTITUTE OF INTERNATIONAL EDUCATION (IIE)	$69,889,264.00	5.27%
4	DELOITTE TOUCHE TOHMATSU EMERGING MARKETS GROUP	$64,827,409.39	4.89%
5	ORC MACRO INTERNATIONAL, INC. (MIRI)	$61,870,554.00	4.66%
	TOTAL OBLIGATIONS (ACQUISITIONS)	$1,326,861,381.60	

FY2002

	CONTRACTOR NAME	AMT OBLIG	%
1	LOUIS BERGER INTERNATIONAL GROUP, INC.	$81,403,964.00	13.40%
2	DEVELOPMENT ALTERNATIVES, INC. (DAI)	$33,340,793.50	5.49%
3	FUTURES GROUP INTERNATIONAL, INC.	$28,085,000.00	4.62%
4	WYETH-AYERST INTERNATIONAL, INC.	$24,806,368.80	4.08%
5	ORC MACRO INTERNATIONAL, INC. (MIRI)	$21,854,631.00	3.60%
	TOTAL OBLIGATIONS (ACQUISITIONS)	$607,639,026.17	

FY2003

	CONTRACTOR NAME	AMT OBLIG	%
1	BECHTEL CORPORATION, INC.	$1,167,600,000.00	34.59%
2	CHEMONICS INTERNATIONAL, INC.	$240,796,107.43	7.13%
3	DEVELOPMENT ALTERNATIVES, INC. (DAI)	$130,781,533.34	3.87%
4	CREATIVE ASSOCIATES INTERNATIONAL, INC.	$130,305,908.00	3.86%
5	ASSOCIATES IN RURAL DEVELOPMENT, INC. (ARD)	$125,229,213.00	3.71%
	TOTAL OBLIGATIONS (ACQUISITIONS)	$3,375,757,182.55	

FY2004

	CONTRACTOR NAME	AMT OBLIG	%
1	BECHTEL CORPORATION, INC.	$1,443,359,782.00	36.84%
2	DEVELOPMENT ALTERNATIVES, INC. (DAI)	$394,183,133.23	
3	LOUIS BERGER INTERNATIONAL GROUP, INC.	$310,635,372.00	
4	BEARINGPOINT, INC. (KPMG - CONSULTING, INC.)	$255,866,501.00	
5	RESEARCH TRIANGLE INSTITUTE (RTI), INC.	$194,354,317.00	
	TOTAL OBLIGATIONS (ACQUISITIONS)	$3,917,576,118.11	

FY2005

	CONTRACTOR NAME	AMT OBLIG	%
1	DEVELOPMENT ALTERNATIVES, INC. (DAI)	$434,500,564.87	16.16%
2	CHEMONICS INTERNATIONAL, INC.	$375,543,354.00	13.97%
3	RESEARCH TRIANGLE INSTITUTE (RTI), INC.	$204,737,909.00	7.61%
4	BEARINGPOINT, INC. (KPMG - CONSULTING, INC.)	$128,358,175.00	4.77%
5	LOUIS BERGER INTERNATIONAL GROUP, INC.	$112,189,246.00	4.17%
	TOTAL OBLIGATIONS (ACQUISITIONS)	$2,688,855,105.66	

Executive Summary of Foreign Assistance: What Works and What Doesn't with Recommendations for Moving Ahead

The following paper represents the views of the authors and the signatories:

Full Paper posted to the HELP Commission website
www.helpcommission.gov

Written by Vice Chairman Carol Adelman and Commissioner Nicholas Eberstadt, with assistance from Susan Raymond and Melissa Griswold
Endorsed by HELP Commissioners Jerry Climer, Glenn Estess, Sr., Walter Kansteiner III, and Marty LaVor

Introduction

In preparing the full-length paper on What Works and What Doesn't, over 100 reports, books, and articles were reviewed. We examined evaluations from USAID, other bilateral aid agencies, multilateral donors, foundations, charities and corporations, and met with various evaluation officers and experts. We conducted meetings with current and former USAID evaluation officials which proved highly useful in better understanding the history and issues involved with evaluation of foreign aid programs. Many of these evaluation officers continued to send their views to HELP Commission staff which was greatly appreciated.

Looking back to the historical record, the paper summarizes the literature on why countries grow, whether foreign aid has an impact at the macro level, i.e. on aggregate economic growth, and whether foreign aid has impact at the micro or project level, on such specific factors as school attendance, health improvements, agricultural production and employment through specific aid interventions. Based on projects identified as successful by the donor community and those that were deemed not successful, we identified the characteristics of successful projects.

Looking forward, the research uses a variety of data sources, including the IMF, World Bank, United Nations Population Division and WHO to project social, economic and demographic changes in the developing world over the next 10 years. The prospective changes are of two types. First, there are projected economic and demographic changes including declining fertility and infant mortality and rising life expectancy, which stand to tilt the locus of health problems in developing countries toward such chronic diseases as cancer and cardiovascular and diabetes and away from the traditional problems of infectious diseases and child survival (still predominant in African countries). Furthermore, the projected rise in the pool of trained professionals and entrepreneurs in developing countries suggests there will be steadily increasing opportunities to work with local talent, thereby enhancing opportunities for "local ownership", self reliance and sustainability in aid projects.

These prospective changes within developing countries will call for a new flexibility in USAID programming — for avoiding "one size fits all" solutions for a diverse world. U.S.

assistance will need to be tailored to each country's rapidly changing conditions and development opportunities.

Second, there are major streams of international financial resources available today (some of them entirely new) that were not present when foreign assistance was conceived after World War II. Private resources now dwarf government aid to developing countries, and they have opened up new opportunities for addressing problems in entirely new ways.

The paper concludes with recommendations for USAID funding mechanisms, programming, project design, implementation, and evaluation that emanate directly from the research of past effectiveness and projections of future economic, social and demographic changes and thus opportunities.

Why Countries Grow and the Role of Foreign Aid

There is general agreement that countries are much more likely to grow when they embrace policies that create open economies, encourage trade, private investment, business creation, savings, and innovation. Of course good governance and the development of a sturdy institutional domestic framework (rule of law, individual rights, property rights, etc.) are also critical to prosperity.

Numerous scholars since the 1950s have debated whether and to what extent foreign aid helps countries grow. The studies largely conclude that the overall effect on macroeconomic growth is negligible at best. We reviewed 8 major studies and the majority shows no relationship between aid and growth, with only one asserting an unqualified positive relationship. The rapid growth of post-Mao China and of India during the past two decades—two major sources of global poverty reduction over the past generation—are not attributable in any appreciable measure to flows of foreign assistance. On the other hand, the ratio of aid to GDP is generally quite high in sub-Saharan countries: but clearly, more foreign aid has not resulted in increased per capita GDP within this region, since a majority of countries have experienced declining growth as aid has increased, and long-term increases in foreign aid have accompanied long-term declines in per capita output in more than a few of these states.

Reasons given in the literature for the lack of a generally positive identifiable macroeconomic impact of foreign aid in these studies include the arguments that aid inhibits competitiveness, creates dependency, and absorbs or misallocates political resources in recipient countries; that aid is motivated by non-development donor and contractor interests; and that aid engenders lack of feedback and accountability, host country graft and corruption.

Do Foreign Aid Projects Work and Why?

Since recipient country policies are far more important than the volume of foreign assistance in explaining why countries grow, we need to ask: where and how does foreign aid matter? From the nearly $2.7 trillion in official development aid transferred to recipient countries

since 1960[9], what evidence of program success do we have? And why have the projects been successful? Determining these characteristics of how foreign aid has positively affected the lives of individuals and communities in poor countries can instruct us in what changes can be made to future foreign aid projects.

In recent years, many bilateral donors have examined the effectiveness of their foreign assistance. In its stark evaluation of Canadian foreign aid, the Canadian Parliament Senate's Foreign Affairs Committee concluded that Canada's development agency, CIDA, has failed to make a difference in sub-Saharan Africa, despite $12.4 billion in aid expenditures there between 1968 and 2007, due to slow, unaccountable and poorly-designed development assistance and ineffective foreign aid institutions in Africa. Concluding that vibrant economies and good governance are the answer to prosperity, and that these can only be generated from within African countries themselves, the Committee recommended that Canada move to a foreign aid model similar to the Millennium Challenge Corporation: providing assistance to only those countries that have shown progress in building strong private sectors, creating employment and strengthening their political and economic governance.

The Netherlands, Ireland, Sweden, and Australia have also completed assessments of their aid programs that call for improved evaluation, more local ownership and better institutional capacity in governments. They found that successful projects involved local initiative, good governance, measured results, and the creation of local institutions for sustainability.

Other donors, particularly the World Bank, have attempted to measure programs for results such as poverty reduction. The Bank evaluation unit found that poverty reduction remains a substantial challenge. In a 2006 evaluation of 25 Bank-assisted countries, only 11 were said to have reduced the incidence of poverty between the mid 1990s and early 2000s, with poverty either stagnating or increasing in the remaining 14 countries. With some notable exceptions, foundations, private and voluntary organizations, and corporations have not generally evaluated their projects for results at the impact level.

USAID has a long history of evaluation using primarily process and output measures. While some serious impact-level evaluations have been conducted, the numbers have been low relative to total projects and money obligated by USAID. Nor does information from these evaluations or others seem to be used to inform USAID design and implementation decisions. We have reviewed projects from the Impact Evaluation Series and some illustrative successful projects identified by USAID, the World Bank, foundations, corporations, and think tanks as ones that have been evaluated at the impact level. We then analyzed them for their shared characteristics.

Some of these generally-agreed-upon successes are: Rural Electrification in Bangladesh, Consultative Group on International Agricultural Research (CGIAR), River Blindness Control and Mectizan Distribution, The Health Partnerships Program, Foreign Academic Training, Democracy Building: Results of a Quantitative Study, the Amman Stock Exchange,

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[9] Total estimated transfer to recipient countries amounts to $ 2.665 trillion; estimates are in 2005 dollars, for net disbursements of ODA as defined by the OECD, for the period 1960-2006. Calculations based on data from www.oecd.org.

and Hurricane Mitch. (Obviously, the projects just mentioned are not an exhaustive list; other additional examples have been cited in various reviews.)

Examination of programs that were both successful and unsuccessful brings to light the shared characteristics or principles of foreign aid projects that work.

Conclusions and Shared Characteristics of Successes

- **Ownership and initiative must be local**. Successful programs and project initiatives reflect actual needs of the recipient countries as expressed by local actors, rather than simply reflecting instructions of what projects and programs may be available for local recipients from USAID. Local ownership increases the prospects for long-term success by involving local institutions. Such partnerships can, indeed, lead to the continuation of institutional relationships between American and partner leaders long after the end of USAID funding.

- **Partnership is the Premise**. Successful projects and programs evidence collaboration between American and developing country institutions, especially private—especially private institutions. Indeed, such collaboration seems virtually essential for a sustained engagement that brings benefits valued by all. The U.S. government should always attempt to ensure partners are committed to a program before it makes an investment; as a general rule, U.S. dollars should be the second or third dollar on the table, not the first. When everyone is committed to common priorities and has made an investment, then everyone will be accountable for the results. With mutual accountability comes sustainability.

- **Leverage is the New Framework.** USG funds can take advantage of the myriad new sources and techniques of global support for developing countries including foundations, PVOs, corporations, universities, and remittances. USAID alliances with the multitude of new American philanthropic activity overseas can help leverage resources that far exceed those contained in Federal budgets. These partnerships should recognize priorities and expertise of philanthropic leaders and their institutions. Similar strategies should link U.S. programs to emerging local business leadership in developing countries. Within this framework, USAID becomes not the controlling task-master of U.S. development programs, but the aggregator or facilitator of effort, the creator of syndicates of resources targeted at self-reliance.

- **Flexibility is critical.** Problems and potential solutions must respond to the perceived priorities of partners, not to decades-old legislative mandates. Where the nature of the problems and opportunities for change are evolving, AID must be able to respond, and indeed to anticipate such changes and initiate innovative discussions with partners to address them.

- **Peer to Peer Approaches are Valuable.** US foreign assistance should seize the chance to address issues on which America's professionals and institutions have expertise and build firm relationships between U.S. and developing country counterparts that will endure on the basis of perceived professional self-interest long

after AID's financial role has ended. This peer-to-peer approach should replace the contractor model that currently dominates USAID programming.

- **Technology Adaptation and Adoption Matter.** Some of the most widely acknowledged foreign assistance successes, such as the Green Revolution, have at their core the application of technology to improve the human condition. As the scientific and technological capacity of developing countries expands, the potential for technology partnerships in foreign assistance also increases. Local ownership is also important in this context, as integration of technology such as bed nets and oral rehydration salts is vital to ensuring their effective use within the individual communities where they are introduced.

- **Leaders and Policy Must Drive Toward Self-Reliance.** The most important steps taken to improve the long-term development success of developing nations will come from within those countries. Local leaders must therefore be the engines of change. Encouraging leadership and good policies may mean ending or reducing aid to a country. We must not be afraid to withdraw funds to ensure that assistance does not result in dependency in recipient countries.

- **Continual Information Loops Contribute to Learning and Adjustment.** The best evaluation systems are not simply tasks that result in reports. They are continual feedback loops that give information to managers in real time so programs can be constantly adjusted to improve performance. Success comes from a continual process, not one event, and requires flexibility to adjust programs to changing situations.

- **Risk is necessary.** A partnership and venture funding culture implies a tolerance for risk and USAID must be willing to experiment with new approaches to development assistance. USAID will need to develop a mechanism for rewarding the willingness to take calculated risks within its own personnel and programs.

Recommendations

The lack of evidence of significant impact from past foreign aid efforts, the changing nature and capabilities of the developing world, and the emergence of new sources and approaches to resource transfers for development all point toward a single conclusion: U.S. foreign assistance needs an entirely new business model. The report's recommendations are based on the above conclusions and provide suggestions for the creation of that new model.

1. Sectoral and project earmarks, directions, and limitations in foreign aid legislation should be removed, with the exception of those that are deemed essential to U.S. national security. U.S. foreign assistance programs should be able to respond fully and flexibly to demand-driven opportunities emerging within the specific context of each developing country. Programmatic limitations on the problems or opportunities that development dollars can address should be removed.

2. U.S. foreign assistance programs, focused in any area of development, with the exception of those deemed essential to U.S. national security, should not expend U.S. resources without monetary or monetized resources co-invested in the developing country itself. These in-country organizations may include local affiliates of U.S. NGOs and corporations, indigenous foundations, local businesses, or public agencies. Expenditures of U.S. foreign aid should drive toward sustainable public-private partnerships in the host country.

3. Competition for U.S. foreign assistance dollars should not be among consultants, but among ideas coming from the multiple actors now involved in foreign aid and philanthropy, particularly on the demand side of the equation in developing countries. Those who wish to attract U.S. development investment resources should bring to USAID their best ideas and their own resource contributions from private sources, defended in terms of economic and social impact, local ownership, partnership with local institutions, and achievement of community self-reliance. USAID should operate more like a foundation, not a disbursement agency, articulating areas or problems of interest and inviting competition for best-in-class approaches.

4. USAID should create a "venture fund", through which any individual or organization with a new idea about how to solve a problem in development in an innovative way, that has economic impact, and creates community self-reliance, can apply for a seed grant. The grant would be for limited duration and limited amounts of money. Risk will be welcomed. The judgment on awardees would be made twice a year by a peer board. No one receiving USAID money (or who has received USAID money in the last three years) would be allowed to sit on the Board. Grantees would report directly to a panel consisting of all the USG agencies contributing to Official Development Assistance (ODA) of the USG.

USAID should establish a mechanism, e.g. advisory board, for regular and full discussion and consultation with private resources flowing into global development that are now almost four times the amount of ODA. These groups include foundations, charities, corporations, religious organizations and individuals who are sending remittances to their home countries. USAID must be aware of the vast array of new players in global development who are transforming the landscape of how assistance is delivered, i.e. through more efficient means of volunteerism and e-philanthropy, more venture capital approaches, more hands-on and people-to-people approaches, and more results- oriented projects. This mechanism should issue an annual "State of Partnership" report on public-private investment collaboration for development.

Foreign Assistance Is About Change

The following paper represents the views of the authors and the signatories:

By Commissioner Jerome F. Climer

Endorsed by HELP Chairman Mary Bush, Vice Chairman Carol Adelman, and Commissioners Steven K. Berry, Nicholas N. Eberstadt, Glenn Estess Sr., Thomas C. Kleine, Marty LaVor, Hon. Robert H. Michel and Eric Postel

The vast majority of U.S. foreign assistance dollars and programs are designed to stimulate change, for the benefit of the recipients. We spend the money because we believe that in advancing the interests of the recipients, it will enhance our national interests and/or address the moral and humanitarian imperative. We try to help recipients respond to short-term crises and tackle long-term projects in order to improve their sustenance and health care, education, justice and anti-corruption systems, infrastructure, governance, and their job and resources development. Except when our assistance is given for purely political purposes, we don't make these investments because we want to see the status quo maintained; we want change and so do the recipients. And if they don't want change, we should not invest U.S. taxpayer's funds in long-term development assistance, except in rare circumstances.

By change, we are referring to deliberately launched modifications of the status quo that have major impact on those affected. All change, intentional or not, necessarily disrupts the way individuals live their lives. For that reason, resistance to change should be considered a natural reaction, which advocates and sponsors of change should anticipate. There are a few fundamental characteristics about change:

- Change is a process.
- Change is not as mysterious as most people think.
- Change typically unfolds in a manner that can be recognized and predicted.
- Humans assimilate change at different rates.
- We can help ourselves and others recover more quickly and effectively from the effects of change.

Too often, here at home as well as abroad, public leaders do not understand the nature and process of change and are knocked off course when resistance occurs. Or alternatively, they mistakenly think that a logical policy decision will automatically be adopted and create the outcomes they anticipate.

But changing public programs or political policies entails more than rejecting the way things are and simply moving to the way you want them to be. Because change is a process, it happens in three phases: the present state, the transition state, and the desired state.

The present state is another term for the status quo, the existing condition. No matter what the project — immunizing children, improving education, improving government, or fixing water or electricity distribution systems — it is vital to understand that there is a "why" behind the existing program/process/procedure, even if dysfunctional. Objective observers might agree that this "why" is irrational or obsolete or has become too costly. Yet, in the

past, that program, process or procedure made sense to someone, and therefore, a kind of legitimizing mechanism keeps it in place. By default, the status quo has supporters, because it is familiar.

To successfully implement change, our foreign development personnel must not underestimate the affect "why" has as an anchor that keeps the status quo in place. That applies to our Washington policy structures as well as to the field's promotion of new programs in developing countries.

Expectations, either positive or negative, along with a comforting familiarity with existing conditions, are two forms of the legitimizing mechanisms that hold the status quo in place, even when the present state's many drawbacks are obvious. To understand the persistence of the present state, and the related resistance to change, is to see why you can't move directly to the new desired state. First comes a struggle with a "why" that does not easily forfeit its legitimacy, no matter how flimsy.

Therefore, all who are influenced by a particular change project, including the leaders who are fostering the change, must go through a transitional state that simultaneously replaces the old while creating the new. It's a difficult passage, and the place where most change initiatives falter.

Because change is our objective, it is logical that those representing the United States should be knowledgeable about the nature and process of change, whether acting as direct-employees of the government or as agents of our citizens acting through NGOs, religious institutions, educational groups, or others.

Leading or managing change is not as mysterious or as intuitive as once thought.[10] But it is much more than just making the right policy decision or selecting the right leaders. All the evidence argues that the percentage of successful implementations is even lower in governmental operations than in the private sector. Why? Because public leadership is less hierarchal and thus the ability to sanction behaviors (positively or negatively) is weaker. Yet, even though the private sector has applied the lessons learned about managing change over the past thirty years, few in government give more than lip service to the topic. Happily, the principles remain the same in both the public and private realms.

Travels by HELP Commissioners illustrated the validity of these conclusions. In certain cases, it was clear to some that the right policy decision had been made but that implementation of a given program had failed. Colombia, where the national leadership at the urging of the U.S. has agreed to our defoliation of illegal drug crops, offers a good example. The goal of reducing the flow of such drugs into the U.S. is a good policy decision. But the implementation is destined to failure because it does not create a workable alternative way for the indigenous farmers to make a living or to combat the drug lords. The farmers could make more money growing food crops, but there are no roads to market, therefore there is no income from their efforts. The drug lords see the eradication as one more overhead cost to be offset by planting of additional acres. In essence, at our urging a change is being imposed on local people — by the U.S. military, Colombians and

[10] Studies show that within the private sector, 70% of the right decisions fail to be implemented successfully.

contractors — that they cannot implement effectively. The problem is not with the policy decision; it is with the implementation of the change.

The sad thing is that people knowledgeable in change management could have predicted this failure long before the first dollar was spent. Yet, rather than understand why they failed, too often observers claimed that there had not been enough money dedicated to the effort or that the leadership had been weak, or the timing off, etc.

In another country, we heard complaints about our efforts to improve basic education. But a fundamental flaw in the effort to change those schools related not to U.S. money or to the intent of the country's leadership, but to the fact that the nation's leadership did not have the knowledge needed to manage their own agents of change: the teachers assigned to the local schools. They were being treated as political patronage when they should have been treated as true agents of the national leaders and thus trained in the imperative value of the change, namely improved teaching. If they were not willing to become implementers of those changes, it is questionable that they were the right people in the first place. They weren't, which left proponents of educational improvement wondering if this was just another case of needing more money. More money going into a failed structural implementation of change will not produce desirable outcome. Here again, the policy is sound but the implementation is flawed.

Frequently, the failure is due to a lack of knowledge about how change occurs. Ideas, whether good or bad, will always be resisted. It is the nature of humans to resist change. Too often, because they do not anticipate resistance, the designers of programs shift their objectives or fall back on their implementation plans upon seeing the first signs of resistance. This is particularly true of political leaders, here or abroad. Too often, our advocates in a country have done little to help local leaders understand what they have to be willing to do to make the project successful, beginning with an understanding that resistance is natural and can and must be anticipated and accommodated. Additionally, too often our advocates have not listened carefully enough to local leaders about what needs to be done to obtain local, sustainable change. Had they done so, they and the partnering nation would have had an appreciative understanding of the resistance and thus been informed inferentially about ways to accommodate or modify the resistance without forfeiting the objectives of the change program.

Having a local leader agree to let us spend our money addressing their problem is not sufficient local ownership. The local leader must develop sufficient ownership of the project that they will be adversely affected (professionally, politically or emotionally) if it fails. Otherwise, failure is something they can accept. When leaders of change understand the nature and process of change, they recognize that there are serious consequences for failure, as well as rewards for success, and they undertake the project fully informed about those risks and knowledgeable about how to succeed. In other words, change does not occur without able and willing committed leadership, and that commitment must be informed and serious.

As the Commission traveled, some of us noticed how often our Government's agents would comment on the natural leadership ability of leaders involved in successful projects. While

such charismatic leadership is intuitive or natural to a few people, most are not lucky enough to possess it. But, with education and exposure, office holders and program managers can learn how to become effective leaders of change. Learning how to evaluate the ability, willingness and commitment of leaders is not hard, but our foreign assistance establishment, both government and non-government, must decide that obtaining and applying that knowable is an imperative. Otherwise, there is little reason to believe that more money or different structures will produce better results.

Another reality of change deals with resilience — the ability to cope with and recover from things that are not totally within your control and/or expectations. Recent studies [11] have shown that there is a link between national resilience and GDP. Resilient nations, organizations and individuals are positive, focused, organized, flexible and committed. There are established and proven ways [12]of measuring an individual's or organization's resilience, and the science is rapidly moving to having verifiable ways of measuring it in nations.

Granted, it is hard to be resilient when you have confronted many years of seemingly intractable problems and have had little control throughout lengthy colonial periods, dictatorships and/or elite-controlled governments/economies, wars or famines. But it is not as clear-cut as you might imagine. War and other calamities actually demand a great deal of resiliency from the survivors. The challenge for leaders is to refocus that resiliency to constructive, productive and non-defensive purposes. But unless competent local leadership knows how to tackle such a challenge, some crisis-torn victims will become dysfunctional, even dangerous, and/or enter a state of future shock or immobilization. These are more reasons that our advocates and mentors need to be highly schooled to recognize the warning signs of dysfunctional or immobilized behavior and to know something about the paths toward building and refocusing resiliency.

Without knowledge of how resilience plays into change dynamics, too many representatives of the U.S. have launched projects that were doomed to failure because the resilience needed for successful implementation simply was not present and could not be developed in a timely fashion. There are ways to develop resilience, but it does not happen over night and it is a challenging undertaking. But good leaders can do it as Winston Churchill proved in World War II. He recognized intuitively that if resilience was low the nation could not succeed in the rapidly changing environment of a war setting. He showed his leadership skills and increased the positive, focused, organized, flexibility and commitment characteristics of England's people.

Understanding the role of resiliency is critical for our advocates of change as well as for the managers of the project and recipient country's leadership. In some cases, increasing that resiliency must take precedence over other changes. In other cases, the absence of resilience in the target audience may necessitate delaying or forfeiting a given project. Importantly, there are ways to measure resiliency and ways to enhance the characteristics. But in spite of the existence of these tools, too many practitioners are tempted to say that the pending problem is just too dire and that therefore the project has to be launched even if there is slim

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[11]Lynn Talerico, Ph.D., 2007, *Leadership, Context and Culture Resilience: Social Capital Redefined,* 9th INFER Annual Conference, Loughborough, UK

[12] Daryl Conner, methodologies developed by ODR, Inc and Conner Partners, Atlanta, GA

to no chance sufficient resiliency exists to succeed. It may make them feel better, it may make leaders in Washington, D.C. feel that they tried, but it could also be doing harm and making future success even less likely.

When leaders repeatedly launch change projects and then fail to successfully implement them, it creates a mental expectation of failure in the target groups. That regrettably leads to a loss of respect for the leadership or, if the U.S. is highly visible in the failing launches, for the U.S. It is foolhardy to launch projects that do not have a reasonable potential for success, and it is harmful to the advocates and the local leaders because it undermines their credibility. Credibility, or, as some would call it, political capital, is a leader's most important asset and destruction of it invariably hurts future prospects for success.

Understanding other characteristics of the nature and process of the change dynamic can enable our foreign development professionals to better support other nations in reaching their desired goals. Knowing if a project is designed to respond to an immediate crisis, an anticipated crisis, an immediate opportunity or an anticipated opportunity alone is extremely important.

Education is a classic area that emphasizes long term, anticipated opportunity over immediate consumption or reward. Yet too often, programs are promoted that focus on the long-term education of children whose parents see them as essential assets in ensuring that food be found for tomorrow's table. The proponents of the educational programs should acknowledge that education is a lower priority for such families until the more pressing nourishment needs are met. But, too often, they have a textbook in hand and just want to teach, thinking it is someone else's task to provide food. Or they conclude that the recipients have so many pressing needs that they might as well get on with the task of educating the children.

As with other aspects of leading complex change, once the advocates, agents and sponsors of the change have developed an appreciation for its dynamics, they will design programs so they do not conflict with the recognizable hierarchy of motivations. In the example just given, that might mean finding a way to make education an immediate opportunity for reward as opposed to an anticipated opportunity. Alternatively, the program might be designed to reduce the probability the family would face either an immediate or anticipated crisis (less food) as the result of the child spending time in an educational environment, by providing supplemental food or even compensation.

Societies, organizations or individuals respond differently in each of those four motivational scenarios. With a better understanding of the basic principle about the hierarchy of motivators, our representatives would develop better ways of understanding why a family that is hungry or insecure is not going to invest a great deal in education. One of the reasons so many early HIV/AIDS programs failed was that they did not recognize that the solution they were advocating was being viewed by the participants as itself dangerous or unwarranted, as well as an immediate solution to what was perceived as an anticipated danger. Calling for an immediate change to common sexual practices will almost always be resisted very strongly, even in the face of a potential health crisis danger. But over time, as the disease became less remote and more immediate, participants came to understand why they needed to change their practices. In other words, the time horizon perception of the

challenge/opportunity must coincide with the solution's implementation prescription, or failure is reasonably guaranteed.

Change only occurs when the leadership and the targets of the project realize that the issue is both important and urgent, in one fashion or another.

The point of all this is to say that there are proven methodologies for managing change. They have been refined and applied by the private sector over the past 30 years, and it is critical that they be applied in the field of foreign development if we are to increase our project success ratio. If they are not, we should not expect to see new successes, no matter how much more we spend. There are specific roles that will be played by advocates, sponsors, agents and targets of change. If those relationships are understood, the challenge for the U.S. Government's representatives becomes much clearer and the probability of success much greater. If they are ignored the probability of a 70% failure rate ,[13] even if the policy is right, is high.

All employees of our foreign assistance agencies should master knowledge about the nature and process of change that is basic to their mission's success. And those in the field must go farther and excel in its application. We believe that a ceiling should be placed on advancement within the U.S. Government's foreign development organizations limiting promotion until a person has mastered the principles of managing change. In the short-run, this might be accomplished by the Government providing such training through outside contractors or consultants. Some of the better ones have programs for certification as well as programs for exporting their training methodologies. In the longer run, the relevant agencies should establish their own internal training systems, so long as they are as rigorous as those applied in the private-sector. Over time, the same skill criteria should be required of grant recipients and contractors. Finally, recipient sponsors and agents should begin the implementation of projects by undergoing basic training in the leadership of change.

For top-level leaders of a partnering country, this training might be one or two initial half-day sessions where they are exposed to the basic nature and process of change. Later, they will want additional mentoring sessions on how to maintain their own commitment to the project and, more importantly, on how to communicate the need for change to their agents, their personnel charged with actually implementing the change, and the actual beneficiaries.

Agents charged with actual implementation of the project, who must report directly to the top-level leader of the change, should receive multi-day training on implementing change. Not only should they be introduced to the nature and process of change, but they should learn about the critical distinctions between various players (sponsors, advocates, agents and targets) in the process. They should learn ways to bring resistance out into the open where it can be dealt with, as opposed to letting it simmer below the surface. They should learn how to reframe opposition so higher values that can be found in the change are recognized and therefore outweigh the weaker arguments of resistance.

Lastly, agents charged with implementing projects should be instructed in the ways they must work with their supervisors. Public leaders are notorious for launching efforts and then

[13] Daryl Conner, methodologies developed by ODR, Inc and Conner Partners, Atlanta, GA

mentally moving to the next challenge. But only the top leader of a particular change project can truly guide a major change to successful implementation. While that does not mean day-to-day hands-on activity, it does mean they have to be available to periodically restate their dedication to the objectives. Finally, it means that they, not their agents, must be willing to reward those who are helping bring about the change and/or sanction negatively those who are still resisting after accommodation and reframing efforts have been attempted.

Until our personnel and the personnel of our implementing agents develop an appreciation of what has been proven about the leadership of change, many experts would argue there is little reason to increase funding for foreign assistance projects. Simply throwing more money at failed systems is not likely to produce better results. A fundamental shift in this critical field of knowledge by U.S. Government employees and our agents is necessary before we can expect to see improved results.

Appendix 11: Additional Views by Commissioners

Additional Views, in each case, have been submitted by the named Commissioners only, who wish to set forth their distinct personal views and recommendations on matters covered in the report.

Additional Views represent only the views of the authors.

Revamping U.S. Foreign Assistance by HELP Commission Vice Chairman Leo Hindery, Jr. and HELP Commissioners Jeffrey D. Sachs and Gayle E. Smith

It was always our hope and intention to sign the final HELP Commission Report without expressing differences. However, while we agree with certain of that Report's comments and recommendations, we feel compelled to submit as well our personal views and recommendations in a separate report.

These additional views, therefore, reflect our overriding, primary conclusions regarding U.S. development assistance.

We submit this report on "Revamping U.S. Foreign Assistance" because we believe that the opportunities for bolder U.S. assistance to eliminate dire poverty and improve U.S. national and global security are much greater — and more urgent — than the full Commission's Report conveys. We also believe, notably, that the best way forward to seize these opportunities is through a new Cabinet-level Department for International Development.

While the HELP Commission was created by Congress to reflect on how best to deploy the tools of development assistance, we believe that the full Commission's Report does not sufficiently address this mandate. Nor does it, we feel, adequately make the case for foreign assistance, recommend sufficient funding for it, or sufficiently establish its stature and position within the United States Government.

Accordingly, in our additional views we make nine recommendations related to the structure of U.S. development assistance, to its financing and modernization, and to its role as a core pillar of national security and American moral values.

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Summary of Conclusions

1) The U.S. should promote development assistance as a core pillar of national security and American moral values.

2) The U.S. should follow through on its oft-repeated commitments to the Millennium Development Goals.

3) U.S. Foreign Assistance should harmonize U.S. foreign policy commitments in development (such as support for the MDGs and goals adopted at G8 Summits) with the actual budgets and programs of U.S. development assistance.

4) U.S. political leaders should explain to the American people the international development objectives and commitments that have been made by the United States.

5) U.S. political leaders should explain to the American people the modest levels of U.S. development aid in comparison with spending on other pillars of U.S. security (notably Defense), with U.S. commitments, and with the spending of partner countries.

6) The U.S., in line with its own commitments and the actions of its development partners, should make concrete efforts to the target of 0.7 percent of GNP, and should aim to achieve that target by 2015.

7) The U.S. should support multilateral objectives and funding mechanisms in health, agriculture, infrastructure, education, and community development, balancing aid roughly half and half in bilateral and multilateral initiatives.

8) The U.S. should establish a new separate Cabinet-level Department of International Sustainable Development.

9) The U.S. should use the full range of development instruments, including development assistance, trade opening (such as AGOA and a successful Doha Round), aid for trade, and partnerships with civil society.

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Foreign Assistance and U.S. Security

The 2006 National Security Strategy of the United States explains the rationale of development assistance. "America's national interests and moral values drive us in the same direction: to assist the world's poorest citizens and least developed nations and help integrate them into the global economy . . . Development reinforces diplomacy and defense, reducing long-term threats to our national security by helping to build stable, prosperous, and peaceful societies."[14] In the context of national security, we should view development as one of the three main pillars, along side diplomacy and defense.

This rationale has been recognized in U.S. foreign policy doctrine for sixty years. The Marshall Plan effort to rebuild Europe after World War II defined development assistance as a critical tool to support the building of stable, prosperous, and peaceful societies. As General George Marshall explained in 1947, in launching the Marshall Plan:

[14] The United States National Security Strategy 2006. pp. 32-33. Available online at: http://www.whitehouse.gov/nsc/nss/2006/index.html.

> It is logical that the United States should do whatever it is able to do to assist in the return of normal economic health in the world, without which there can be no political stability and no assured peace. Our policy is directed not against any country or doctrine but against hunger, poverty, desperation and chaos. Its purpose should be the revival of a working economy in the world so as to permit the emergence of political and social conditions in which free institutions can exist. Such assistance, I am convinced, must not be on a piecemeal basis as various crises develop. Any assistance that this Government may render in the future should provide a cure rather than a mere palliative.[15]

President John F. Kennedy made a similar pledge in his Inaugural Address in 1961:

> To those peoples in the huts and villages across the globe struggling to break the bonds of mass misery, we pledge our best efforts to help them help themselves, for whatever period is required—not because the Communists may be doing it, not because we seek their votes, but because it is right. If a free society cannot help the many who are poor, it cannot save the few who are rich.[16]

Similarly, in launching the new Millennium Challenge Account initiative on March 14, 2002, President George Bush said the following:

> This growing divide between wealth and poverty, between opportunity and misery, is both a challenge to our compassion and a source of instability. We must confront it. We must include every African, every Asian, every Latin American, every Muslim, in an expanding circle of development. The advance of development is a central commitment of American foreign policy. As a nation founded on the dignity and value of every life, America's heart breaks because of the suffering and senseless death we see in our world. We work for prosperity and opportunity because they're right. It's the right thing to do. We also work for prosperity and opportunity because they help defeat terror. Poverty doesn't cause terrorism. Being poor doesn't make you a murderer. Most of the plotters of September the 11th were raised in comfort. Yet persistent poverty and oppression can lead to hopelessness and despair. And when governments fail to meet the most basic needs of their people, these failed states can become havens for terror.[17]

These observations, stretching over six decades, find ample support in the scientific literature and historical data. Poverty is a key factor in global instability. Poor countries are vastly more likely to fall into civil violence, state failure, and international conflict, than are richer states. This finding is thoroughly documented, among other places in the reports of the CIA Task Force on State Failure. And as President Bush rightly noted, the link of poverty and terror rests not with the individual terrorist, but with the fact that failed states become havens for terror, as has occurred in Afghanistan, Somalia, and many other countries.

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[15] General George Marshall, Speech at Harvard University, June 5, 1947
[16] John F. Kennedy, Inaugural Address, January 20, 1961.
[17] George W. Bush, Remarks on Global Development, Inter-American Development Bank, March 14, 2002.

The data have recently been summarized in a highly commendable collection of essays, *Too Poor for Peace?*, published by the Brookings Institution (2007). The editors of that volume, Dr. Lael Brainerd and Dr. Derek Chollet, summarize the findings as follows:

> In a world where boundaries and borders have blurred, and where seemingly distant threats can metastasize into immediate problems, the fight against global poverty has become a fight of necessity — not simply because personal morality demands it, but because global security does as well. Extreme poverty exhausts governing institutions, depletes resources, weakens leaders, and crushes hopes — fueling a volatile mix of desperation and instability. Poor, fragile states can explode into violence or implode into collapse, imperiling their citizens, regional neighbors, and the wider world as livelihoods are crushed, investors flee, and ungoverned territories become a spawning ground for global threats like terrorism, trafficking, environmental devastation, and disease.[18]

One of the scientific teams in the volume, led by Prof. Ted Miguel of the University of California, reached the following conclusion: "The most obvious reading of these findings is that economic factors [poverty and low economic growth] trump all others in causing African civil conflicts, and that institutional and political characteristics have much less of an impact."[19]

Recently, Dean Kenneth E. Warner of the University of Michigan School of Public Health eloquently pointed to another dimension linking development aid and security:

> We live in an era in which our country employs military might in a thus-far strikingly unsuccessful effort to encourage the emergence of democracies around the world. Might we not win far more hearts and minds, and promote democracy far more effectively, by demonstrating that the richest nation is also the most compassionate and generous, that we care about the welfare of our neighbors?[20]

Overall progress in economic development

In the broadest terms, the efforts to promote economic development around the world during the past fifty years have been highly successful, with the notable exception of large parts of sub-Saharan Africa which remain trapped in extreme poverty. The biggest development successes have come in Asia, a vast region with more than half of the world's population. Economic growth in China, India, Korea, and many other countries, and public investments in health, education, and infrastructure, have powered the most rapid improvement in living standards in world history. Aid has played an enormous role in those gains. The fact that Asia can feed itself is due in no small part to the Green Revolution which began in the 1960s, heavily supported by the U.S. public and philanthropic sectors.

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[18] Lael Brainard, and Derek Chollet, eds. *Too Poor for Peace? Global Poverty, Conflict, and Security in the 21st Century.* Washington, D.C.: Brookings Institution Press, 2007, p. 1.

[19] Edward Miguel, "Poverty and Violence," in Lael Brainrard and Derek Chollet, eds., Too Poor for Peace? Global Poverty, Conflict and Security in the 21st Century . Washington, D.C.: Brookings Institute Press, 2007, p. 55.

[20] Kenneth E. Warner, *Findings*, University of Michigan School of Public Health, Fall/Winter 2006.

The fact that disease burdens have come down sharply is due in important part to global aid successes such as smallpox eradication, widespread immunization coverage, malaria control (outside of Africa), and the uptake of oral re-hydration to fight death from diarrhea. The fact that population growth has slowed markedly is a success of aid-supported family planning efforts which the U.S. helped to initiate since the 1960s. The fact that countries like Korea, Malaysia, and Thailand became manufacturing successes results from U.S. and Japanese aid for core infrastructure and technological upgrading.

These successes, while most dramatic in Asia, are also part of the recent history of Latin America, the Middle East and North Africa (MENA). Life expectancy and literacy are on the rise. Child mortality rates have declined. Fertility rates, which determine overall population growth rates, have declined markedly. Americans can take great pride in their contribution to many of these successes.

The fact is that globalization, supported judiciously by international development assistance, is an overall success. There is progress in reducing extreme poverty, mortality rates, and hunger, in most of the world. The biggest challenges are now concentrated in a much smaller part of the world, with the epicenter of the world's development challenge in sub-Saharan Africa and selected parts of Central Asia and Latin America. It is not an accident that development is coming last to these remaining regions, since they face the toughest problems in the world: high disease burdens, poor infrastructure, landlocked regions far from trade, and vulnerability to droughts and other hazards. Fortunately, these problems are susceptible of solutions, given the wind in the sails of the global economy and given the power of modern technologies to address the challenges of disease, food production, and economic isolation.

Development Assistance as a Tool in Promoting Economic Development

There is now sixty years of experience in deploying development assistance as a tool in promoting economic development in low-income settings. Development aid has long been a mix of public and private contributions. When aid is from the public sector, it is known as Official Development Assistance (ODA). Both ODA and private assistance have played an important and successful role in development. Many of the greatest successes in development assistance in the past 6 decades have come through Public-Private Partnerships (PPPs), which typically link ODA with private-sector and philanthropic leadership of various kinds. The Green Revolution in India was spurred by such a partnership. Of course, aid has worked in conjunction with market forces, and most importantly international trade and investment, which have spread the benefits of advanced technologies to all corners of the world.

The special role for ODA has been extremely well described in the Monterrey Consensus, a 2002 agreement among the world's nations which the U.S. strongly supports and repeatedly backs. President Bush, indeed, made the following pledge: "Together we will implement the Monterrey Consensus, lift all our nations, and show the world that free societies and free markets can deliver real benefits to our citizens."[21]

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[21] George W. Bush, Remarks at Inauguration Ceremony of the Special Summit of the Americas, January 12, 2004.

The Monterrey Consensus is notable in recognizing the inter-connections among private capital flows, international trade, and ODA. All are vital to economic development of the poor countries. Rather than pitting trade versus aid, the Monterrey Consensus explains why trade and aid are both vital and complementary, and indeed why aid is vital to supporting trade competitiveness of the poorest countries. The Monterrey Consensus therefore contributed to the new concept of "aid for trade," in which ODA is used to help poor countries to improve their international trade, mainly by building the infrastructure (roads, ports, power) needed to support trade.

Here is how the Monterrey Consensus described the critical role of ODA:

> Official development assistance (ODA) plays an essential role as a complement to other sources of financing for development, especially in those countries with the least capacity to attract private direct investment. ODA can help a country to reach adequate levels of domestic resource mobilization over an appropriate time horizon, while human capital, productive and export capacities are enhanced. ODA can be critical for improving the environment for private sector activity and can thus pave the way for robust growth. ODA is also a crucial instrument for supporting education, health, public infrastructure development, agriculture and rural development, and to enhance food security. For many countries in Africa, least developed countries, small island developing States, and landlocked developing countries, ODA is still the largest source of external financing and is critical to the achievement of the development goals of the Millennium Declaration and other internationally agreed development targets.[22]

The Monterrey Consensus also rightly stressed the interconnections of good governance within the poor countries and increased official development assistance from the high-income countries. As President Bush described it at the 2005 World Summit, the Monterrey Consensus reflects a compact between rich and poor countries, linking good governance and official development assistance:

> We have a moral obligation to help others — and a moral duty to make sure that our actions are effective. At Monterrey in 2002, we agreed to a new vision for the way we fight poverty, and curb corruption, and provide aid in the new millennium. Developing countries agreed to take responsibility for their own economic progress through good governance and sound policies and the rule of law. Developed countries agreed to support those efforts, including increased aid to countries that undertake necessary reforms. . . More needs to be done. I call on all the world's nations to implement the Monterrey Consensus.[23]

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[22] The Monterrey Consensus of the International Conference on Financing for Development. Available Online at: http://www.un.org/esa/sustdev/documents/Monterrey_Consensus.htm.

[23] George W. Bush, Addresses United Nations High-Level Plenary Meeting, United Nations Headquarters, September 14, 2005.

U.S. Commitments to Economic Development and Poverty Reduction

The United States has long recognized that it can not and should not carry the development financing burden on its own. Support for economic development in the poorest countries must be a shared global effort, based on agreed targets. The United States must contribute its share but must be able to rely on other development partners as well. Indeed, the U.S. national interest is best served when U.S. funding helps to leverage financing from others in pursuit of common goals. Other countries view the situation in the same light.

For these reasons, the U.S. and partner countries have agreed on shared global goals for several decades. Great successes have been achieved in disease control, increased food production, the spread of literacy and numeracy, increased school enrolments, improved infrastructure, and many other core development objectives. By far the most important of these today are the Millennium Development Goals (Table 1), adopted by all nations in the Millennium Declaration of the year 2000 and re-confirmed regularly since then, including at the G8 Summits. President Bush conveyed the U.S. commitment to the Millennium Development Goals directly to more than 100 world leaders on the occasion of the 2005 World Summit:

> To spread a vision of hope, the United States is determined to help nations that are struggling with poverty. We are committed to the Millennium Development Goals. This is an ambitious agenda that includes cutting poverty and hunger in half, ensuring that every boy and girl in the world has access to primary education, and halting the spread of AIDS — all by 2015.[24]

The Millennium Development Goals (MDGs) are a very important instrument for effective U.S. development assistance for several reasons:

- The world has agreed to the goals and reconfirmed that support each year since 2000
- The world has agreed to a trade and financing framework in the Monterrey Consensus
- The MDGs address extreme poverty in all its interconnected dimensions: income, hunger, disease, deprivation
- The MDGs promote long-term economic growth and wealth creation by encouraging countries to focus on productive investments to end the poverty trap
- The MDGs are ambitious and yet achievable
- The MDGs are quantitative and time bound, therefore offering objective indicators of success and accountability

In addition to the Millennium Development Goals, the U.S. has joined the other G8 nations in committing to other bold and achievable development targets, often under the overall umbrella of the MDGs. Other development goals reiterated at the G8 2005 Summit in Gleneagles, Scotland, and the 2007 Summit in Hieligendamm, Germany include:

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[24] George W. Bush, Addresses United Nations High-Level Plenary Meeting, United Nations Headquarters, September 14, 2005.

- Universal access to HIV prevention, treatment, and care, including anti-retroviral medicines for all who need them, by the year 2010
- Eradication of polio
- Strengthening health systems so that health care, especially primary health care, can be provided on a sustainable and equitable basis
- Reduction of malaria mortality by at least 50 percent and at least 85 percent coverage of the most vulnerable groups with effective prevention and treatment measures
- Universal access to free and compulsory primary education of good quality by 2015 in Africa
- Universal access of children to basic health care (free wherever countries choose to provide this)
- Global TB control in line with the needs identified by the Stop TB Partnership
- Aid for trade, including physical, human, and institutional capacity building

It is occasionally said that objectives such as the MDGs or disease control are distinct from objectives to promote wealth creation and economic growth. We emphasize here that this is not the case. Achieving the MDGs and achieving long-term economic growth require the same policy focus, including increased investments in the core infrastructure (roads, power, and connectivity), health and skills of the labor force, and improvements in the business environment (transparency, macroeconomic stability, ease of doing business, and a vibrant financial sector). The fight against extreme poverty and the challenge of long-term economic growth and wealth creation go hand in hand.

Current Levels of U.S. Official Development Assistance

Though development, defense, and diplomacy are the three pillars of U.S. national security, the current investments in national security are almost entirely in the direction of defense spending. Today's under-investment in development is palpable and dangerous. The need for increased development aid has been acknowledged repeatedly by the U.S. Government in recent years, though not yet acted upon satisfactorily by the Administration and Congress.

While there a many ways to calculate the precise budgetary outlays in regard to defense, diplomacy, and development, a straightforward approach is as follows. Defense spending embraces military outlays (Department of Defense), homeland security outlays (Department of Homeland Security), and selected outlays of the State Department (military outlays). Diplomacy includes outlays for diplomacy of the Department of State other than those classified as Official Development Assistance and military support. Development outlays include all spending that is classified as ODA by the agreed standards of the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD).

Figure 1 shows the lop-sided nature of U.S. security policy. One pillar of the three, defense, receives 95 percent of the total outlays in FY07. Diplomacy is funded at 1.5 percent of total outlays and development is funded at just 3.5 percent of total outlays. In dollar terms, the defense spending was $611 billion in 2007 (comprised of $549 billion by the DOD and $50

billion by DHS, plus other small amounts). Diplomacy may be estimated at around $9 billion. Development assistance may be estimated at $22.7 billion.

The relatively low level of development spending is an enormous surprise to most Americans. Repeated survey data have shown that Americans overestimate the level of official development assistance by a factor of roughly 30 to 50 times. On average, Americans estimate in surveys that the United States Government spends one quarter of the budget on foreign aid and roughly 5 percent of U.S. national income. The actual fact is that official development assistance constituted 0.8% of the Federal Budget in FY 2006, and just 0.17% of national income.

The allocation of official development assistance is equally important. U.S. aid is divided between "bilateral" aid, given by the U.S. Government directly to other countries, and multilateral aid, given from the U.S. Government to international organizations such as the World Bank, the African Development Bank, and the Global Fund to Fight AIDS, TB, and Malaria. Most of the bilateral aid falls within the USAID budget, which came to $9.2 billion in the FY06 budget. Roughly 82 percent of U.S. aid goes through bilateral channels, while the balance of 18 percent goes through multilateral institutions.

The bilateral aid may be categorized by function or by region. USAID makes a five-way classification of bilateral aid,[25] with the approximate budget shares shown for each category shown:[26]

Strategic States	33%
Humanitarian Assistance	19%
Reduce Fragility	8%
Global Issue	18%
Transformational Development	24%

Support for "strategic states" is mainly support for U.S. allies in the "global war on terror" and/or countries in the Middle East. The Economic Support Fund (ESF) is the largest source of outlays for the strategic states. As described by USAID, "[t]he Economic Support Fund (ESF) supports U. S. foreign policy objectives by providing economic assistance to allies and countries in transition to democracy, supporting Middle East Peace negotiations, and financing economic stabilization programs."[27] The lion's share of these funds ($3.2 billion in FY07) goes to the Middle East ($1.6 billion), Pakistan ($350 million), and Afghanistan ($610 million). Emergency appropriations for Iraq and Afghanistan (as part of the Emergency Funding for the Global War on Terror) were an additional $5.6 billion. Humanitarian assistance is for immediate needs in the wake of natural disasters, conflicts, and violence. Global issues include HIV/AIDS. The support for HIV/AIDS comes mainly in the Emergency Plan for AIDS Relief (PEPFAR), which totaled around $2.6 billion in

[25] United States Agency for International Development (USAID), Policy Framework for Bilateral Foreign Aid, January 2006.
[26] Summing to more than 100% due to rounding error
[27] United States Agency for International Development (USAID), Budget Justification to Congress, 2007. Available online at: http://www.usaid.gov/policy/budget/cbj2007/ .

FY07. Aid for "fragile states" is support for stabilization, security, and reform in countries with weak governance and instability.

"Transformational development" is the assistance category directed at long-term poverty reduction and some aspects of disease control. Distressingly, it amounts to only around one-quarter of the overall bilateral aid, meaning that the vast bulk of aid is for emergencies and U.S. political aims, rather than for the objectives that are most effectively served by official development assistance: long-term economic development. Transformational development includes: Child Survival and Health ($1.5 billion), Development Assistance ($1.5 billion), the Millennium Challenge Corporation ($1.1 billion), and the Peace Corp ($300 million). The sum of these long-term development programs was $4.4 billion in FY07.

Since sub-Saharan Africa is the epicenter of the world's economic development challenge, and faces the biggest challenge of all regions to meet the Millennium Development Goals, it is important to understand the U.S. budgetary outlays for long-term development in sub-Saharan Africa. Official Development Assistance for Africa in FY06 came to around $3 billion, with the categories shown in Table 2. Let us put this $3 billion in perspective: There are approximately 800 million people in sub-Saharan Africa, and therefore *U.S. bilateral aid to Africa totals approximately $4 per African per year.*

A historical perspective on U.S. ODA

One of the reasons that Americans grossly overestimate the levels of U.S. ODA is that ODA as a share of U.S. national income has declined markedly over the past half century. At the time of the Marshall Plan, U.S. ODA exceeded 1 percent of U.S. GNP. By the early 1960s, ODA had declined to around 0.5 percent of GNP. It continued to decline through the 1990s, reaching a nadir of just 0.1 percent of GNP by the year 1999. It has subsequently increased slightly to around 0.17 percent of GNP in 2006, less than one-fifth of one percent of national income. (Figure 2)

Americans also tend to misunderstand how development aid has been allocated across different regions of the world. Consider again the level of aid given to Africa over the past 50 years. It is widely assumed by the public that the U.S. has given vast quantities of assistance to Africa for half a century yet with poor results. This has contributed to a pervasive skepticism about aid, on the ostensible grounds that aid has failed to deliver development results. In fact, aid to all of sub-Saharan Africa during 1961 to 2005 (in constant $2005 dollars) has totaled a mere $72.8 billion, about half of what we will spend in the Iraq and Afghanistan War this year alone. One third of the total, $24.4 billion, was in the form of food aid, which is not long-term development assistance. Total aid minus the cost of food aid was $48.4 billion, for a region that averaged 450 million inhabitants during this time period. This comes to an average of $2.50 per African per year, as shown in Figure 3.

By contrast, aid has been large to the Middle East. During 1961-2005, economic assistance to the Middle East and North Africa totaled $147 billion. Most of this went to Israel, Egypt, Jordan, and Palestine, which received $92 billion in aid (minus food aid), almost twice the amount to all of sub-Saharan Africa. The cumulative aid to Israel, net of food aid, equaled $48 billion, the very same as aid to all of sub-Saharan Africa. Since Israel's population is

around one-hundredth of Africa's, the per capita aid was roughly one hundred times that of Africa, averaging $242 per person per year.

The regional breakdown of all aid during 1961-2005 is shown in Figure 4. Of the $548 billion that can be allocated to specific regions (i.e. excluding multilateral aid, administrative costs of USAID, and other aid not allocated by region), Asia received the largest total, at $172 billion. The Middle East and North Africa was second, at $147 billion. Latin America was third, at $96 billion. Africa was fourth, at $72 billion. Europe (East and West) and Eurasia (the former Soviet Union), came fifth, at $61 billion.

Total economic assistance pales in comparison with the spending on the military. Total U.S. economic assistance, including food aid, during 1961 to 2005 to all countries totaled $755 billion (in constant 2005 dollars). During that same period, total spending by the Department of Defense came to $17 trillion (in constant 2005 dollars).

A comparative perspective on U.S. ODA

The U.S. is the largest aid donor, as shown in Figure 5(a), but this is hardly surprising since the U.S. is also by far the most populous donor country, with a 2006 population of 299 million, compared with 128 million in Japan, 83 million in Germany, 60 in the United Kingdom, 63 in France, 9 in Sweden, and 5 in Norway. In per capita terms, Norwegians average $629 per person in aid, while Americans average $76 per person. In terms of ODA as a share of GNP, the U.S. is second to last, just ahead of Greece, as shown in Figure 5(b).

For purposes of global burden sharing, ODA is assessed as a share of each donor's GNP. Since 1970, most donor countries have pledged to achieve the target of 0.7 percent of GNP as ODA, and reiterated that pledge many times. Only five countries — Denmark, Luxembourg, Netherlands, Norway and Sweden — have consistently achieved or exceeded that goal. All of the other 17 donors in the Development Assistance Committee of the OECD have fallen short despite their adoption of the target. The United States signed up to the target in the Monterrey Consensus in 2002, when it joined the rest of the world in the following pledge:

> [W]e urge developed countries that have not done so to make concrete efforts towards the target of 0.7 percent of Gross National Product (GNP) as official development assistance (ODA) to developing countries . . . [28]

Following the Monterrey Conference, most donor countries set a specific timetable to achieve the 0.7 percent target. Donors in the (pre-enlargement) European Union agreed to achieve at least 0.51 percent of GNP as ODA by 2010 and 0.7 percent of GNP as ODA by 2015. The United States, despite its strong and repeated support for the Monterrey Consensus, has not yet made concrete efforts to achieve the target of 0.7 percent of GNP.

[28] The Monterrey Consensus of the International Conference on Financing for Development. Available Online at: http://www.un.org/esa/sustdev/documents/Monterrey_Consensus.htm.

Private Development Assistance

The choice of 0.7 percent as the target for ODA has an explanation which remains very relevant today. During the 1960s, the idea took hold in various forums that the rich countries should support the poor countries with an annual transfer of 1 percent of national income. This in turn was to be divided between ODA, targeted at 0.7 percent, and aid from private donors, targeted at 0.3 percent. The 0.7 target was supported by the Pearson Commission (led by Nobel Laureate and Canadian Prime Minister Lester Pearson), and subsequently adopted by the General Assembly the following year.

While a few donor governments have achieved the 0.7 target, no donor country's private sector has come close to achieving the 0.3 percent of GNP target for private development assistance. Many Americans believe that the low level of U.S. ODA is offset by a uniquely high level of U.S. private aid as a share of GNP. This is, alas, not the case. The OECD DAC measures the magnitude of development assistance by non-governmental organizations (NGOs). While the data are incomplete and imperfect, the overall message is unequivocal. As shown in Table 3, for an average of 2004-5, NGO giving is less than 0.1 percent of GNP in all donor countries. U.S. NGO giving is on the high end, at an estimated 0.06 percent of GNP ($8.4 billion in 2005). Nonetheless, U.S. total giving as a share of GNP, summing the public and private aid, remains near the bottom of the donor rankings, with a combined share of around 0.26 percent of GNP in 2004-5 (0.20 official plus 0.06 private).[29]

Other resource flows to developing countries

Development flows, both official and private, are certainly not the only sources of financial capital to developing countries. Private capital flows in search of profits — both portfolio investment and foreign direct investment (to achieve a controlling interest abroad) — are important for global development, and provide critical benefits both for the United States and recipient countries. It is often said that development assistance is passé since private flows now swamp official flows. This fact does not make ODA obsolete. The private capital flows are heavily concentrated in middle-income countries and in low-income countries with high-value natural resources such as hydrocarbons, minerals, or precious metals. Private capital flows bypass the world's poorest countries, since those countries lack

[29] The Hudson Institute identifies much larger estimates of private giving in its Index of Global Philanthropy, specifically around $30 billion per year, broken down as follows: Private Voluntary Organizations (PVOs), $13.4 billion; faith-based groups, $5.4 billion; universities and colleges, $4.6 billion, U.S. foundations, $2.2 billion, and American corporations, $5.1 billion. However, there is strong reason to believe that these estimates do not reflect true development assistance. With regard to the PVO estimate, for example, while it attempts to cover international projects, it does not distinguish between development-oriented activities and other activities. In turn, the estimate of development aid from faith-based groups is without explanation of the development activities covered or of the services delivered by religious groups. The estimate for university giving is based on purported values of scholarships to foreign students in the U.S. from developing countries regardless of country of origin or personal means – yet notably, only 6 percent of the students are from the poorest continent, Africa. Finally, the estimate of corporate giving is dominated by a non-credible estimate of $4.2 billion of in-kind donations by U.S. pharmaceutical companies, with no verification that the stated values of the donated products are not simply the patent-protected market prices in the U.S., even though, through generics producers, they may be available to recipient countries at a small fraction of the patent prices.

the basic infrastructure of roads, power, ports, clinics, and schools, needed to attract private investments in the first place. As the Monterrey Consensus spelled out, ODA is vital for those countries, not only to save lives and keep children in school, but also to prepare the groundwork for future private capital flows. In this sense, ODA is complementary to private flows, and must generally precede private flows into impoverished regions.

Similar points can be made about trade. An open trading system is essential for economic development, including among the poorest countries. Developing countries need to import technology from abroad, and must pay for that technology through their own exports. For this basic reason, export-led growth has been vital for economic success in recent decades. To achieve export-led growth, poor countries need to maintain relatively open trading systems (with low to moderate tariffs, and convertible currencies), and rich countries including the U.S. have to keep their own borders open the exports of the poor countries.

However, trade reforms can not substitute for official development aid. A recent World Bank paper (2006) calculated the potential gains of a successful Doha Round for several regions of the world.[30] Of an estimated total worldwide gain of $119.3 billion per year in a successful (and ambitious) Doha scenario, the regional breakdown of benefits is as follows ($ billion):

High-income countries	$96.4
Developing countries (total)	$22.9
with East Asia	$5.5
South Asia	$4.2
Latin America	$9.2
Sub-Saharan Africa	$1.2
Other	$1.8

The gains to the poorest regions, and notably to Africa, are very small. The biggest gains are achieved by the biggest traders: the developed countries and the middle-income developing countries. The barriers faced by Africa in achieving increased exports lie mainly in the lack of their own competitiveness, rather than in the barriers in the rich-country markets. African exports are limited to a few commodities (such as hydrocarbons, diamonds, copper, iron ore, cotton, coffee, tea, and cocoa) mainly because these countries are not competitive in manufactures. The lack of manufacturing competitiveness relates mostly to poor infrastructure (especially roads, power, and ports) and the lack of requisite skills, areas that can be rectified through ODA. This basic fact justifies the concept of "aid for trade," in which ODA to finance export-promoting infrastructure serves as a springboard for improved long-term export competitiveness.

A final category of financial flows from the U.S. to the developing countries is remittances. Remittances are not aid since they represent the hard-won earnings of typically poor migrants working in the United States, Europe, and the Middle East. Yet they can boost source-country incomes and wellbeing. The largest proportion of remittances from the U.S.

[30] Kym Anderson et al., "Doha Merchandise Trade Reform: What's At Stake for Developing Countries," World Bank Policy Research Working Paper 3848, February 2006.

goes to the Caribbean and Central America. The African share of remittances is small. Worldwide, remittances to Africa are a meager 4 percent of the total, around $6 billion in 2005, and half of that total is accounted for by South Africa, Lesotho (remittances from South Africa), and Nigeria.[31] Remittances are no substitute for development assistance to the poorest countries.

Public support — and confusion — regarding development assistance

The American people are understandably confused about foreign assistance, since they hear so little about it from the President and Congress. Americans broadly support effective and large-scale development assistance, yet they also grossly overestimate the actual amount of aid given by the U.S. overall, and to Africa specifically. Since they overestimate the aid, they also assume that much of the (non-existent) aid is being stolen. Americans also fail to realize that most of what is now called "aid" is actually support for geopolitical objectives in the Middle East rather than aid directed at the poorest countries for development purposes.

The Program on International Policy Attitudes (PIPA) at the University of Maryland has been tracking public opinion on development assistance for many years.[32] Americans consistently perceive that foreign assistance spending is around 20 percent of the Federal Budget, when it is in fact around 1 percent! They would actually like it to be 10 percent of the budget. We are thus in the paradoxical situation where the public would like to "cut" aid from an imagined 20 percent of the budget to "only" 10 percent, a level that would in fact constitute a tenfold increase over the actual level of aid. Interestingly, Americans strongly support aid to cut hunger and poverty, and accord that kind of aid much more support than aid to "countries important to U.S. Security."

What works and what doesn't work with ODA

The discussion on aid effectiveness is clouded by confusions, prejudices, and simple misunderstandings. Many studies try to find a correlation between overall aid and economic growth, and when they find little positive correlation, they declare aid to be a failure. Yet the low correlation does not prove that aid is failing, since much of the aid is directed to countries in violence, famine, or deep economic crisis. It is not a surprise, therefore, that aid is often correlated with "economic failure," not because aid has caused the failure but rather because aid has responded to it.

We need a much more sophisticated approach than the standard simple correlations to judge the effectiveness of aid. We need to assess the goals of specific aid programs and whether those goals are fulfilled. Did the food aid stop starvation? Did immunizations save lives or eradicate diseases? Did infrastructure spending on roads and ports help to generate new employment in new industries? Did aid for schooling raise enrolments, completion rates, and literacy? Did farm aid increase the productivity of farms? When examined in detail, a

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[31] Sanjeev Gupta et al., "Impact of Remittances on Poverty and Financial Development in Sub-Saharan Africa," IMF Working Paper WP/07/38, February 2007

[32] PIPA, "Americans on Foreign Aid and World Hunger," February 2, 2001, and PIPA, "New Poll Shows American Public Supports Stronger Engagement with Africa," January 2003. Both available online at: http://www.worldpublicopinion.org/pipa.

large number of aid programs have been extraordinarily successful, and for reasons that can be understood and then replicated.

Another massive confusion in the public debate is the sense that vast amounts have been spent and that no development has resulted. We have seen that this view is doubly incorrect. On the one hand, aid has not been vast, at least in comparison with national incomes, the population of recipient countries, and spending on other areas of concern (e.g., defense). This is especially the case regarding Africa, a region that is regularly maligned for alleged mismanagement of aid yet regularly neglected in actual aid flows. On the other hand, there has been vast development success internationally, with stunning increases in average incomes, life expectancy, child survival, literacy, school completion rates, and other gains, in most parts of the world.

Yet another confusion results from the fact that we regularly overload our development assistance to try to accomplish too many things, especially things not well suited for development aid. It is notable, for example, that one-third of US development aid is currently directed to "strategic nations," especially in the Middle East, rather than to the world's poorest nations which need help to escape from poverty. We use our aid to buy allies, directly or indirectly finance the war on terror (e.g. by freeing-up budgets of allies so that they can increase their military outlays), create peace between Israel and Palestine, fight drug trafficking in the Andes and Afghanistan, and more. In the 1960s through 1980s, we wanted aid to help finance the Cold War, and often gave vast sums to thugs and dictators such as Mobutu Sese Seko of Zaire, for this ostensible aim.

When we look at success stories of official development assistance, however, we find that aid is most successful when it is indeed used for development assistance. In other words, the tool of official development assistance truly is a *development* tool. It can help with politics, good will towards the U.S., and even democratization in the recipient countries, but only indirectly, by enabling poor countries to escape from extreme poverty and therefore to escape from the chronic instabilities that accompany extreme poverty.

Here are several great success stories of development assistance.

The Asian Green Revolution. During the 1950s and 1960s, the Rockefeller Foundation and then other donors spurred the development of high-yield seed varieties and new techniques for modernized farming. USAID helped to finance the rapid uptake of these new technologies, including the seeds, fertilizer, and irrigation. Dramatic successes were achieved in the 1960s in India and Pakistan, and later in China, Southeast Asia, and other parts of the developing world.

Smallpox eradication. In 1967, the World Health Organization (WHO) established the Smallpox Eradication Unit, and launched a donor-supported worldwide campaign to eradicate the disease. By 1980, WHO declared the world free of smallpox.

Family Planning. During the 1960s, the U.S. Government and foundations launched a global effort to spread access to modern contraception, based on individual voluntary choices. The uptake of these contraceptive methods, supported by international and U.S. funding, has been widespread (though still largely bypassing sub-Saharan Africa). As a result

of these actions, together with declining child mortality rates, spreading literacy, and broader economic trends, fertility rates and population growth rates have declined sharply throughout most of the developing world.

Campaign for Child Survival. In 1982, UNICEF launched a campaign for child survival, based on the powerful combination known as GOBI: growth monitoring of children, oral re-hydration therapy, breastfeeding for nutrition and immunity to infectious diseases, and immunizations against childhood killers. Backed by development assistance, the package enjoyed a remarkably rapid uptake, enabling many of the poorest countries to reach at least 80 percent immunization coverage.

The Global Fund to Fight AIDS, TB, and Malaria. After years of international neglect and under-financing, international donors agreed to step up their actions to fight three killer pandemic diseases: AIDS, TB, and malaria. At the urging of then-UN Secretary General Kofi Annan, they formed a new global fund, to pool their resources and invite countries to formulate national strategies that would be backed by development aid. In a short period of five years, the Global Fund has successfully financed the access of more than 1 million HIV-infected individuals to antiretroviral medicines; the distribution of more than 30 million bed nets, mainly in Africa; and the treatment of more than 2 million individuals for TB.

There are countless other development success that could be described at length. The malaria control programs pioneered in the 1950s and 1960s achieved sustained successes outside of Africa. Other infectious diseases, such as African River Blindness (onchocerciasis), leprosy, and schistosomiasis, have been brought partially under control. Polio is on the verge of eradication, through a public-private partnership of Rotary International, the WHO, and many bilateral and multilateral donors. Major improvements in nutrition have been achieved throughout the world through iodized salt and vitamin A supplementation, both of which have been supported by official development assistance. School attendance has soared in recent years as a result of donor programs, with remarkable successes for example in East Africa. Economic development has been spurred by the construction of industrial zones and supportive infrastructure (roads, ports, power, and rail), backed by official development assistance. Japan's development aid, for example, was highly effective in helping countries in Southeast Asia to gain competitiveness in manufacturing exports.

There are six crucial lessons in these development success stories:

First, the interventions are based on a powerful, low-cost technology. The main underlying force of economic development is technological advance. It is not surprising, therefore, that successful development assistance typically involves the diffusion of a powerful technology, such as high-yield seeds, immunizations, modern contraception, or internet connectivity.

Second, the interventions are relatively easy to deliver, based on an expert-systems and local ownership. Modern technologies are embodied in systems. Vaccinations, for example, are delivered on a specific timetable for young children. High-yielding seeds are deployed in specific packages of farm inputs (e.g., combinations of seed, fertilizer, irrigation, and agricultural extension). The key to success is to deploy the technology in a system that is

evidence based, scientifically sound, administratively feasible, and tailored to local conditions.

Third, the interventions are applied at the scale needed to solve the underlying problem. The key to success of the earlier examples was not the demonstration of the underlying technology, but rather the deployment of the technology at a scale to make a difference. Typically, once the technology is known, and once the expert system has been identified, rapid scale up is possible, building on global strategies and local adaptation and support.

Fourth, the interventions are reliably funded. All of the success stories involve budget outlays over a period of many years, so that participating countries can be confident of sustained financing, and therefore can build institutional systems and provide training and capacity building.

Fifth, the interventions are multilateral, drawing support from many governments and international agencies. The greatest development challenges — extreme poverty, hunger, disease, lack of infrastructure — are beyond the financing capacity of any single donor country. Moreover, a unified effort is more efficient than a congeries of small and disparate projects, at least once the technologies and delivery mechanisms have been developed.

Sixth, the interventions had specific inputs, goals, and strategies, so that success rates could be assessed. All of the success stories had clear strategies (e.g., coverage rates of immunizations, hectares planted with high-yield seeds, and timely isolation of smallpox outbreaks). They did not directly aim for excessively broad and overarching goals — such as "economic growth," or "rule of law," or "democracy" or "end of terror" — though broad goals such as these were among the indirect and long-term objectives that motivated the programs in the first place. The programs worked on much more specific objectives, which could be measured, audited, evaluated, and re-assessed as needed.

These six specific points all come down to one overarching point: be practical when deploying development aid. Understand the targeted inputs, the outputs, the financing, and the objectives.

Promoting Good Governance through Official Development Assistance

Official development aid is not an effective instrument to overturn governments, end authoritarian regimes, or ensure strategic alliances. The amounts are too small to determine the internal politics of other countries, even if that were a desirable objective. Development aid is effective for one main purpose: development. For that reason, it is essential to direct aid efforts to development needs, with the long-term perspective that development assistance requires. Aid can not be ratcheted up and down in line with the latest election if aid is to be effective in promoting long-term development. Using aid to "buy friends" on a tactical basis has repeatedly proven to be a losing proposition. The aid is squandered while the "friends" come and go. Aid should focus on economic development to get the desired results.

Still, aid can be a very powerful tool for improving governance by applying high

performance standards to the use of aid itself. Aid-supported programs should be transparent, accountable, and subject to audits, monitoring, and independent evaluation. Aid-supported programs should have clear deliverables so that the local population can hold their government accountable for delivery. The diversion of aid funds for corrupt purposes should not be tolerated.

In the long term, U.S. official development assistance will strongly promote democracy by raising living standards in targeted countries. One of the world's most powerful patterns is that rising literacy, health, and incomes lead to strong demands for democracy from within a society. The most powerful and reliable way for outside governments to support the process of democratization, therefore, is to support long-term economic development, which lays the deep basis for long-term stable democratic rule.

Modernizing U.S. Development Assistance in the 21st Century

The U.S. development assistance effort must be updated to the conditions of the early years of the 21st century. This means that the development goals must be made clear and appropriate, the technologies must be identified, the systems for delivery must be assessed, and the multilateral financing must be assured. Our own governmental organization must be up to the task, both in assessing needs, working between the Executive and Legislative branches to ensure sustained programming, and working with other governments to coordinate global efforts. In this section we discuss the goals, technologies, delivery systems, financing, and re-organization of U.S. Governmental efforts.

The Goals. The priorities for U.S. development assistance should be based mainly on the development commitments that the U.S. and the rest of the world have made in recent years, after considerable diplomatic and scientific discussions and negotiations. At the core of the effort should be the MDGs. These goals are already the central organizing tool for most development agencies and multilateral development institutions around the world. The MDGs have the profound advantage not only of specifying explicit and quantitative targets, but also of automatically aligning U.S. efforts with those of partner countries, thereby massively leveraging American resources and expertise.

The focus of the development challenge is in those regions still trapped in extreme poverty, or those places suffering extremely high burdens of hunger, disease, or lack of infrastructure. This means that U.S. efforts should be mainly directed towards sub-Saharan Africa, Central Asia, the Andean region, Haiti, and the remaining pockets of extreme poverty in South Asia. Development aid for middle-income countries should be scaled back accordingly, since these regions can generally finance their own investment needs.

The Technologies. For each of the Millennium Development Goals, there are a set of core interventions, based on proven low-cost technologies, which can spur rapid advances toward the Goals. The UN Millennium Project among other studies has identified the powerful tools at our disposal in each of the key areas. While much can be said about each area, the following highlights can be noted.

> *Income poverty*: microfinance, electricity generation (off-grid and on-grid), all-weather roads, access to cell phones and internet, improved population health (see below)

Hunger: improved food production through the extension of "Green Revolution" technologies (high-yield seeds, fertilizer, small-scale irrigation, agricultural extension services); micronutrient supplementation for Vitamin A, iodine, zinc, and iron; monitoring of low-weight children; school feeding programs, with take-home rations for pre-school-aged children

Universal school completion: construction of schools, training of teachers, wireless internet connectivity for (solar-charged) computers at schools, separate hygienic facilities for girls and boys, mid-day feeding programs

Gender equality: time-saving infrastructure for rural women (water, power, mills, and clinics, within reach of villages); micro-finance for women's groups; improved inheritance and property rights

Reduced maternal mortality: emergency obstetrical theatres in all sub-district hospitals; training of assistant medical officers (AMOs) to perform emergency procedures; use of wireless phone systems to create emergency-response units for ambulance services

Reduced child mortality: integrated management of childhood illnesses (IMCI), including diarrhea, malaria, acute lower respiratory infection (ALRI), vaccine-preventable diseases, parasitic infections (worms), micronutrient deficiencies, and expert systems for neonatal care; increased use of community health workers, supported by mobile phone and internet connectivity

Control of AIDS, TB, and Malaria: packages of preventative and curative health services, e.g., access to medicines and universal protection by insecticide-treated bed nets in the case of malaria

Universal access to family planning and contraceptive services: logistics and supply chain management for contraceptive availability; community-worker outreach to ensure the access to family planning services and contraception on a voluntary basis

Safe drinking water and sanitation: application of modern hydrological tools to identify sustainable water sources, based on seasonal and annual runoff, rainwater harvesting, sustainable use of groundwater, and improved year-round water storage; investments in sanitation systems, including septic tanks and recycling of human and animal wastes in rural areas, and piped wastewater treatment in urban areas.

While there is much debate about "development assistance" in the abstract, there is a near consensus on the use of aid to expand the access of the poor to vital and proven technologies. Aid-skeptic William Easterly, for example, endorses this approach: "Put the focus back where it belongs: get the poorest people in the world such obvious goods as the vaccines, the antibiotics, the food supplements, the improved seeds, the fertilizer, the roads, the boreholes, the water pipes, the textbooks, and the nurses. This is not making the poor

dependent on handouts; it is giving the poorest people the health, nutrition, education, and other inputs that raise the payoff to their own efforts to better their lives."[33]

The Delivery Systems. Much is made of the difficulty of delivering such technologies to the poor, with perceived high risks of corruption, mismanagement, and other delivery failures. Yet such fears have been shown time and again to be misplaced as long as the aid is practical, subject to monitoring, adapted to local circumstances, endorsed by local communities, and embedded in a sensible delivery system with audits and evaluation. In recent years, enormous successes have been achieved in the mass distribution of anti-malaria bed nets, the mass scale-up of new vaccines (through the Global Alliance for Vaccines and Immunizations), the mass treatment of children for worm infections, the mass increase in primary-school enrolments and completion rates by eliminating school fees, and the mass access of farmers to high-yield inputs through voucher systems. In all of these cases, success has resulted from transparency, specificity, accountability, and auditing of delivery systems.

The Financing. The basic principles of financing should be clear. First, donor aid should be directed at communities and regions that can not fund their own development efforts. As the Monterrey Consensus rightly noted, this means an emphasis on the least developed countries, particularly on sub-Saharan Africa as a major focus for financing. Second, aid should avoid program designs which aim to have the poorest of the poor pay for vital services. Attempts to sell bed nets or health insurance or medicines to the poor have inevitably led to the exclusion of large parts of the population (especially rural population) from coverage. Third, donor aid should be a mix of bilateral and multilateral initiatives, divided roughly half and half. The U.S. will not, and should not, aim to fund the delivery of services on its own. The efforts should reflect a pooling of bilateral (that is, governmental) donors, international organizations, the private sector, and private philanthropy (including foundations and individuals). In some cases, such financing mechanisms already exist, but in other cases they need to be created. Here is a quick rundown.

Health financing. The Global Fund to Fight AIDS, TB, and Malaria has become the most effective instrument for multilateral financing. The U.S. should increase its contributions to the GFATM, in conjunction with increases of other donor partners. There are currently three "windows" at the Global Fund (for the three diseases). At least two new funding windows should be opened: one for "health systems" (funding of nurses, community health workers, clinic construction and facilities) and one for other readily controllable "neglected tropical diseases" (soil-transmitted helminthes, lymphatic filariasis, trachoma, onchocerciasis, and schistosomiasis).

Education financing. The Education-for-All (EFA) initiative of the Millennium Development Goals is backed by a "Fast Track Initiative" (FTI) largely funded by the United Kingdom. The United States should join the U.K. and other donors in ensuring full financing for EFA-FTI.

Agriculture financing. There is currently no multilateral financing for improving agricultural productivity and total production in sub-Saharan Africa and other hunger hotspots. The

[33] William Easterly, *The White Man's Burden,* New York: Penguin, 2006, p. 368-9

Gates and Rockefeller Foundations have recently established an Alliance for a Green Revolution in Africa (AGRA), with initial financing of $500 million. This should become the startup funding for a new Global Fund for African Agriculture, which would permit the U.S. and other donors to join together in multilateral funding, aimed at the rapid diffusion of high-yield technologies.

Infrastructure financing. Some infrastructure, notably telecommunication and internet connectivity, is being expanded rapidly on the basis of private-sector investments. Other infrastructure, notably roads, power, ports, and large-scale urban water and sanitation systems, will require very substantial public financing. Currently, infrastructure financing is provided in a somewhat haphazard way by a variety of donors, including bilateral donors, the concessionary financing window of the World Bank (the International Development Association, IDA), the regional development banks, the European Investment Bank, and others. There is no overall coordination to ensure that total financing is in line with total needs. There is a need, therefore, for a new pooled financing system for critical infrastructure, especially for sub-Saharan Africa. The Millennium Challenge Corporation (MCC) can become a significant mechanism for channeling infrastructure financing by the U.S. Government.

Other Special Challenges

In addition to improved international cooperation and financing mechanisms to achieve the Millennium Development Goals, U.S. development assistance (in conjunction with global partners) needs to focus on a set of specific additional challenges of critical concern to U.S. national security. These additional challenges are not being met by the global system as currently organized, yet will become major problems for the international community and U.S. foreign policy in the years ahead. We will briefly mention five such challenges.

The Crisis of the Dry Lands. The instability that ranges from Northern Mali to the east through Niger, Chad, Sudan, Ethiopia (notably the Ogaden Desert), Somalia, Yemen, Iran, and Afghanistan, has a basic and important underlying dimension: a dry lands crisis. Most of the world's hot spots today are actually the world's dry spots as well. They are dry sub-humid, semi-arid, or arid environments, burdened by massive population increases, degraded environments (such as over-grazing of pasturelands), rising temperatures, and falling precipitation. Rather than viewing the crises in these areas through the lens of global terror or a "clash of civilizations," it is vital to view them through the lens of livelihoods and survival. Only a developmental approach can resolve basic and urgent challenges in this vast region, in order to restore political stability and create the basis for long-term economic wellbeing.

The Challenge of Emerging and Re-Emerging Diseases. The current fear over Avian Flu is just one example of the massive increase in zoonotic diseases (that is, diseases passed from animal reservoirs to humans). HIV/AIDS is the most lethal and widespread of the zoonotic diseases of recent decades, but others include SARS, Ebola, and Hantavirus. The U.S. development program will need to support a greatly increased global investment in infectious disease control, epidemic surveillance and monitoring, and improved safety in handling of livestock and other domesticated animals in the global food chain.

The Emerging Crises of Climate Adaptation. We now understand that anthropogenic climate change is already upon us. We are experiencing significant changes in the hydrological cycle, temperatures, seasonality of species, range of species, increased vulnerability to droughts and epidemics, acidification of the oceans (from increased carbon dioxide uptake), snow melt and glacier melt, and extreme weather events. The world has agreed on an Adaptation Fund under the auspices of the UN Framework Convention on Climate Change, to enable the poorest countries to undertake adaptation measures in the face of the existing and growing climate changes. The U.S. should plan to be a major source of funding and scientific leadership in that new global effort.

The Reinvigoration of Global Population Policies. The rate of population growth in the world's poorest regions remains staggeringly high. Total Fertility Rates often average 6 to 8 children per mother in impoverished rural areas, and notably in the impoverished dry lands. These regions are without reliable access to modern contraception and family planning services, despite the pledges of the world community to ensure universal access to sexual and reproductive health services by the year 2015. Much research has demonstrated that the failure of population control in the poorest countries poses enormous risks for those societies and for the rest of the world. Dangers include under-investments per child in health, nutrition, and education; insufficient public services to keep up with a fast-growing population; falling farm sizes per household; increased environmental degradation under the pressures of rising populations; and a "youth bulge," in which a high proportion of young men (aged 15-29) in the population make an outbreak of violence and conflict more likely.

Global Trade which Works for All. Development aid can play a large role in fostering export competitiveness, and hence the importance of increased "aid for trade" which should accompany trade liberalization measures under the ongoing Doha trade round.

The Structure of U.S. Development Assistance

There is a strong case for moving development assistance to a new separate Cabinet-level **Department of International Sustainable Development** (DfISD). The new Department would house the existing USAID, PEPFAR (Emergency Plan to Fight AIDS), the President's Malaria Initiative, the Millennium Challenge Corporation, and emerging initiatives in climate change, especially vis-à-vis the developing countries. The case for a separate Department rests on the following principles:

- The need to upgrade U.S. development assistance as a pillar of U.S. national security.

- The need to improve U.S. Government management and expertise in public health, climate change, agronomy, demography, environmental engineering, and economic development.

- The need to work effectively with similar Cabinet-level Departments and ministries in partner countries.

- The need to de-politicize development assistance, so that it can be directed at the long-term investments that are critical in the fight against poverty, hunger, disease, and deprivation.

- The need for coherence of U.S. policies which impact international sustainable development, including official development assistance, trade relations with low-income countries, efforts on climate-change adaptation and mitigation, and efforts on global public health and disease control.

The current system in which USAID is a part of the Department of State is failing. U.S. aid is excessively politicized by connecting aid with short-term foreign policy exigencies (e.g. the war in Iraq or the Israel-Palestine crisis). It would be very useful to *insulate* development aid from short-term diplomatic pressures. Moreover, USAID has been gutted of much key talent and staffing, and the US Government is currently unable to attract the best young experts in development fields, and will remain unable to do so until the status of sustainable development within the government is improved. The shift in the United Kingdom from having a mere sub-cabinet development agency (the Overseas Development Administration, ODA) to having a cabinet department (the Department for International Development, DfID) has dramatically increased the standing, reputation, and expertise of the United Kingdom in the area of international development. DfID is far ahead of USAID as a global thought-leader in development policy, and DfID's departmental rank is playing a key role in that success.

The new Department would have several specific tasks in its start-up years in addition to the development challenges described in this report.

Re-focusing aid efforts. DfISD will bring together countless aid programs now strewn in a disconnected way across the U.S. Government. It will bolster technical competence (in health, agronomy, engineering, climate, hydrology, finance, and other areas related to sustainable development). It will fix the procurement and contracting systems, widely regarded to be broken. It will promote results-based aid delivery, with monitoring, accountability, and audits.

Promoting effective multilateralism. DfISD will be much better placed than USAID to work with counterpart Ministries of International Development, and to coordinate multilateral efforts.

Leveraging civil society and the private sector. DfISD will promote partnerships with civil society and the private sector. Businesses especially will be encouraged to utilize their technologies (in sectors such as health, agriculture, energy, logistics, finance, and ICT) in partnerships with the U.S. Government and multilateral agencies.

Focusing on fragile states. DfISD will pay special attention to *fragile states*, including the extreme poor, environmentally threatened regions, and post-conflict environments, where development aid can make the difference between economic growth and stability on the one hand, and state collapse and violence on the other.

Integration of all development tools. DfISD will be charged with harmonizing the range of development instruments, including development assistance, macroeconomic support (such as debt cancellation), trade policies (such as the African Growth and Opportunity Act, or AGOA), transparency initiatives (such as the Extractive Industries Transparency Initiative), and other tools of diplomacy and development.

The Financing of U.S. Development Assistance

The current level of worldwide official development assistance, roughly $100 billion per year, of which roughly $25 billion is directed to sub-Saharan Africa, is widely acknowledged to be inadequate to support the achievement of the Millennium Development Goals. This is a very important point for U.S. political leaders and the broad public. The global community, including President Bush and the Bush Administration, has repeatedly acknowledged the need for much more aid. Yet the Administration and Congress have not yet delivered on those promises.

Let us re-cap what is needed, what has been promised, and what has so far been delivered. There is universal acknowledgement by governments that more aid is needed to enable the poorest countries to achieve the Millennium Development Goals. This was already committed in the Monterrey Consensus:

> We recognize that a substantial increase in ODA and other resources will be required if developing countries are to achieve the internationally agreed development goals and objectives, including those contained in the Millennium Declaration.[34]

It is in that context that the countries agreed to make concrete efforts to the 0.7 percent target. The recognition that much more aid is needed has since been reiterated on several occasions, including at the G8 Summits and the World Summit in September 2005. At the Gleneagles Summit in July 2005, the G8 noted again that:

> A substantial increase in official development assistance, in addition to other resources, is required to achieve the internationally agreed development goals and objectives, including those contained in the Millennium Declaration (the Millennium Goals) by 2015, as we agreed at Monterrey in 2002. Fulfilling this commitment is needed in order to consolidate and build on recent progress in Africa, to stimulate the growth that will increase other resources and to enable African and other poor countries over time to reduce their aid dependency.[35]

This observation was followed by the pledge to increase aid to Africa by $25 billion a year by 2010, "more than doubling aid to Africa compared with 2004."[36] Two months later, at the

[34] The Monterrey Consensus of the International Conference on Financing for Development. Available Online at: http://www.un.org/esa/sustdev/documents/Monterrey_Consensus.htm.
[35] Gleneagles Summit, 8 July 2005, paragraph 26
[36] Ibid, paragraph 27

World Summit at the United Nations, President Bush repeated the pledge to "increased aid to nations that undertake necessary reforms."[37]

The overwhelming problem is that until now, these repeated pledges have not been fulfilled. Actual cash flows of ODA have not risen since 2004. While President Bush promised in 2002 that the Millennium Challenge Account would be funded at the level of $5 billion per year by now, in fact the funding has been under $2 billion per year. Poor countries are unsure whether the promises will ever be fulfilled and are therefore not able to plan for the future, and are certainly not able to rely on pledges to make multi-year investment decisions, including investments in capacity and training.

Many significant studies, including those of the UN Millennium Project and the Africa Commission launched by Prime Minister Tony Blair, outlined, bottom-up estimates of the costs of achieving the MDGs. The UN Millennium Project found that the OECD–DAC donors will need to contribute around 0.54 percent of GNP in ODA as of 2015 in order to co-finance the MDGs on a global basis. Since ODA will be needed for other purposes as well, such as disaster relief, or post-reconstruction financing, the UN Millennium Project recommended that donor countries honor their commitment of 0.7 percent of GNP, in order both to enable success in the MDGs and to meet other challenges which will arise.

Current US ODA, alas, remains stuck at 0.17 percent of GNP, the second-lowest of all donors. Unlike the EU, which has agreed to achieve 0.7 by 2015, the U.S. has no timetable or political consensus to reach that goal, despite the pledge of the U.S. at Monterrey to make concrete efforts to do so. By contrast, military spending in the U.S. is around 5 percent of GNP, when one combines the Pentagon budget with supplemental appropriations to finance the wars in Iraq and Afghanistan.

The U.S. should now join the European Union in setting a specific timetable for increasing aid through the period to 2015. As did the EU, the U.S. should commit to reach 0.5 percent of GNP by the year 2010 and 0.7 percent of GNP by the year 2015. Such a trajectory of aid would ensure success in achieving the Millennium Development Goals by 2015, and would put the world on a trajectory to achieve the end of extreme poverty by the year 2025.[38] Of the total aid, roughly half should be allocated through multilateral channels (e.g. IDA, the Global Fund to Fight AIDS, TB, and Malaria, a new Global Fund for African Agriculture), and roughly half should be allocated through U.S. bilateral initiatives, such as PEPFAR, the President's Malaria Initiative, and the Millennium Challenge Corporation.

Summary of Conclusions

1) The U.S. should promote development assistance as a core pillar of national security and American moral values.

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[37] George W. Bush, Addresses United Nations High-Level Plenary Meeting, United Nations Headquarters, September 14, 2005.

[38] See the calculations in Jeffrey Sachs, *The End of Poverty*, New York: Penguin 2005, based on the work of the UN Millennium Project and WHO Commission on Macroeconomics and Health, and consistent with the findings of the 2005 Africa Commission of the U.K. Government.

2) The U.S. should follow through on its oft-repeated commitments to the Millennium Development Goals.

3) U.S. Foreign Assistance should harmonize U.S. foreign policy commitments in development (such as support for the MDGs and goals adopted at G8 Summits) with the actual budgets and programs of U.S. development assistance.

4) U.S. political leaders should explain to the American people the international development objectives and commitments that have been made by the United States.

5) U.S. political leaders should explain to the American people the modest levels of U.S. development aid in comparison with spending on other pillars of U.S. security (notably Defense), with U.S. commitments, and with the spending of partner countries.

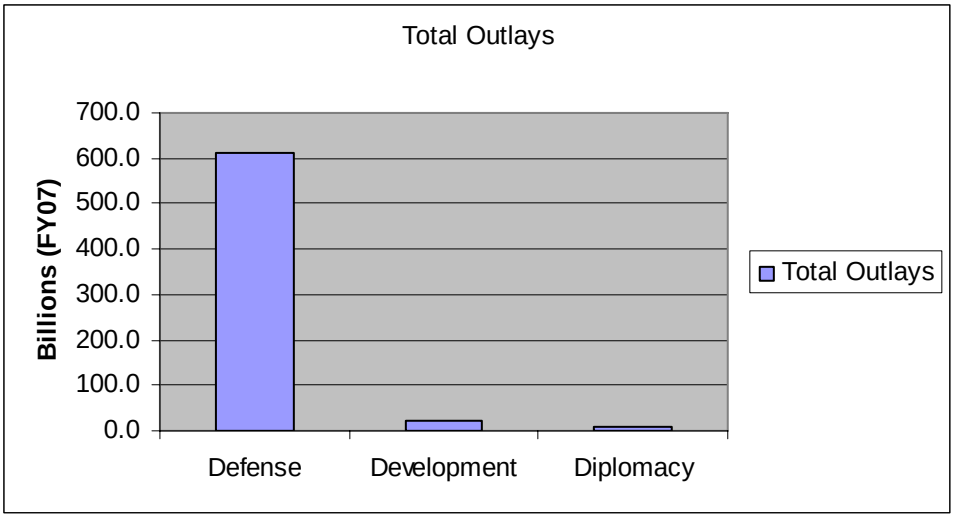
6) The U.S., in line with its own commitments and the actions of its development partners, should make concrete efforts to the target of 0.7 percent of GNP, and should aim to achieve that target by 2015.

7) The U.S. should support multilateral objectives and funding mechanisms in health, agriculture, infrastructure, education, and community development, balancing aid roughly half and half in bilateral and multilateral initiatives.

8) The U.S. should establish a new separate Cabinet-level Department of International Sustainable Development.

9) The U.S. should use the full range of development instruments, including development assistance, trade opening (such as AGOA and a successful Doha Round), aid for trade, and partnerships with civil society.

Figure 1. The Allocation of National Security Outlays



Source: Whitehouse OMB for "Defense" and "Diplomacy"; OECD/DAC for "Development"

Figure 2. U.S. Official Development Assistance as a percentage of Gross National Income

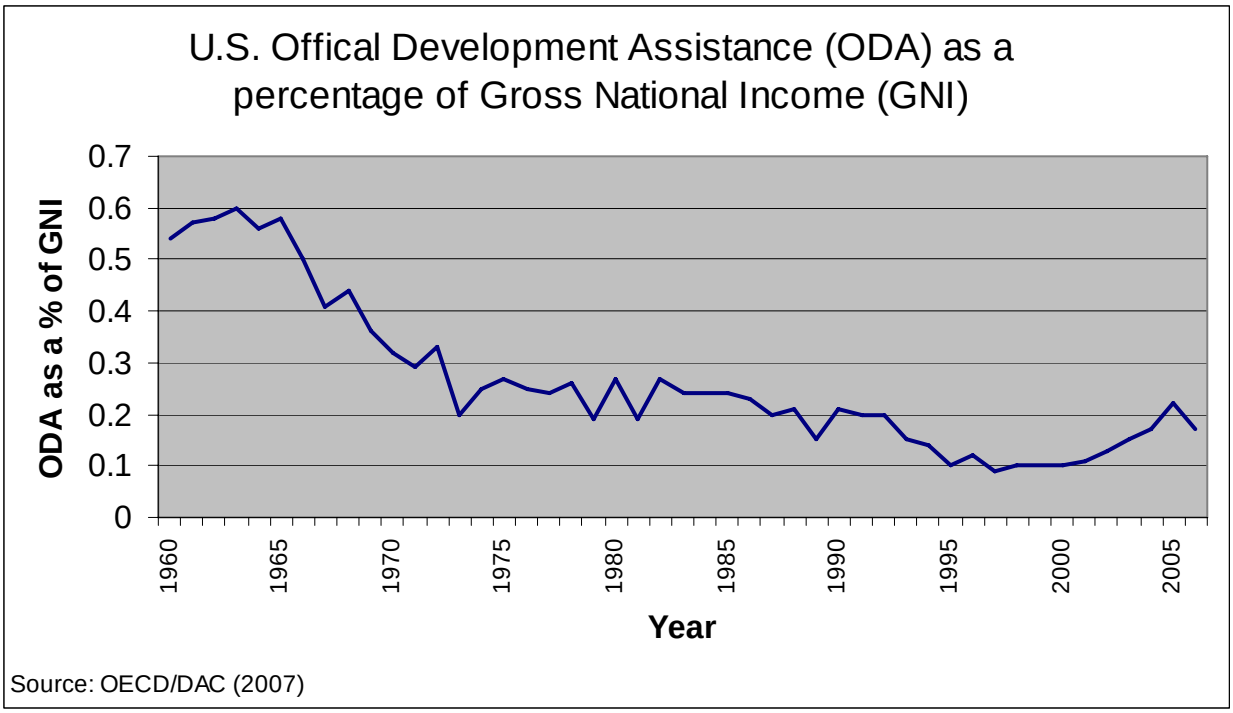
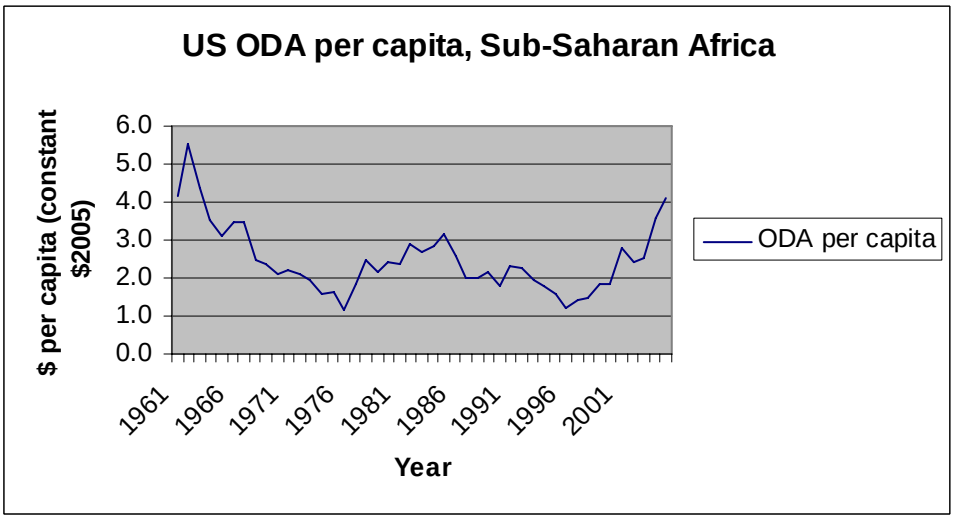
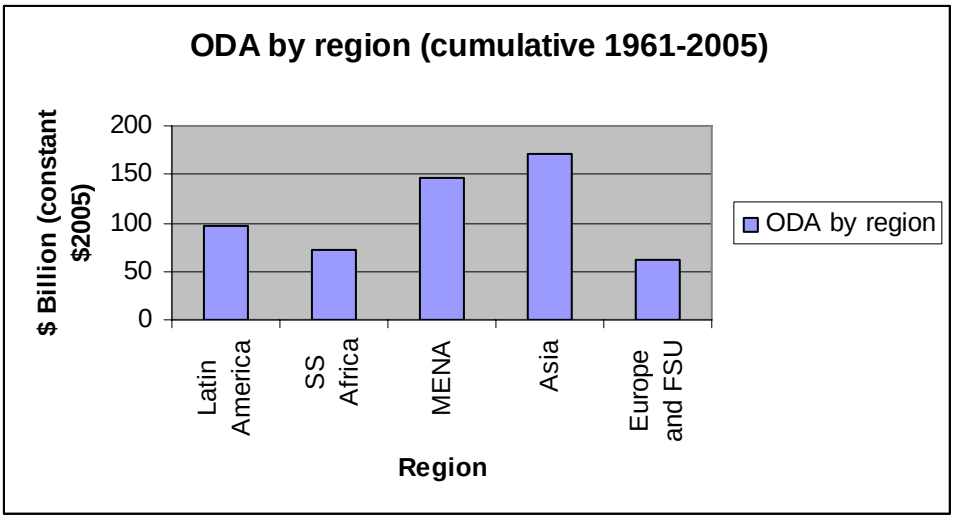


Figure 3. US ODA to Africa ($ per African), 1961-2005



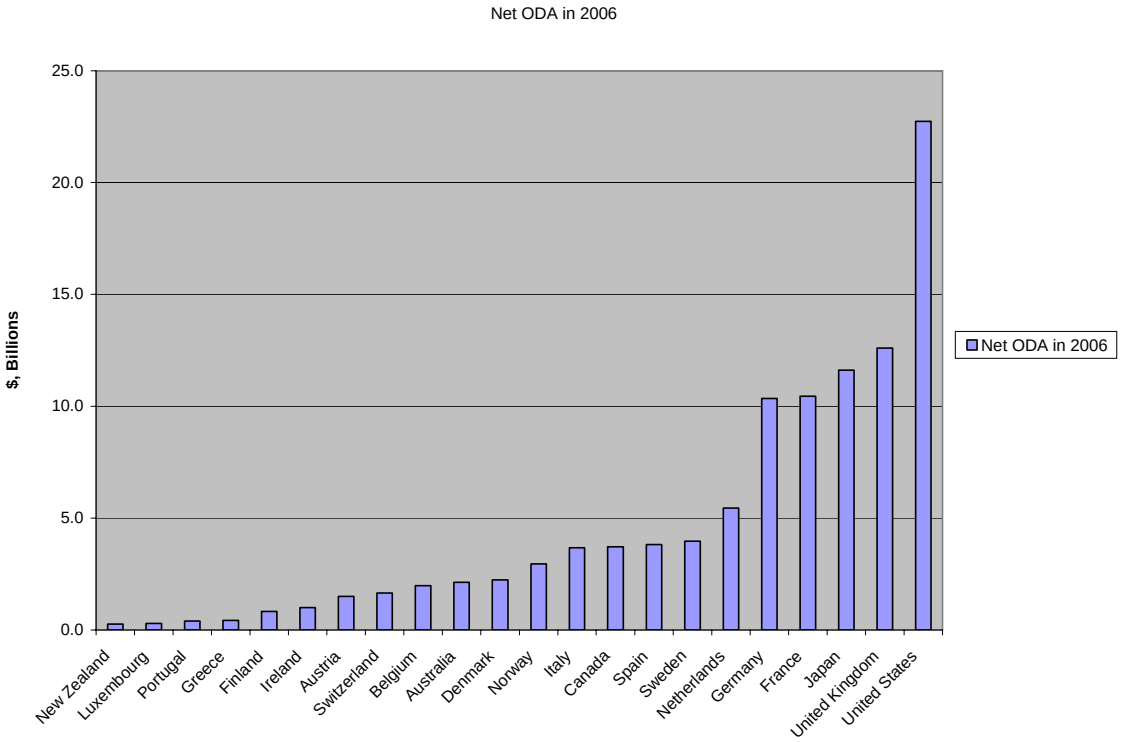
Source: Data from OECD/DAC (2007)

Figure 4. US ODA by Region, 1961-2005



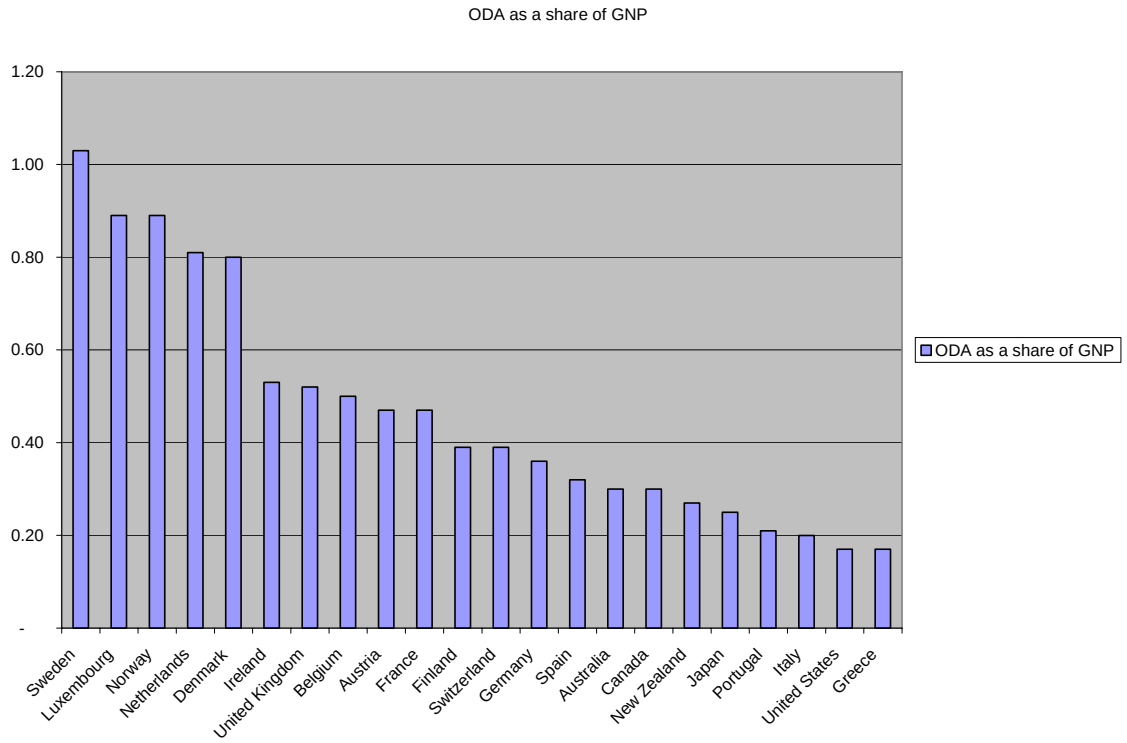
Source: OECD/DAC (2007)

Figure 5(a). Net ODA in 2006



Source: Data from OECD/DAC (2007)

Figure 5(b). ODA as a share of GNP



Source: Data from OECD/DAC (2007)

Table 1. The Millennium Development Goals

Goal 1: Eradicate extreme poverty and hunger	**Target 1:** Halve, between 1990 and 2015, the proportion of people whose income is less than $1 per day
	Target 2: Halve, between 1990 and 2015, the proportion of people who suffer from hunger
Goal 2: Achieve universal primary education	**Target 3:** Ensure that by 2015 children everywhere, boys and girls alike, will be able to complete a full course of primary schooling
Goal 3: Promote gender equality and empower women	**Target 4:** Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015
Goal 4: Reduce child mortality	**Target 5:** Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate

Goal 5: Improve maternal health	**Target 6:** Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio
Goal 6: Combat HIV/AIDS, malaria, and other diseases	**Target 7:** Have halted by 2015 and begun to reverse the spread of HIV/AIDS
	Target 8: Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases
Goal 7: Ensure environmental sustainability	**Target 9:** Integrate the principles of sustainable development into country policies and programs, and reverse the loss of environmental resources
	Target 10: Halve by 2015 the proportion of people without sustainable access to safe drinking water and basic sanitation
	Target 11: Have achieved by 2020 a significant improvement in the lives of at least 100 million slum dwellers
Goal 8: Develop a global partnership for development	**Target 12:** Develop further an open, rule-based, predictable, non-discriminatory trading system (includes a commitment to good governance, development, and poverty reduction -- both nationally and internationally)
	Target 13: Address the special needs of the Least Developed Countries (includes tariff- and quota-free access for Least Developed Countries' exports, enhanced program of debt relief for heavily indebted poor countries [HIPCs] and cancellation of official bilateral debt, and more generous official development assistance for countries committed to poverty reduction)
	Target 14: Address the special needs of landlocked developing countries and small island developing states (through the Program of Action for the Sustainable Development of Small Island Developing States and 22nd General Assembly provisions)
	Target 15: Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term
	Target 16: In cooperation with developing countries, develop and implement strategies for decent and productive work for youth
	Target 17: In cooperation with pharmaceutical companies, provide access to affordable drugs in developing countries

Target 18: In cooperation with the private sector, make available the benefits of new technologies, especially information and communications technologies

Source: United Nations

Table 2. Bilateral Official Development Assistance to sub-Saharan Africa, FY06

Emergency Plan for AIDS Relief	$675 mm
Child Survival and Health	$391 mm
Development Assistance	$588 mm
Millennium Challenge Corporation	$850 mm (estimated as half of total MCC)
Economic Support Fund	$121 mm
Food Assistance (PL480)	$272 mm
Peace Corps	$120 mm (estimated as half of total PC)
Total bilateral aid to Africa	$3 billion

Source: United States Agency for International Development, *The Greenbook*.

Table 3. Combining Official Development Assistance and Giving by NGOs (average for 2004-5)

2004-5	**ODA/GNI**	NGO/GNI	Combined
Australia	0.25	0.10	0.35
Austria	0.38	0.04	0.42
Belgium	0.47	0.06	0.53
Canada	0.30	0.08	0.38
Denmark	0.83	0.03	0.86
Finland	0.41	0.01	0.42
France	0.44	..	
Germany	0.32	0.05	0.37
Greece	0.16	0.00	0.17
Ireland	0.40	0.17	0.57
Italy	0.22	0.00	0.22
Japan	0.23	0.01	0.24
Luxembourg	0.83	0.02	0.85
Netherlands	0.78	0.07	0.85
New Zealand	0.25	0.06	0.32
Norway	0.91	..	
Portugal	0.42	0.00	0.42
Spain	0.26	..	
Sweden	0.86	0.01	0.87
Switzerland	0.43	0.08	0.51
United Kingdom	0.42	0.03	0.44
United States	0.20	0.06	0.26
TOTAL DAC	0.30	**0.04**	0.34

Source: OECD/ DAC (2006)

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Support for an Independent Cabinet-Level Department of Development by HELP Commissioner William C. Lane

The following represents the views of only the author:

Like most of the other Commissioners, I'm proud of the HELP COMMISSION REPORT. Our report is a solid document that strongly endorses the view that like Defense and Diplomacy, Development is an essential tool to protect national security, strengthen humanitarian values and build economic prosperity. Furthermore, even though the Commission was comprised of people representing a broad cross-section of political views and diverse experiences, we came together in our belief that substantive changes are needed in the way America's development programs are led, coordinated, delivered and financed.

Most of the Commission recommendations received unanimous or near unanimous support from the Commissioners. But on one -- the issue of structure -- there were strong dissenting views. As the only Republican on the Commission who supported the creation of a new Cabinet-level Department for International Development (DID), I feel compelled to explain why.

As the report makes clear, a majority of the Commissioners believes it is time to do away with the State Department and create a new, more expansive Department of International Affairs (DIA) that includes all development functions. While I understand Commissioner frustration with the status quo, I believe this DIA recommendation goes well beyond the Commission's mandate. As a result, I fear that the DIA suggestion could divert attention from the many other solid recommendations in the report.

Another concern is that the notion of a radical reorganization of the State Department coupled with a complete merger of all aid functions was presented late in the Commission's deliberation. As a result, most of the experts and officials the Commission interviewed were not able to provide guidance regarding the wisdom of the DIA proposal. Simply put, the Commission was not able to conduct a comprehensive study on all of what it would take to reorganize the State Department. As a result, I do not have an adequate foundation to evaluate the DIA recommendation.

In spite of this, I believe the DIA recommendation represents an intriguing notion that should not be totally dismissed. But rather than endorse it, I believe a more prudent path would be to further study the DIA proposal -- perhaps as part of a comprehensive review of the State Department led by former Secretaries of State.

In contrast, I endorse the DID recommendation because it best reflects my views regarding structure. It is not a perfect match, but it's close. I have come to the conclusion that to enhance America's development capabilities some aid functions must be consolidated in a new Cabinet-level department. Others should be moved to State Department and still others should be kept independent. I also believe the U.S. Information Agency should again be an independent agency. And to promote better coordination between these organizations, the National Security Council should have increased responsibilities.

On a more personal note, I want to thank Former Speaker Hastert for appointing me to the HELP COMMISSION. It has truly been an honor to serve on such an august commission. I want to thank our Chairwoman Mary Bush, my HELP COMMISSION colleagues and the Commission's staff for working together to produce this report. In many ways the HELP COMMISSION REPORT is a blueprint that will not only put Development on a more equal footing with Defense and Diplomacy, but will allow the United States to better meet it foreign policy objectives.

Various Views on Foreign Aid: Why Countries Really Grow; Misperceptions about US Government Aid for Political Purposes; U.S. Public Opinion on Foreign Aid; and Private Giving to the Developing World by HELP Commission Vice Chairman Carol Adelman and Commissioner Nicholas Eberstadt

Foreign Aid and Why Countries Really Grow

The following represents the views of only the authors:

As Commissioners who believe that specific performance-related conditions be attached to any prospective increases in America's development aid, we welcome this opportunity to more fully explain our views.

Our assessment was based not just on our many decades of personal experience and research, but also on an extensive review conducted for the HELP Commission. The Executive Summary of this review, *What Works, What Doesn't in Foreign Aid with Considerations for Future Improvements,* is an appendix to this report. The full version, a document of more than 50 pages and more than 125 footnotes, is available on the HELP Commission website, www.helpcommission.gov.

The review documents the corpus of literature on the efficacy of development assistance, a literature that goes back to the 1950s. The great majority of the studies in this literature concludes that the overall impact of foreign aid on economic growth in developing countries has been negligible, at best.

Our review underscores the simple and basic historical truth about why countries *do* grow: namely because their polities and policies encourage and support a "climate" that is favorable to material progress. Aspects of that "climate" include, but are by no means limited to: open economies, free trade, private investment, entrepreneurship, rule of law, competitive political parties and elections, investment in human capital, technological innovation, and strong and vibrant civil societies. Countries like Ghana, Botswana, Tunisia and Vietnam are very different from one another—yet all have made considerable strides in growing out of crippling poverty by embracing, or moving toward, the more auspicious "climate" to which we refer.

One thing that became immediately clear once we began to undertake this work was that most development aid programs, including USAID projects, have not been carefully evaluated at the impact level. While some serious impact evaluations have been done, they are remarkably few in relation to the number of projects undertaken, and the volumes of money spent, by USAID over the years. Shouldn't routine and rigorous review of the impact of development aid programs be welcomed by all who sincerely wish to help the poor improve their lives?

In general, reports and evaluations confirm that US-sponsored disaster relief and humanitarian assistance initiatives have worked well, given their objectives. Relief and rehabilitation efforts have helped restore health and homes to millions suffering from natural and man-made disasters around the world. Millions of children have been vaccinated, and now USAID is helping prevent deadly diseases such as AIDS, TB, and malaria and treating thousands of patients suffering from these pandemics.

On the other hand, given their objectives, US-sponsored economic development aid programs have generally been much more disappointing, especially in recent decades. From the limited number of well evaluated and successful projects, we identified some shared characteristics: these included local ownership, co-investment by the local partner, private sector involvement, peer-to-peer relationships, and flexibility in design.

We concluded that, by and large, foreign aid for development purposes requires a new business model altogether if it is to have a chance at succeeding. Our conclusion was starkly reinforced by results from an additional study conducted for the Commission in June 2006, *Anticipating the Aid Environment in 2020,* available on the HELP website as well.

We called this latter study the "skating paper" after Wayne Gretsky's famous answer to why he was such a great hockey player. "I always skate to where the puck will be," he replied, "not to where it's been." Analagously, to know what types of assistance the developing world would need in the next decade or two, we need to consider the likely future environment in developing countries with respect to levels of poverty and income, infant mortality and life expectancy.

Using World Bank, IMF and UN Population Division data, this analysis examined economic and demographic projections for developing countries through 2020. This assessment tracked closely with conclusions from Paul Collier's, *The Bottom Billion* (New York: Oxford University Press, 2007) The "skating paper" indicated that the populations of the great majority of developing countries - the globe's middle 4 billion - are indeed developing and are on a path to prosperity and better health. Yet there is also stark and disturbing evidence that the least developed countries, primarily in Africa, are being left behind today—and may well lag even further behind a decade or two hence.

These ongoing and prospective trends only further emphasize the need for a new approach to development assistance. In most of the developing world, these trends will make for increases in trained manpower, local resources, and technological possibilities—and also for new problems, such as aging and chronic diseases: transformations that highlight the importance of aid programs that work closely with local partners and have the flexibility to do new programs. While the very poorest countries will likely still require more "traditional" types of foreign assistance, the new business model of delivering aid through partnerships with private individuals and groups contributing time and resources is nonetheless a development model that can be used in the least developed countries as well.

Simply stated, a business model requires business standards—yes, even for the business of development assistance. We argue that USAID (or any successor institution) must show that it can implement (and evaluate) a new business model for development projects before more money is poured into what is now a broken delivery system. Proper project evaluation

(including baseline data and control or comparison groups) and continuous monitoring that feeds back into project management are 20th century innovations that must finally reach America's 21st century foreign aid programs.

Unlike some of our fellow Commissioners, we cannot support increases of official development assistance until we have seen results. Nor do we support the view that per capita foreign aid targets as mentioned in the report are meaningful to a country's development. Sub-Saharan Africa's lack of development is not related to the GNI of donor countries and per capita amounts of aid it has received.

We wish, furthermore, to counsel explicitly against the statist, dirigiste,"aid-centric" viewpoint on economic development and material advance. Let us not mince words: it is a fantasy to imagine that aid donors can centrally plan the developing world out of poverty. The notion that donors can come up with detailed plans and budgets for every sector and then coordinate so that we fix each sector failed in aid bureaucracies. Successful projects do not come from acronyms and buzz words like CDEs, PRSPs, MPPs and "coherent strategies."

These very fallacies, unfortunately, seem to color the Report's discussion of the Millenium Development Goals (MDGs), which critique the Administration for supporting the MDGs but not being prepared to "fund these goals." This posture, we submit, betrays a profound misunderstanding of the real development process.

Everyone can be in favor of the MDGs, as they are indeed laudable objectives (eradicating extreme poverty, achieving universal primary school enrollment, reducing child mortality, etc.). But it does not automatically follow that everyone in favor of those goals will favor "funding those goals" if that is defined to mean a mega- billion dollar plans initiated in UN task forces through which Western donors are expected to pour money into the operating budgets of real existing African (or Asian, or Latin American) states. The UN's checkered development record is replete with goals and targets rarely met — from Health for All by the Year 2000 to the WHO's 3x5 AIDS program, to name just a few. Of course country budgets need to be established, but only after targets of opportunity have been identified. And these budgets may vary by year, if projects fail or if needs change. Only such an approach will afford the flexibility that government aid efforts so desperately need to work.

In sum, we believe that any increases in development aid should be performance-based. In the case of U.S. national security needs, disaster relief and humanitarian assistance, we would support increases on an as-needed basis.

Misperceptions about US Government Aid for Political Purposes

The following represents the views of only the authors:

A concept that the HELP Commission report endorses is that a significant amount of our government foreign aid has been spent for political reasons and has gone to countries that are least committed to reform and development. This is, however, a misunderstanding of

how the "political" pot of aid money, called "Economic Support Funds" (ESF), works. First, these funds are not the majority of our Official Development Assistance (ODA). In 2006, ESF funding was less than 30 percent of ODA (including Iraq which has a different account than ESF.). Overall, ESF funding has not been the majority of ODA expenditures and has generally averaged less than one-third of ODA. Sending cash to countries was less than 4 percent of our entire ODA in 2006 and has also not been a majority of ODA over the years. Also, the funds in the ESF account are programmed just like the development and disaster assistance accounts. The vast majority of ESF funds — over 96 percent in 2006 — go for the very same projects in health, agriculture and the environment done by the very same contractors working in all other developing countries.

While the Report asserts that development aid should not be harmed by State Department short term political goals, the fact is that the State Department merely sets the total level of funding in those countries deemed essential to our national security. It then hands the project design and implementation of these monies over to USAID. To say that ESF funds go to countries less committed to reform and development is equally fallacious. When ESF countries are compared to non-ESF countries by the Economic Freedom Index and the Freedom House Index, there is basically no difference on corruption and poor governance indicators. When countries that receive ESF are compared to African countries that don't, the ESF countries actually rank better on the World Bank's "Doing Business" report which compares developing countries on how favorable their business and investment climate is.

The notion that the State Department has only short term political goals versus USAID's long term development goals is another misperception in the Report. In fact, the State Department is responsible for responding to U.S. national security interests in both the short and the long term, and it is as equally interested as USAID in countries achieving long term growth and prosperity since this is vital to their well being and our national security.

U.S. Public Opinion on Foreign Aid: Well-Informed Already

The following represents the views of only the authors:

Two overarching trends in U.S. public opinion on foreign aid have been evident ever since the Kennedy Administration: 1) the public is overwhelmingly skeptical of taxpayer-funded foreign aid, and is overwhelmingly in favor of lower allocations for such programs; and 2) the elites favor foreign aid more than the taxpaying public at large. These are dramatic and largely unchanging long-term trends in US public opinion--remarkably constant markers in an otherwise often shifting terrain of U.S, public opinion over the past four and a half decades.

Over the past decade, proponents of increased foreign aid have attempted to impugn the U.S. public's longstanding lack of enthusiasm about foreign aid by insinuating that the man (or woman) in the street doesn't really know what he/she is talking about with regard to America's foreign assistance efforts. This is the not-so-hidden purpose of the spate of polling data, typically funded by pro-foreign-aid advocacy groups, about how much of our tax dollar goes to foreign countries.

To be sure: these data affirm that the typical American *is* off by a factor of about 20 on the magnitude of our aid programs' expenditures. But what should we conclude from this? That Americans would devote huge additional sums for ODA if they knew they were "only" spending 1% of their tax money on overseas programs? Hardly.

The same surveys that frame the "special pleading" questions for foreign aid [and note, by the way, that exactly the same techniques could be used to elicit seemingly more favorable responses for such losers as the sugar subsidy, the telephone tax, etc] also show that the typical respondent/taxpayer wants aid levels to be about half as high as he/she believes them currently to be.

This is because the typical respondent believes that money spent on foreign aid today is money poorly spent--not because the goals are bad [the public supports the objectives!] but because they believe *the approach* is ineffective and wasteful. The public doesn't have to become expert on budgetary intricacies or allocation levels if they believe they already know enough to determine whether we should be giving foreign aid programs more money--or instead less.

Some appreciation of the U.S. public's deep and abiding skepticism about taxpayer-funded aid efforts is essential if one is to evaluate the Report's call to "Engage The American People In Development Partnerships" without illusions. The language of this portion of the report is somewhat ambiguous, and demands clarification.

If the intention of the call is to encourage further additional genuinely private efforts by American citizens in low-income countries, the tocsin is well-sounded, and can be expected to resound positively on Main Street.

After all: U.S. public opinion polls for decades have also consistently shown that eliminating hunger and distress abroad is a high priority in international policy for ordinary Americans. Moreover, ordinary Americans do not just mouth such goals. As reaffirmed in the "What Works What Doesn't" [*WWWD*] paper, available on the HELP Commission website, the American public and its organizations spend much more on charitable giving overseas, both relatively and absolutely, than any other developed country--and America's private giving to low-income regions looks to exceed America's official development assistance by a hefty margin.

Given the ambiguity of the language in Chapter 5.2-4, unfortunately, the relevant passages [e.g., " To the extent that Americans are aware of opportunities to be involved in development activities, we can magnify the potential for partnership"] may also be read as encouraging the use of public funds to "make Americans aware of...the potential for partnership"--i.e., propagandize taxpayers to acquiesce in still greater taxpayer subventions for foreign aid.

If such an interpretation seems altogether too Orwellian, let the record show that just such a tactic has been embraced before by advocates of dramatic increases in publicly-funded foreign aid. Indeed: in 1980, the now largely discredited "Brandt Report" advocated just such a taxpayer-funded public "education" campaign in donor countries to alter the climate of opinion regarding official development assistance. That same report also suggested that

donor country transfers should be made as long term permanent commitments, so that the voting public in the donor countries in question would not be able to rescind the promises made by previous governments (be they retired or voted out of office).

For the purposes of this Report, we wish to make it crystal clear that we welcome and applaud truly private American development initiatives--but that we are equally and adamantly opposed to the possibility of turning public monies to the dubious and perverse purpose of deliberately altering American public opinion on foreign aid.

Private Giving to the Developing World

The following represents the views of only the authors:

This addresses the Hudson Institute's *Index of Global Philanthropy* private giving numbers to the developing world. The *Index* was developed in order to provide more accurate private giving numbers because the U.S. Government recognizes that the numbers it sends into the Development Assistance Committee (DAC) of the OECD are incomplete since they exclude corporate and religious private giving, and are based on a voluntary survey which private organizations are not required to complete. Hudson works in partnership with various preeminent research centers and professional associations which collect the numbers and rigorously review them so they meet their statistical and scientific standards. These partners include the Urban Institute's Center on Nonprofits and Philanthropy (CNP), the Foundation Center, the International Institute of Education (IIE), the Committee Encouraging Corporate Philanthropy (CECP), and Pharmaceutical Quality Medical Donations (PQMD). All the data collected by the research partners reflects true development aid, disaster relief and humanitarian assistance similar to U.S. Government aid counted as Official Development Assistance (ODA). The numbers are collected only for developing countries as classified by the DAC. The religious giving number, while vastly underestimating this giving, is based on surveys and account ledgers of churches that collect this information and consists of donations for development and humanitarian projects. The number for scholarships for foreign students consists of actual university and college records of these dollar amounts for students studying in the U.S. who are from DAC-classified developing countries. Finally, the value of in-kind pharmaceutical donations is based on wholesale prices, not retail. All of these data, including detailed methodologies are available in the *Index* at www.global-prosperity.org and a complementary paper, *Private Giving to the Developing World: The State of the Numbers,* is also available on the HELP Commission website as well.

In furtherance of U.S. national security and foreign policy goals and objectives, the HELP Commission's vision is of a world without extreme poverty where people live in peace and realize human dignity, liberty, justice and economic opportunity.

www.helpcommission.gov