

Organizing Foreign Assistance to Meet 21st Century Challenges

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Improving the success of America's aid enterprise requires fundamental organizational and operational transformation. With the recent proliferation of presidential initiatives, there are now more than fifty separate units within the U.S. government involved in aid delivery.

Seven principles should guide transformation. Missions need to be clearly defined and the number of players rationalized. Policy and operations need to be aligned and budget accounts restructured rather than assigning policymaking to one set of actors and implementation to others. The U.S. government must speak with a unified voice to be effective internationally. It must deploy all its soft power tools in a coherent manner by creating incentives for interagency coordination of policy and interagency integration of operations and planning. The U.S. must invest in core foreign assistance competences, including infrastructure, rather than letting in-house capacity erode through growing reliance on megacontracts. It should invest in knowledge relevant to its mission and greatly expand the use of impact evaluations. Finally, the United States must elevate development as an independent mission alongside defense and diplomacy in practice as well as principle.

A survey of donor nations suggests four possible organizational models: an improved status quo, with better coordination while maintaining a decentralized structure; a formal designation of USAID as the implementation arm of the State Department; a merger of USAID into the State Department; and the creation a new, empowered "department for global development." The models that deliver the greatest potential improvements also require the greatest political capital. Yet the conditions necessary for fundamental overhaul—an emergent political consensus surrounding the urgency of reform, a compelling advocacy campaign, and personal commitment on the part of the president or key congressional champions—are unlikely to arise during the remainder of a second-term presidency. It is possible to make some improvements by instituting clear policy coordination led by the president's staff and delegating authority for integration of planning and operations to appropriate agency leads, such as the new State-USAID director of foreign assistance.

In parallel, congress and organizations outside of government have an opportunity to lay the groundwork for more fundamental reform in a process akin to that preceding the Goldwater-Nichols Defense Reorganization Act of 1986. It is critical that the advocacy community undertake a major campaign to place foreign assistance transformation higher on political agendas. Ultimately, a new empowered department of global development is likely to hold the greatest promise of transforming the U.S. foreign assistance enterprise to lead in addressing the global challenges of the twenty-first century.

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The smartest policy and the biggest increase in resources in the world will not improve the success of America's aid enterprise without fundamental organizational and operational transformation. Well-meaning increases in resources could be vitiated by the realities of bureaucratic turf battles, lack of coordination with international efforts, and contradictory approaches across the many U.S. policies affecting countries receiving U.S. assistance.

At any given time, in any particular developing country, any or all of fifty separate government units could be operating separate aid activities with distinct objectives, implementing authorities, reporting requirements, and local points of contact. Some U.S. ambassadors coordinate the aid efforts under their nominal authority, but most do not. Yet coordination in the field looks enviably simple when compared with the overlapping jurisdictions in Washington.

In recent years there has been a breathtaking succession of new foreign assistance imperatives. While congressional appropriations earmarks and committee report directives pose a relatively constant set of complications, a whole new level of complexity has arisen from the recent proliferation of presidential initiatives lodged in a confusing array of new offices without any pruning of existing mandates and programs.

Why has this confusion been allowed to progress, and how difficult would it be to overcome? The history of U.S. foreign assistance reforms is sobering.¹ As is clear from the recent creation of the Department of Homeland Security, fundamental organizational overhaul is achieved only once every few decades at significant political cost and often with initially mixed results.²

Are new challenges in the international environment sufficiently important and the existing bureaucracy sufficiently besieged to warrant the major political investment required for a fundamental organizational shake-up? I believe the answer is yes, although I suspect there is no political momentum for such a change yet. Indeed, in the Organization for Economic Cooperation and Development (OECD), nearly half of the twenty-two members of the Development Assistance Committee have undertaken a major reorganization of foreign assistance in the last decade.³ For example, the creation of the Department for International Development (DFID) in the United Kingdom points to circumstances where major organizational changes can yield significant improvements in policy and operations while also giving a powerful boost to a donor's influence on the international stage.⁴

The British DFID experience as well as the old dictum that form follows function serve as reminders that a successful organizational overhaul must be premised on clarity of purpose and supported by a growing political consensus—neither of which yet exists.⁵ For that reason I recommend using the Bush administration's recent recognition of the need for reform as a welcome opening to kick off a process of deliberations and congressional engagement akin to the process undertaken in the years leading up to the 1986 Goldwater-Nichols Act mandating defense reorganization.

Below I suggest seven principles that should guide an organizational transformation: clarity of mission; speaking with a unified voice; realization of synergies across policy

1. See Larry Nowels, chapter 9 in this volume.

2. Michael D'Arcy, and others, *Protecting the Homeland 2006/2007* (Brookings, 2006).

3. Development Assistance Committee, *Managing Aid: Practices of DAC Member Countries* (Paris: OECD, 2005), p. 11.

4. See Owen Barder, chapter 10 in this volume.

5. In regard to clarity of purpose, see Lael Brainard in chapter 1 of this volume for discussion of a unified framework.

instruments; alignment of policy, operations, and budget; focus on core competences; investment in knowledge for development; and elevation of the development mission. I then lay out four possible models for organizing foreign assistance to fulfill the unified framework laid out in chapter 1, evaluate each model for its ability to address the aforementioned principles, and make recommendations about improving foreign aid effectiveness, both on the margins and more fundamentally if an opportunity arises.

Principles for Effective Organizational Design

The last fundamental overhaul of the foreign assistance structure took place in 1961, when President John F. Kennedy instituted the U.S. Agency for International Development (USAID) by gathering together a myriad of aid programs.⁶ President Kennedy set out the many failings of U.S. foreign assistance in a special message to Congress:

*No 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.*⁷

Four decades later, President Kennedy’s critique applies with even greater force. The problems he described have returned in more acute form, with a fungus-like proliferation of programs and priorities, the absence of a single locus of decisionmaking and coordination on aid, and the lack of coherence across aid and increasingly important nonaid instruments. The sweeping reform undertaken by Kennedy also holds important lessons for today. It required personal commitment and political capital on the part of the nation’s chief executive to fundamentally transform the system. The reform embodied an emerging bipartisan consensus about the strategic challenges confronting the nation and the important role of foreign assistance in addressing them. Transformation was undertaken to realign U.S. government structures and operations against profound new challenges as the United States and its allies moved beyond postwar reconstruction to cold war containment.

The last successful effort to significantly overhaul the Foreign Assistance Act occurred in 1973. Since that time new programs have been instituted either through the appropriations process, such as the Plan Colombia/Andean Counterdrug Initiative of 2000 and the Millennium Challenge Act of 2004, or through stand-alone authorizations, such as the Support for Eastern European Democracy Act of 1989, the “Nunn-Lugar” Soviet Nuclear Threat Reduction Act of 1991 and Cooperative Threat Reduction Act of 1993, the Freedom Support Act of 1992, and the Leadership against Global HIV/AIDS, Tuberculosis, and Malaria Act of 2003. In areas not covered by these new initiatives, the cold war–era Foreign Assistance Act continues to govern most foreign assistance, despite the breathtaking changes to the international landscape that have taken place since it was enacted in 1961.⁸

⁶. See “USAID History: Summary” (www.usaid.gov/about_usaid/usaidthist.html [May 2006]).

⁷. John F. Kennedy, “Special Message to the Congress on Foreign Aid,” March 22, 1961, in *Public Papers of the Presidents of the United States: John F. Kennedy, 1961* (Government Printing Office, 1961).

⁸. See Nowels, chapter 9.

Principle 1: Rationalize Agencies and Clarify Missions

Recent foreign assistance objectives have been accommodated through new programs and new institutions without reforming or reorganizing the existing structure, which was designed for different challenges in a different era. Partly as a result, the OECD now counts as many as fifty separate units in the U.S. government that deliver aid.⁹ There also has been a notable expansion of involvement by the Department of Defense in foreign assistance activities ranging from humanitarian assistance to policing to postconflict reconstruction without concomitant expansion of the coordinating structures and rules to ensure effective civilian and military collaboration.¹⁰

Max Weber's ideal of a modern bureaucracy involves a division of labor into fixed jurisdictions, a clear chain of command, and stable, specialized, and consistent rules.¹¹ By contrast, America's foreign assistance bureaucracy has mutable jurisdictions, an unclear chain of command, and inconsistent rules and policies. For example, the assistance programs under the Support for Eastern European Democracy Act (which targets central and eastern Europe) and the Freedom Support Act (which targets the components of the former Soviet Union) are implemented by more than a dozen U.S. agencies and coordinated by a state department official whose authority is confined to his own department and USAID.

Recent years have witnessed a proliferation of new presidential initiatives, many housed in policy rather than operational agencies. The design of the new Office of the Global AIDS Coordinator would seem to confound every tenet of good organizational design. In the words of former USAID administrator M. Peter McPherson, "How does one explain the HIV/AIDS program? What would Peter Drucker say about being able to hold anyone accountable when the money is in HHS, the policy in the Department of State, and the implementation in both AID and HHS."¹² Meanwhile, the new and largest assistance program to promote development, the Millennium Challenge Corporation, has been housed in a new stand-alone agency while the existing agency with "international development" in its name, USAID, has been increasingly redirected to postconflict reconstruction and assistance for strategic states.

Indeed, it is common for agencies to suffer from mission creep as their responsibilities undergo de facto changes. For example, the Office of Transition Initiatives within USAID was created by President Clinton to help navigate the transition from short-term emergency relief and stabilization to longer-term reconstruction, but it subsequently gravitated toward activities related to civil society and governance, leaving an important gap in U.S. capabilities.¹³ Belated recognition of the critical need for a coordinated U.S. strategy for anticipating, preventing, and responding to complex emergencies resulted in the creation of

⁹. OECD, Development Assistance Committee, "United States (2002), Development Co-operation Review," *DAC Journal* 3, no. 4 (2002): 11.

¹⁰. Department of Defense, "Directive 3000.05: Military Support for Stability, Security, Transition, and Reconstruction (SSTR) Operations," November 28, 2005 (www.dtic.mil/whs/directives/corres/pdf/d300005_112805/d300005p.pdf).

¹¹. Max Weber, *The Theory of Social and Economic Organization*, trans. A.M. Henderson and Talcott Parsons (New York: Free Press, 1947).

¹². Letter to Secretary of State Condoleezza Rice, from M. Peter McPherson, President, National Association of State Universities and Land-Grant Colleges, Washington, January 2006.

¹³. See Steven Hansch, chapter 5 in this volume.

yet another new office in August 2004, the Coordinator for Reconstruction and Stabilization (CRS), this time placed within the State Department.¹⁴ Over a year later, in December 2005, National Security Presidential Directive 44 clarified the State Department's role as the lead civilian coordinator in planning and executing stabilization and reconstruction operations.¹⁵ Yet despite filling a clear need identified by senior Senate authorizers and supported by the administration, operational funding for the CRS was rejected by congressional appropriators, who requested a comprehensive coherent strategy detailing how the CRS will function.¹⁶

Policymakers have struggled with some of these problems for years, but a combination of unwillingness to expend political capital at the highest levels and political pressures has stymied policymakers' abilities to fight bureaucratic inertia.¹⁷ Poor communication between the executive branch and Congress has exacerbated the problem.¹⁸

Recent experience suggests it is much easier to add a new program, office, or even agency than to tame the existing morass of competing centers. In an effort to wrestle with the growing sprawl of initiatives, the secretary of state in January 2006 designated the administrator of USAID as the director of foreign assistance with the rank (although not position) of deputy secretary of state and the mandate to provide strategic direction, coordination and guidance over U.S. foreign assistance.¹⁹ Yet the new director of foreign assistance lacks formal, statutory authority even over the Offices of the Coordinator for Reconstruction and Stability and the Global AIDS Coordinator within the State Department—let alone over assistance programs administered by the Departments of Defense or Agriculture, for instance, or the myriad of other U.S. foreign assistance activities housed in other agencies.²⁰

A bolder effort will ultimately be required. The number of players within the executive branch must be rationalized, a clear division of labor among them defined, and the power to coordinate among them assigned and enforced. Reducing the number of players, eliminating overlapping jurisdictions, and bringing coherence to the overall effort is critical to achieving better value for the growing fiscal resources directed to foreign assistance in an environment of fiscal belt tightening.

It is difficult to imagine that a reorganization process could be successfully led by one of the competing agencies—although the elevation of one agency over others might logically be the outcome. The bureaucratic infighting over the best home for the Millennium Challenge Account illustrates how difficult it is to leave aside agency loyalties in determinations of this type.²¹ Within the executive branch, only the president is capable of assigning responsibilities and defining a clear chain of command

¹⁴. Department of State, "Office of the Coordinator for Reconstruction and Stabilization" (www.state.gov/s/crs [May 2006]).

¹⁵. White House, "National Security Presidential Directive/NSPD-44," Washington, D.C., December 7, 2005 (www.fas.org/irp/offdocs/nspd/nspd-44.html).

¹⁶. *Making Appropriations for Foreign Operations, Export Financing, and Related Programs for the Fiscal Year Ending September 30, 2006, and for Other Purposes*, H. Rept. 109-265, 109 Cong. 2 sess (Government Printing Office, 2006).

¹⁷. See Nowels, chapter 9.

¹⁸. See Charles Flickner, chapter 8 in this volume.

¹⁹. Department of State, "Background Briefing: Two Senior State Department Officials on Foreign Assistance," January 19, 2006 (www.state.gov/r/pa/prs/ps/2006/59426.htm).

²⁰. Lael Brainard and Charlie Flickner, "Transformational Diplomacy," January 23, 2006 (www.brookings.org/views/op-ed/brainard/20060123.htm).

²¹. Lael Brainard and others, *The Other War: Global Poverty and the Millennium Challenge Account* (Brookings, 2003).

Ideally, the White House would lead an executive branch process to review each of the objectives foreign assistance is designed to achieve and assign prime responsibility for each to a single agency or office. The president can delegate ongoing interagency coordination to one of the agencies involved, but White House senior staff must play an active role in setting out the overall framework for decisionmaking and implementation. Failing a deliberate strategic process, at minimum there should be a moratorium on the creation of new offices or agencies associated with foreign assistance unless an existing office is closed down for each new entity created.

Congress also has an integral role in clarifying missions and imposing organizational discipline. By holding hearings, mandating General Accounting Office analysis of the current structure, requesting expert input on alternative organizational structures, and holding the line on creating new organizational entities to house additional presidential initiatives, Congress could play a much more active and constructive role in shaping the organization and delivery of U.S. foreign assistance.

Principle 2: Speak with a Single Voice

The current sprawl of different agency roles and responsibilities generates confusion as to which official speaks for the U.S. government on foreign assistance issues in the field and international forums, where negotiations and agreements frequently cut across U.S. agency responsibilities. At a time when coordination of assistance among donors has been recognized as one of the most important principles for increasing aid effectiveness, the United States appears to be moving in the other direction—lacking coordination within its own ranks and often de facto requiring recipients to navigate a maze of different sets of program criteria and reporting requirements associated with different offices and agencies within the U.S. government.²² For instance, with funding for U.S. bilateral HIV/AIDS programs variously coming from the State Department, USAID, the Department of Health and Human Services, or the Centers for Disease Control, one could legitimately be confused as to which of these agencies represents the official U.S. position at an international HIV/AIDS conference or where to turn to discuss U.S. policy.²³ The situation is reputedly better for security assistance, where the U.S. regional commanders or the NATO structure bring more discipline to military assistance in key countries.

Recent years have seen greatly increased international emphasis on donor coordination as a key principle in making development assistance more effective. The costs associated with multiple donors include the transaction costs of arranging ministry visits, staff time consumed in detailed reporting according to each donor's specification, and often the need to reconcile different donors' competing priorities. A plethora of donor organizations in a region, with their need for skilled local personnel, often poach sorely needed workers from the local bureaucracy, creating a "brain drain." In an attempt to measure this phenomenon,

²². Arnab Acharya, Ana de Lima, and Mick Moore, "Proliferation and Fragmentation: Transactions Costs and the Value of Aid," *Journal of Development Studies* 42, no. 1 (2006): 1–21; Arnab Acharya, Ana Fuzzo de Lima, and Mick Moore, "Aid Proliferation: How Responsible Are the Donors?" Working Paper 214 (Brighton, United Kingdom: Institute of Development Studies, January 2004).

²³. Department of State, "General Policy Guidance for All Bilateral Programs" (www.state.gov/s/gac/partners/guide/bilat [May 2006]).

Stephen Knack and Aminur Rahman found that donor fragmentation was predictive of lower recipient bureaucratic quality.²⁴

Tanzania is an oft-cited example of the need for donor coordination: by the end of the 1990s, the country's Ministry of International Cooperation prepared 2,400 donor reports every quarter and hosted 1,000 meetings a year.²⁵ Suggesting that the marginal cost of accepting aid equaled its marginal benefit, in 2003 Tanzania declared April through July to be a "quiet time," during which only the most urgent visits would be accepted from donor officials.²⁶ Agreements within the OECD and the 2003 Rome Declaration on Harmonization commit donors to support the priorities and objectives embodied in national strategies developed by recipient nations themselves, to coordinate and cooperate with other donors in providing support, and to support recipient governments' own systems for planning, implementation, and evaluation rather than creating burdensome parallel mechanisms.²⁷

Given this context, the United States must undertake a concerted effort to coordinate its own internal practices and procedures. This means doing the hard work of resolving interagency inconsistencies internally rather than leaving it to recipient nations to navigate them. It means creating a system of one-stop shopping in recipient nations, with clear coordination among different program staff in the field and a simplified set of reporting requirements so that the United States does not impose undue burdens on limited recipient capacity. Ultimately, it means developing unified U.S. government-wide approaches for each recipient nation.

Indeed, the critical need for internal coordination on the civilian side of the U.S. foreign assistance enterprise has been one of the major themes emerging from the ongoing postconflict operations in both Iraq and Afghanistan. Defense officials, finding themselves increasingly drawn into foreign assistance, scratch their heads at the jumble of civilian agencies at the table and lament the absence of a primary counterpart on the civilian side.²⁸ Reflecting these experiences, several task force reports have recommended changes to make the civilian side of postconflict operations a more unified and operationally capable partner.²⁹

Only when it acts as a single coordinated donor can the United States engage effectively with other donors. Speaking with a single voice would also boost American influence in the international development debate over the terms, conditions, and purposes of foreign assistance. For example, by concentrating authority over development policy in an

24. Stephen Knack, and Aminur Rahman, "Donor Fragmentation and Bureaucratic Quality in Aid Recipients," Policy Research Working Paper 3186 (Washington: World Bank, January 2004).

25. Nancy Birdsall and Brian Deese, "Hard Currency," *Washington Monthly*, March 2004, p. 39.

26. *Ibid.*

27. See Development Assistance Committee, *Harmonising Donor Practices for Effective Aid Delivery* (Paris: OECD, 2003). See also Aid Harmonization and Alignment, "Rome High-Level Forum (2003)" (www.aidharmonization.org/secondary-pages/editable?key=106 [May 2006]).

28. This assessment arose from discussions of the Brookings–Center for Strategic and International Studies Task Force on Transforming Foreign Assistance for the Twenty-First Century. See also Patrick Cronin, chapter 6 in this volume.

29. Clark A. Murdock and Michele A. Flournoy, *Beyond Goldwater-Nichols: U.S. Government and Defense Reform for a New Strategic Era—Phase 2 Report* (Washington: Center for Strategic and International Studies, July 2005); Samuel R. Berger and Brent Scowcroft, chairs, *In the Wake of War: Improving U.S. Post-Conflict Capabilities*, Independent Task Force Report 55 (Washington: Council on Foreign Relations, 2005).

independent agency vested with cabinet status, the United Kingdom not only elevated the stature of development within its own government but also boosted U.K. influence in framing the international debate on assistance disproportionately to its international donor ranking.³⁰ The reverse is probably true of the United States today: it wields international influence below what one might expect of the world's largest donor, in part because of the multiple competing entities representing America abroad. In one of many recent examples of unconventional roles, the U.S. Defense Department comptroller led the international effort to raise funds for assistance to Afghanistan.

Principle 3: Achieve Synergies across Policies

At a time when the international community has identified policy coherence as a second core principle for aid effectiveness, the United States continues to stovepipe decisions on the key policy instruments affecting nations it seeks to support. More often than not, the United States underutilizes its throw weight in the soft power arena because coordination across different development policy instruments is ad hoc at best and frequently simply absent. Foreign assistance is but one of several increasingly important tools that implement U.S. policies towards developing countries; others include trade agreements and disputes, investment provisions, financial stabilization policies, debt relief, and economic sanctions. Indeed, for many middle-income countries with sizeable poor populations and for countries such as China, where there are political strictures, foreign assistance has long since given way to trade and investment policies as America's primary soft power levers.

Although there could be important synergies among the various policy instruments, they are often used in isolation, without reference to each other. Thus, for example, determinations on investments in rural infrastructure and agricultural extension in cotton-growing parts of Africa are made by USAID, determinations on subsidies for American cotton farmers are made by the Department of Agriculture and Congress, and determinations on America cotton trade barriers are made by the Office of the U.S. Trade Representative (USTR)—all separately, as if they had no bearing on one another. More generally, decisions regarding the multiple policies jointly impacting the development prospects of poor nations are made by different agencies within the U.S. government according to different criteria in an uncoordinated manner. The Department of Treasury determines debt and financial stabilization policies and U.S. positions on multilateral lending through its guidance over the international financial institutions; the USTR determines trade policy and international intellectual property enforcement primarily based on commercial objectives; the Department of Agriculture and Congress are dominant in setting U.S. agricultural policy and food aid; and the Commerce Department wields influence over U.S. trade remedies affecting imports from developing countries. Significantly, neither USAID nor the Millennium Challenge Corporation (MCC) has the official standing to influence any of these nonaid instruments, although the inclusion of the secretary of the treasury and the U.S. trade representative on the MCC board is a positive step.

While foreign assistance is increasingly important, it is only one tool in a larger toolkit that includes debt policies, volunteer services, trade and investment agreements, and military support for peacekeeping and humanitarian missions. Even without becoming the world's most generous official donor relative to its income, the United States could wield greater

³⁰. See Barder, chapter 10.

influence per aid dollar spent than any other nation simply by deploying its influence in world trade and investment and debt and financial policies in a deliberate manner as a force multiplier. Ideally, decisions on each policy should be made with a view to ensuring the entire package is mutually reinforcing and more powerful than the sum of its parts.

In principle, for any set of decisions surrounding policy that materially affects developing countries, all relevant agencies should be at the table—including an entity that represents America’s interests in economic development and poverty alleviation. White House coordination is the best way of ensuring that everyone is at the table, formulating a unified and internally consistent policy, and bestowing primacy on one particular agency to carry out the policy. But often when the White House provides direction through the official deputy secretary and cabinet-level decisionmaking processes, key players, most notably USAID, MCC, and USTR, do not have the official standing that guarantees their participation.³¹ These critical players depend on the goodwill of the convener and must expend time lobbying and cajoling to secure a place at the table. Moreover, as recent experience has shown, White House staff is generally stretched thin and can be consumed by crises. Thus White House coordination can be expected for the highest priority issues, but for decisionmaking that requires sustained attention and also for joint planning and operations, effective mechanisms for both coordination and integration must be empowered at lower levels at a designated agency.

In contrast, the reorganization of foreign assistance undertaken by the United Kingdom officially assigned the cabinet-level Department for International Development the lead on development issues that cross ministry jurisdictions, empowering it to represent the interests of developing countries in the trade policymaking process and providing incentives such as extra budgetary resources for cross-ministry collaboration.³² This has institutionalized a powerful position for DFID within the cabinet structure rather than making its status dependent on the kindness of competing bureaucracies and the prime minister’s staff.

Thus regularized mechanisms for coordination and integration of policy are critical—either across agencies or by providing authority to a single empowered agency. But integration across agencies is just as critical at the level of planning and operations, as illustrated by recent experiences with postconflict reconstruction. Integration of operations and planning across agencies will require removal of disincentives and creation of incentive mechanisms, such as reserving special budgetary funds to reward effective interagency collaboration on priority goals and tying career advancement to interagency rotations and participation in interagency joint operations.

Principle 4: Align Policy, Operations, and Budget

Getting foreign assistance right hinges fundamentally on operational effectiveness. The current system defies basic management principles by separating policy from operations and both from budgeting. Currently, there is clear separation of policymaking from implementation for a large share of foreign assistance programming. For many categories of foreign assistance, policy is determined by a set of decisionmakers at the State Department

³¹. USAID does not have cabinet status. Although the USTR most often has cabinet status, it is at the discretion of the president, and it is not considered one of the core economic or security agencies for purposes of National Security Council coordination.

³². See Barder, chapter 10.

while implementation is in the hands of a wholly separate set of USAID officials. Perhaps the best example is the Economic Support Fund, where the secretary of state makes the allocation decision among countries, her regional bureaus seek to make detailed programming decisions, and the administrator of USAID is held responsible for the performance of the country programs. Similarly, the Treasury Department determines U.S. positions in the International Monetary Fund and the World Bank boards on both financial stabilization programs and debt relief with no requirement to consult USAID in the affected countries, despite the reality that USAID may have valuable familiarity with conditions on the ground and important program investments at stake. The divide between policy and operations is particularly acute at the highest levels of executive branch decisionmaking—the principal and deputy secretary levels—where the policy agencies (State and Treasury Departments) have a seat at the table and the implementing agencies (USAID, MCC) do not.

Although this kind of separation can be understood as a reasonable accommodation of competing bureaucratic claims, no organizational textbook would recommend it. Implicitly, it assumes that aid decisions can be made solely on the basis of policy considerations—such as U.S. objectives—without regard to the technical aspects of the particular sectoral or functional activity or to feedback from implementers in the field. In the words of former USAID administrator M. Peter McPherson, “I question the whole idea that policy can generally be separated organizationally from the implementation. How do you decide that a road should be built as a matter of policy without having the technical input or the capacity to understand such input as to the practicality of the road?”³³ This process is further complicated because the State Department and USAID budget offices track funding with two different systems that cannot easily be cross-referenced: the State Department uses a country-based system, and USAID uses one based on accounts.

In addition to fully integrating policy and operations, it is critical to reconnect U.S. budget resources with the mission that the assistance is intended to achieve in each country. A decade ago, with fewer programs and agencies, there was somewhat greater alignment between budget accounts and objectives. Since then strategic, development, and humanitarian funds have been intermingled, with individual projects often in receipt of money from several types of accounts. Increasingly, the State Department has found it necessary to allocate foreign assistance under its control in a cumbersome process. First it determines targets by country or region.³⁴ Then it attempts to meet the targets by distributing funds made available from several budget accounts after congressional and administrative earmarks are satisfied.³⁵

The resulting concoction may reflect the requirements of U.S. funding systems more than the needs of a given country, since the budget account structure is not closely tied to policy objectives at the country level, and different accounts designed for specific purposes offer different degrees of flexibility. For instance, development assistance is most constrained, the Economic Support Fund is moderately constrained, and disaster assistance–transition initiatives are least constrained by law and regulation. To complicate matters further, funds with a high degree of flexibility directed at high-priority development sectors—the Child Survival and Health Fund, the Global AIDS Initiative, and the

³³. Public letter to Secretary of State Condoleezza Rice from M. Peter McPherson, January 2006

³⁴. Often the country or regional level of funding has already been set by Congress.

³⁵. Numerous Congressional earmarks and directives must be satisfied during this process, with the result that a country needing help with malaria may obtain instead education or counter-narcotics assistance.

Millennium Challenge Corporation—are allocated among countries in independent processes.

Any management textbook would recommend the alignment of authority with responsibility, of policy with operations. This principle must be reflected to a much greater degree in the foreign assistance enterprise. Foreign assistance is about getting a job done; it is by nature an operational function—informed by policy but not a policymaking function *per se*. The U.S. organizations entrusted with managing foreign assistance must recruit personnel with the right kind of technical, operational, and project management skills; reward effective performance; and work relentlessly to improve on-the-ground results.

A diminished focus on operational effectiveness is one of the biggest risks associated with undertaking a development or reconstruction mission within an agency that has a majority culture dominated by policymaking, diplomacy, and international negotiations, as is the case with the State or Treasury Departments. There are, of course, talented individuals who thrive equally in the give-and-take of policy deliberations and in overseeing a logistically complex emergency operation, but the organizations' overall cultures and missions are likely to be starkly different, with fundamentally different recruiting needs, incentives, and training systems.

The quality of both policy and implementation is likely to be greatly enhanced when they are closely integrated and there is a tight feedback loop informing both. It is critical to elevate the operational function of foreign assistance and provide a seat for it at the policymaking table. This could be achieved consistent with preserving the current division of responsibilities where it works well. An example would be U.S. participation in UN humanitarian interventions, where the division of responsibilities between the State Department, as chief U.S. interlocutor at the UN, and USAID, as chief implementing agency, appears to be relatively effective.³⁶ In addition, there is a strong push within the administration to restructure budget accounts so that each country program could be crafted from within a single budget account rather than cobbling together a patchwork of funds from different account structures. Indeed, the position of director of foreign assistance was proposed in part as a mechanism for bootstrapping this kind of reform without having to invest in lengthy negotiations with Congress to formally redefine account structures. While there is a value to reforming both budget accounts and funding modalities to make them more consistent with current challenges and opportunities, this would be far more compelling as a logical outcome of a process that began with establishing agreement around a new unified framework for foreign assistance and the best organizational structure for making it operational.

Principle 5: Focus on Core Competences

Drilling further down into operations reveals another consequential trend: USAID is moving more and more money with fewer and fewer people, in effect outsourcing most of its operations. If the current trends of loss of policy control and outsourcing of operations continue to squeeze USAID from two directions, the aid agency risks being reduced to a contracting entity. According to former USAID administrator M. Peter McPherson, the number of professional staff at USAID has fallen by a third since 1990 during a time when assistance flows have grown in real terms. Between 1998 and 2006, reductions in direct-hire

³⁶. See Hansch, chapter 5.

staff were accompanied by a sharp increase in foreign assistance spending, with the result that aid disbursement per staff member grew by 46 percent to \$2 million, with most overseas managers implementing far larger programs.³⁷

The inevitable result of reduced staffing accompanied by increased foreign assistance is growing reliance on outsourcing. Indeed, a recent USAID report includes the recommendation that mission directors should resume using agency staff to design and manage programs rather than relying on contractors, which is astonishing for what it suggests about current practices.³⁸ In their 2005 analysis of U.S. foreign aid, Carol Lancaster and Ann Van Dusen write, “In many cases, USAID has become a wholesaler to wholesalers—letting large contracts for aid work, usually to consulting firms, which then subcontract much of the work to other firms or NGOs.”³⁹ This trend toward greater and greater outsourcing of megacontracts may undercut the value of USAID’s field presence—traditionally a key comparative advantage among its peer donor organizations. The outsourcing trend exacerbates the disconnect between policy and firsthand understanding of the challenges and lessons associated with implementation, leading to a loss of institutional memory and important learning opportunities so that the same mistakes are repeated. In addition, assistance funds can be consumed by additional administrative and indirect costs incurred by multiple layers of management.

Currently, there is some tension about whether USAID will remain an implementing agency or will continue evolving in the direction of a “wholesaler of wholesalers,” passing on increasingly large scale projects and programs to contractors, who then turn over much of the work to subcontractors. Growing reliance on megacontracts is both cause and consequence of diminishing personnel and field presence. Similar challenges face the MCC and security assistance programs.

Although there are many benefits from outsourcing appropriate functions, organizational effectiveness requires retaining core competences in house. The primary development, humanitarian, and civilian postconflict operations agency within the U.S. government should undertake a deliberate process of determining which functions are central to its core missions and invest in the right mix of skills and personnel systems as well as the right field structure to ensure excellence in those missions. That would argue for a professional staff with a mix of granular country knowledge, general management and operational skills, and deep technical expertise in priority sectors and functions. Many worry that the mix within USAID has evolved excessively away from technical expertise, in keeping with greater reliance on outsourcing. I would argue that the knowledge-intensive nature of effective foreign assistance demands much greater emphasis on technical expertise and on systematically tapping into expert knowledge networks.

While U.S. competences are clearly world class in some priority areas such as humanitarian assistance and public-private partnerships, key capabilities critical to boosting the productive capacities of poor economies have atrophied, infrastructure chief among

³⁷. USAID, “Budget Justification to Congress, Fiscal Year 2006” (www.usaid.gov/policy/budget/cbj2006) [April 2006].

³⁸. USAID Administrator, *Report of World Wide Mission Directors Conference*, May 17–20, 2005, cited in Committee on Science and Technology in Foreign Assistance, National Research Council, *The Fundamental Role of Science and Technology in International Development: An Imperative for the U.S. Agency for International Development* (Washington: National Academies Press, 2006), p. 68.

³⁹. Carol Lancaster and Ann Van Dusen, *Organizing U.S. Foreign Aid: Confronting the Challenges of the Twenty-First Century* (Brookings, 2005).

them.⁴⁰ In contrast to its early years, when USAID was deeply engaged in supporting transportation, energy, and communications infrastructure, an astonishingly low 3 percent of the agency's technical experts are now engineers.⁴¹

Economists have long emphasized the role of infrastructure in promoting economic growth. Indeed, the earliest focus of U.S. foreign aid was infrastructure financing. After the success of the Marshall Plan, which included many projects to rebuild Europe's devastated buildings and transportation infrastructure, President Harry Truman announced in his 1949 presidential inaugural address a "Point Four" program that would provide similar assistance to developing countries.⁴²

The U.S. government subsequently got out of the foreign infrastructure business for some good reasons, which also led to a change in focus by the World Bank and regional development banks. Large, expensive, long-term public works projects involving multiple contracts, opaque costs, and limited accountability offer tempting opportunities for corruption and political gaming. Given the frequent recriminations over "bridges to nowhere" that happen even in the most developed countries, it is no surprise that countries with weaker institutional infrastructure and less transparency and accountability have difficulty managing such projects well.⁴³

Yet despite implementation challenges, infrastructure investment is as important today as it was in the 1940s. Indeed, it is estimated that the infrastructure investment needed to keep up with projected growth is between 5 to 9 percent of developing countries' GDP annually, evenly split between new projects and maintenance. Yet the governments of developing nations are currently spending only 2 to 4 percent of GDP on such projects, with the gap particularly severe in Latin America and Africa.⁴⁴ In places like Nigeria, where 2006 road density is one-seventh that of 1950 India, simple investments in roads to connect farmers with markets for their products and supplies of fertilizer can make a huge difference.⁴⁵ The United Kingdom's Commission for Africa has declared, "Despite its clear benefits, African governments and development partners sharply reduced, over the 1990s, the share of resources allocated to infrastructure. . . . In retrospect, this was a policy mistake founded in a new dogma of the 1980s and 1990s asserting that infrastructure would now be financed by the private sector."⁴⁶ But important advances in public-private partnerships for developing

⁴⁰. For a discussion on U.S. competences in humanitarian assistance, see Hansch, chapter 5. For a discussion of the U.S. role in public-private partnerships, see Larry Cooley, "2 + 2 = 5: A Pragmatic View of Partnerships between Official Donors and Multinational Corporations," in *Transforming the Development Landscape: The Role of the Private Sector*, edited by Lael Brainard (Brookings, forthcoming).

⁴¹. USAID, "USAID Primer: What We Do and How We Do It," January 2006 (www.usaid.gov/about_usaid/PDACG100.pdf).

⁴². See Wilfred Owen, *Distance and Development* (Brookings, 1968), p. 58.

⁴³. Incentive problems for infrastructure projects include temptations for politicians to overstate the price of these projects to maximize their kickbacks (usually on commission), and subpar construction work associated with contracts awarded on the basis of connections rather than merit. Furthermore, political capital is usually gained from high-profile announcements but not expenditures on maintenance, creating an incentive to generate new projects but abandon ones that have been started. See OECD, *A Policy Framework for Investment: Infrastructure and Financial Services* (Rio de Janeiro: World Bank, 2005), pp. 3–5.

⁴⁴. World Bank, *Infrastructure and the World Bank* (Washington, 2005), pp. 3–4.

⁴⁵. UN Millennium Project 2005, *Halving Hunger: It Can Be Done*, Task Force Report on Hunger (London: Earthscan, 2005).

⁴⁶. Commission for Africa, "Going for Growth and Poverty Reduction," in *Our Common Interest: Report of the Commission for Africa* (London, 2005), pp. 233–34.

and managing infrastructure on an ongoing basis now provide mechanisms to surmount some of those problems, which should prompt new attention to this area, as recommended by the Commission for Africa.

The U.S. government needs to build its capabilities in a few core areas that include police and judicial training and local governance as well as rural development and infrastructure. For those functions outside the core that are determined on the basis of systematic analysis to be best accomplished through outsourcing, emphasis should be placed on improving the foreign assistance contracting function. USAID procurement relies heavily on skills and systems developed for Department of Defense and NASA to navigate the federal acquisitions regulations, which have been shaped around the highest value procurers in the federal government. Career USAID officials point out, however, that the defense Department and NASA have experience in procuring goods and equipment but not the services that constitute the larger share of USAID contracts.⁴⁷

Principle 6: Invest in Learning

In a related area, an effective institutional design for foreign assistance should focus not only on doing but also learning—investing in operational research as well as new knowledge targeted to developing nation challenges. This is particularly true of the development enterprise, where many of the greatest success stories—whether the Green Revolution, the eradication of small pox, or the Famine Early Warning System—involved adapting science and technology to address the particular challenges facing developing countries. Given the range of institutional capacities, recipient countries have achieved greater success in absorbing knowledge in areas such as medicine, nutrition, family planning, education, and agriculture than in raising overall productivity, which seems to be more sensitive to the institutional environment.⁴⁸ The case is compelling for developing and sharing know-how in the areas of the environment, energy, family planning, agriculture, and health as well as operational research to mitigate regional conflict or to help rehabilitate ungoverned states. Moreover, investments in these types of knowledge need not be as constrained by absorptive capacity in poor countries as are some other types of development investments.

But paradoxically, at a time when technological advances hold great promise for addressing important development challenges, USAID has been reducing technical expertise in favor of generalist management skills.⁴⁹ This trend is exacerbated by a bias in Congress and elsewhere in favor of service delivery as opposed to more abstract investments in research and development. For example, a bill currently under review in the Senate would limit malaria funds used for research to “not more than 5 percent . . . including basic research or operational research or vaccine and therapeutic research and development.”⁵⁰

47. Interviews with Janet C. Ballantyne and Phyllis Forbes, former senior USAID officials, cited in Brainard and others, *The Other War*, p. 142.

48. Brainard, Lael, “The Role for Health in the Fight against International Poverty,” in *Biological Security and Global Public Health: In Search of a Global Treatment*, Kurt Campbell and Philip Zelikow, editors (Washington: Aspen Institute, 2003), pp. 73–84; Charles Kenny, “Why Are We Worried about Income? Nearly Everything that Matters is Converging,” *World Development* 33, no. 1 (2005): 1–19.

49. Lancaster and Dusen, *Organizing U.S. Foreign Aid*.

50. 109th Congress, “S. 950: A bill to provide assistance to combat tuberculosis, malaria, and other infectious diseases, and for other purposes,” introduced by Senator Samuel Brownback (R-KS).

From USAID's earliest days, scientists, engineers, and technical experts were central to its mission, operating out of both specialized functional offices and regional bureaus and missions. In the early 1980s, the role of specialized knowledge was boosted further by the creation of the Bureau of Science and Technology, which remained strong throughout the decade. In 1990 it was renamed the Global Bureau. According to a National Academies of Sciences report, the dilution of its focus together with personnel cuts in the 1990s led to the loss of substantial technical expertise and the diminution of the status of such specialized knowledge.⁵¹

According to a USAID report, of 1,821 professionals at the agency in 2004, roughly 55 percent were working in civil society, general development, or other general areas.⁵² Experts note that both economic analysis and program evaluation capabilities have declined considerably, and both are critical to the organization's capacity to learn from its vast experiences and enhance operations based on that learning.⁵³

USAID and MCC have inadequate capacity to support research and innovation on problems related to their mission.⁵⁴ Similarly, the research budgets of the National Institutes of Health and the Department of Agriculture only allocate minimal funds for addressing the challenges facing developing countries. This deprives the U.S. government of the opportunity to foster ground-breaking research and to make potentially useful contacts with the research community in the U.S. and overseas. Such networks could provide valuable new ideas and feedback—as they did with the pathbreaking development of the Green Revolution.⁵⁵

The paucity of American public support for research for development contrasts with the situation in the United Kingdom, where the Central Research Department of the Department for International Development has a budget projected to grow significantly. The DFID mission statement is a good description of what the United States government should be doing in the realm of foreign assistance, including commissioning research and working to shape university and private sector research agendas more generally:

*New science, technologies and ideas are crucial for the achievement of the Millennium Development Goals, but global research investments are insufficient to match needs and do not focus on the priorities of the poor. . . . DFID's Central Research Department (CRD) commissions research to help fill this gap, aiming to ensure tangible outcomes on the livelihoods of the poor. CRD seeks to influence the international and U.K. research agendas, putting poverty reduction and the needs of the poor at the forefront of global research efforts.*⁵⁶

Since the social value of many innovations targeted to the needs of poor countries far outstrips the market value, funding is the natural province of government and philanthropy. The United States should have a unique advantage in this area based on the depth and breadth of its research and development infrastructure, the strength of its private sector applied research, its strong tradition of venture philanthropy, and its notable successes

51. Committee on Science and Technology, *The Fundamental Role of Science and Technology*, p. 62.

52. USAID, "USAID Primer: What We Do and How We Do It" (www.usaid.gov/about_usaid/primer.html) [January 2006].

53. Committee on Science and Technology, *Fundamental Role of Science and Technology*.

54. *Ibid.*

55. Kalil, Thomas, "A Broader Vision for Government Research," *Issues in Science and Technology* 19, no. 3 (2003): 29–37.

56. Department for International Development, "DFID and Research," April 27, 2006 (www.dfid.gov.uk/research).

funded by government and philanthropic support. America's development agenda should greatly expand the official emphasis on generating and disseminating knowledge for development purposes by establishing a research grant-making operation and actively investing in networks of researchers from both developing and rich countries.⁵⁷ This is a missed opportunity to engage institutions of higher learning in the challenge of global poverty as well as to inspire students to invest their energy and creativity in solving some of the most important problems facing humanity.

There is also enormous value in operational research—especially through independent evaluations—to improve development interventions based on their impact. Yet evaluation has been one of the weakest areas for U.S. assistance, which generally relies on process or input accounting rather than true impact analysis, and is often undertaken in a perfunctory or defensive manner. Ideally, the emphasis should be redirected toward using operational research and evaluations to foster a learning environment incorporating lessons from the field.

To improve the value of evaluation, the U.S. foreign assistance enterprise should pioneer new techniques. In a promising new development, researchers are evaluating impact using randomized field trials analogous to clinical trials conducted by medical researchers, including the use of control groups.⁵⁸ Mexico inadvertently pioneered this approach when it rolled out PROGRESA, a government-funded program that provided mothers with cash grants and health interventions as an inducement to send their children to school. The program made a virtue out of necessity. When initial funding permitted the program to reach only 500 out of a potential pool of 50,000 poor communities, it selected the initial recipients through a randomized process and made data on the program accessible to the research community.

This fascinating transplant from the field of medicine underscores a point that is made far too rarely: foreign assistance is an area of experimentation and risk taking. We need to raise the tolerance for risk and expect failure, publicize it, and learn from it. The spotty record of development and training of courts and security forces in postconflict states should come as no surprise given the inherent complexity and diversity of the institutional environments involved. This argues for more experimentation, not less, and a much more systematic and research-based approach to evaluation.⁵⁹

Fortunately, the former USAID administrator highlighted some of the glaring deficiencies discussed here and proposed measures to begin addressing them, such as hiring a part-time scientific adviser and establishing a new program for evaluation.⁶⁰ However, bolder efforts are needed in a faster time frame.

Principle 7: Elevate the Development Mission

⁵⁷ Lael Brainard, "Investing in Knowledge for Development: The Role of Science and Technology in the Fight against Global Poverty," Thirtieth Annual American Association for Advancement of Science Forum on Science and Technology Policy, Washington, April 21–22, 2005.

⁵⁸ See Michael Kremer, "Randomized Evaluations of Educational Programs in Developing Countries: Some Lessons," *American Economic Review Papers and Proceedings* 93, no. 2 (2003): 102–15. See also Michael Kremer and Esther Duflo, "Use of Randomization in the Evaluation of Development Effectiveness," presented at the World Bank Operations Evaluation Department Conference on Evaluation and Development Effectiveness, Washington, July 15–16, 2003.

⁵⁹ Brainard, "Investing in Knowledge."

⁶⁰ Committee on Science and Technology, *The Fundamental Role of Science and Technology*, p. 71.

The development community cheered when the 2002 National Security Strategy recognized development alongside defense and diplomacy as a third critically important and independent pillar of national security.⁶¹ Increasingly, however, and especially with the 2006 decisions to bring the director of foreign assistance formally within the State Department structure, advocates worry that development is being subordinated to diplomacy.⁶² State Department officials have argued that the reverse is more accurate, that foreign service officers are increasingly recognizing that U.S. vital interests are best served by influencing the domestic policies of foreign governments in ways that favor economic development and democratization.

While greater appreciation of democratization, security, and development challenges may indeed be permeating the ranks of the career foreign service, that does not in itself alleviate the potential tension between the diplomatic and development functions of the U.S. government. First, the primary function of diplomacy is state-to-state relations whereas development and especially democratization often require working around foreign governments and sometimes with groups opposed to them. Indeed, in many cases, diplomats benefit from being able to “blame” unwelcome aid decisions on an independent agency, while foreign aid officials can sometimes be more effective by not bearing direct responsibility for U.S. foreign policy. Second, U.S. relations with many developing nations are still characterized by a tension between short-term strategic objectives and the longer-term agenda of economic and political reform.⁶³ Maintaining the integrity of independent diplomatic and development functions makes those tensions far easier to manage than blending the two.

If there is one principle that applies above all others to the revitalization of the U.S. foreign assistance enterprise, it is that the development mission—broadly construed to include security and good governance—must be elevated to coequal status with defense and diplomacy—not just in principle but also in practice. Indeed, a growing number in the Defense Department are strong advocates for the importance of sustaining core development capabilities in a civilian agency. The sense of mission—vital to America’s interests as well as to global peace and prosperity—must be restored and with it both the stature of the enterprise and the morale of the personnel engaged in it.

Success will only be achieved if there is a clearly defined operational mission. A mission that is clear and inspiring is also critical for purposes of morale and the ability to attract and retain the most talented professionals in the field. One of the greatest advantages enjoyed by the relatively small-scale Peace Corps is its strong professional ethos, clarity of mission, and the identification of its members with that mission.⁶⁴ Indeed, one of the strongest arguments for standing up the Millennium Challenge Corporation independently rather than within USAID or the State Department was to create a strong organizational culture and ethos that would attract top talent and fuel an ethic of delivering concrete results unburdened by past baggage.

⁶¹. White House, “The National Security Strategy of the United States of America,” September 17, 2002 (www.whitehouse.gov/nsc/nssall.html).

⁶². Carol Lancaster, “Bush’s Foreign Aid Reforms Do Not Go Far Enough,” *Financial Times*, January 19, 2006 (registration.ft.com/registration/barrier?referer=http://news.ft.com/home/us&location=http%3A//news.ft.com/cms/s/aef26d86-891e-11da-94a6-0000779e2340.html).

⁶³. See chapters 1 and 7.

⁶⁴. Lex Rieffel, “Reconsidering the Peace Corps,” Policy Brief 127 (Brookings, December 2003).

Can a much larger organization with a complex mission attain that same sense of purpose and commitment? Numerous examples in the private sector and in other parts of the U.S. government are reassuring on that score.⁶⁵ But it requires strong leadership and vigilance about taking on new missions. It may also require fundamental organizational renewal at long intervals—rather than the frequent “reorganizations” that afflict both the World Bank and USAID that do not appear to achieve notably greater clarity of purpose or commitment on the part of stakeholders. And it may well require a strong independent organization that does not depend on more powerful agencies to represent it in interagency deliberations and is not viewed merely as the implementation arm of more powerful entities that retain authority over budget allocations and policy.

Alternative Organizational Models

When considering the “right” organizational model for U.S. foreign assistance, comparative analysis of programs in other donor countries suggests two important trends: there has been substantial organizational overhaul in the past decade, and this has converged, broadly speaking, on four or five different organizational models, each with its own virtues and drawbacks. These models vary in the degree of centralization of the foreign assistance function, in the stature assigned to it, and in the degree of control by the ministry of foreign affairs. Table 2-1 groups many of the leading donor nations into the four main organizational forms in operation today.

Table 2-1. Organization of Foreign Assistance Activities: Comparison of OECD Countries

Format	Examples
Multiple aid entities	Germany Japan United States
Separate implementing arm of foreign Affairs ministry	Norway Sweden Austria Belgium Luxemburg
Merged into foreign affairs ministry	Denmark Finland Ireland Netherlands
Cabinet agency	United Kingdom Canada

Source: Author’s analysis based on Development Assistance Committee, *Management and Study Practices for Development Cooperation in DAC Member Countries* (Paris: OECD, 2004), p. 40.

This taxonomy is useful for introducing the possible organizational options for the United States, some of which would require only administrative changes to existing

⁶⁵ Such examples include General Electric, Microsoft, and the military services.

structures and others which would require major bureaucratic and statutory overhaul. Each is evaluated below in terms of the principles proposed above; a summary is presented in table 2-2.

Table 2-2. Ability of Alternative Organizational Models to Meet Criteria for Effective Organizational Design^a

Principal organizational model	Organizational criteria						
	Clarifies and rationalizes agency roles	Speaks with single voice	Achieves policy synergies	Aligns policy and operations	Strengthens core competences	Invests in learning	Boosts stature and morale
Status quo plus	M	M	M	L	L	L	L
USAID as implementation arm of State Department	L	M	L	L	L	L	L
USAID merged into State department	M	M	L	H	L	L	M
New empowered department of global development	H	H	H	H	H	H	H

a. H, high; M, moderate; L, low. The table is intended as a preliminary assessment of each organizational model.

Option 1: Improved Status Quo—Coordination of Multiple Aid Entities

By far the easiest improvement would be to superimpose a strong interagency coordination structure on the existing constellation of foreign assistance and international economic policy players. As suggested above, this could mean beefing up the existing White House policy and budget coordination mechanisms with more regular and extensive oversight of both the foreign assistance decisionmaking process and decisions on policy instruments—such as trade, investment, and debt relief—that might have important implications for developing nations. The Department of State’s recent changes would be fully consistent with this approach, which would require greater coordination not only at the highest levels of executive branch decisionmaking but also midlevel interagency coordination led by designated agencies.

To make this model a significant improvement over the existing situation would require not only high-level policy coordination but also true collaboration in planning and operations among agencies, as discussed above in the sections on coordination (speaking with one voice) and coherence (achieving synergies). It would require creating budgetary and career advancement incentives and removing the disincentives for joint interagency work as well as for interagency personnel rotations—not only within the State Department–USAID complex but also extending to the Pentagon, the MCC, and the Treasury Department.

The political capital required for such a change would be fairly modest. It requires no new statutory authorities or indeed even consultations with Congress to effect. Mostly, it would need personal commitment on the part of the president and senior White House staff as well as the heads of the agencies being “coordinated.”

If undertaken with such high-level commitment, this approach could significantly improve the current situation in terms of policy coherence, enabling the United States to act as a more coordinated donor and clarifying the division of labor among agencies. It would do nothing, however, to fundamentally improve the core value of the foreign assistance enterprise, to integrate policy and operations, or to elevate the development mission. It is worth noting that the United States would remain in a category with only a handful of donors, notably Japan and Germany, who are among the most significant in dollar terms but are not known for shaping the broader development agenda.

Option 2: USAID as Implementation Subsidiary of the State Department

A second modification of the status quo would be to strengthen the trend of more clearly defining USAID as an implementation arm of the State Department. This would continue a trajectory set in the 1990s partly in response to congressional pressure, although it would go a significant step further by formalizing and clarifying the role of USAID as the implementing agency vis-à-vis the State Department.

This approach would put the United States in good company with countries such as Norway and Sweden, two donors that are influential in the international development community and seen as quite effective. A modified Swedish model might include a high-level interagency policy group to oversee coordination of nonaid policy instruments, comparable to that overseeing the MCC, while clarifying and elevating USAID as the lead implementation agency for foreign assistance.

This would have the virtues of clarifying agency roles and could lead to better coordination among policies as well as fewer U.S. government voices. It would be further strengthened by the kind of interagency integration of planning and operations described above and the creation of incentives for rotating between USAID and the State Department and for acquiring operational skills.

On the other hand, it would only address coordination problems within the USAID–State Department complex and do nothing to address coordination with the myriad other offices and agencies delivering foreign aid, chief among them the MCC. It would further solidify the divide between policy and operations, and absent major changes within USAID and in the way Congress interacts with it, would do little to boost investment in U.S. core operational capacity for foreign assistance or in knowledge for development. Perhaps most important, there are risks in carrying the Norwegian and Swedish analogies too far. Because the diplomatic and defense missions have much greater relative importance within the U.S. system than in northern Europe, the risk of lowering the stature and morale of the development mission by subordinating it to the diplomatic mission would seem to be much greater in the U.S. context.

Option 3: Merger of USAID into the State Department

A more ambitious reform would go still further by formally merging USAID into the State Department while elevating the stature of the head of USAID within the department's hierarchy and providing explicit guidelines for the division of authority. Here, too, this reform would put the United States in good company alongside the Danes and the Dutch, among others. However, in reality a considerable amount of the foreign assistance apparatus

would remain outside State Department control unless there was a bolder consolidation that incorporated the MCC, other independent entities, and programs operated by other agencies.

Merger would eliminate one important set of overlapping jurisdictions and essentially bring to its logical conclusion a process that has been gathering momentum over the past decade. It could help spread appreciation of the importance of the development mission among career foreign service officers and lead to greater cross-fertilization of ideas and experience between the two groups of professionals.

The primary arguments against placing USAID solely under the authority of the State Department, however, are those that were made in the 1990s, when there was considerable pressure from a leading member of Congress to merge USAID into the State Department. First, despite its considerable foreign policy expertise, the department has limited development experience, little operational (as opposed to policy) experience in the regional bureaus, and no capacity to administer a program budget as large as that of USAID. Second, merging USAID into the Department of State could risk the appearance—and possibly the reality—of subordination of the development mission to foreign policy imperatives in the allocation of long-term development assistance. The concerns that were raised in the 1990s debate are likely to have greater force a second time around, since the experience with merging the U.S. Information Agency has been widely judged a consequential failure.⁶⁶ And it would do nothing to fundamentally upgrade the quality and stature of the foreign assistance enterprise within the U.S. government nor to address coordination with the myriad other offices and agencies delivering foreign aid, chief among them the MCC.

Option 4: New Empowered Department of Global Development

By far the most ambitious reform would be to establish a new cabinet-level agency that would have overarching responsibility for the development pillar of U.S. policy. Such a “department of global development” would either administer directly or have authority over the foreign assistance activities of the U.S. government and would represent the development mission in the formulation of policies with particular salience, such as those affecting trade, debt relief, investment, and agriculture. Most likely, the new department for global development would include the Millennium Challenge Corporation as a relatively independent flagship operation and extend the MCC’s most successful and innovative features more broadly, such as non earmarked funding, recipient design and ownership, grant-based financing for the poorest, and transparent eligibility criteria.⁶⁷ It also might logically include such functions as overseeing U.S. policy toward the World Bank and regional development banks and some core security assistance functions, such as police training, while assuming no responsibility for military-to-military assistance, for example.

This model, which has been adopted by both the United Kingdom and Canada, has powerful potential benefits for the efficient functioning of the U.S. government, for aid recipients, and for America’s influence in the international community. It is the most ambitious reform with regard to rationalizing agencies, ensuring a single U.S. voice, achieving coherence across aid and nonaid policies, and aligning policy and operations. It

⁶⁶. Lancaster, “Bush’s Foreign Aid.”

⁶⁷. Despite increasing emphasis in recent years on grant-based financing for the poorest countries—a trend that the United States has supported at the World Bank and implemented in the context of the MCC—USAID funding remains heavily loan based.

holds out great promise for reforming the operations of foreign assistance to ensure greater effectiveness, more focus on core competences, and greater investment in knowledge for development.

Perhaps most important, a new cabinet-level agency holds out the greatest hope of catapulting development into coequal status with defense and diplomacy, in line with the president's National Security Strategy. One of the interesting byproducts of creating DFID in the United Kingdom was that over the course of a few years, development work became the top choice for new entrants into the British civil service, surpassing both Treasury and the Foreign Office combined.⁶⁸ Largely as a result of the reform, and the political consensus supporting it, DFID has become a magnet for top talent and one of the most influential actors in the foreign assistance arena.

But despite the great promise this approach holds, the downsides are equally daunting. This reform would require enormous political capital to elicit the necessary broad and deep political support for authorizing legislation. There would be considerable, possibly insurmountable, opposition from many quarters, including from within the administration and in Congress, to a reform of this nature. It would lead to substantial disruption during the transition.

Prospects and Constraints

A significant reform of the current sprawl of foreign assistance activities to achieve greater coherence and efficiency would require significant political capital, fundamental organizational overhaul, and probably new legislation. Based on the analysis of previous U.S. reforms and the recent U.K. reform, a major overhaul of U.S. foreign assistance would likely require at least one and possibly most of the following five conditions:

- a crisis,
- an emerging political consensus that foreign assistance reform is central to advancing vital national interests in the face of new international challenges,
- personal commitment on the part of the president,
- congressional championship, or
- a concerted, sustained, and well-organized advocacy campaign spanning the political spectrum and uniting the disparate interests of coalition members around a clear and compelling goal.⁶⁹

Since the terrorist attacks of September 11, 2001, and the unfolding lethality of the HIV/AIDS pandemic have generated new challenges of epic proportions, the first condition (a crisis) would seem to have been met. And in the wake of these events, the importance of underperforming governments in impoverished areas has become more apparent, thus highlighting the critical role of foreign assistance and at least laying the groundwork for meeting the second condition (political consensus).

President George W. Bush's foreign policy agenda was profoundly reshaped by the aforementioned events. But after a period of internal deliberation and consideration of the significant political capital likely to be required for a major overhaul of U.S. foreign assistance, the administration's response has been to pursue a course of marginal reform.

⁶⁸. See Barder, chapter 10.

⁶⁹. See Nowels, chapter 9, and Barder, chapter 10.

Some of the proposed changes should lead to improved coordination between the State Department and USAID, but they will not yield fundamental progress toward institutionalizing many of the organizational principles laid out above. And given the president's preferred approach of addressing new challenges by layering a progression of new initiatives on top of the existing structure, rather than attempting fundamental reform, the third condition (presidential commitment) has not been met.

Indeed, it is difficult for any administration in midstream to propose fundamental changes that threaten existing bureaucratic boundaries. Such changes are far easier to evaluate objectively and to implement during a change of administrations. Currently, even deeply committed members of Congress lack the traction to champion more fundamental reforms, as the fourth condition requires.

Thus it is apparent that the likelihood of fundamental change will remain low as long as there is no political payoff. This is where condition five can be pivotal: it is critical that the advocacy community, which has proven immensely successful in recent years in support of debt relief and vastly increased sums for the fight against HIV/AIDS, undertake a major effort to place foreign assistance transformation high on campaign agendas. After all, the creation of DFID was a plank of Britain's New Labour platform, which gained unstoppable political impetus when Tony Blair swept into office.⁷⁰ At the moment it is hard to imagine the status of U.S. foreign assistance meriting even a mention in a presidential debate, let alone becoming a core tenet of a candidate's agenda. But strong support from key advocacy groups and other nongovernmental organizations could generate the requisite political will for reform. For lessons to be learned from an earlier, ultimately successful attempt at major governmental reform, see box 2-1.

Box 2-1. Goldwater-Nichols: Lessons for Reforming U.S. Foreign Assistance

In 1986 the Goldwater-Nichols Department of Defense Reorganization Act was signed into law, instituting a joint chain of command for the uniformed military. It is widely believed to be the most significant national security reform since the National Security Act of 1947.⁷¹

The Goldwater-Nichols Act holds some lessons for the substance of foreign assistance reform; it is generally credited with creating the institutional underpinnings for systematically joining the different services in all aspects of planning and operations (while getting lower marks on resource allocation issues). But the most important lessons for foreign assistance concern the reorganization process.

Against a backdrop of growing concern about dysfunctional interservice rivalry stemming from experiences in Vietnam, the failed Iranian hostage rescue mission, and the invasion of Grenada, a 1982 article written by a retiring chairman of the Joint Chiefs of Staff critiquing the existing structure and recommending reforms set off the process.⁷² Defense reorganization was given added impetus when the successor chairman announced his

⁷⁰. See Barder, chapter 10.

⁷¹. Thomas L. McNaugher, *Improving Military Coordination: the Goldwater-Nichols Reorganization of the Department of Defense* (Brookings, 1994); Clark A. Murdock and Michele A. Flournoy, *Beyond Goldwater-Nichols: U.S. Government and Defense Reform for a New Strategic Era—Phase 2 Report* (Washington: Center for Strategic and International Studies, July 2005).

⁷². See Peter W. Chiarelli, "Beyond Goldwater-Nichols" *JFQ: Joint Forces Quarterly*, Autumn, 1993, pp. 71–81.

support and called for more ambitious reforms. Despite opposition from the Reagan administration, reform proposals were taken up in hearings by the House Committee on Armed Services. A Senate staff study analyzing the existing organizational structure was undertaken, and a parallel process of hearings began in the Senate Armed Services Committee. Defense reorganization legislation was proposed and failed in each of the three years preceding the passage in 1986 of the far-reaching legislation championed by Senators Barry Goldwater and Representative Bill Nichols.

Recommendations

Brilliant policies and increased funding are not enough, in and of themselves, to improve the effectiveness of America's aid enterprise unless they are accompanied by fundamental organizational and operational transformation. Such change would be best guided by seven simple principles:

- Rationalize agencies and clarify missions.
- Speak with a single U.S. voice.
- Realize synergies across policy instruments.
- Align policy, operations, and budgeting.
- Focus on core competences.
- Invest in learning.
- Elevate the development mission.

In addition, four models of aid organization, suggested by recent trends among OECD donors, should be evaluated as possible alternatives, taking into account the unique global position of the United States as well as its defining political culture. These models include coordination among multiple decentralized agencies, USAID as the implementation arm of State, USAID merger into State, and a new department of global development.

Most of the conditions necessary for this kind of fundamental overhaul—including an emergent political consensus surrounding the urgency of the mission and personal commitment on the part of the president or key congressional champions—are not currently present and are unlikely to be during the remainder of a second-term presidency. But it is still possible at this time to make improvements by instituting a clear system of coordination led at the highest levels out of the White House, with authority delegated to appropriate agency leads for planning and operations.

In parallel, it is critical for Congress and organizations outside of government to lay the groundwork for and build broad agreement around a more profound vision for reform, in a process akin to that leading up to the Goldwater-Nichols Defense Reorganization Act of 1986 (which is described above in box 2-1). The HELP Commission established by Representative Frank Wolf provides one such vehicle, and congressional authorizers could commission studies from the Government Accountability Office and CRS as well as hold hearings to deepen understanding of the challenges and begin to build the foundations for lasting solutions.⁷³

⁷³. For a summary of the HELP Commission, see Frank Wolf, "Helping Enhance the Livelihood of People (HELP) around the Globe Commission Act" (www.house.gov/wolf/news/2003/FAEC_Summary_and_Section.htm [May 2006]).

Outside advocacy groups and nongovernmental organizations should also undertake a campaign to highlight the importance of more effective aid and the key mechanisms for achieving it. Without such mobilization and the articulation of a clear, compelling goal, sufficient political momentum for reform will not emerge.

Ultimately, a new, empowered department of global development is likely to be the model that holds the greatest promise of transforming the U.S. foreign assistance enterprise to lead in addressing the challenges of the twenty-first century. The analysis of the various organizational models discussed in this chapter suggests that a new department of global development comes closer than any of the other options to achieving key principles of aid effectiveness. Only a new cabinet agency will be able to boost the stature and morale of the development mission and attract the next generation of top talent within the U.S. government. Only an independent department will be able to realize the president's vision of elevating development as the third pillar, alongside diplomacy and defense, underpinning America's international leadership.