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Restructuring U.S. Foreign Aid: The Role of the Director of Foreign Assistance in Transformational Development

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Summary

The creation of a new State Department position—Director of Foreign Assistance—has sparked congressional interest regarding the management, budgeting, and proposals for reform of U.S. foreign aid programs. Charged with coordinating U.S. assistance programs, the Director of Foreign Assistance (DFA) will have authority over most State Department and U.S. Agency for International Development (USAID) programs, although major foreign aid programs, such as the Millennium Challenge Account and the Office of the Global AIDS Coordinator will remain outside of his scope. The DFA is also tasked with providing "guidance" to other agencies that manage foreign aid activities. Some assistance programs are scattered throughout numerous domestic policy agencies and the Department of Defense.

The restructuring is part of Secretary Rice's "transformational development" initiative, that seeks to use foreign assistance to transform recipient countries' economic development paths, and to graduate countries from a dependence on aid. Details of the restructuring have been unveiled with the release of a new Strategic Framework for Foreign Assistance. The Framework links strategic objectives with categories of countries that have shared characteristics or development challenges. Operational plans would design country-specific aid programs to meet those challenges. The FY2008 budget request has been developed by joint State Department and USAID teams to provide better coordination and coherence.

While the current restructuring requires no legislative action, it raises a number of questions with regard to the management of foreign aid programs, funding levels, and reform options that will confront the 110th Congress. Supporters argue that it is a long overdue reform of fragmented and uncoordinated assistance programs that will focus aid on strategic objectives and make programs more accountable. Some critics contend that its piecemeal approach will not result in comprehensive reform. Others fear that it will politicize aid programs, and put the focus on short-term objectives rather than long-term development. Administration officials have said that the current effort is the first step in a more thorough overhaul of U.S. foreign assistance.

Larry Nowels, who retired from CRS in 2006, was an original co-author of this report.

This report will be updated.

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The creation of a new State Department position—Director of Foreign Assistance—has sparked congressional interest regarding the management of U.S. foreign aid programs, its possible impact on funding levels, and any possible future reform of foreign aid operations and account structure. The Director of Foreign Assistance (DFA), who serves concurrently as Administrator of the U.S. Agency for International Development (USAID) is Randall Tobias, the former Global AIDS Coordinator.

Charged with coordinating U.S. assistance programs, the DFA has authority over most State Department and USAID programs, and will provide "guidance" to other agencies that have foreign aid programs. Details of the restructuring have been unveiled in the form of a new Strategic Framework for Foreign Assistance.[1] The restructuring raises a number of questions with regard to how Tobias will be able to coordinate aid programs spread throughout almost every government department. Executive officials have said that the current restructuring is a first step in a more thorough overhaul of U.S. foreign assistance.

Transformational Development

Announced on January 19, 2006, the restructuring is part of Secretary Rice's "transformational development" initiative that seeks to use foreign assistance to transform recipient countries' economic development paths, with the goal of graduating countries from U.S. assistance. A 2004 USAID White Paper defined transformational development as going beyond a traditional focus on raising living standards and reducing poverty. It would "transform countries, through far-reaching, fundamental changes in institutions of governance, human capacity, and economic structure that enable a country to sustain further economic and social progress without depending on foreign aid."[2] In addition to promoting transformational development, the same paper identified four further challenges to which U.S. assistance programs are designed to respond: strengthening fragile states; providing humanitarian relief; supporting U.S. geostrategic interests; and mitigating global and transnational ills. The concept of transformational development already has been applied by the Millennium Challenge Corporation (MCC) which manages another Bush Administration foreign aid initiative that rewards "best performing" countries through a competitive process measuring achievements in the areas of governance, economic policies, and social programs.

Also announced at about the same time was a related "transformational diplomacy" initiative that will reposition diplomats to "critical emerging areas," enhance language and regional skills, and emphasize outreach to foreign populations. In this new environment of seeking transformational change in recipient countries through both development and diplomacy, Secretary Rice has argued for better coordination and policy coherence of U.S. assistance programs, with an emphasis on both short-term, and long-term strategic goals at the country and global level. Secretary Rice contends that the DFA position will accomplish those goals.

Both initiatives signal a more prominent role for foreign aid after the terrorist attacks of September 11, 2001 and the beginning of the global war on terrorism. Since 2002, development has been included as one of three pillars—with defense and diplomacy—upon which U.S.

[1] The Framework is available at http://www.state.gov/f/.

[2] U.S. Agency for International Development, "U.S. Foreign Aid: Meeting the Challenges of the Twenty-first Century," January 2004.

national security rests.[3] Countries with high poverty levels and undemocratic governments are considered permissive environments for terrorism and criminal activities. Under such a doctrine, foreign aid has come to be seen as a tool to promote national security in addition to the traditional view of aid as a long-term humanitarian endeavor that will generate good will for the United States and promote eventual trading partners.

The Role of Director of Foreign Assistance

The DFA has been charged with two missions: to develop a coordinated U.S. foreign assistance strategy; and to direct a transformation of foreign assistance to achieve the President's Transformational Development Goals.[4] As both the USAID Administrator and the DFA, Tobias serves at the level equivalent to Deputy Secretary, reporting directly to the Secretary of State. USAID is, and remains, an independent agency under the restructuring. While it is considered independent, the Administrator reports to, and serves under, the foreign policy guidance of the Secretary of State.

In testimony before the House Foreign Operations Appropriations Subcommittee on April 26, 2006, Administrator Tobias identified a number of challenges that he has begun to address. Among those challenges are: a planning and budgeting process that is fragmented among numerous departments and agencies; duplication of programs; poor accountability; and the lack of linkage between strategic objectives and implementation.

The DFA has authority over foreign assistance programs managed by USAID and the State Department. In addition, the DFA will "provide guidance" for foreign assistance delivered through other government agencies. Some, like the Millennium Challenge Corporation (MCC), the Peace Corps, and Treasury Department-managed international financial institutions and debt policy activities, are funded through foreign policy budget accounts. Others are managed and funded through Defense Department and domestic agency appropriations.

With the increasing number of domestic policy agencies involved in foreign aid programs, as well as the Department of Defense's growing role in reconstruction and stabilization work, the actual percentage may be lower. When looking at calendar year 2005 disbursements of just the State Department and USAID, their percentage of the total U.S. foreign aid budget is about 53%, or $13 billion. In the same year, the Defense Department disbursed roughly 24%, mainly for reconstruction work in Iraq and Afghanistan that was funded in the FY2004 Supplemental. Other departments and agencies disbursed about $5.6 billion, or 22% of total official development assistance.[5]

As the size of foreign aid budgets and the number of operational agencies have increased, especially in recent years, a number of observers have highlighted the fragmentation of programs and the possible lack of coordination among them. Some critics also argue that the Bush

[3] Executive Office of the President, U.S. National Security Strategy, 2002 and 2006.

[4] U.S. Department of State Fact Sheet: New Direction for U.S. Foreign Assistance, January 19, 2006.

[5] Calculations by CRS from information reported by the United States to the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) for calendar year 2005. DOD figures include supplemental funds that were appropriated for FY2004, but not disbursed until 2005, and represent a large increase from the previous year's level of $1.6 billion.

Administration, while launching a number of innovative and important initiatives, has not articulated a coherent foreign aid policy strategy or an integrated set of core objectives within which to operate efficient and well-coordinated assistance programs.

State and USAID Programs

USAID manages most U.S. economic assistance programs, in some cases directly and in other cases jointly with the State Department. In FY2006, USAID manages $4.347 billion for programs addressing economic growth, health programs, and disaster and famine assistance. In addition, some funds managed by the State Department are transferred to USAID. Examples include narcotics and law enforcement funds that USAID uses for alternative crop development programs. Economic Support Funds (ESF) are co-managed by the State Department and USAID and provide assistance to strategic partners for a wide variety of purposes. In FY2006, ESF is estimated at $2.621 billion.

Programs that State manages directly include the Global HIV/AIDS Initiative, Foreign Military Financing, International Narcotics and Law Enforcement, Migration and Refugee Assistance, Nonproliferation, Anti-Terrorism, and Demining (NADR), and International Military Education and Training (IMET). In FY2006, funding for these State-managed programs amounted to $10.6 billion. In total, the two agencies manage foreign aid programs of roughly $19.6 billion. In addition, there are other foreign policy-related agencies providing foreign assistance, whose funds are not managed by the State Department, including the Millennium Challenge Corporation; the Peace Corps; the Department of Treasury, and the Trade and Development Agency.

At his USAID confirmation hearing on March 7, 2006, before the Senate Foreign Relations Committee, Ambassador Tobias said that the DFA would have responsibility for all foreign aid funding accounts over which Secretary Rice maintains authority, and that the Secretary would delegate her authority to the DFA.[6] Nevertheless, it appears from statements made by other Administration officials that the State Department's Office of the Global AIDS Coordinator will not be under the DFA's control. It is also unclear as to the relationship between the DFA and State's Office of the Coordinator for Reconstruction and Stabilization.[7]

Table 1 lists the programs over which the DFA will have responsibility as well as those that may, at least initially, remain outside of his portfolio. Programs under his direction total about $15 billion in FY2006 and a requested $15.6 billion in FY2007. An additional $4 billion in FY2006 and $6.5 billion in FY2007 for State Department programs would remain outside of his control.

Table 1. Foreign Aid Accounts

Under DFA Direction	Outside of DFA Scope
All USAID accounts	Millennium Challenge Corporation
Economic Support Fund	PEPFAR (State)

[6] See exchange between Senator Sarbanes and Ambassador Tobias at the Senate Foreign Relations Committee hearing on March 7, 2006.

[7] "State Department Officials Hold a Background Briefing on U.S. Foreign Assistance - News Briefing," Political Transcripts by CQ Transcriptions, January 19, 2006. In briefings to Congressional staff, department officials indicated that the exact accounts over which the DFA would have authority had not been fully determined.

Under DFA Direction	Outside of DFA Scope
SEED	Peace Corps
FSA	Inter-American Foundation
Narcotics (INL) & ACI	African Development Foundation
Migration & Refugee Assistance	Treasury Dept. Technical Assistance
Nonproliferation (NADR)	Treasury Dept. Debt Relief
IMET	
Foreign Military Financing	
Peacekeeping Operations	

Notes: SEED—Assistance for Eastern Europe and Baltic States; FSA—Assistance for the Independent States of the Former Soviet Union; IMET—International Military Education and Training; PEPFAR—President's Emergency Plan for AIDS Relief.

Domestic Policy Departments with Aid Programs

The degree to which the DFA will be able to guide and coordinate the programs of entities falling outside the State Department and USAID has not been fully articulated and is likely to be one of the most difficult challenges faced by the new Director. Ambassador Tobias said at his confirmation hearing that he hoped to put in place a "formal process" for achieving the DFA's mandate of coordinating across the government.[8] Similar approaches have been tried in the past, but with limited impact. An entity legislated in 1973 by Section 640B of the Foreign Assistance Act of 1961 (FAA)—the Development Coordinating Council (DCC)—was intended to coordinate government-wide foreign assistance activities. The DCC, however, rarely met and according to USAID, exists today "only as an unimplemented provision in the FAA."[9]

Some type of foreign assistance program exists in nearly every department and agency. Major programs exist in the Department of Agriculture (P.L. 480 food aid), the Department of Health and Human Services, the Department of Energy and the Department of Labor. Smaller programs are located in the departments of Commerce, Homeland Security, Justice, Interior and Transportation. In calendar year 2005, disbursements from these agencies amounted to roughly $5.6 billion.[10] This represents about 22% of total foreign aid disbursements made in calendar year 2005.

DOD Programs

The Department of Defense is playing an increasing role in post-conflict situations, and has for many years maintained its own programs supporting U.S. humanitarian responses and narcotics interdiction. Many of the programs now conducted by DOD are similar to those provided by the State Department through FMF, IMET, and even ESF funds. Even though the DFA is to provide

[8] See exchange between Senator Lugar and Ambassador Tobias at the Senate Foreign Relations Committee hearing on March 7, 2006.

[9] See "USAID History," found at http://www.usaid.gov/about_usaid/usaidhist html.

[10] Calculated by CRS, from information reported by the United States to the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) for calendar year 2005.

guidance for all foreign assistance programs, it is unclear how much influence he will have over DOD programs in such strategic places as Iraq and Afghanistan.

Iraq and Afghanistan Assistance

Congress has given authority to DOD to carry out reconstruction and stabilization programs in Afghanistan and Iraq subsequent to military actions there. Many of these funds have been provided through emergency supplementals, but some funds were included in regular appropriation bills. First established in the FY2003 Emergency Wartime Supplemental Appropriation (P.L. 108-11), the Iraq Freedom Fund authorizes DOD to provide counter-terrorism training for foreign governments, subject to the concurrence of the Secretary of State. In the FY2006 Defense Appropriation Act (P.L. 109-148), Congress provided $4.66 billion.

The Commanders' Emergency Response Program (CERP) enables U.S. military commanders in Iraq and Afghanistan to respond to urgent humanitarian relief and reconstruction requirements that will immediately assist the Iraqi people. For FY2006, Congress provided up to $500 million. In addition, the FY2005 Emergency Supplemental Appropriation Act (P.L. 109-13) provided DOD funds to train and equip security forces in Iraq ($5.7 billion) and Afghanistan ($1.3 billion). Other funds exist to repair oil facilities and related infrastructure in and around Iraq, to transfer defense articles to Iraq and Afghanistan, and to provide health care to Iraqi children injured as a result of Operation Iraqi Freedom.

Military Assistance and Training

Beyond Iraq and Afghanistan, Congress has authorized additional programs to train and equip other foreign militaries. The FY2006 National Defense Authorization Act (P.L. 109-163) authorizes up to $200 million annually to build the capacity of foreign militaries to conduct counterterrorist operations, or to participate in or support military operations in which the United States is a participant. The same Act allows DOD, with the concurrence of the Secretary of State, to reimburse any key cooperating nation for logistical and military support provided in connection with U.S. military operations in Iraq, Afghanistan, or the global war on terrorism. The FY2006 Defense Appropriation Act (P.L. 109-148) provided $805 million for such reimbursements. The FY2006 authorization act also authorizes up to $100 million annually for services, defense articles, and funds to the Secretary of State to facilitate reconstruction, security, or stabilization assistance to a foreign country.

Humanitarian Assistance

Congress has also given DOD authority to provide humanitarian assistance in response to either military operations or natural disasters through a number of provisions in defense appropriation measures or authorization acts. For FY2006, Congress provided $61.5 million for humanitarian and civic assistance activities in host nations in conjunction with military operations. DOD is also authorized to provide transportation of humanitarian relief supplies, disaster assistance, and excess nonlethal supplies.

Counter-Drug and Anti-Terrorism Assistance

The Defense Department has taken on increasing responsibility for drug interdiction and anti-terrorism activities worldwide. For FY2006, DOD funding for such activities totaled $917.7 million. DOD counter-drug activities are authorized in Peru, Colombia, Afghanistan, Bolivia, Ecuador, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan.

Restructuring Foreign Aid Management and Programs

Administrator Tobias has taken two steps to accomplish his mission of providing better coordination of programs and to develop an overall strategy for U.S. foreign assistance. The first involves organizational measures to address a fragmented planning and budgeting process. The second involves potential changes in programs and implementation to achieve transformational development. While the second could very well involve a number of other departments and agencies that provide foreign assistance, recent Tobias statements indicate that his initial focus will be on coordinating USAID and State Department programs.

Organizational Reform

Prior to the creation of the DFA Office, separate offices within State and USAID maintained independent budgeting and planning activities, resulting in possible duplication and lack of coordination. The DFA Office has drawn strategic, budget, and program planning staff from both State and USAID. The size of the office will range from 80 to 100 staff, with approximately 25 from the State Department's Bureau of Resource and Management and the office of Special Initiatives. The remaining staff will come from USAID. The centralized planning and budgeting operation is designed to provide coherence and coordination, and to reduce duplication among programs. It is also proposed as a better way to ensure easier tracking of foreign assistance, a problem that Congress has urged USAID to solve.

The new office is overseeing the development by USAID missions of FY2007 operational plans for each country. This initial focus will be on USAID programs, but the plan envisions that 67 countries will have FY2007 operational plans that include all U.S. foreign assistance resources. Operational plans are to indicate the funding levels for various activities, as well as performance measures. Plans are to be reviewed in Washington for consistency with U.S. foreign policy goals before funds are allocated. The timetable is to have operational plans for every country with a USAID mission by January 2007.

Programmatic Reform

The second of Tobias' proposed reforms includes the recently unveiled Strategic Framework that establishes objectives for U.S. foreign assistance and goals and performance indicators for recipient countries. The Framework links transformational development goals with funding sources and activities. Tobias describes the Framework as a roadmap to establish goals and performance measurements, and to guide country teams in defining activities that will achieve those goals. The Framework is being used as the basis for integrated budget planning for State and USAID beginning with the FY2008 budget request.

The current proposal creates five categories of countries.[11] The first—Rebuilding Countries—would include post-conflict states such as Afghanistan, Haiti, Sudan, Iraq and Somalia. Transforming Counties would include low and lower-middle income countries that meet MCC performance criteria. The category of Sustaining Partnership Countries would include higher income countries with which the United States maintains economic, trade, and security relationships beyond foreign aid. Restrictive Countries would include authoritarian governments, most of which are ineligible for U.S. aid. Programs in these countries operate through non-governmental organizations or through entities outside the country. The fifth category—Developing Countries—would include low and lower-middle income countries that are not yet meeting MCC performance criteria. A sixth category encompasses global or regional programs that transcend any one country's borders, or are addressed outside of a country strategy.

Each category represents common challenges around which aid programs would be designed and coordinated. While the list of countries in each category has not been released, it is conceivable that some recipient countries might object to their categorization, particularly if they face more than one challenge to development. For example, some could argue that Colombia is a post-conflict state, while others would make the case that it is either transforming or a strategic partner. The framework includes five aid objectives around which programs are to be designed: peace and security; governing justly and democratically; investing in people; economic growth; and humanitarian assistance. Country teams would make recommendations on country-specific aid programs.

Critics of the Framework have expressed concern that categorizing countries will result in unidimensional programs when development problems are often multidimensional. Others fear that the Framework is focused on strategic objectives to the neglect of poverty alleviation, which they contend is the underlying cause for instability. Still others believe that the restructuring advantages a short-term strategic approach over a long-term development perspective. The Administration counters that the Framework is flexible enough to deal with any number of development issues a country may have. Further, poverty reduction was recently incorporated as one of the end goals of aid, in response to criticism about its initial omission. They also contend that reaching short-term strategic goals will assist in long-term development.

The FY2008 Budget

The DFA is overseeing the process of developing the FY2008 foreign aid budget for both the State Department and USAID. The process includes the coordination of both State and USAID functional bureaus into integrated teams that define program priorities for the strategic objectives and country categories, determining the array of programs for each category. Country-focused teams make country-specific recommendations that undergo senior review and presentation to the Secretary of State in an integrated budget format.

The FY2008 budget will be presented to Congress in February 2007. The format of the final budget is unclear at this point, although DFA officials have said it will be one integrated document encompassing both State and USAID programs. No change to the account structure is occurring, but it is likely that the budget and accompanying budget justifications will be structured around the strategic objectives as represented in the new Framework. Until the budget

[11] This information is drawn from Stewart Patrick, "Foreign Aid Reform: The Latest Skinny from the Inside," Center for Global Development, May 8, 2006.

is submitted, it is not possible to evaluate the effect of the Framework on program or country funding levels.

The FY2007 'Fast-Track' Process

At the same time that the FY2008 budget is being planned, the DFA has undertaken a FY2007 "fast-track" process for 67 countries. This process is meant to accelerate the implementation and development of country operational plans, that will also be eventually developed for all recipient countries. Country teams will review the FY2007 allocations for the 67 countries and will re-allocate some funding to reflect the new strategic framework. This review was scheduled to begin in late summer/early fall and to be completed by the end of the year. A request to reprogram these funds is expected to be sent to Congress after the FY2008 budget submission.

Earlier Attempts at Foreign Aid Reform

While reforming U.S. foreign assistance strategy and programs has been a matter raised a number of times by past Administrations, members of Congress, public policy think-tanks, and American non-governmental organizations (NGOs), implementation of such initiatives has proved difficult. During the past two decades, Congress and the executive branch have considered three broad foreign aid reform proposals, each of which stalled.

Hamilton-Gilman Foreign Aid Reform Task Force

With an increasing recognition of changing global conditions near the end of the Cold War and 14 years after the previous overhaul of U.S. foreign aid policy, two senior members of the House Foreign Affairs Committee—Representatives Lee Hamilton and Ben Gilman—were asked to shepherd a bi-partisan effort to re-write basic foreign aid laws. The initiative was intended to draft legislation that reflected new realities of U.S. foreign policy, narrow and more clearly define key American foreign aid objectives, streamline congressional restrictions placed on executive implementation of the program, and restore congressional confidence in the purpose and achievements of foreign assistance. Although the House Foreign Affairs Committee endorsed legislation reflecting most of the Task Forces' recommendations, key Members, including Representative Gilman, dissented from some of the major proposals. Without executive and Senate support, the initiative died.

Clinton Administration Initiative

At the outset of the Clinton Administration in 1993, Deputy Secretary of State Clifford Wharton was named to lead a review of U.S. foreign aid policy that would design a post-Cold War policy framework and reform USAID. While the Wharton review never published a final report, in late 1993 the Administration submitted to Congress the Peace, Prosperity, and Democracy Act (PPDA), a bill that included many ideas that arose during the Wharton review. Congress raised concerns over proposals to increase Presidential flexibility in managing foreign aid programs and to consolidate funds into a more narrow set of appropriation accounts focused on strategic objectives as articulated by the executive branch. While the House passed a modified version of the PPDA, the bill stalled in the Senate and was not re-submitted by the Administration in the 104th Congress.

Consolidation of USAID into the State Department

Arguing that the Secretary of State should have more direct control over all tools of U.S. foreign policy, a number of analysts and members of Congress proposed in the mid-1990s to abolish the U.S. Information Agency (USIA), the Arms Control and Disarmament Agency (ACDA) and USAID, and consolidate their operations within the State Department. After three years of debate, Congress enacted legislation in 1998 (Division G of P.L. 105-277), transferring USIA and ACDA into State, but retaining USAID as an independent agency. The legislation, however, further required that the USAID Administrator report to and serve under the foreign policy guidance of the Secretary of State. This remains the current relationship between USAID and the Department of State.

Issues for Congress

As with any restructuring initiative, the creation of the DFA raises a number of questions with regard to implementation. The restructuring initiative has been applauded by many as marking the beginning of what they perceive as a long overdue effort to reform a cumbersome and fragmented U.S. foreign assistance program. Some supporters of the plan, however, believe it does not go far enough and that the Administration is missing an opportunity for launching a much bolder, and necessary reform effort. Some critics have expressed strong concern that the new initiative may lead to a greater degree of aid politicization and that USAID will be further marginalized as a key maker of U.S. development policy.

As currently envisioned, Congress will not have a direct role in the restructuring, although key congressional committees are likely to maintain close oversight as the plan moves forward. The first formal opportunity for the 110th Congress to review the restructuring plan will be in February 2007 when the FY2008 budget is submitted to Congress. It is likely that a request to reprogram FY2007 funds to reflect the new strategic framework will be presented to Congress for approval soon after the FY2008 budget is unveiled.

Coordination of Programs

Secretary Rice has argued that more coordination and coherence is needed in foreign assistance programs in order to meet transformational development goals. With some 18 foreign aid accounts in both the State Department and USAID appropriations, and numerous other programs scattered throughout other government agencies, Secretary Rice has not been the first to observe that the U.S. foreign aid apparatus is cumbersome and lends itself to inefficiency and redundancy. A number of programs have similar or identical purposes, but management is split between USAID and State.

It is unclear at this point how much authority the DFA will have to coordinate activities, and what effect better coordination will have on funding levels. For example, counter-narcotics and democracy programs are shared between USAID and State. Questions have been raised as to whether better coordination will produce efficiencies, reduce redundancy, and result in more effective programs. It is also unclear how much authority the DFA will have over State Department offices that are not formally a part of his portfolio. For example, the President's Emergency Plan for AIDS Relief (PEPFAR), administered by the Global AIDS Coordinator, is

not formally a part of the DFA's budgeting authority. The Coordinator also reports directly to the Secretary of State.

While the Director of Foreign Assistance has been granted authority over State Department and USAID aid programs, a number of other foreign aid agencies remain outside the scope of the Director's responsibility. As mentioned earlier, the largest is the Millennium Challenge Corporation, but several others, like the Peace Corps, the Overseas Private Investment Corporation, and the Trade and Development Agency maintain smaller but important aid activities. In addition, the Treasury Department is responsible for U.S. participation in the World Bank and a number of other international financial institutions. It is unclear how the DFA will provide "guidance" to these types of programs in light of his mission to develop a coordinated U.S. foreign assistance strategy government-wide. There is also concern that if a truly coordinated foreign assistance strategy is achieved, countries that are not considered prime candidates for transformational development, but who nonetheless are in need, will see their assistance reduced in favor of those countries that are moving in the right direction.

Politicization of Aid Programs and the Role of USAID

Some critics of the restructuring fear that long-term development and poverty reduction goals, the traditional concern of USAID, will be overwhelmed by the demands of shorter-term strategic considerations, often of high priority for the State Department. The need to balance these often competing objectives will be challenging. Some observers have argued that USAID has lost considerable influence in past years due to the separation of policy and implementation in which the State Department, as the stronger agency, has gained significant authority over policy. Examples include creating coordinators at State to oversee aid programs in Eastern Europe and the former Soviet Union, shifting primary responsibility over international HIV/AIDS programs from USAID to the Global AIDS Coordinator at the Department, and dividing democracy promotion activities between the two agencies. Others fear that the role of USAID missions is being diminished in favor of a Washington-based planning process.

The future of USAID is unclear at this juncture. Those who believe in USAID's traditional mission of promoting long-term development fear that the agency will be relegated to a position of solely implementing programs rather than shaping development policy. Secretary Rice and other senior Administration officials, however, contend that the reconfiguration will strengthen USAID's role and status. Since the DFA will also serve as USAID Administrator, they argue, USAID will more likely participate in the policy and budget decision-making process to a greater extent than at present. At his confirmation hearing, Ambassador Tobias noted that a difficulty faced by his predecessor at USAID, Andrew Natsios, was the time consumed negotiating with State Department officials over whom the Administrator had no authority. This would no longer be the case, he argued, since the DFA would have such authority.[12]

Reforms Deferred and Subsequent Initiatives

During the State Department's 2005 review of foreign aid reforms, a number of other policy options were considered, but either dropped or deferred until later. It appears that the Department

[12] See exchange between Senator Sarbanes and Ambassador Tobias at the Senate Foreign Relations Committee hearing on March 7, 2006.

seriously considered creating a more formalized position of either a Deputy Secretary of State or Undersecretary for foreign aid. Also planned but eventually dropped was a proposal to restructure the current appropriation accounts. This option would have required extensive review and ultimate approval by Congress. Administration officials have said that the current restructuring effort is only the first step in a more expansive reform of foreign aid, suggesting that issues considered but dropped may be part of subsequent initiative, perhaps in the 110th Congress. But a number of observers note that a piecemeal approach to comprehensively reorienting U.S. foreign aid is particularly difficult, especially in the final two years of an Administration. They argue that the State Department should have aimed for a much broader plan, consulted with Congress throughout the review process, and presented a complete legislative package for congressional approval this year.

Congressional Priorities

Even previous to the current aid restructuring, some observers have asserted that congressional earmarks hamper the Administration's flexibility to respond to changing world events and to prioritize aid objectives. Congress regularly exercises its prerogative to direct funds to certain countries and for certain objectives in the annual foreign operations appropriation bills that in many cases differ from the Administration's budget request.

Because the initial framework is being implemented within existing appropriation accounts, and without legislation that would restructure foreign aid in general, it is possible that congressional priorities may not completely correspond to the strategic framework as developed by the DFA. For example, the FY2007 Foreign Operations bill reported by the Senate Appropriations Committee (S.Rept. 109-277) contains numerous directives with regard to the level of funding for programs and activities, as well as recipient countries. The Senate bill restructures some accounts, consolidating several programs into a $1 billion Democracy Fund, and putting all health related programs into the Child Survival and Health account. The House-passed bill (H.R. 5522/H.Rept. 109-486) creates a Trade Capacity Enhancement Fund that totals $522 million. How congressional priorities will be reflected in the framework and in the FY2008 appropriations bills is a challenge Congress and executive officials will have to confront.

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