

Foreign Assistance Reform: Then, Now and Around the Bend

By Noam Unger, Senior Manager, Foreign Aid Reform Project, The Brookings Institution

Sixty years ago this month, the policy planning staff and many other parts of the Department of State, not to mention the American population, were busy thinking about “the European recovery problem.” They were scrambling to realize the vision spelled out just weeks before in Secretary of State George C. Marshall’s speech at Harvard’s commencement. Policy makers had to sort out real issues related to the mechanics of foreign aid – financing, delivery structures, regulations, requirements, the role of the private sector and coordination with international partners. The Conference of European Economic Cooperation (the embryonic form of the Organization for Economic Co-operation and Development) met in mid-July of that year, enabling a number of European countries to join in the program’s design and the needs assessment. The Marshall Plan became a legislative act, launching the United States down a path of federal institution building and infrastructural reforms that began with the creation of the Economic Cooperation Administration.

Every decade since its inception, the Marshall Plan has witnessed executive and legislative efforts to reform U.S. foreign assistance. For the most part, these initiatives stalled in Congress, lacked Presidential backing, suffered neglect in light of domestic priorities or met with very narrow success. Throughout this period, the most significant and lasting reforms

to U.S. foreign aid took hold when the Kennedy administration worked with Congress to create the Foreign Assistance Act of 1961 and the Agency for International Development (USAID). Amended and adjusted over time, both still exist.

The George W. Bush administration has exercised significant political will on discreet foreign assistance initiatives while overseeing historic increases in overall U.S. foreign assistance levels. Our government has invested in large new initiatives, including the Millennium Challenge Corporation (MCC) and the President’s Emergency Plan for AIDS Relief (PEPFAR). However, it deliberately placed these new institutions apart from USAID for fear that the tangled bureaucracy and the morass of pre-existing legislation would encumber their speed and effectiveness. The administration’s tendency to pursue fragmented and “quick fix” approaches comes at considerable cost to our overall aid infrastructure. Even prior to these large-scale and independent initiatives, U.S. foreign aid already suffered from disunity. With U.S. foreign assistance divided between USAID and the departments of State, Agriculture, Defense, Commerce, Labor and the Treasury (just to name several of many), it would pose no surprise to hear critics decry our system as “bureaucratically fragmented, awkward and slow... diffused over a haphazard and irrational structure.” Those were the biting words that President Kennedy used to persuade

our nation’s leaders of the necessity of fundamental foreign aid reform nearly half a century ago. The current Bush administration’s further segmentation of foreign aid, the weakening of USAID, and the muddled evolution of the Foreign Assistance Act of 1961 require a broad re-assessment of how U.S. foreign assistance is mandated, funded, and managed.

In 2006, the administration launched a set of reforms (known to insiders as “the F process”) by creating a new position at the State Department – the Director of U.S. Foreign Assistance – and by “dual-hatting” the designated director to also serve as the Administrator of USAID. Although the Director of Foreign Assistance is charged with “the transformation of the U.S. government approach to foreign assistance,” this new office (known as “F”) was not created with authority over the multitude of foreign assistance organizations within the U.S. government outside of the State Department and USAID. Even within the State Department, the Director only has the mandate to provide guidance to the Office of the Global AIDS Coordinator rather than direct authority over PEPFAR. The same lack of direct authority also pertains to F’s relationship to the MCC. Such liabilities raise concerns about budgeting decisions since it would seem that the Director cannot take the big picture into account but must rather follow decisions already made on PEPFAR and MCC

The History of U.S. Foreign Aid Agencies (continued on next page)

1948-1951

Economic Cooperation Agency (ECA)

● **1951** Congress replaces the ECA with the Mutual Security Agency.

1951-1953

Mutual Security Agency (MSA)

● **1953** Congress replaces the MSA with the Foreign Operations Administration.

1953-54

Foreign Operations Administration (FOA)

● **1954** The Mutual Security Act revises and consolidates all previous foreign assistance legislation, creating the International Cooperation Agency in 1954. Placed under the authority of the State Department, the ICA has less authority than its predecessors.

Every decade since its inception, the Marshall Plan has witnessed executive and legislative efforts to reform U.S. foreign assistance. For the most part, these initiatives stalled in Congress, lacked Presidential backing, suffered neglect in light of domestic priorities or met with very narrow success.

programs and build around them. The historic failure of the International Development Cooperation Agency should serve as a lesson about the dangers of creating a coordination layer that actually coordinates too little.

An additional fundamental concern about the F process stems from the fact that the “dual-hatted” position essentially transforms the leadership role at USAID. Designers of the F process claim that USAID as an agency has been elevated by raising the Administrator’s clout to a Deputy Secretary-level job with purview over State-controlled accounts. The top-most leader at USAID, however, must now be an interagency arbiter when disputes arise, and as a result, the agency has lost a high-level champion. Some members of Congress are also nervous about this executive innovation because senior decision-makers under F are not Senate-confirmed.

The administration-chosen path to further consolidate development assistance under the State Department also sparks apprehension. At a recent Senate Foreign Relations Subcommittee hearing on foreign assistance reform, all the experts on a non-governmental panel, including leading thinkers from Brookings, the Center for Global Development and InterAction, openly worried about the subordination of long-term development investments to shorter-term foreign policy objectives.

In addition to such deep concerns, the F process has also raised other criticisms. Its implementation, for example, has been marked by a lack of buy-in among key stakeholders within the administration, Congress and non-governmental development partners.

However, these reforms have also done some good. The F process has resulted in a more unified budgeting process that resolves the old problem of not being able to cross-reference State Department and USAID accounting due to differing systems. F has developed a basic set of management practices and tools, including an information management system with a standardized lexicon. Such improvements allow for better awareness in Washington of our assistance programs, objectives and funding levels in all countries and regions. While it is useful for the USAID Administrator, the Secretary of State and members of Congress to have such elemental knowledge practically at their fingertips, it will be particularly interesting to see the results of forthcoming assessments of these reforms from the field perspective, such as the ongoing study by InterAction. Most of all, the executive-driven, limited reforms imposed by this administration have served as a spur to prompt consideration by Congress and other stakeholders of a wider and deeper campaign that should involve statutory reform.

With the selection of Under Secretary for Management Henrietta H. Fore to

replace Ambassador Randall Tobias at the helm of F and USAID, a window of opportunity currently exists to shape the Bush administration’s drive to retool foreign aid under the State Department and USAID. Essentially, Tobias’ departure provided an opportunity to apply the brakes. Even before her confirmation hearing, Fore has already stated that she will encourage wider consultation. Assuming she is confirmed, she can also take steps in the short time left for this administration to improve morale at USAID, strengthen the level of field input into the F process, and augment transparency with regard to F’s decisions. Prior to a new administration in 2009, it is unlikely that State and USAID will unveil a fundamentally different leadership structure that also takes into account the broader array of organizations involved in foreign assistance across the executive branch. The intervening time will also present a challenge for Congress to legislatively resolve the conflict between the sector-based funding streams enshrined within the Foreign Assistance Act and the country-based budgets designed by the F process. The new Director of U.S. Foreign Assistance and USAID Administrator can and should set a tone for far more significant reforms over the long-term. As Fore already emphasized to the Senate more than a year and a half after the administration’s reforms began, “We are at the beginning of this important reform process, not in the middle, and not at the end.”

1954-61

International Cooperation Agency (ICA)

●**1959** *The Draper Committee report recommends a unified economic and technical assistance agency outside the Department of State, long-range planning on a country-by-country basis, and the decentralization of authority to the field.* ●**1960** *The Senate Foreign Relations Committee sponsors a Brookings Institution report recommending the creation of a foreign aid department with cabinet-level status. The report proposes consolidating the Development Loan Fund, the Export-Import Bank, the ICA and authority over the Food for Peace program. The Ford Foundation, however, calls for the consolidation of foreign assistance within the Department of State.*

FOREIGN ASSISTANCE REFORM

Thanks to past foreign assistance efforts, tomorrow's policy makers are not preoccupied with "the European recovery problem," but they are busy thinking about how to improve America's image in the world.

What lies around the bend is the key. The Brookings-Center for Strategic and International Studies (CSIS) Task Force on Transforming Foreign Assistance in the 21st Century found that the timing of fundamental reform proposals is decisive. The findings of the task force (issued in *Security by Other Means* Brookings Press, 2007) show that for fundamental reform to meet with success, among other requirements, it must be rolled out at the beginning of a new administration in tune with executive and legislative schedules. The next president, in collaboration with Congress, may be able to capitalize on the growing consensus that recognizes the need for significantly deeper reforms than those put forward by the current Bush administration. By rattling Congress, the F process may even be priming the pump for reforms that ultimately lead to the realization of an alternate vision for U.S. foreign assistance.

The bi-partisan Brookings-CSIS task force, along with InterAction and some of its member organizations, made significant strides toward spelling out a bold alternate path. That path includes the creation of a Cabinet-level department that would consolidate much but not all U.S. foreign aid and prominently place

development on equal and independent footing, alongside diplomacy and defense. The best practices, tools and lessons learned from innovations such as the MCC, PEPFAR and the F process would be incorporated into the new department. Dating back to the Marshall Plan, U.S. foreign assistance has always been a matter of both moral and strategic imperatives; and that would not change. Just as defense and diplomacy are part of our national security strategy, development too would remain as such. Additionally, while the alignment of foreign aid and foreign policy is important, they do not need to be housed within the same agency any more than military operations and diplomacy need to be controlled by the same executive department.

Just as structured attempts to reform foreign assistance are not new, neither are the fundamental debates about the appropriate location and authorities of foreign assistance within the U.S. bureaucracy or about the relationship between development assistance and military assistance. Two encouraging trends have coincided, however, that point toward a significant opportunity to launch major improvements in how the U.S. manages its foreign assistance. On the national

security front, the post-9/11 strategic outlook places greater importance on effective foreign aid to prevent state failure and to build stable partners. With regard to poverty alleviation programs overseas, there has never been a greater constituency in this country and around the world in support of such efforts. In the run-up to the 2008 presidential election, candidates will increasingly build on such trends as they search for bold plans to govern. Thanks to past foreign assistance efforts, tomorrow's policy makers are not preoccupied with "the European recovery problem," but they are busy thinking about how to improve America's image in the world.

To draw inspiration from our past, we need not look further than USAID's own website which highlights the original reforms that gave birth to the agency and notes that it was thought that in order for the President "to renew support for foreign assistance at existing or higher levels, to address the widely-known shortcomings of the previous assistance structure, and to achieve a new mandate for assistance to developing countries, the entire program had to be 'new.'"

The History of U.S. Foreign Aid Agencies (continued from previous page)

1961-present

U.S. Agency for International Development (USAID)

●**1961** President Kennedy calls for a new program with flexibility for short-term emergencies; commitment to long-term development; commitment to education at all levels; emphasis on recipient nation's roles through public administration, taxes and social justice; and orderly planning for national and regional development. Secretary of State George Ball creates a task force on the reorganization of foreign assistance. Senator William Fulbright secures passage of the Act for International Development, authorizing the creation of the U.S. Agency for International Development. ●**1973** The Foreign Assistance Act (FAA) decrees that foreign assistance should focus on food and nutrition, population planning and health, and education and human resource development. ●**1978** Senator Hubert Humphrey attempts to overhaul foreign assistance through the International Development Cooperation Act.

1979-95

International Development Cooperation Agency (IDCA)

●**1979** President Carter establishes the International Development Cooperation Agency to oversee USAID. ●**1981** IDCA loses funding under the Reagan administration. ●**1985** The International Security and Development Cooperation Act is the last general foreign assistance authorization enacted. ●**1995** The Foreign Affairs Reform and Restructuring Act abolishes IDCA, and USAID becomes a statutory agency, with the administrator reporting to and under the direct authority and foreign policy guidance of the Secretary of State. The act also abolishes the Arms Control and Disarmament Agency and the U.S. Information Agency, consolidating their functions into the Department of State.

2009

Future Cabinet-level Department?

Source: Adapted from Lael Brainard, Carol Graham, Nigel Purvis, Steve Radelet, and Gayle Smith, *The Other War: Global Poverty and the Millennium Challenge Account*, Brookings Press, 2003, pp.162-163.