



## **Seizing the Moment for Modernizing U.S. Foreign Assistance**

### **Testimony for the House Committee on Foreign Affairs**

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Thank you, Chairman Berman, Ranking Member Ros-Lehtinen, and other members of the Committee. I am honored that you have invited me to offer some perspectives on the process of reform in U.S. foreign assistance programs.

### **I. Introduction**

Today the United States and its partners face many complex global challenges, including new security threats, the spread of virulent diseases, the opportunities and tensions arising from the process of globalization, climate change, rapidly rising food and energy prices, and fallout from the war in Iraq. Meeting these challenges will require a new vision of American global leadership based on the strength of our core values, ideas, and ingenuity. It calls for an integrated foreign policy that promotes our values, enhances our security, helps create economic and political opportunities for people around the world, and restores America's faltering image abroad. We cannot rely exclusively or even primarily on defense and security to meet these goals. Instead, we must make greater use of all the tools of statecraft through "smart power," including diplomacy, defense, trade, investment, intelligence, and a strong and effective foreign assistance strategy.

In today's world, foreign assistance is a vital tool for strengthening U.S. foreign policy and restoring American global leadership. Foreign policy experts on both sides of the political aisle now recognize the importance of strong foreign assistance programs. But they also recognize that we significantly underinvest in foreign assistance programs, and that our foreign assistance programs are out of date and badly in need of modernization to meet the challenges of the twenty-first century.

The combination of the recognition of today's great foreign policy challenges, the broad agreement on the importance of foreign assistance as a critical foreign policy tool, the successes we are seeing around the world in economic and social development, and the upcoming change in administration creates the best opportunity in decades for modernizing and strengthening our foreign assistance programs. Taking on the challenge of reform will not be easy. It will require passion, bold vision and concerted bipartisan leadership by Congress and the Executive Branch. But taking up this important challenge will enhance the leadership role of the United States in the world, strengthen our ability to forge alliances to achieve our broader goals, enhance our security, and help fight poverty around the world.

But as we move forward – and I sincerely hope we do – on this important agenda, let us remember that foreign assistance is no panacea. Stronger and larger foreign assistance programs alone will not be

enough to achieve U.S. foreign policy goals. Policies affecting trade, migration, capital flows, governance, and climate change, among others, all influence America's standing in the world and our relationship with other countries, and the most important factors in the development process are the policies of developing countries themselves. Stronger, more effective assistance programs alongside other policy tools can help the United States further its own interests and help low-income countries at the same time.

## **II. The Need for Modernization and Reform**

U.S. foreign assistance deserves more credit than it usually receives. U.S. foreign assistance programs have been long criticized as being ineffective. However, it is important to recognize that often the criticisms are unfair or overblown. Many of our programs, in fact, have been successful. U.S. foreign assistance was central to supporting the Green Revolution that modernized agricultural production and provided the foundation for Asia's economic miracle; for eliminating small pox and substantially reducing polio, river blindness, maternal mortality and childhood diarrheal diseases; for helping to secure peace in countries such as Liberia and Sierra Leone; for helping to save lives by providing anti-retroviral medicines for over one million HIV/AIDS patients in Africa today; and for supporting sustained economic growth in Korea, Taiwan, Botswana, and more recently Mozambique, Tanzania, Ghana, and several other countries.

Nevertheless, there is wide agreement that our programs can be significantly strengthened. Today's foreign assistance structure dates back more than 45 years to the early days of the Kennedy Administration. It was built in the early days of the Cold War to meet goals and objectives that were very important at the time, but that differ significantly from today's foreign policy objectives. Over the years new programs, goals, directives and restrictions have been added, typically in an ad-hoc manner. U.S. foreign assistance programs are now a hodge-podge of uncoordinated initiatives from multiple institutions without a coherent guiding strategy. They are heavily burdened by out-of-date organizational structures, legislation, procedures, and approaches.

The key challenges include the following:

- ***Lack of clarity on policies, goals and objectives.*** There is no overarching policy for global development or strategy for U.S. foreign assistance. The rhetoric of elevating global development to standing alongside diplomacy and defense in the 2006 National Security Strategy was never translated into policy. The Foreign Assistance Act of 1961, as amended – the key strategy document for setting foreign assistance priorities and objectives – is badly out of date and contains dozens of goals, objectives and priority areas. Executive branch directives add more. These multiple goals are more than just an administrative burden: they make it very difficult for the United States to design effective programs and achieve clear development results.
- ***Heavy bureaucratic requirements.*** Many programs are subject to heavy bureaucracy that ensures that some funds never get close to their intended recipients. Foreign assistance flows are heavily earmarked and subject to myriad directives, procedural rules, and restrictions that add significantly to administrative costs and slow the delivery process. As a result there is far too little flexibility to respond effectively to meet the key needs on the ground in recipient countries.
- ***Substantial fragmentation across policy and executing agencies.*** More than 20 executive branch agencies administer our foreign assistance programs. Sometimes these agencies work at cross purposes with each other with different objectives and techniques. Other times they are aiming to achieve the same goals, but duplicating each other's efforts without realizing it. Each agency has

their own different processes, rules and procedures, which can put significant strain on countries.

- ***Weakened professional capacity.*** As programs have spread across agencies, bureaucratic requirements have grown, and administrative funding has been cut, the professional capacity within USAID has dwindled. The Departments of State and Defense are playing larger roles in foreign assistance, but the core objectives and professional capacities of these Departments are not consistent with long-term effectiveness in our foreign assistance programs. There is much less capacity within the government to develop and analyze the range of policies affecting developing countries and to design, implement and measure the impact of programs and approaches.
- ***Poor and incoherent allocation of funds.*** Sixty percent of U.S. foreign assistance goes to ten countries for three objectives: political/military; counter-narcotics and HIV/AIDS. The remaining forty percent is spread over 140 odd countries. We provide larger amounts to middle-income countries than to low-income countries. Only one-quarter of U.S. assistance goes to countries in sub-Saharan Africa. In recent years the share going to the poorest and best governed countries in Africa has *declined*. While supporting our immediate geopolitical partners and allies is sensible foreign policy, too often large amounts go to middle-income and poorly governed countries to meet short-term diplomatic goals at the expense of longer-term development objectives. In addition, only 10 percent of our assistance now goes through multilateral channels, significantly undermining our leverage in these organizations.
- ***Lack of accountability for achieving results.*** Monitoring and evaluation systems are weak and tend to focus on whether funds are spent where they were supposed to be, rather than whether programs achieved important strategic or development objectives, which in turn is partly due to the multiple objectives and lack of clear strategy of our assistance programs. And because our foreign assistance programs are scattered over so many different agencies, it is often impossible to hold any one agency responsible for success or failure.

In recent years foreign assistance has received greater prominence, and there has been much more constructive debate about how to strengthen our programs. The Bush administration deserves credit for increasing the amounts of foreign assistance and beginning to change how it is managed. It increased assistance from \$12.6 billion in 2001 to \$21 billion in 2007 (in constant 2005 dollars), although the vast majority of the increase went to Iraq, Afghanistan, and other allies in the war on terror. It introduced several new programs, most prominently the President's Emergency Plan for AIDS Relief and the Millennium Challenge Account. And during its second term, it introduced several organizational changes, albeit with at best mixed results, through the so-called F process, including naming a new Director of Foreign Assistance and developing a strategic framework for foreign assistance.

But these changes were either add-on programs, or in the case of the F process, attempts at deeper change that did not involve Congress or the public. In many cases the reforms moved in the wrong direction and exacerbated more fundamental problems. As a result they fall far short of what is needed to modernize U.S. foreign assistance programs and make them more effective.

### **III. An Agenda for Modernizing U.S. Foreign Assistance**

Partial reforms are not the solution. Making U.S. assistance programs more effective requires a bold, ambitious vision for updating these programs for the 21st century and strengthening America's role in the world. There are five key steps that should be taken.

## ***1. Develop a National Strategy for Global Development***

Our efforts to promote global prosperity and reduce poverty should be treated as a principal—rather than subordinate—element of our global engagement and international policies, alongside defense and diplomacy. The first step is to develop a comprehensive strategy that elevates global development in our national interest and lays out the principal objectives and basic framework for foreign assistance—bilateral and multilateral—as part of our broader policies for engaging with the world. The strategy should describe the major programs that will be used to meet these objectives, and detail strategies for coordinating and communicating across agencies.

Reaching agreement on the balance of goals and objectives is critical. Since its origins after World War II, foreign assistance has served U.S. national interests in three fundamental ways: enhancing national security, expanding global economic opportunities, and promoting American values by fighting poverty. In the long-run all three are important and mutually reinforcing, and when the U.S. pursues them each strategically and in tandem it positions itself as a pragmatic and principled world leader. In some individual countries these interests align even in the short-run. But in other cases these goals dictate different priorities about which countries should achieve more assistance. Differentiating between and balancing among these motivations is crucial for the effectiveness of our assistance. The countries that have strategic significance to us are not necessarily the ones who are the best development partners; and other good development partners are not always as strategically significant.

Since September 11, 2001, foreign assistance has been dominated by national security interests, with a particular focus on fighting terrorism. This focus is clearly appropriate, but it risks obscuring the equally important imperative of fighting global poverty—which is itself a means to address the causes of terrorism and conflict, as well as a host of other urgent challenges. Supporting development will help build a world where capable, open, and economically viable states can act in concert as allies and partners of the U.S. to build a better, safer world.

The Strategy should go beyond foreign assistance to demonstrate how all of the policy instruments for U.S. engagement with developing countries – trade, diplomacy, defense, immigration, investment, etc. – work in tandem, and not at cross-purposes, to achieve stated objectives. And it should summarize the budgetary requirements necessary to achieve those goals. Developing this strategy should not be a one-time process: each administration should be expected to renew and revise the strategy as a Quadrennial Global Development Review, much like the Quadrennial Defense Review Report of the Department of Defense, charting a course ahead for the next decade as it confronts current and future challenges.

## ***2. Reach a “Grand Bargain” on Authorities and Enact a new Foreign Assistance Act.***

The Foreign Assistance Act is nearly 50 years old, grounded largely in Cold War threats and outdated challenges. It does not reflect current demands confronting the United States. Over time, in an effort to update without reauthorizing the FAA, hundreds of amendments have added multiple objectives and priorities that in some cases conflict with one another, rendering it ineffectual as a rational policy framework. It has become administratively burdensome and does not enable achievement of foreign assistance program results. In addition, as foreign assistance has increasingly involved multiple government agencies and actors, often lacking in coordination and a sense of common purpose, these activities have been authorized by legislation falling outside the FAA with different and inconsistent authorities. Lastly, the foreign assistance authorization process, which once reviewed and modified the FAA nearly every year, has not functioned in over twenty years.

Replacing the FAA would re-invigorate the foreign policy authorizing committees and provide a strong basis for them to work in concert with the Administration. It would help to restore trust and respect both

between the two branches and with the interested development, diplomatic, and security communities. Although several critical pieces of foreign assistance reform can be achieved without legislation – creating a national development strategy, strengthening monitoring and evaluation system, improving procurement and contracting procedures, building human resource capacity -- no broad-based foreign assistance modernization initiative can be fully implemented without major legislative modifications.

The legal and regulatory authorities governing foreign assistance must be brought more closely in line with streamlined organizational structures and principles of effective assistance. This will require a “grand bargain” between the Executive branch and Congress—both play a unique role in the management of U.S. foreign assistance. This bargain should reflect a shared vision of the role and management of U.S. foreign assistance, provide the Executive branch with the authorities it needs to respond to a rapidly changing world, and ensure rightful and effective legislative oversight. Done purposefully, inclusively and transparently, this bargain would reestablish confidence in the foreign assistance system among the U.S. public and non-governmental development organizations and reduce the ability of special interests to secure self-serving earmarks. Partially amending the FAA, rather than rewriting it, would run the risk of exacerbating the fragmented and incoherent nature of the existing Act, continuing to layer modernized legislative provisions on top of outdated and irrelevant policy authorities.

### ***3. Streamline the Organizational Structure and Strengthen Organizational Capacity***

U.S. foreign assistance cannot be fully effective when programs are spread among nearly twenty agencies with different objectives and implementing procedures, and when its key agency (USAID) has been severely weakened over time. There is broad agreement that rectifying the fragmentation and institutional weaknesses are at the heart of modernizing and strengthening foreign assistance to meet today’s challenges. And that policy, implementation, and budget authority for foreign assistance should be consolidated in order to maximize the effectiveness of our programs in support of economic and social development, humanitarian assistance, post-conflict reconstruction, security-sector reform, democracy and governance, and civil society development.

The best way to streamline the organizational structure and to give real meaning to the rhetoric of elevating development to more equal standing with diplomacy and defense in U.S. national security strategy is to create a Cabinet-level Department for Global Development with core organizational capacities that are enabled by a sufficient cadre of experienced development professionals. The department should have the budgetary authority and mandate to lead policy formulation, coordinate with programs and policies that remain under other departments (e.g., Treasury oversight of the IMF, State assistance for diplomatic purposes, Defense emergency response programs), and manage the implementation of civilian-led U.S. foreign assistance programs in the field. Its mandate would be to protect long-term development oriented assistance from being subordinated to short-term security or geopolitical objectives. Creating a new Department would not add to government bureaucracy, as some have suggested. Rather, it would help reduce bureaucracy, eliminate waste, increase efficiency, and streamline decision-making. The Agency would be complemented by a development coordination capacity in the Executive Office of the President.

Some argue that the best way forward is to fold all foreign assistance programs into the State Department. But this step would be likely to undermine the long-run effectiveness of our assistance. It would subordinate development to diplomacy, risk allocating larger amounts of funding to meet short-term political and diplomatic objectives at the expense of longer-term development objectives, and place responsibility for development policy in a department with only limited expertise in development. It would require a massive transformation of the culture, mission, and staffing of the State Department to avoid the pitfalls of past experiments of this kind (for example, the merger of United States Information

Agency into State). While the alignment of development and diplomacy is important, so too is the alignment of defense and diplomacy and trade and diplomacy, yet no one would advocate submerging the State Department into the Defense Department, or folding the Department of Commerce into the State Department.

The reorganization proposed here will take time. While it is underway, more immediate steps must be taken to staff, rebuild and transform civilian institutions such as State and USAID so that they can more effectively play their appropriate roles in the interagency and multilateral arena.

The organization structure is a key piece of a bold, effective modernization of our foreign assistance apparatus to meet the challenges and opportunities confronting America today. Much attention gets put on this individual issue and it is important to put it in the context of a package of reforms which, as a whole, will constitute real and effective change. Isolating one issue as distinct and actionable from the rest is not advisable.

#### ***4. Increase Funding for and Accountability of Foreign Assistance***

More money by itself will not help the United States to better achieve its foreign policy goals in developing countries. But more money, better spent, is an important part of the answer. The steps outlined above are central to spending U.S. funds more effectively. So too is allocating our funds more effectively, with more funding going to low-income countries that need assistance, and to better-governed countries that can use it well. But additional funding also will be necessary. Although the increases in funding in recent years are welcome, they were on top of a very low base, and are inadequate for the United States to fight poverty, state failure, and instability in low-income countries around the world. If we invest in solving global problems early—like halting the spread of new infectious diseases before they reach the U.S., and easing the suffering and indignity that foster anger and violence—we save both lives and money.

To ensure stronger accountability for funds spent, we must establish much stronger monitoring and evaluation processes aimed at keeping programs on track, guiding the allocation of resources toward successful activities and away from failures, and ensuring that the lessons learned—from both successes and failures—inform the design of new programs. In addition, it is crucial that measures of ultimate impact be conducted independently of the designers and implementers of the programs. For that reason, regardless of organizational structure, the United States should support and ultimately join the International Initiative for Impact Evaluation, which would join together foreign assistance providers from around the world to provide professional, independent evaluations of the impact of development initiatives.

#### ***5. Place a Higher Priority on Multilateral Channels of Assistance***

The United States provides a very small share of its foreign assistance—just 10 percent in 2006—through multilateral channels; other major donors average 33 percent. This imbalance is a missed opportunity for the United States to leverage its funding and to exert greater influence over the programs and priorities of the major multilateral agencies. The United States provides 15-20 percent of the funding for the major multilaterals and other shareholders look to the United States to take the lead in determining their own funding levels. Many shareholders feel that the United States has abandoned the multilaterals. There is no question that the performance of the major multilateral agencies can be strengthened. But the United States can only play a diminished role in the debates and efforts to reform these organizations when it provides such a small share of funding. The next administration should work more closely with and strengthen multilateral channels of foreign assistance, and allocate a greater share of funding for these organizations. Responsibility for the multilateral development banks currently rests

with Treasury, and could shift over to a new Cabinet department (or strong sub-Cabinet agency). There are pros and cons to such a shift. Moving this responsibility would allow for stronger coordination between our bilateral and multilateral approaches and would place authority for multilateral development bank policy in the context of the full range of development policies affecting low-income countries, but it would separate it from IMF and debt relief policies, which would remain at Treasury. Treasury does not have strong expertise in development, but neither does USAID currently have strong expertise in economic growth and the U.S. role in multilateral development agencies. Placement of this responsibility could work either way. But either way, it will require beefing up the expertise in either Treasury or USAID, and will require strengthening channels of communication and joint decision-making between the two agencies.

## **Conclusion**

Taking on these challenges will not be easy. Modernizing development assistance into an effective instrument for smart and strong U.S. global leadership will require major organizational and legislative changes and changing bureaucratic mindsets. Several attempts at modest reorganization or rewriting the Foreign Assistance Act have been made in the last two decades; all fell short because of lack of support in either the administration or on Capitol Hill. But today there is strong backing on both sides of the aisle for elevating the importance of development, with growing consensus around missions, mandates, and strategies. It is time to take advantage of this rare opportunity to modernize and strengthen U.S. development assistance to more effectively combat poverty, widen the circle of development and prosperity, fight terrorism, and further other U.S. strategic interests abroad.