

Final Report

**ANALYSIS OF NEED AND
OPTIONS FOR U.S. GOVERNMENT
FOREIGN ASSISTANCE REFORM**

Department of State &
United States Agency for International Development

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I. EXECUTIVE SUMMARY

Booz Allen Hamilton (Booz Allen) is pleased to present this report to the Joint Policy Council (JPC) regarding the need and options for U.S. Government foreign assistance reform. We interviewed selected foreign policy interlocutors, we reviewed past reform attempts and we analyzed several current proposals for reform. Drawing upon these three sources of data, we organized our report into four main sections: The Need for Reform, the Dimensions of Reform, Analysis of Reform Options, and the Process for Reform. Finally, we offer some Concluding Observations.

The following themes permeate this report:

- System change is already occurring. The JPC's decision to recommend reform steps at this time of transition is a laudable decision to consciously engage in a change process that effectively is already in motion. For example, the Millennium Challenge Corporation will inevitably have ripple effects not yet ascertained. The need to address future "failed states" has caused the State Department to create a new Coordinator for Stabilization and Reconstruction with implications for numerous other departments and agencies. USAID is beginning to implement aspects of its "U.S. Foreign Aid: Meeting the Challenges of the 21st Century" (January 2004) document ("White Paper") These are just a few examples that demonstrate that much change is already underway. The real choice of the JPC is how much it wants to try to shape the result, rather than just watch it unfold.
- Substantial change can be incrementally effected, or can be pursued in larger steps. Each approach has value and merits depending on the situation. Whichever approach may be more feasible in the short run, the overall vision for change is the critical element.
- Change is a process that can be driven if the desired end result is known. The relevant maxim is that "you can drive the car only if you know where you are going."
- This is the first step in a significant journey. The thought and effort that goes into framing this discussion will help determine both the content and the process choices for achieving significant reform.

The first major section of our report focuses on the Need for Reform. We found strong consensus that reform is both needed and timely. The reasons given in the interviews we conducted largely fell into five groups:

- The structure and approaches established in The Cold War era are no longer adequate.
- The emerging context poses new opportunities and threats.
- The current system is encumbered with overlapping authorities, restrictions, guidance, directions, limitations, and requirements.
- Lessons learned from forty years of experience should be more broadly applied to benefit the greater foreign assistance effort, but are not incorporated into the current system.
- The Administration has the opportunity to develop and articulate a shared vision to guide the foreign assistance system toward increased effectiveness and greater impact.

The second major section delineates the Dimensions of Reform that emerged from interviews we conducted and a review of past and current reform proposals. We found similar dimensions of reform present throughout Booz Allen's previous experience with large-scale transformational activities, and readily adopted them as a useful framework for considering options. The dimensions are Vision, Goals and Objectives, Capability Alignment, Coordination and Coherence, Performance Measures, Program and Resource Flexibility, and Sustained Commitment. We recommend them as useful tools for those who will be reviewing the options for ultimate consideration.

Through the framework of the seven dimensions, we conducted our Analysis of Reform Options for each dimension. We briefly describe the strengths and weaknesses of each option as they emerged from the interviews and the literature review. We present 26 options in this section. Several are variations of particular models, but our objective is to offer the JPC nuances of the options under each dimension. This approach highlights the trade-offs that will have to be considered, and illustrates that no individual clear path is immediately evident. However, the need for a strategic vision does clearly emerge as an essential ingredient in making reform work.

The next section discusses the Process of Reform. One of the messages that we heard repeatedly was that reform must have high-level champions for it to succeed. We offer suggestions for ways to establish a process that engages key stakeholders and builds consensus to create the support that demonstrates to policy makers that this reform effort is worthy of their time, energy and commitment.

The Concluding Observations were added as a result of multiple reactions to the initial draft report calling for more information about the major trend lines we discerned from our many interviews. These observations do not attempt to convey the richness of the many lengthy discussions, but they do address some of the notable highlights that appeared worthy of special comment.

The Appendices include synopses of the interview results, current reform discussions, and past reform efforts. These three pieces more completely identify the bases for our report, although we did not include every conversation or element of research we undertook in the process of preparing this report.

In sum, our report synthesizes a significant body of evidence indicating the strong need for foreign assistance reform. There are many ideas of what foreign assistance reform should be. A structural consideration of the options that employs the dimensions we have identified will incorporate most of the thinking that is driving reform discussions.

This report does not attempt, at this stage to choose options. Moreover, our "analysis" of the options we present is based upon what we learned from the limited interviews and reviews we conducted. We urge the JPC to engage in a broader dialogue around the trade-offs and merits of these options via a series of discussions both internal and external. Our interviews flagged the considerations for further debate, but, to reach an informed sense of the most relevant and most critical choices, more in-depth discussion among the key stakeholders is really required.

II. BACKGROUND AND APPROACH

The Joint Policy Council (JPC) of the Department of State (State) and the United States Agency for International Development (USAID) is currently discussing the need, and options, for reforming and restructuring the overall United States Government (USG) foreign assistance program.¹ These discussions have identified several weaknesses in the foreign assistance program ranging from policy incoherence, to organizational overlap, to an inability to demonstrate clear results. Numerous foreign policy experts outside the USG also have cited these and other weaknesses that tend to undermine the foreign assistance program's ability to be effective as an element of US foreign policy and national security.

State and USAID engaged Booz Allen to gather information from a variety of knowledgeable sources,² conduct analysis, and provide advice to their ongoing discussions on foreign assistance program reform. The firm's effort included five primary tasks:

- Directly obtain and compile focused input from relevant senior officials and external foreign aid policy experts, through 50 interviews of individuals primarily selected by the JPC
- Review and analyze selected published materials regarding 19 past reform efforts
- Review and analyze selected published materials regarding 7 current published reform proposals
- Identify and analyze a range of legislative and organizational options for improving the effectiveness, flexibility and coordination of foreign aid
- Where possible, identify key political and stakeholder requirements for various reform options

The results of this effort are meant to assist the JPC in preparing an options paper for appropriate USG leadership. Note that where possible, political requirements and constraints are included in the report. Specific analysis of political and stakeholder strategies is not possible, however, until the identification of reform options is further along in its process. Similarly, a longer-term communication/outreach model will be feasible only after reform options are considered and selected.

The scope of our research was necessarily constrained by the limited time and resources available. The interview candidates could not include representation of all key stakeholders, and under the time and resource constraints, no attempt has been made to

¹ The term "foreign assistance program" is used throughout this report to refer to the broad range of foreign assistance activities funded by the many components of the U.S. Government.

² A compilation of our sources, including a list of the interviewees, a synopsis of the seven reform initiatives and an analysis of previous reform efforts can be found in the appendices.

further refine possible options via follow-up, focus groups or any other techniques for consolidating the raw data into a more informed consensus of views. This report is thus only a first step in the reform process. The options presented in the report represent a synthesis of the issues and proposals that emerged from the interviews and the literature research. They were compared and evaluated for strengths and weaknesses as well as for feasibility. We focused on options for system reform, reserving substantive policy goals for policy makers.

II. THE NEED FOR REFORM

Does the United States Government's foreign assistance system need major reform? Our research included interviews with senior officials of the Department of State and USAID, a few from other agencies and several well-known foreign policy analysts, as well as a review of recent reform proposals. They indicated a strong consensus that substantial reform is needed for several reasons:

- **The Needs Have Changed:** The current foreign assistance system and structure was designed in another era, to advance U.S. interests in the face of threats different from those confronted today.
- **A New Context Exists:** Global trends provide new opportunities and pose new strategic challenges for U.S. national security and foreign policy, requiring foreign assistance to adapt to new realities.
- **The "Barnacles" Are Encrusted:** The current system is often incoherent and less effective than it could be with numerous objectives, initiatives and limitations acquired over the past forty years that make coordinated policy and assistance delivery extremely difficult.
- **Lessons Can Be Incorporated:** The experience of several decades of foreign assistance efforts provides useful lessons that should be incorporated to improve the effectiveness and efficiency of the entire foreign assistance effort.
- **A Shared Vision Is Needed:** A clear articulation of foreign assistance strategic goals and objectives is needed, to inform the organization of the foreign assistance system, shape priorities, resolve policy differences and guide program decisions.

While these officials and policy experts agree on the underlying need for reform, they do not agree on the substantive policy goals of the reformed system, what it should look like, nor which changes should be pursued immediately and which require more deliberate action. These choices must be left to the policy decision-makers, after analysis of the major options and the necessary process dynamics.

A. A Cold War System

The current foreign assistance system owes its basic shape and structure to the 1961 Foreign Assistance Act (FAA). In proposing reform at the time, President Kennedy noted that the U.S. foreign aid program was "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...Bureaucratically fragmented, awkward and slow, its administration is diffused over a haphazard and irrational structure...[with]... delays and confusions caused by overlapping agency jurisdictions and unclear objectives."

Through the FAA, the assistance program supported the overarching American foreign policy goal of stemming the spread of Communism. This strategic goal continued to be one of the –but not the only– organizing themes during the next decades, as the struggle for influence widened to focus on less developed countries around the world. USAID-funded programs acquainted emerging nations with American generosity, offered an alternative to a planned or dysfunctional economy and could attract and win allies while containing Soviet ambitions.

Beginning in the late 1980's, following the dissolution of the Soviet Union, the U.S. emphasized development programs intended to consolidate and solidify freedoms gained by former Soviet states. The 1990's saw an end to the trend of regular increases in assistance resources and America's position as the world's largest donor. Through the decades of East-West confrontation – and until today – the strategic considerations of the 1960's have continued to shape the foreign assistance program.

B. The New Context

In recent decades, a number of global forces and trends have emerged according to our sources, creating a new context for U.S. foreign assistance efforts, our sources said. These include:

- Globalization -- technological growth and innovation, instantaneous communications, and rapid transportation -- binds countries in an increasingly interdependent network of services, technologies, industries, trade and investment.
- Increased interdependence also magnifies the impact of destructive forces such as the spread of HIV/ AIDS and other diseases, transnational terrorism, drugs, weapons of mass destruction, crime, mass migrations, and the adverse impacts of failed or weak states. Today, a problem afflicting an individual country can ripple quickly across a region and even the world.
- A wider range of international forces -- including trade rules, private investment, remittances, corporate philanthropy, faith-based and other non-governmental organizations, and a growing number of donor countries -- now influence economic growth in less developed countries.
- In many unstable areas of the world, effective US military force projection requires major attention to civilian security issues and post-conflict nation building efforts that demand significant commitments of resources and time.
- The emergence of global terrorist networks poses threats to U.S. and allied interests around the world, as well as within our borders. This strategic challenge to U.S. leadership is emerging as the new organizing principle for U.S. national security and foreign policy.

Despite these enormous changes in the world and the strategic position of the U.S., the basic rationale and direction for foreign assistance have not been fundamentally

updated for almost half a century. The last significant organizational change to the Act occurred in 1973; several subsequent reform attempts have failed.

Worse, numerous initiatives have been added over the years to respond to particular problems, making the system even more complicated and confusing. The FAA now contains over 800 sections, with scores of policies, specialized reporting requirements, and directives - often conflicting in content -- that limit the flexibility of the system and those who would manage it. Further, the annual appropriation acts have their own authorizing type language with even more requirements built therein.

C. The "Barnacles"

In combination, the FAA, the President's FY 2004 budget request, and the National Security Strategy contain over fifty objectives for foreign assistance. While this report primarily focuses on the agencies included in the 150 Account, across the USG, foreign assistance policy and delivery is fragmented among nearly twenty government agencies and entities. Multiple aid bureaucracies disperse and often confuse roles and responsibilities; they also fragment assistance policy prioritization processes according to our sources. The sheer number of objectives and participating agencies may preordain poor coordination, contradictory goals, and conflicting priorities. In practice, the lack of consistency across programs sometimes adversely impacts recipient countries.

Policy coordination mechanisms are often seen as weak or too limited in scope. The weakness of these mechanisms for resolving legitimately competing priorities limits policy coherence, and can harm the image of the U.S. For example, pressure to protect domestic markets sometimes collides with programs to promote investment and trade with developing countries.

Another example of potential conflict is between those agencies focused on short-term foreign policy goals and those pursuing long-term development objectives. Those interviewed and the reform proposals agree that reconciling the two approaches requires a coordinative process with overarching goals and a practical process for working through program efforts.

During the past three years, several new programs and initiatives to address specific problems have been added to the system, for example the Millennium Challenge Corporation (MCC) and the President's Emergency Program For AIDS Relief (PEPFAR). While these are praiseworthy efforts, and may even provide models for other programs, they have not addressed the underlying weaknesses within the larger foreign assistance system, and may have exacerbated certain problems. Nonetheless, it must be noted that additional program changes continue to be proposed, such as the Stabilization and Reconstruction Civilian Management Act.

Together, the MCC and PEPFAR represent a significant increase in resource commitments to foreign assistance. These programs may provide momentum for

further reform. In particular, officials and external experts agree that MCC embodies progressive philosophies regarding development. Additionally, the inclusion of major policy makers on the MCC Board may provide a useful coordination mechanism as well. At the same time, its creation as a new organization, separate from USAID, must be seen as an expression of a lack of confidence in USAID's ability to achieve important development results under the limitations of the current system. Further, the impact of creating alternative programs operated by new organizations erodes USAID's standing, capacity and morale.

In all these cases, coordination efforts or new programs are less effective than needed, in part because the policy makers have not articulated a comprehensive vision to provide a rationale and guiding direction for foreign assistance. The new programs add to the existing proliferation of assistance organizations, agendas, and priorities. The effect is piecemeal action without the benefit of an overarching vision or strategy. Although such piecemeal action may be easier to achieve, and may be a particularly attractive way to address a compelling issue, there should be a recognition that it may undermine a more comprehensive effort to rationalize an unwieldy, incoherent system.

As stated on February 26, 2004 by Rep. Henry Hyde, Chairman of the House International Relations Committee: *"The United States has a clear national security strategy, as articulated by the President. But the United States does not have a strategy for how it employs the resources available for foreign assistance."*

D. Lessons from Experience

Our interviewees noted that foreign assistance programs find it difficult to demonstrate effectiveness. Government methods to assess program effectiveness have sometimes been misapplied, focusing on short-term quantifiable outputs rather than outcomes that may take multiple years to achieve. This approach tends to weaken support for those programs that require sustained effort over a prolonged period. Similarly, the same types of measures are used to assess programs that have vastly different objectives. It is important to develop appropriate, reliable measures of effectiveness that flow from long-term policy goals.

More generally, reform provides an opportunity to apply the lessons learned from more than forty years of foreign assistance experience. Among others, these lessons were cited by officials and foreign policy analysts:

- To be effective, country strategies should be supported by (or better, developed by) the host country.
- Longer-duration, institution-building programs should be encouraged as they deliver a different impact than short-term relief projects.
- Funding needs to allow flexibility for managers to program according to country needs and respond to emerging crises or other fast-developing policy or security needs.

- If carefully designed, programs should be able to achieve their primary goal, while also being able to complement compatible activities (and goals) in other programs; for example, coordination between programs could enhance integrated anti-narcotics and economic development efforts within a country or region.
- Development projects should leverage other USG programs and actions that spur economic growth and development.
- US development assistance should serve as one part of a network of efforts by the host country, other donor countries and private sector counterparts.

These and other related issues are explored in the chapter below on reform options.

E. A Comprehensive Vision

In the 2002 U.S. National Security Strategy, the Administration named foreign assistance as one of three pillars of U.S. foreign policy and national security, along with defense and diplomacy. Many of our interviewees and other policy experts argue that foreign assistance cannot play this critical role until it becomes more coherent and more effective (see Figure 1). The key to developing coherence is articulation of a comprehensive vision of foreign assistance, and its relationship to overall foreign policy and national security goals.

As one example, the goal of countering the global threat of terrorism is now central to the national security interests of the United States. If the U.S. had to choose one dominant reason for providing foreign assistance, this would certainly be a leading candidate. Pursuit of this critical goal could guide a corresponding foreign assistance strategy. For example, helping poor countries create more and better jobs is one antidote to the current breeding grounds for terrorism. While employment opportunities do not overcome fanaticism *per se*, they provide a strong alternative to the despair, disillusionment and disconnection of poverty-stricken youth in much of today's world. By the same token, the more immediate tasks of countering money-laundering, drug trafficking, trafficking of persons, and other similar threats could easily be part of an anti-terrorism goal.

This is just one example of how a shared vision around common goals could shape the way the USG organizes its foreign assistance endeavors. More importantly, shared vision could create the basis for foreign assistance strategy supported by a broad set of stakeholders -- Executive Branch, Congress and private foreign affairs community. (Additional observations on the difficulty of articulating a shared vision are highlighted in Section VII.)

FIGURE 1: VIEWS ON THE IMPORTANCE OF FOREIGN ASSISTANCE

*The terrorist attacks of September 11 resulted in an unprecedented and massive shift in how foreign aid is employed as an element of national security strategy. - Rep. Henry Hyde, Chairman, House International Relations Committee, Remarks at Hearing**

*Why do we need... a strong foreign assistance program? National security, number one. - Foreign assistance is a vital tool for strengthening our national security. - Steven Radelet, Senior Fellow, Center for Global Development**

*All of our foreign assistance serves three clear purposes: To promote national security, to advance the national interest, and to respond to humanitarian imperatives. - Lael Brainard, Senior Fellow Economic Studies, Brookings Institution**

*Foreign assistance has assumed an importance within U.S. national security that it has not enjoyed since the Marshall Plan more than half a century ago.... As President Bush dictated in his National Security Strategy, foreign aid has a critical role to play in the United States' foreign policy. - Patrick M. Cronin, Senior Vice President and Director of Studies, Center for Strategic and International Studies**

Development is now as essential to U.S. national security as are diplomacy and defense. - Andrew S. Natsios, Administrator, U.S. Agency for International Development - "US Foreign Aid: Meeting the Challenges of the 21st Century" - 01/04

(W)eak and failed states present a security challenge that cannot be met through security means alone. The roots of this challenge - and long-term hope for its resolution - lie in development.... - "On The Brink: Weak States And U.S. National Security," Center For Global Development - 05/04

We want to ensure that the MCC becomes an efficient and valuable tool of U.S. foreign policy. We want it to be a bold weapon in the battle against poverty, disease, corruption, disorder, and terrorism. - Sen. Richard G. Lugar, Chairman, Opening Statement for Senate Foreign Relations Committee Hearing on Millennium Challenge Corporation - 10/05/04

* House International Relations Committee Hearing - "U.S. Foreign Assistance After September 11" - 02/26/04

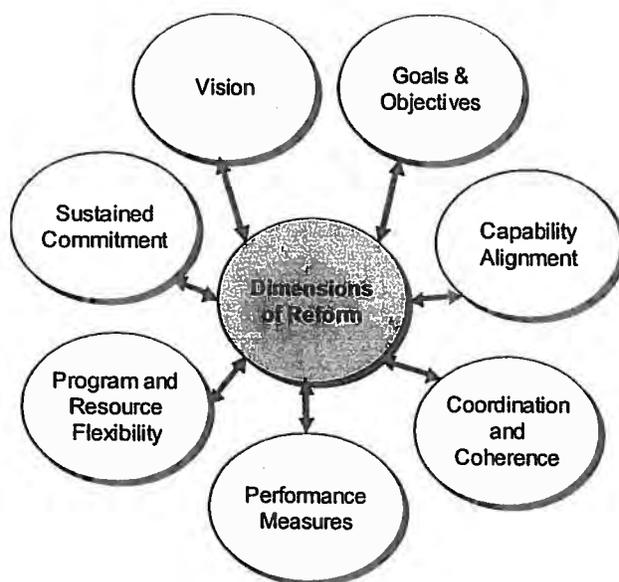
IV. DIMENSIONS OF REFORM

As indicated in the previous section, we found a strong consensus among our interviewees and the reviewed reports that there is a clear and compelling need for substantial foreign assistance “reform”. However, there was wide variation in what was meant by reform, focusing on different problems in the current system, and seeking to achieve different policy goals.

Our analysis of the various views identified seven categories of reform issues, which are displayed in the figure below. Development of a comprehensive reform approach would include consideration of each of these seven dimensions, and selection of specific options to address each one. We suggest that use of these dimensions to organize discussion of the desired aspects of foreign assistance reform would help clarify the issues and frame decisions more coherently.

Although these dimensions arose from the specific research conducted for this project, we note that many of them correspond to dimensions we often find in large-scale system or organizational transformations. This suggests that examining such transformations may provide useful insights for the JPC and other policy makers in the foreign assistance community.

Figure 2: Dimensions of Reform



A. Vision

We found widespread agreement that the Administration, with input from other key stakeholders, should develop and articulate a comprehensive vision for foreign assistance before undertaking substantial organizational, structural or procedural

reforms. A vision statement is a description of the desired end-state if thorough reform were to be successfully enacted and implemented. This includes defining the fundamental purposes of foreign assistance in light of ongoing national interests, values, goals and strategies. It would contain a high-level description of the basic strategies (e.g. major types of assistance) to be employed, as well as an overview of the revised foreign assistance system, emphasizing key roles and responsibilities.

Our interviews of current officials illustrate that policy makers may have significant differences regarding the fundamental purposes of foreign assistance. These differences, which may not be fully recognized, drive very different conceptions of how the system should be organized, managed and measured. Such unrecognized differences will make discussions of reform confusing and difficult.

We also found that some officials and policy experts suggest that the future foreign assistance system should look quite different from the current system. They stressed the changing context described in the first chapter of this report, especially the wider range of participants in the system, and the growing significance of efforts beyond traditional governmental development assistance programs. They called for fundamental reconsideration of the range of strategies employed as well as the development of broader policy coordination mechanisms.

To maximize the likelihood that the vision can drive a substantial and sustainable reform of the foreign assistance program, policy makers should develop a formulation process that engages a broad range of those who have a stake in the system. A vigorous debate may be expected, even among those who share many substantive foreign policy goals. Nonetheless, it will be necessary to come to conclusions if a reform effort is to move ahead.

Once the content is articulated and shared, the vision statement can guide many other programmatic and prioritization decisions. The next chapter of this report outlines three mechanisms for articulating the vision.

B. Goals and Objectives

The specific outcomes desired for foreign assistance should be derived from the comprehensive vision. As noted above, the current system has dozens of formal objectives, unlinked to a core set of long-term goals. Most interviewees expressed frustration at the number and often-conflicting nature of these objectives, which have accrued over the years. The accumulation of objectives was widely cited as a cause, as well as a symptom, of the current system's lack of policy coherence.

We found two themes related to setting clearer goals that were frequently stressed. Some interviewees and reports emphasized the need to focus foreign assistance on a few major strategic goals, usually related to avoiding failed states and preventing/combating terrorism. These strategic goals would serve as the main drivers

of programs and assistance efforts. Several suggested a conceptual analogy to the organization of foreign assistance as an important strategic counter to Soviet influence during the Cold War.

While not disagreeing with this strategic thrust, other interviewees placed greater emphasis on the multiplicity of U.S. interests over time and therefore proposed mechanisms to ensure continued attention to a wider range of concerns. For example, the USAID White Paper suggests that assistance programs be conceived in several categories, each with its own major goals, strategies and dedicated capabilities.

The overall vision and the substantive policy preferences of key leaders will shape the relative balance between these perspectives. We note that both offer useful insights to the design and operation of the overall foreign assistance program. Although challenging, it may be possible to integrate these insights.

Not surprisingly, the institutional missions of the interviewees tended to shape which of these themes they raised. This suggests that a common process of working through the goals -- based on the vision and a commitment to a common purpose -- will be essential to reduce ongoing contradictions and missed opportunities. Further, the creation of a framework of inter-related goals supporting the vision could encourage restructuring of funding streams to correspond to the major goal areas, enabling greater flexibility while promoting clearer accountability for important results.

The creation of a clearer framework of goals will not resolve all differences of opinion and potential conflicts among program strategies in practice. As discussed later in this chapter, the system also needs effective ongoing coordination mechanisms to determine priorities and make decisions in their specific contexts. Nonetheless, the articulation of a set of high-level goals and strategies would facilitate the resolution of many current inconsistencies.

C. Capability Alignment

Virtually all the interviewees and reports proposed adjustments to current organizational roles and responsibilities. Several proposed dramatic changes, for example, establishment of a new Cabinet-level Department for International Assistance, or the transformation of USAID into a general program management agency. The specific organizational proposals varied widely, and most were not detailed. The common thread was the observation that many more agencies are now engaged in foreign assistance-related programs, and the distinct organizational missions defined forty years ago no longer reflect the operational reality.

Also, as mentioned above, several interviewees and reports proposed a significant rethinking of the traditional definition of the foreign assistance system. They noted that policy makers and program managers now need to work with numerous federal

agencies, as well as with the growing number of private sector entities involved in trade and investment, non-governmental organizations, and donor countries. They pointed out that the ability to leverage efforts from this multiplicity of diverse perspectives requires a broader set of capabilities than those needed to manage the traditional official development assistance programs alone.

Other interviewees expressed a concern that certain reorganization approaches might lead to the loss of valuable specialized capabilities and expertise currently resident in particular agencies. They stressed that such knowledge and experience is essential to program success in complex foreign environments.

Several proposed options for changed organizational structures, roles and responsibilities are discussed in the next chapter of this report.

Drawing on Booz Allen's experience with large-scale organizational transformations, we suggest that the discussion of the organizational roles and structure of a reformed system would be facilitated by prior articulation of the vision, long-term goals and major strategies. Once such basic directions are decided, policy makers can logically review the system's current operation and identify additional capabilities that would be needed to achieve the future objectives. The capabilities and organizations could then be aligned to accomplish the goals.

D. Coordination and Coherence

As noted above, the perceived lack of policy coherence and effective coordination across the government is one of the major issues driving officials and experts to call for substantial foreign assistance reform. The Development Assistance Committee of the Organization for Economic Cooperation and Development echoed this view in its 2002 review of the U.S. foreign assistance program.

Some contradictions stem from the multiple additions and changes to the FAA over the years and could be resolved by the development of clearer policy goals for the overall foreign assistance program, as well as improved alignment of organizations to mission areas. Other inconsistencies result from the expression of legitimately competing U.S. interests (e.g. agricultural trade vs. development objectives) regarding individual countries, and will require interagency coordination mechanisms for resolving specific situational issues.

Although a number of interagency coordination mechanisms currently exist, many interviewees said that they are underutilized, ignored or too narrow in membership. Several commented that a lack of trust among key agencies has impeded effective coordination.

Several potential coordination mechanisms are described and analyzed in the next chapter. Although some options are related to resolving operational issues, most focus on policy coordination. Many interviewees stated that, to be effective, the coordinative mechanism needed some degree of authority over both policy and resource allocation.

Please note that we did not address methods for coordinating between federal agencies and the Millennium Challenge Corporation (MCC). Given the MCC's corporate structure and its quasi-governmental status, there are special issues regarding the appropriate coordinating mechanism that fall beyond the scope of this report. As the MCC moves into its operational mode, we urge the JPC to ensure the closest possible coordination.

E. Performance Measures

In recent years, federal agencies have been directed to develop performance measures and report on results. The intent is to encourage agencies to focus more clearly on actions to increase their effectiveness and efficiency.

Many interviewees and reports noted that the overall U.S. foreign assistance program has encountered difficulties in defining and demonstrating success. Some complained that the types of performance indicators commonly used drive agencies to focus on the wrong outputs and thus undermine the achievement of lasting outcomes. They argued that agencies feel pressures to demonstrate quantifiable progress in each short-term period, and thus find it harder to support programs advancing enduring institutional or societal changes that may take years to show results.

Based on Booz Allen's experience in assisting many federal agencies develop and implement performance measures, we believe that foreign assistance programs may need to adopt a more differentiated approach to defining goals and selecting indicators of progress. The goals and measures are likely to look very different depending upon the nature of the specific assistance program. For example, it may be useful for development assistance programs to consider a "capability maturity model" defining the starting point and measuring progress in target sectors or institutions in each recipient country. Humanitarian assistance programs might use measures of shorter-term results.

F. Programmatic and Resource Flexibility

Most of the interviewees and reports raised concerns about insufficient administrative and funding flexibility. They cited legislative restrictions, layers of procurement regulations, or the need to obtain funds to respond quickly to emergent situations.

In general, the interviewees seek two types of flexibility as part of foreign assistance reform. First, some would simplify routine activities by overcoming the unintended or contradictory effects of old decisions, priorities and administrative procedures. Similarly, some earmarks and other requirements that are widely recognized to have outlived their original purpose might be removed. In addition, some funding mechanisms could be established for defined emergency purposes.

Others also seek much greater flexibility to establish priorities, move funds, and eliminate Congressional restrictions and certifications. Some wanted almost unrestricted funds to apply as they felt circumstances required, arguing that the budget cycle was too removed from the tactical need.

This second type of flexibility seems much less feasible to obtain. Based on institutional prerogatives alone, Congress is unlikely to grant enormous administrative discretion to shift over large amounts of funds, among accounts or from restricted categories to unrestricted categories without close Congressional oversight. Further, some of these limitations originated in strong policy concerns of influential legislators, from past foreign policy controversies or reaction to perceived abuses. Even though the original circumstances may have changed significantly, the limitations remain in place. In the absence of substantial reform, these are unlikely to be lifted.

G. Commitment to Sustained Results

While many of the interviewees were looking for additional flexibility to respond rapidly to changing international situations, others emphasized that reform should strengthen U.S. commitments to sustained foreign assistance efforts. These officials and experts were concerned that policy makers are ever more focused on crises, and may not pay ongoing attention to long-term efforts and partnerships.

They suggested a few reform options to encourage U.S. policy to maintain sustained development efforts. Among these are creation of funding mechanisms that support multi-year commitments, promotion of increased levels of overall assistance, and building public understanding of the value of foreign assistance programs.

V. ANALYSIS OF REFORM OPTIONS

The options for reform presented below are drawn from our interviews, analyses of past and current reform efforts, and review of recent proposals from foreign assistance experts. These options are presented according to the dimensions of reform presented in the previous chapter.

We urge policy makers to consider the content and value of each option independent of its expected level of immediate feasibility. Certain options, which may lead to the preferred outcome, may appear unfeasible at the moment and the tendency might be to reject these ambitious reforms in lieu of easier but less effective solutions. It might be possible instead, to frame the reform process in the direction of these large-scale reforms, designing both short and long term strategies to reach the desired end state. The following reform options are not mutually exclusive; many of them could be implemented simultaneously or sequentially, depending on the desired level of reform.

1. Vision

There are several ways that the Administration could communicate its vision widely to the foreign assistance community, ranging from unofficial statements to statutory policy.

➤ **1.1. Create unofficial strategy paper expressing shared vision of foreign assistance goals**

Under this option, the primary stakeholders in the Administration collaborate to produce an unofficial policy paper, which articulates U.S. foreign assistance strategy. The effort could take a number of forms including a white paper from the White House, or State and USAID. The strategy could also be articulated in a speech from the President or Secretary of State. To ensure a "shared" vision, the strategy would need to incorporate input from various agencies involved in the country's foreign assistance program, but would not require legislative changes. The USAID White Paper is an excellent, thoughtful example of a first step toward such an unofficial strategy paper.

➤ **1.2. Establish official policy statement or directive articulating foreign assistance strategy**

Under this option, the Administration could institutionalize an official policy directive on US foreign assistance, similar in model to the National Security Strategy. The "National Foreign Assistance Strategy" could be renewed by each new Administration and updated periodically to respond to changing world events.

➤ **1.3. Write new legislation**

New foreign assistance legislation could “officially” articulate a foreign assistance strategy. New legislation could establish a broad rationale for foreign assistance, clarifying goals and objectives and defining long-term priorities. If desired, the Administration could name a commission to explore options and build consensus among the stakeholders. Obviously writing new legislation would require involvement by the President and/or Secretary of State and co-leadership from Congress.

Foreign assistance legislation, in its current forms, is lengthy, complicated, and fragmented. The Administration could choose to re-write the entire set of laws or could pursue a slightly less ambitious legislative agenda:

- ❖ 1.3.1. Seek legislative change to rewrite specific elements of foreign assistance legislation, which already have some support, such as the development assistance portion of the Foreign Assistance Act (Chapter 1, Part 1), or the Arms Export Control Act (AECA).

A rewrite of the development assistance portion of the FAA or the AECA would establish a vision and clarify roles, but only for a narrow portion of the foreign assistance program. A FAA partial re-write would clarify the relationship between USAID and the MCC. A framework in the spirit of the USAID White Paper could guide the effort.

- ❖ 1.3.2. Seek broader changes in legislation by incorporating all economic assistance, thereby including the Support for Eastern Europe Democracy (SEED), FREEDOM Support Act (FSA), and Economic Support Fund (ESF).

A broader rewrite could include all forms of economic assistance. This would give the Administration and Congress the chance to agree on an articulated vision of a greater portion of foreign policy and would clarify the objectives and funding mechanisms of development assistance and support for our strategic allies.

- ❖ 1.3.3. Seek comprehensive rewrite of the FAA and other statutes, such as the AECA, based on new definition of roles and objectives of foreign aid.

A comprehensive rewrite would establish a vision, structure, and funding mechanisms for the entire foreign assistance program. An overhaul of key foreign assistance statutes would clarify roles and responsibilities and organize structures and programs to respond to new goals.

| Option | Strengths | Weaknesses |
|---|--|--|
| <p>1.1. Unofficial Strategy Paper</p> | <ul style="list-style-type: none"> • Articulates the Administration’s vision for foreign assistance • Provides direction for further reform and leaves room for individual topic or agency reforms • Can be produced relatively quickly; does not require a legislative process • Adaptable to changing international dynamics and national priorities | <ul style="list-style-type: none"> • Potentially excludes input from the foreign assistance community • May be constantly debated by Congressional and implementing stakeholders • May not seem authoritative or have staying power |
| <p>1.2. Official Policy Statement or Directive</p> | <ul style="list-style-type: none"> • Easily initiated and subsequently amended, as necessary • Provides direction for further reform and leaves room for individual topic or agency reforms • Communicates the importance of foreign assistance • Solidifies the Administration’s commitment to pursuing a coherent strategy • Prevents agencies from straying from articulated strategic vision | <ul style="list-style-type: none"> • Lacks Congressional buy-in • Subject to varying interpretation • Potentially excludes other stakeholders’ views |
| <p>1.3. New legislation</p> | <ul style="list-style-type: none"> • Articulates and institutionalizes a new foreign assistance strategy and rationale for sustained US engagement • Addresses major areas of reform • Institutionalizes response to new international dynamics and national priorities • Reduces the need for the piecemeal legislative process of granting “notwithstanding authority” • Offers highly inclusive process • Persists across change of Administrations | <ul style="list-style-type: none"> • Requires significant time and effort • Poses difficulty in passing through Congress • Demands the intense involvement of the President, Secretary of State and Congressional leadership • May roll back authorities or introduce greater restraints resulting from Congressional debate |

2. Goals and Objectives

There is general agreement that the over-arching goals of foreign assistance should respond to US strategic interests. This paper presents two high-level organizing frameworks that structure these goals. While each approach would favor a different emphasis, both would continue to serve elements of the other, although at lower priority. Each framework would employ both long-term and short-term strategies and would include primary goals and secondary outcomes.

➤ **2.1. Organize foreign assistance around one or more geo-strategic goal(s)**

This approach suggests a current lack of a unifying theme and rationale for foreign assistance. Under this option, the Administration ideally picks one (or a few) over-arching strategic goals and frames the foreign assistance program around these main priorities.

The Cold War provided a single, compelling rationale from the passage of the Foreign Assistance Act in 1961 to the break up of the Soviet Union over a decade ago. While US foreign assistance during this time was intended to do more than simply attempt to stop the spread of communism, the communist threat framed the design and implementation of the majority of the foreign assistance program. Some in the foreign assistance community have suggested that a new, over-arching geo-strategic priority is needed to reorganize and align foreign assistance. The Administration would continue with particular aspects of general assistance such as humanitarian aid, but would invest most resources in programs that respond to its overarching goals. It may be possible, in this scenario, to turn over humanitarian assistance to private foundations or quasi-governmental organizations like the National Endowment for Democracy.

For the purpose of example, it has been suggested that the new geo-strategic priority may be fighting the war on terrorism. In this case, the approach would suggest that the majority of foreign assistance programs be designed and implemented in service of this goal. One functional area that would address the over-arching goal of fighting terrorism, and which many have argued needs particular attention, is the Administration's approach to dealing with weak and failed states. A clear strategy in this domain, for example, would define the relationship between the Defense and State Departments and would mandate a capacity for a civilian stabilization and reconstruction program.

➤ **2.2. Organize foreign assistance under multiple functional goals**

This approach asserts that because there are multiple forces at play in a dynamic international environment, the US Government must have the capability to address a variety of objectives simultaneously and sometimes at conflicting purposes. While there may be strategic emphases within programs, a multi-pronged approach maintains ongoing emphasis on a number of clearly articulated foci.

Foreign assistance is then organized under strategic functional areas. There have been various articulations of the nature of these functional "buckets" of assistance. By way of example, the USAID White Paper proposes five categories: transformational development, fragile states, humanitarian relief, geo-strategic interests, and global and transnational issues. Analysts at the Center for Strategic and International Studies

enumerate three strategic areas: poverty, weak and failed states, and humanitarian assistance. The Administration could consider all possible combinations of functional “buckets” and choose the set that is most appropriate and responsive to its overall vision. Once the functional areas are clarified, the relevant agencies refine or adjust corresponding skills, capabilities and organizational support. Policy makers then decide which “buckets” will be operational in each country.

Comprehensive realignment may involve amending the Foreign Assistance Act. Progress could also likely be made through State-USAID coordination with OMB to align resources to goals.

| Option | Strengths | Weaknesses |
|--|--|--|
| <p>2.1. One or more geo-strategic goal(s)</p> | <ul style="list-style-type: none"> • Gives direction to agencies in the foreign assistance program • Leads to greater policy coherence | <ul style="list-style-type: none"> • Potentially excludes important program areas not considered critical to a uni-linear mission of foreign assistance • May not be appropriate in current, dynamic environment • Emulating a foreign assistance structure reminiscent of the Cold War may no longer be rational |
| <p>2.2. Multiple functional goals</p> | <ul style="list-style-type: none"> • Enables the Administration to respond to multiple issues simultaneously • Clarifies distinct objectives of individual sectors of assistance • Allows for programs to be funded and evaluated against specific objectives | <ul style="list-style-type: none"> • May encounter resistance from agencies asked to relinquish program responsibilities and resources • Likely to create disagreement over the nature of functional areas; likely to face resistance to abolishing regional accounts • May run into resistance to classification of crosscutting issues into one “bucket” • May be difficult to communicate multi-faceted rationale to public |

3. Capacity Alignment

Once goals are established, organizations within the foreign assistance program should be structured and aligned to best achieve those goals. Similarly, those organizations will need to ensure the development and maintenance of appropriate capabilities. In many cases, this may include updating the skill sets of personnel so that they are best able to respond to the missions of their agencies and to the current focus of the foreign assistance program.

Many of the following options address issues of alignment among stakeholders in Washington and will certainly require further discussion concerning the process to be used most effectively within country-specific programs.

➤ **3.1. Establish a cabinet level foreign assistance agency**

Under this option, a new Department for International Assistance incorporates all US foreign assistance programs and has both policy and operational responsibilities. This reform option would clarify the fate of USAID, either amplifying the agency to a cabinet-level department or subsuming it along with the international assistance programs of all other relevant agencies. The creation of a new department would dramatically affect the current *modus operandi* of the State Department, which would return to a strengthened focus on diplomacy and coordination of foreign affairs policies and programs, rather than program execution and resource management.

Such an enormous restructuring would require re-writing large parts of the current assistance legislation.

➤ **3.2. Move program execution responsibilities into the State Department**

Under this option, the Administration consolidates all assistance responsibilities at the State Department. This could include giving State implementation responsibility of all development activities, while expanding the focus on humanitarian aid at USAID (possibly moving PRM from State to USAID). Alternatively, it could fold USAID in its entirety into State. In either case, State would be responsible for setting the policy for all assistance activities and would play a much larger operational role.

In this scenario, State would need significant reorganization in order to perform its new mission. For example, several interviewees have suggested that a Deputy Secretary for Programs could direct a set of operational bureaus within the Department. Regional bureaus would need to be ramped up and new capabilities and skills developed. Coordination between regional and functional bureaus as well as the role of the Ambassador in country could benefit from this type of clarification.

The plan would also need to consider the inclusion of the MCA. Depending on scope, the reorganization would require an amendment to the FAA or other Congressional involvement.

➤ **3.3. Establish the State Department as a policy and budget agency that transfers funds to multiple organizations for implementation**

Under this option, State leads in the policy-setting agenda (on behalf of the President) and has authority over the entire foreign assistance budget. Other domestic agencies involved in foreign assistance no longer hold funds for international programming.

The State Department, guided by the agreed-upon and established over-arching goal(s), determines policy and then “purchases” implementation services from other government agencies, non-governmental organizations, in-country entities or private sector service providers. The State Department chooses the organization with the greatest capability for a given task and enters into a binding agreement with that organization.

Clear agreements describe the service, which is being purchased, and identify the relevant measures of success. Implementing organizations are mandated to carry out programs in line with the goals articulated by State, based upon the vision of the Administration. The State Department holds the authority to revoke funds in the case of poor performance.

➤ **3.4. Create a single operating agency to implement program priorities of the State Department**

In another version of the above option, instead of dealing with individual organizations, the State Department depends upon one multi-programmatic operating entity, such as a new “International Program Management Authority” (IPMA). A structure such as the IPMA would have the authority to carry out all foreign assistance tasks other than direct military involvement or assistance. This could be an entirely new entity, incorporating the expertise of all agencies currently involved in foreign assistance, including USAID.

Alternatively, USAID could be given greater program execution responsibility and could be re-organized to become the new IPMA. As such, USAID would likely lose some of its focus on development, but would gain significant clarity around its program management role. To maximize policy input coordination from an implementation standpoint, the head of the IPMA could be a member of a larger coordinating body based at State.

State would need to build substantial program management capabilities to successfully engage with the IPMA, monitor activity, and assure quality of programs. Some USAID staff would shift to functional bureaus at State to provide much-needed technical and management expertise.

➤ **3.5. Identify a lead or sole agency for each functional area of foreign assistance**

The agency with the comparative technical advantage in a functional area becomes the lead. Other agencies with domain expertise continue activities, but the lead agency represents the coordinating and policy setting body. In one model, for example, USAID becomes the lead organization for humanitarian assistance, the MCC for development assistance, the State Department for geo-strategic assistance, The Department of Health and Human Services for health assistance, etc. The Administration would assess the capabilities of agencies aligned to mission areas and identify the “leaders.” Each of these agencies would need to have substantial internal capabilities. Such reorientation may require an amendment of the Foreign Assistance Act or other legislation for program/resource realignment.

A more extreme version of the lead agency concept involves identifying a sole agency for each functional area. While several agencies may provide subject matter expertise, only one agency designs policy and implements programs in that area. For example, taking the above case, USAID would not only lead the humanitarian assistance programming, it would be the only agency working in this area within US bilateral assistance.

➤ **3.6. Create specialized offices to support high priority initiatives**

The Administration creates specialized program offices (such as the recently created Office for Stabilization and Reconstruction), which cross cut organizational lines to support high priority initiatives. The option exists to establish statutory entities, or to keep them intentionally less official so that they are easily abolished in the case of shifting priorities. "Sunset" clauses would be a key component of this option.

| Option | Strengths | Weaknesses |
|---|---|--|
| <p>3.1 Cabinet level foreign assistance agency</p> | <ul style="list-style-type: none"> • Gives assistance a greater voice within the interagency community • Communicates the Administration's long-term commitment to foreign assistance • Leads to greater policy and program coherence • Eliminates the current multiplicity of voices • Facilitates donor coordination | <ul style="list-style-type: none"> • May increase inefficiency • Will face resistance from other agencies asked to surrender programs and resources • Will be difficult to build support for a new department, both within the Administration and Congress • Is less likely to receive support in light of recent creation of MCC |
| <p>3.2 Program execution responsibilities at State</p> | <ul style="list-style-type: none"> • Ties policy to program operation • Creates centralized voice for foreign assistance • Increases the "voice of development" in the interagency through new access to the Secretary • Builds the long-term goals of foreign assistance into State's culture | <ul style="list-style-type: none"> • Requires staff augmentation and training; most bureaus at State are currently not structured to implement assistance activities • Leads to potential loss of thought leadership and expertise currently at USAID • Creates possible clash of cultures between USAID and State • Leaves alignment/coordination incomplete if MCC remains outside Department • Faces potential co-option of development by diplomatic agenda |

| | | |
|--|--|--|
| <p>3.3 State Department as a policy and budget agency</p> | <ul style="list-style-type: none"> • Strengthens the central policy role of State • Capitalizes on the expertise within individual agencies • Represents a clear division of labor between policy setting and implementation • Allows State to focus on maintaining cohesive policy • May enhance performance by introducing the concept of competition among implementing agencies, firms, and organizations | <ul style="list-style-type: none"> • Will encounter resistance to yielding implementation role • Does not define selection process in country and the role of the Ambassador in identifying and obtaining assistance services locally • Will require a certain amount of change in thinking and skills of State Department personnel to emphasize more long-term strategic thinking |
| <p>3.4 Single implementation agency</p> | <ul style="list-style-type: none"> • Consolidates foreign assistance implementation • Facilitates alignment with State Department goals • Serves as a coordinating body that can track programs, minimize duplication, and maximize leverage • Eliminates the difficult task of coordinating among several implementing agencies | <ul style="list-style-type: none"> • May threaten the thought leadership and technical expertise at USAID • May create negative consequences from full separation of policy and implementation • May be difficult to uphold foreign assistance goals with so much outsourcing |
| <p>3.5 Lead or sole agency for each functional area</p> | <ul style="list-style-type: none"> • Capitalizes on the comparative technical advantages of each agency • Reduces duplication of effort through the clarification of lead roles • Minimizes "turf wars," which are a growing problem as more stakeholders enter the foreign assistance arena • Simplifies Interagency process (sole agency model) • Consolidates the number of implementing agencies | <ul style="list-style-type: none"> • Retains a structure of multiple assistance programs conducted by multiple agencies (lead agency model) • Depends on inter-agency communication (lead agency model) • Could create contention in resource allocation (lead agency model) • May lose expertise of agencies not designated with sole responsibility (sole agency model) • Necessitates strengthening resources and capabilities to meet newly expanded mandates |
| <p>3.6 Specialized Offices</p> | <ul style="list-style-type: none"> • Offers value as temporary structure • Expands easily or dissolves as priorities change | <ul style="list-style-type: none"> • Does not address substantive reform <i>per se</i>; follows a piecemeal approach to responding to high foreign assistance priorities • Does not lead to a more coherent policy in the long term |

4. Coordination and Coherence

Once organizations and capabilities are aligned to objectives, a strong coordinating mechanism, with significant budgetary authority, is needed to reduce duplication and maximize effort. Particularly in an environment of an ever-broadening set of foreign assistance issues, coordination of policy has become critical.

4.1. The State Department coordinates all foreign assistance

Under this option, the Secretary of State determines foreign assistance policy within a Secretariat, with a permanent mechanism coordinating all programming. Internal structural reform to achieve this goal could include placing an Office for Foreign Assistance Coordination either under the current Deputy Secretary or by creating a second Deputy Secretary position. This option would mandate formal coordination among foreign assistance policy makers, as opposed to the mostly informal coordination that currently exists.

Currently, the Secretary of State maintains by law the authority to ensure program and policy coordination among USG agencies in carrying out the FAA, except for the export activities under the purvey of the Secretary of Commerce, and the international financial institution activities overseen by the Secretary of Commerce.³ The State Department could also coordinate foreign assistance by strengthening the role of regional Assistant Secretaries, (providing authority similar to that of DOD's Regional Combatant Commanders). This could include giving regional Assistant Secretaries greater policy-setting authority and program oversight for their regions. Their mandates could be set forth possibly by a "letter from the President" and could specifically include long-term interests as well as short-term immediacies. The Assistant Secretaries for functional areas could then be given greater coordination, evaluation, and representation functions but would devolve program implementation to agencies with primary execution functions. This model may work most effectively if resources are held centrally and allocated to regional Assistant Secretaries.

Another option would include a system of coordinators for multi-dimensional, multi-agency programs. Based at the State Department but responsive to all agencies involved, the Coordinator tracks relevant programming in a particular functional area. Ideally the Coordinator has budgetary authority and a high rank so that he/she is able to call agencies to task. This model implies that individual agencies retain substantial policy and budget capabilities. The structure does not require an authorization process and could be established through the appropriations channel or administrative action.

³ *Foreign Affairs Reform and Restructuring Act of 1998, Section 523.*

➤ **4.2. An inter-agency coordination board is established**

In line with the framework of the SEED/FSA legislation, an inter-agency coordination board is re-established at the Deputy Secretary level, chaired by the Deputy Secretary of State (or as a variant, a second Deputy for Program Oversight), and including the Deputy Secretary of the Treasury as well as three or more other relevant deputy secretaries. This body would have formal policy making authority and would coordinate the foreign assistance activities of all USG agencies, including the Defense Department and the domestic-oriented agencies with foreign assistance programs.

To ensure that the trade, security, and core assistance agendas are all represented in the policy deliberations, either the USTR or the Deputy Secretary of Commerce along with the Administrator of USAID and the Undersecretary within the Defense Department for military assistance functions could also be on the coordinating body. The Coordinator should ideally remain at the Deputy Secretary level, with a small core staff (20-25 people) managing such tasks as agenda setting. Existing coordinators could be folded into this arrangement as their special mandates or activities are sufficiently under way.

➤ **4.3. The National Security Council (NSC) coordinates all foreign assistance**

It is feasible for the National Security Council to play the coordinating role in the foreign assistance program, incorporating input from other agencies. Importantly, this arrangement provides a logical venue to better coordinate civilian and military assistance roles. Given the current structure of the NSC, the agency may wish to consider the creation of a more robust "assistance" PCC as well a directorate for administrative support. Some have suggested giving USAID a high-level position of foreign assistance oversight on the NSC to ensure the incorporation of the development perspective if the agency maintains major assistance responsibilities. Given the volume of work at the NSC and its relatively small staff, it may coordinate strategic policy decisions, leaving less important issues to another coordinating mechanism.

Additional Aspects of Coordination

In addition to high-level coordination, staff-level coordinating committees, such as the Joint Policy Council (JPC), could continue to engage in meaningful discussion and raise important issues to the senior level. The JPC could possibly be expanded to include additional agency representation, including the MCC, where appropriate. Additionally, initiatives such as formal inter-agency staff rotations and cross training of junior officers could help to build coordination among and within foreign assistance agencies.

On the country level, individual country strategies could coordinate all US programs and host country initiatives. As is the case with the Millennium Challenge Account, the host country heavily drives the country strategy. This model would also enhance relevant agencies' contribution to strategic goals and objectives at the country level.

In addition, the US could make a deliberate attempt to enhance multi-lateral assistance and increase international and bilateral coordination of planning and operations where congruent policy objectives exist. This may involve inviting other donors into the planning process and could include both domestic and international partners. These relationships will likely play out differently among sectors. Humanitarian assistance may lend itself more to coordination than geo-strategic assistance, which addresses US strategic interests, for example. The coordination process might be strengthened through joining existing international organizations or with formal organization through the USAID/State Joint Policy Council, or the IO Bureau.

| Option | Strengths | Weaknesses |
|--------------------------------------|--|--|
| 4.1. State Department | <ul style="list-style-type: none"> • Increases the likelihood of a coherent foreign assistance program • Facilitates coordination and re-programming within regions • Helps ensure operational alignment • Reduces the likelihood of duplication of effort | <ul style="list-style-type: none"> • Remains ineffective without high-level commitment within State and other agencies • May need new office to ensure that coordination role receives appropriate staff and financial resources • May complicate resource allocation (in the case of strengthened regional Assistant Secretaries) • Adds additional layer of bureaucracy if coordinators are not high-level |
| 4.2. Inter-agency Coordination Board | <ul style="list-style-type: none"> • Leaves room for specific agenda efforts like MCC, HIV/AIDS, or other high priority initiatives • Creates a more organized coordination mechanism • Improves coordination among stakeholders in the foreign assistance community • Potentially clarifies the development assistance roles of USAID and MCC • Provides a venue for key decision makers to resolve issues before going to the President | <ul style="list-style-type: none"> • Does not address in-country coordination • May become another layer of bureaucracy, particularly if the leadership does not fully engage • May be difficult to enforce coordination decisions |

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|---------------------------------------|--|--|
| 4.3. National Security Council | <ul style="list-style-type: none"> • Allows flexibility in responding to changing priorities • Ties foreign assistance closely to the White House and incorporates President's vision • Has authority to resolve policy issues • Brings together civilian and military policy makers | <ul style="list-style-type: none"> • Does not address coordination in country or with other donors • May allow competing priorities and crises to overshadow foreign assistance agenda • Grants operational managers less ability to influence policy |
|---------------------------------------|--|--|

5. Performance Measures

Critical to any successful foreign assistance program is the capacity to accurately and efficiently measure results. Strong accountability measures and performance measurement systems should dictate the granting and, if necessary, retraction of funds. An enhanced ability to measure results would also likely appeal to Congress and may provide a rationale for fewer earmarks.

The following options are not mutually exclusive and could be considered collectively or distinctly depending on the timeframe for desired results.

➤ 5.1. Define measures of success by functional area

Measures of success are created according to the nature of the functional area and corresponding policy goals. Objectives are therefore established separately for each type of assistance. Humanitarian and geo-strategic programs, for example, are defined and assessed with different metrics, responding to their respective objectives.

Categories within each corresponding functional area feature distinct stages of development with corresponding assessment criteria. Progress is measured against these criteria, not on whether a country has reached a certain threshold. This approach recognizes the importance of objective metrics, but allows countries to be measured from their individual starting points. The expectation of results is thus correlated to a country's initial level of development.

➤ 5.2. Use independent measures when possible

Using the approach of the Millennium Challenge Account, more foreign assistance agencies would attempt to utilize independent measures created by outside organizations such as the World Bank, Freedom House, or the United Nations agencies.

➤ 5.3. Link development (or continued assistance) to country's strategy and performance

This approach highlights that sustained USG development assistance should be dependent on performance. Development programs should therefore emphasize recipient country participation and ownership of development plans. This approach builds incentives for countries to make progress and cultivates buy-in, which increases the likelihood that goals will be met. Coordination with recipient countries (as well as with other federal agencies and the international donor community, where appropriate), should be assessed. The process may involve resource reprogramming in the instance of unsatisfactory performance and subsequent withdrawal of development assistance.

➤ **5.4. Emphasize timely country graduation from assistance programs**

Countries “graduate” from assistance programs once they have attained a certain level of development (and provided that US interests no longer require a continued presence). Because of the potential multiplicity of foreign assistance goals in any particular country, “graduation” is considered with respect to each goal, rather than as an overall concept. A country may graduate from a specific program, but still be eligible to receive aid through another mechanism. Policy makers may wish to engage neutral, independent firms or organizations to conduct evaluations of programs to ensure that goals are met before graduation.

➤ **5.5. Use measures to hold implementers and senior policy makers accountable**

While difficult to craft, it is possible to devise measures to hold implementers accountable for results in country, with the important distinction between outputs (agreed-upon operations) and outcomes (desired results in country). Implementers, guided by clear benchmarks and indicators, are held responsible for delivering specific program operations. Senior policy makers, through multiple programs and objectives, are accountable for achieving larger strategic results in country. The definition of clear measures of success, in tandem with an assessment of a country’s level of development, will help give senior policy makers more reasonable expectations when setting standards for achieving strategic results.

| Option | Strengths | Weaknesses |
|---|--|--|
| <p>5.1. Define measures by functional area</p> | <ul style="list-style-type: none"> • Leads to realistic expectations for success • Can be expanded beyond development assistance | <ul style="list-style-type: none"> • Consumes additional time and resources • Requires evaluation of program results by separate functional area |
| <p>5.2. Independent measures</p> | <ul style="list-style-type: none"> • Ensures the integrity of data, especially when paired with internal measures • Lessens bias, which may be inherent in measures created by the US Government for the | <ul style="list-style-type: none"> • May encounter reservations concerning the rigor and applicability of independent measures to internal USG programs • May experience resistance to break |

| | | |
|---|--|--|
| | <p>purpose of self-assessment</p> <ul style="list-style-type: none"> • Gives clarity and transparency to the evaluation process • Helps build trust with recipient countries | <p>from the traditional interpretation of the Government Performance Results Act (GPRA)</p> |
| 5.3. Assistance linked to performance | <ul style="list-style-type: none"> • Ensures that money is well spent • Helps create joint development process with recipient countries • Helps target and build support for future programming through intensive tracking of results | <ul style="list-style-type: none"> • May succeed only in case of economic growth(may be problematic in the case of failed states or humanitarian crises) • Encounters difficulty in evaluating countries in crisis by the same rigorous performance standards • May disqualify certain "under performing" countries from much-needed aid • Linked to the cooperativeness of governments, instead of the population's needs |
| 5.4. Country "graduation" | <ul style="list-style-type: none"> • Provides concrete goals for success • Allows foreign assistance funding to be re-directed once targets are reached in country • Helps address concerns of never-ending development programs | <ul style="list-style-type: none"> • May create disincentives for countries to make progress • May lead to pre-mature and destabilizing graduation • Unlikely to apply in the case of failed states or humanitarian crises |
| 5.5. Holding implementers and policy makers accountable | <ul style="list-style-type: none"> • Ensures accountability by clarifying expected results from implementers and senior policy makers • Enables stakeholders to manage toward clear expectations | <ul style="list-style-type: none"> • Encounters difficulty in measuring results in the short term |

6. Program and Resource Flexibility

Programs require a certain degree of flexibility in order to respond most efficiently to changing priorities. Part of this challenge is due to the fact that, on average, foreign assistance agencies implement programs in country two years after submitting strategic plans elaborating program activities. Priorities can easily change within developing countries, much less after a two-year interval. While the question of resource flexibility is always an ongoing battle between the Administration and Congress, steps can be taken to increase the ability of foreign assistance agencies to respond to emerging crises and priorities in country.

➤ 6.1. Create accounts aligned to broad functional areas

This option would recreate the “functional account” concept whereby funding is allocated within large functional “buckets” in order to organize resources around programs with similar goals. If, for example, contingency funds for “fragile states” were created and appropriated, various agencies or bureaus within agencies could draw down the resources to address simultaneous complex contingency or stabilization needs that emerge unexpectedly in a region or regions, without having to “raid” development or commitments or humanitarian resources. The State Department and USAID, together with OMB, could work to revise the current system to increase flexibility through this mechanism. There would need to be Congressional agreement, as well as a robust internal control and evaluation feedback system. This approach complements the system that organizes assistance by functional goals.

➤ **6.2. Seek reduction in “soft” and statutory earmarks, certifications, and limitations**

Each year the Administration pursues a political agreement with Congress to negotiate implementation of hortatory (“soft”) earmarks and directives, including executive branch interests in the mix as well. Under a reform agenda, it may be possible to reduce the number of these types of “barnacles.”

A more challenging endeavor would attempt to revise statutory or “hard” earmarks, as well as certification and limitations that are no longer relevant. This would include rewriting specific provisions of the Foreign Assistance Act or establishing “notwithstanding authority” legislation. Policy makers could explore placing earmarks in a “special initiatives” category or applying sunset clauses on them so that they will either expire or will be re-evaluated at the end of a given time period.

➤ **6.3. Use “notwithstanding authority” approach to support newly identified needs**

“Notwithstanding authority” allows for the creation of flexible policy without undergoing a full legislative re-write. Notwithstanding authority legislation is exempt from any and all restrictions outside of the legislation itself.

➤ **6.4. Structure funding to allow rapid, appropriate crisis response**

Contingency funds could be established with a ~~adequate safeguard~~ for each category of assistance. In country, it could be possible to create more flexible funding for use by the Ambassador. Expanding the “self help fund” to all geographic areas and increasing the amount, for example, would give Ambassadors the opportunity to pursue development initiatives that respond to changing circumstances and improve the US image in

country. The establishment of contingency funds will likely require an amendment of the Foreign Assistance Act.

| Option | Strengths | Weaknesses |
|---|---|---|
| 6.1. Accounts align to broad functional areas | <ul style="list-style-type: none"> • Can move funding with a greater degree of fluidity in order to respond to the most pressing needs • Can work with OMB to move in this direction (Early signs suggest that the agency may be willing to move in this direction) | <ul style="list-style-type: none"> • May be perceived as rigid in some circumstances • Will encounter probable resistance to abolishing regional accounts • May provoke disagreement over the nature of functional accounts • May encounter resistance of crosscutting issues to classification into one "bucket," thereby complicating funding streams |
| 6.2. Reduction in earmarks, certifications, and limitations | <ul style="list-style-type: none"> • Allows flexibility to adapt foreign assistance programs to changing priorities • Likely to improve long-term policy coherence • Offering better internal accountability systems and reporting mechanisms may be possible in exchange for fewer Congressionally imposed earmarks • Gives policy-makers and implementers more time to focus on respective missions | <ul style="list-style-type: none"> • Will face resistance on the Hill • Requires investment of time and capital from senior policy makers |
| 6.3. "Notwithstanding authority" | <ul style="list-style-type: none"> • Short-cuts time-consuming contracting requirements and procurement regulations • Enables the rapid establishment of new initiatives by avoiding a full legislative process. | <ul style="list-style-type: none"> • Does not solve underlying problems with the structure of the foreign assistance program • Complicates the legislative system long-term • May require policy that is neither thorough nor coherent • Can lead to potential abuse of the competitive process |
| 6.4. Flexible funding structure | <ul style="list-style-type: none"> • Enables rapid response to crises • Helps maintain coherence of US foreign policy priorities • Maximizes the impact of resources focusing on the most pressing assistance needs | <ul style="list-style-type: none"> • Will face historic bias against contingency funding in Congress and within certain federal agencies • Requires sufficient reporting mechanisms to convince Congress and others that contingency funds are not in fact "slush funds" |

7. Sustained Commitment

Without a sustained commitment to foreign assistance programs, it is unlikely that the US Government will effect genuine change in developing countries, or achieve its strategic interests. While there are varying opinions on the efficacy of short vs. long-term assistance, it is clear that without an over-arching commitment of resources, the foreign assistance program has less hope for real success.

➤ 7.1. Establish multi-year resource commitments

An unquestionable commitment to foreign assistance could be established through multi-year Congressional funding for recipient countries. The continuation of funding could be linked to the country's commitment to sustainable development and actual performance, as is the case with the Millennium Challenge Account. The funding would maintain an emphasis on strategic goals and long-term programming. "No year" funding is another possibility that has been used for various strategic situations. For example, following the collapse of the former Soviet Union, no-year funding for SEED/FSA was established; however more recently SEED/FSA funding has transitioned to 2-year funding.

➤ 7.2. Increase funding of foreign assistance programs

While it seems a huge hurdle in many ways, the Administration and Congress could decide to work together to increase funding in strategic areas, which align with the overall goals of foreign assistance. Given the relatively low level of US foreign aid (less than half of one percent of GDP), increasing resources could have a significant impact without imposing a huge financial burden. When seen as an investment in US national and foreign interests, an increased commitment to foreign assistance funding may appear rational.

➤ 7.3. Address public expectations and emphasize that assistance is long-term

Under this notion, much more attention could be placed on explaining the importance of foreign assistance in order to garner support for its benefits. The Administration could consider developing a fundamentally new dialogue to inform citizens about the importance of foreign assistance and the benefit of making strategic investments overseas. The "packaging" of foreign assistance as a mechanism to achieve national interests may be critical to winning public support. Policy makers could work with NGOs and other constituencies to form alliances to conduct public awareness campaigns.

Under this scenario, foreign assistance agencies would be allowed to spend a little money to educate the public. Because many Americans have an inflated sense of the current level of money spent on foreign aid, an outreach campaign could clarify the

actual modest funding level of foreign assistance and explain the results actually being achieved.

| Option | Strengths | Weaknesses |
|-------------------------------------|---|--|
| 7.1 Multi-year resource commitments | <ul style="list-style-type: none"> • Creates a stronger commitment to development • Encourages coherent, long-term programming • Avoids annual Congressional battles over foreign aid appropriations | <ul style="list-style-type: none"> • Requires policy makers to revisit funding to ensure that resources continue to align to priorities in country • Requires flexibility to ensure that multi-year commitments respond to emerging priorities |
| 7.2 Increased funding | <ul style="list-style-type: none"> • Communicates an ongoing commitment to foreign assistance • Creates more flexibility within the foreign assistance program | <ul style="list-style-type: none"> • Will encounter difficulty in increasing overall resources without widespread, consistent support for foreign aid |
| 7.3 Public expectations | <ul style="list-style-type: none"> • Helps build the case for a long-term foreign assistance program | <ul style="list-style-type: none"> • Currently limited by the prohibition on domestic promotion of foreign assistance programs (The DAC and others have suggested that this ban be repealed) |

VI. THE PROCESS OF REFORM

A. Establishing a direction

Once policy makers determine the objectives of the reform effort, they can make decisions about tactical action in the short and long term. The sequence of specific steps depends upon the feasibility of each reform component, as well as the political environment. There may be support for comprehensive reform legislation in the near future if the vision is compelling, or it may take years for support to solidify (some people advocate legislative reform in 2008). Actions in the near term should be selected to advance the agenda of a larger reform effort.

With an over-arching strategy as well as plans for discrete short and long-term reform tactics, policy makers can then turn to the process of effecting reform. They will need to consider the primary stakeholders in the reform effort: the Executive Branch, Congress, interest groups, and the public (see Figure 3 below).

Figure 3: Key Stakeholders in the Process of Reform

We note that foreign assistance also has a broader range of stakeholders who should be engaged over time for long-term program success. For instance, target countries need to be willing to accept the assistance and make the required changes. The G7 countries also all have developmental assistance organizations that are parallel in role to USAID. They have different objectives and different "rules" than those of the US programs. Increasingly, however, there is cooperation among the US, other international development organizations, and the development banks (IBRD, EBRD, ADB, etc.).

B. Executive Branch Direction Will Establish Initial Boundaries for Reform

➤ The role of the President

Advancing the reform agenda will require strong champions within the Executive branch. Depending on the anticipated degree of reform, this high-level support will need to come from the Secretary of State and possibly the President. Examples of the President's role in previous reform efforts are instructive in this regard:

- President Kennedy invested considerable "political capital" to push through the Foreign Assistance Act and to establish USAID.
- In the absence of support by President Reagan, the International Development and Cooperation Agency (IDCA) did not succeed.
- Neither the first President Bush nor President Clinton appeared to have made it a priority to replace the Foreign Assistance Act with the International Cooperation Act (1989/91) nor the Peace, Prosperity, and Democracy Act (1994) and neither was enacted

➤ The role of the Secretary of State

A reform effort will also require the sustained attention and support of the Secretary of State. To succeed, the Secretary of State will need to publicly make reform of the foreign assistance program a priority and devote significant time to meeting with key

foreign assistance reform stakeholders. The Secretary may need to delegate responsibility to respected designees to help build support for the reform agenda.

➤ **The role of the USAID Administrator**

Some interviewees suggest that the USAID Administrator serves as the “voice for development” in the international arena. Engaging the Administrator in the internal debate around the future of foreign assistance will help advance a comprehensive reform agenda with stakeholders.

➤ **Building support within the Administration**

Efforts to effect significant program change need to engage the broad array of stakeholders within the Administration, such as Treasury, DOD, HHS, and MCC.

C. Congress Will Need to be Engaged

Several reform options include some degree of legislative involvement, requiring the Administration to work constructively with Congress. Depending on assistance goals, this could range from political agreements between senior policy makers and Congressional leaders, to the creation of entirely new foreign assistance legislation.

➤ **Assessing the necessary degree of legislative reform**

Most interviewees believe that there is only a slim chance that a comprehensive foreign aid authorization bill could pass through Congress in the near future. However, there was significant consensus that the Arms Export Control Act and its implementing structure badly need attention. This may be the “wedge” needed for introducing broader reform. Alternatively, emulating past successful reform efforts, policy makers may wish to pursue programs that include clear objectives and focus on targeted countries. This has been a successful formula for initiatives such as the MCC and the AIDS Initiative. It is also possible that Congress may be willing to consider fewer earmarks (both “soft” and statutory) in exchange for greater accountability, enhanced reporting and clearer results.

Past reform efforts also show success arising out of the annual appropriations process. Important initiatives such as the MCC, the AIDS Initiative, and the Development Fund for Africa were all created through appropriations legislation. The appropriations process allows the relatively quick provision of funding for specifically focused foreign assistance programs. However, precisely because of its specific nature, the appropriations process does not address the fundamental problems with foreign assistance legislation and may be counter-productive to long-term reform goals. Additionally, appropriations bills have often included waivers to negate limitations and requirements elaborated in the Foreign Assistance Act. While waivers offer increased flexibility for some programs, they obscure the original intent of already existing legislation, and can make reporting requirements more onerous.

➤ **Understanding constraints and countervailing interests in Congress**

Legislative success is always more likely when the Administration works with the constraints and countervailing interests on the Hill. In the case of foreign aid, navigating these many countervailing interests will require intense efforts and significant trade-offs.

At present, Congress, like the Administration, is likely to continue to address the threat of terrorism. This focus may constrain the introduction of new policy priorities, but may also provide opportunities to build support for the foreign assistance program as an anti-terrorism strategy. Security-related programs have often garnered Congressional support in the past.

There are additional interests that may drive the Congressional response to foreign assistance reform. For instance, Congress is under continuing pressure from NGOs that lobby committees in order to safeguard their interests. This pressure results in earmarks and budgetary restrictions, and tends to distort larger policy priorities. Although Congress has often been at odds with the Executive Branch regarding earmarks, under the right circumstances, Congress has demonstrated a willingness to waive earmarks and limitations (e.g., SEED/FSA).

➤ **Building support in Congress**

Our interlocutors attributed past unsuccessful reform attempts to a failure to build support throughout Congress. For example, a lack of Congressional buy-in was one reason for the MCA's initial delay in Congress (i.e., the proponents of the bill did not appear to solicit the necessary input and support *throughout* Congress early in the process). Administration policy makers will need to ensure communication with Congress in order to achieve the desired level of foreign assistance reform. It is clear that the leadership and Appropriations as well as Foreign Relations committees must buy into reform early. For a legislative strategy to be successful, the Administration will need to commit to an energetic, collaborative process so that key members of Congress will work in concert with the Administration to achieve shared reform goals.

D. Interest Groups Should Be Consulted

Policy makers will need to consult with the wide array of interest groups within the foreign assistance community. These include NGOs, think tanks, industry groups, issue-based organizations, and others, all of which may have some influence on the direction of particular areas of the foreign assistance program. In the case of a large-scale reform involving Congress, the Administration's legislative strategy will need to consider the impact of these economic and social issue groups and a strategy for bringing them into the reform process. If near-term goals dictate smaller reform initiatives, policy makers may need only to remain aware of these interests, without taking any immediate action.

E. Policymakers Should Assess the Need for Public Support

The degree of public support may affect the feasibility and scope of major foreign assistance reform proposals that include major authorizing legislation. There have

traditionally been relatively few domestic constituents for foreign assistance legislation, giving Congress little incentive to invest time and political capital in this policy area. To the extent therefore that members of Congress need backing from their constituents, it could be important to educate a broader base of American citizens of the benefits of a coherent, strong foreign assistance program.

Given the general misunderstandings by the public concerning foreign assistance, however, (partially due to a widespread misperception of actual funding levels), policy makers will need to carefully calculate the necessary degree of public engagement. Certain reforms, sometimes involving Congress and often occurring through administrative channels, have been undertaken in the past largely under the public "radar screen." Policy makers will need to weigh the degree of public support necessary to achieve reform goals and allocate energy and resources accordingly.

F. Reformers Must Weigh the Benefits and Risks of Reform

Policy makers will certainly have to factor any reform effort against the "costs." Several experts interviewed warned, for example, that launching a new and comprehensive reform effort may threaten the success of important initiatives now underway, such as the Millennium Challenge Corporation and the AIDS Initiative.

At present, following the creation of the Department of Homeland Security and current overhaul of the intelligence community, there may be caution regarding the benefit of drastic reorganization of the foreign assistance program. Furthermore, enhanced clarity among mission/roles in various organizations will likely result in budget winners and losers. In order to ensure a coherent foreign assistance system, if new programs are created, old ones might have to be abolished or realigned. Finally, a poorly conceived effort may diminish the will necessary for reform effort and exacerbate existing problems of coordination, coherency, effectiveness and other core problems.

Maintaining the *status quo*, however, carries its own costs and leaves a hobbled foreign assistance program now regarded as unable to successfully confront emerging 21st Century challenges. Failed or ineffective programs with poor metrics for measuring success may reduce the political will to sustain current investments in foreign assistance. Resources may be diverted to other areas perceived to better support foreign policy objectives. Additionally, without reform, it is likely that the expertise and personnel of under-supported agencies may continue to be marginalized.

This report reflects an initial step in a longer process of analysis of foreign assistance reform. Broader research and more detailed analysis will be required to shape any specific reform proposal. The JPC and/or the Secretary of State may wish to pick one or more options to explore in greater detail including comprehensive consultations and stakeholder analyses.

➤ Keep timing in mind

Several interviewees agreed that there is a window for reform within the first months of the new Administration. The reform effort might capitalize on the perceived

momentum for the President's agenda. Public and bipartisan political support for foreign assistance is greater than they have been in the past, partially because of national security concerns in the post 9-11 environment.

G. Potential Next Steps

A key theme of this paper is the need for an overall foreign assistance vision. Nevertheless, it is also clear there is strong interest in pursuing some type of reform in the very near future. Both goals are achievable. Policy makers can establish a structured process that engages key stakeholders in formulating a workable, agreed upon foreign assistance vision. Once that vision is established, it can be communicated to, and generally validated by, the greater assistance community (including the Administration, Congress, interest groups, non profits, etc.).

A vision "roadmap" derived from this engagement process will establish a much better position to chart both short- and long-term tactical steps. As tactical strategies emerge, it will be essential to determine both their feasibility and whether they advance the longer-term reform vision. The options and feasibility portions of this paper provide templates that can help shape a more comprehensive and robust process to help with those decisions. Moreover, initial steps will provide signals as to initial successes/failures. To ensure sustained momentum, it might be useful to consider the identification of: (1) organizational "champions" to maintain focus on reform, (2) planned reform milestones, (3) measures by which to gauge reform progress, and (4) a structured review or assessment process through which measurement and response can be applied.

VII. CONCLUDING OBSERVATIONS

As noted earlier in the report, there was not a clear consensus around a specific option as being of most interest or benefit. However, there are some recurring themes that emerged from the interviews and the attempts at past reform that can be highlighted.

A. Articulation of a Vision. The need for and the difficulty in articulating a comprehensive vision for foreign assistance were repeatedly noted. The objectives for foreign assistance range from humanitarian altruism to self-interest in the security of the United States and the protection of its citizens from harm of all kinds. This range of objectives, it was explained, creates a continuum of interests that do not fit well under one simplistic formula. Many organizations have struggled with similar challenges of how to achieve a common purpose when the involved entities have such different structures, mandates, and agendas that overlap around only a particular aspect of their primary purposes. Booz Allen has termed this situation a "Community of Shared Mission". When a set of problems becomes so complex that no single agency or organization can solve or manage them, a network approach appears to be the most effective way to deal with such "meta" problems. In the case of foreign assistance, most of the interviews seemed to be intuitively calling for a network approach rather than reorganization *per se*. In a network setting a clear vision is critical, but at this level the vision can synthesize the disparate elements of the network rather than trying to force the vision to serve a single mission, whether it is "national security", "development", or some other part of the multiplicity of objectives that the vision encompasses. The future of U.S. foreign assistance will be defined by how well we as a nation engage, promote, and support a global network of nations that are stable, democratic, prosperous, and resilient in the face of adversity. To accomplish this, foreign assistance must integrate our nation's full resources and capabilities. This holistic approach is key to a comprehensive vision of U.S. Government foreign assistance.

B. The Importance of Leadership. Network management is more dependent than ever on *leadership* to ensure that the many tasks and activities being carried out along the network are contributing to the common purpose. Currently, there are many leaders who speak for nodes of the foreign assistance network, but bureaucratic intransigencies have defeated the ability of any one leader to emerge not only as the spokesperson for foreign assistance, but as the leader of the combined, shared vision representing the totality of the U.S. foreign assistance program. Prior reform efforts (notably IDCA) have attempted to install an "assistance czar", but have woefully failed in either the legislative process or in the implementation of the concept. Currently, the Secretary of State has the legislative authority to "coordinate" foreign assistance.⁴ Yet, the interviewees did not show any confidence that this authority is recognized by all agency heads or that it is being exercised in a sustained or effective way. Given the many other duties of the Secretary of State and the demands placed on his or her time, it

⁴ *Op. cit.*

may be unrealistic to expect leadership on the totality of all foreign assistance efforts made by the many different agencies across the U.S. Government to be a top priority, but if this is the case then some other leader needs to be empowered if a vision for foreign assistance is to be realized.

C. Coordinating Structure. In order for a networked management approach to be effective, there does need to be a sufficient structure to carry out the day-to-day implementation of the policies established by the leadership and the governing body of the network. This can be a relatively lean structure as long as it provides the information flows to maintain discipline needed to keep the network focused on its common purpose, while deconflicting component programs. In this regard, several interviewees recommended the SEED Act and FREEDOM Support Act coordinating structure as one model worthy of potential expansion and replication, particularly in its early format when the Deputy Secretary of State was the SEED Act Coordinator. A few recommended a more robust organizational change, arguing that the coordination concept is of less utility without a high level imperative (like the fall of the Berlin Wall or the situation in Iraq) to drive it. Most interlocutors, however, accepted that a simple supporting structure to ensure decisions are communicated and implemented would be sufficient.

D. Strategy vs. Tactics. One of the issues that kept arising is whether strategy should be "bottom-up" or "top-down". USAID and the MCC both take the development approach that the countries' needs should drive assistance strategy while others believe that strategy should be decided in Washington and carried out in the field. This is another area where a network approach may provide a different answer. For example, Maurice McTigue, who leads George Mason University's Government Accountability Project, has proposed that government strategy must come from central leadership. "Strategy" is about vision, about goals and objectives. He would argue that the strategic definition of priority recipients, level, and major approaches should come from the President's key foreign policy advisors. They need to be informed by country level data in order to make sound choices, but those choices are inevitably shaped by more than just country drivers. The implementation of the tactics of that strategy can be carried out by a variety of mechanisms that make the most sense and achieve the greatest results so long as they are faithful to the policy guidance provided from the leadership. If the involved entities accept the strategic mandate set by the central leadership, then they can be delegated the authority to make the tactical decisions around how best to achieve the results that will support the realization of strategic direction.

E. Policy vs. Implementation. The last theme for consideration under this section is whether policy and implementation need to be handled in the same organization. There was perhaps the least consensus on the topic because it challenges the existing arrangement the most clearly. However, the preponderance of views was that policy and implementation do not need to be inextricably linked. McTigue at the George

Mason Mercatus Center and other academicians have postulated that if there is a clear understanding of what the policy is, what results are expected (in verifiable, measurable terms) and what time frame is reasonable, then there are even positive benefits to having policy and implementation separated. Those with implementing responsibilities need to have a voice in policy-making processes and the results of implementation need to inform the policy choices, but, on balance, the majority of those interviewed came out in favor of a trade off (if one has to be made) between more consolidated policy setting on the one hand and greater implementing responsibility given to those organizations with the systems, procedures, and experience in program management on the other hand.

**Appendix A:
Interviewee List**

A significant portion of the research for this report was conducted through interviews with fifty individuals occupying foreign assistance policy and management positions or having extensive foreign assistance experience/expertise.

The majority of the interviewees serve in the Department of State, the U.S. Agency for International Development, or as Congressional staff, and several additional interviewees saw previous service with State, USAID or Congress. Additional interviewees represented think tanks and international organizations.

Most interview candidates were selected by the JPC, and on most occasions, members of the JPC attended interview sessions. In identifying candidates for interviews, the JPC stated that selection was based upon the judgment that each individual could contribute to the discussion about assistance reform.

Individuals Interviewed

| Name | Title | Organization |
|--|---|--|
| State Department (DOS) | | |
| ▶ Adams, Thomas | Acting Coordinator for U.S. Assistance to Europe and Eurasia | Office of Assistance to Europe & Eurasia, DOS |
| ▶ Bloomfield, Lincoln | Assistant Secretary for Political-Military Affairs | Bureau of Political-Military Affairs, DOS |
| ▶ Burnham, Christopher | Assistant Secretary for Resource Management; CFO | Bureau of Resource Management, DOS |
| ▶ Burns, William J. | Assistant Secretary for Near Eastern Affairs | Bureau of Near Eastern Affairs, DOS |
| ▶ Charles, Robert | Assistant Secretary for International Narcotics & Law Enforcement Affairs | Bureau for International Narcotics & Law Enforcement Affairs, DOS |
| ▶ Dobriansky, Paula | Under Secretary for Global Affairs | Office of the Under Secretary for Global Affairs, DOS |
| ▶ Donnelly, Shaun | Principal Deputy Assistant Secretary | Bureau of Economic & Business Affairs, DOS |
| ▶ Green, Richard | Deputy Assistant Secretary for Population, Refugees & Migration | Bureau of Population, Refugees & Migration, DOS |
| ▶ Grossman, Marc | Under Secretary for Political Affairs | Bureau of Political Affairs, DOS |
| ▶ Jones, Elizabeth | Assistant Secretary for European & Eurasian Affairs | Bureau for European & Eurasian Affairs, DOS |
| ▶ Kozak, Michael | Acting Assistant Secretary for Democracy, Human Rights, and Labor | Bureau for Democracy, Human Rights, and Labor, DOS |
| ▶ Larson, Al | Under Secretary for Economic, Business & Agricultural Affairs | Office of the Under Secretary for Economic, Business & Agricultural Affairs, DOS |
| ▶ Newman, Constance | Assistant Secretary for African Affairs | Bureau of African Affairs, DOS |
| ▶ Noriega, Roger | Assistant Secretary for Western Hemisphere Affairs | Bureau of Western Hemisphere Affairs, DOS |
| ▶ Pascual, Carlos | Coordinator for Reconstruction & Stabilization | Office of Reconstruction & Stabilization, DOS |
| ▶ Rademaker, Stephen | Assistant Secretary for Arms Control | Bureau of Arms Control, DOS |
| ▶ Raether, Carl N. | Principal Deputy Assistant Secretary | Bureau of Legislative Affairs, DOS |
| ▶ Rock, Bud | Principal Deputy Assistant Secretary | Bureau of Oceans & International Environmental & Scientific Affairs, DOS |
| ▶ Semmel, Andrew | Deputy Assistant Secretary for Nuclear Non-Proliferation | Bureau of Nuclear Non-Proliferation, DOS |
| United State Agency for International Development (USAID) | | |
| ▶ Gravelink, Bill | Deputy Assistant Administrator | Bureau for Democracy, Conflict & Humanitarian Assistance, USAID |
| ▶ Hill, Kent R. | Assistant Administrator | Bureau for Europe & Eurasia, USAID |
| ▶ Kunder, James | Assistant Administrator | Bureau for Asia & Near East, USAID |
| ▶ Lester, Robert | Assistant General Counsel | Office of General Counsel, USAID |
| ▶ Natsios, Andrew | Administrator | USAID |
| ▶ Peasley, Carol | Acting Assistant Administrator | Bureau for Africa, USAID |
| ▶ Peterson, Anne | Assistant Administrator | Bureau for Global Health, USAID |
| ▶ Simmons, Emmy B. | Assistant Administrator | Bureau for Economic, Growth, Agriculture, Trade, USAID |
| ▶ Turner, Barbara | Acting Assistant Administrator | Bureau for Policy & Program Coordination, USAID |

Individuals Interviewed (Cont'd.)

| Name | Title | Organization |
|----------------------------|---|---|
| Other USG Agencies | | |
| ▶ Lowery, Clay | VP, Markets & Sectoral Assessments | Millennium Challenge Corporation |
| ▶ Pittman, Jr., Bobby | Deputy Assistant Secretary for Multilateral Development Institutions & Policy | Treasury Department |
| ▶ Tobias, Randall | U.S. Global AIDS Coordinator | Office of the U.S. Global AIDS Coordinator |
| Congressional Staff | | |
| ▶ Abramowitz, David | Minority Chief Counsel | House International Relations Committee |
| ▶ Bent, Rodney | Staff member | House Appropriations Subcommittee: HACFO |
| ▶ Flynn, Heather | Staff member | Senate Foreign Relations Committee |
| ▶ Grover, Paul | Staff member | Senate Appropriation Subcommittee on Foreign Operations |
| ▶ McKuen, Brian | Staff member | Senate Foreign Relations Committee |
| ▶ Murray, Mark | Staff member | House Appropriations Subcommittee: HACFO |
| ▶ Nowels, Larry | Specialist in Foreign Affairs | Congressional Research Service |
| ▶ Rieser, Tim | Chief minority clerk | Senate Appropriation Subcommittee on Foreign Operations |
| ▶ Roberts, Walker | Staff member | House International Relations Committee |
| ▶ Walker, Chris | Staff member | Office of the Speaker of the House |
| ▶ Yeo, Peter | Deputy Staff Director | House International Relations Committee |
| Non-Government | | |
| ▶ Adelman, Carol | Senior Fellow | Hudson Institute |
| ▶ Atwood, J. Brian | Dean | Hubert H. Humphrey Institute |
| ▶ Biegun, Steve | VP, Sales & Marketing | Ford Motor Company |
| ▶ Cronin, Patrick | Senior VP; Director of Studies | Center for Strategic & International Studies |
| ▶ Johnstone, Craig L. | VP, Regional Manager, Europe International Relations | The Boeing Company |
| ▶ Lancaster, Carol | Professor, International Relations | Georgetown University |
| ▶ Marek, Michael | Director, Washington Liaison Office | United Nations Development Program |
| ▶ McTigue, Maurice | Director, Government Accountability Program | George Mason University |
| ▶ Taft, Julia | Assistant Administrator, Director | Bureau for Crisis Prevention & Recovery, United Nations Development Program |

**Appendix B:
Interview Responses**

In conducting the interviews, Booz Allen Hamilton employed a common set of questions but also encouraged each of the interviewees to freely express their thoughts on the subject of reform. Key common areas explored included current challenges confronting foreign assistance, the ability of the assistance structure to address the challenges, options for reform, feasibility of reform and the scope of reform.

Booz Allen aggregated the interview responses, synthesized the issues and proposals to create options, which were subsequently examined for strengths and weaknesses as well as for feasibility. The options were then arrayed against nine criteria:

1. Vision
2. Goals and Objectives
3. Capability Alignment
4. Coordination and Coherence
5. Performance Measures
6. Program and Resource Flexibility
7. Sustained Commitment
8. Reasons for Reform
9. Approach to Reform

Compilation of Interviews

Vision

- **The goals of foreign assistance must be identified** before deciding which organizational structures should be created to best achieve these goals.
- Reform, and any rewrite of the Foreign Assistance Act, has to show **fundamental change**, particularly in the decision-making processes; it must do more than simply reorganize the boxes.
- The U.S. Government needs to think about how it wants to engage in **international rulemaking**.
- The U.S. Government should place foreign aid as an **instrument that supports other policies**.
- All U.S. Government foreign assistance players should be under **one policy umbrella**.
- There must be an **overall plan and coordination of programs**. Development is becoming a component of the policies of many different agencies. The U.S. Government cannot simply continue using foreign assistance to build roads that, once built, are not maintained.
- The U.S. Government should **establish its global foreign assistance strategy before deciding levels of funding**, rather than building the budget through accretion of allocations to countries and interest groups.
- New foreign assistance accounts may not be necessary if funding is redistributed more strategically.
- **State and USAID should be included in the decision-making process** the Executive Branch uses to allocate funding for foreign assistance.
- **Questions that need to be addressed** in developing a comprehensive strategy include:
 - Is a more comprehensive approach to reform possible?
 - Is there political support behind rewriting the Foreign Assistance Act? A better model may be more realistic, for example pushing the initiative into another assistance category such as the MCA.
 - What processes are necessary to make development successful?
 - Which sectors and target populations are priorities to the U.S. Government?

Goals and Objectives

- Reforms should focus on **determining new authority structures for foreign assistance**, rather than on assigning additional resources to fix existing problems.
- **Clarify roles and responsibilities** upfront of each of the different foreign policy actors to avoid overlapping missions and "turf wars."

- **Manage foreign assistance by distinct categories** but establish coordinator positions for cross-cutting issues such as HIV / AIDS. Suggested typologies include:
 - Disaster assistance; project assistance; and non-project assistance
 - Humanitarian assistance; economic assistance; and development assistance
 - Military assistance; political assistance; humanitarian assistance; and reconstruction.
- Mechanisms should be created to **address each goal individually**.
- In contrast, some suggest that organizing foreign assistance around assistance categories can be **limiting**. For example, poverty relief should be able to serve a strategic objective as well as a development objective.
- The allocation of foreign assistance money by **types of goals and objectives leads to stove piping**.
- **Foreign assistance programs should not be tied solely to regional geography**. Clusters of similar countries cut across regions. Categorizing countries by assistance categories (as USAID's Whitepaper has done) can help more effectively organize the U.S. Government's foreign assistance efforts.
- In contrast, some suggest that **foreign assistance should primarily be matrixed through regional coordination** rather than through categories of assistance. Few issues are fundamentally transcendental. The viability of systems and institutions to address development problems varies by region and is dependent on local culture.
- **A clear line should exist between military and economic assistance**; however, the agencies responsible for each should work in concert. In the case of post-conflict reconstruction, one agency, perhaps a new Department of Development, should be responsible for economic and development assistance. While DOD would provide only security, and would not manage or implement assistance projects.
- **Only one robust implementer agency** should exist. This would allow economies of scale and bring the U.S. Government's foreign assistance structure to more closely resemble the resource-efficient model of the World Bank.
- **USAID should take on an auditing role** rather than a purely implementing role.
- **Resource control should be moved away from USAID**.
- **The marriage of policy needs and resources at State** needs to be improved, and staff need to be adequately trained in this area. The State Department's strategy and budget are largely demand driven and based upon proposals submitted from the field.
- More emphasis should be placed on **economic growth**.
- The goals of economic assistance get mixed abroad on the ground.
- More efforts should exist to **inform the public about foreign assistance**. A case can be made for foreign assistance as an investment in the U.S. economy.

- Except for humanitarian aid, assistance to failed states should not be a direct responsibility of the U.S., but the responsibility of the **International Community**, regional organizations and rendered through proxies.
- The **United Nations' Millennium Development Goals** are supported by many countries worldwide, and could serve as a basis to inform the U.S. Government's foreign assistance.

Capability Alignment

- The U.S. Government should strive for a **balanced, centralized foreign assistance structure** with several decentralized components.
- **Development is a core competency**; the talent and skills at USAID need to be used in any new foreign assistance structure.
- **Foreign assistance activities should not be completely consolidated.** This would slow down decision-making and add cost, without adding value, and the Hill would not be likely to endorse such a consolidation.
- Smaller groups of people focused on achieving an integrated set of goals is more effective than people functionally organized around multiple goals.
- Some **competition between different assistance channels** is healthy.
- The **decentralized components** of the current foreign assistance structure –for example those within State and USAID– **should not be removed.** In-country activities are crucial.
- A **Department of Development** could exist to include all foreign assistance and would pull in expertise from other agencies to help implement programs. Treasury would maintain its work with the multilateral development banks.
- A Department of Development, if established, should have three tasks: humanitarian assistance, post-conflict reconstruction, and development assistance. This department should be able to second people from other agencies to incorporate their expertise into programs.
- **State should be a cognizant agency and pull together all U.S. foreign assistance efforts.**
- **State should manage the concept and policy of development, and oversee USAID** so that a continuity of goals exists by country. Once the goals are established, State should divide up responsibilities and implementation, and assign **measurable metrics** to these.
- If State wants to acquire the skills and practice of development and program management it needs to create a **structure capable of handling these development and operational activities.** For example, State could establish a Deputy Secretary of Policy and a Deputy Secretary of Programs to oversee these areas.
- **State should combine responsibilities by groups, such as democracy, rule of law and anti-corruption, and place these programs under a Regional Secretary.** This would ensure economies of scale and a regional approach to assistance.

- Rule of Law and Democracy Building should be included in State's foreign assistance responsibilities, adding to its Counter Terrorism, War Crimes and Stability and Reconstruction portfolios.
- In contrast, some suggest that **State should be reorganized into smaller pieces** with an overarching policy mechanism.
- **Preserving the independent nature of the MCC works well in the near-term;** however, eventually this new idea of foreign assistance should be integrated with the existing structures.
- **Iraq** represents a unique experience, and **should not serve as a model** around which to organize all foreign assistance efforts.
- **Do not fold USAID into the State Department**
 - State is not structured to carry out implementation nor focused on developing economic expertise
 - The different nature and focus of the "business" done by the State Department (short-term, diplomacy) and by USAID (long-term, development) do not lend themselves to be combined together into one agency
 - The tasks involved in Development, such as finance-tracking, require greater detailed attention than the State Department's structure has handled to date.
- In contrast, some suggest to fold USAID into the State Department
 - Establish the head of USAID as a Deputy- or Under-Secretary at State
 - Coordination has already tightened between State and USAID, which has enhanced the work of both State and USAID.
 - Include the activities of TDA, OPIC and others in this new State bureau.
 - Co-locate portions of USAID and State staff to enhance coordination, or require desk officers within each agency to take a tour in the other agency. Both agencies would benefit from sharing skills. State currently does not possess strong implementation skills. USAID does not have a strong interest in policy.
 - Safeguards are needed to ensure that missions of the two are preserved and aligned to their separate goals.

Coordination and Coherence

- Coordination reform should **begin with the non-defense components** of foreign assistance, although many acknowledge that coordination issues between **DOE and State** also need to be examined.
- Reformers should take existing mechanisms, reorganize and integrate them in a new way that focuses on overall coordination.
- **Create a Cabinet level Agency for Development.**
- In contrast, some suggest that the creation of a cabinet-level position will not be broadly supported, and is not realistically feasible.
- **A Board approach** is feasible for operational and resource management.

- Use a **Coordinator model** but only if the Coordinators have the ability to command resources.
- In contrast, some suggest that a Coordinator model can confuse chain of command, and that **informal coordination efforts** can be effective.
 - **IDCA** could be used as the basis for a new coordination model.
 - The former **Development Coordination Committee** could be resurrected as the basis for a new coordination model
 - The **NSC** is not an ideal choice to coordinate foreign assistance. Historically it never been focused on or knowledgeable in foreign assistance, particularly economic assistance. Furthermore, the NSC oversees primarily short-term activities.
- The President's **HIV/AIDS Coordinator** represents a desire to "do business" differently, by putting one person in charge of an issue and directing other agencies to support the coordinator.
- The **HIV/AIDS Coordinator** is effective because he is able to interact with all **USG implementers** in this space.
- The State Department should have more coordinator positions akin to the Coordinator for Reconstruction and Stabilization, or the **MEPI coordinator**.
- A framework could be set up whereby the **Secretary of State would lead 10 sub-secretaries to oversee foreign assistance policy**. Five sub-secretaries would be functional heads, and five would be geographic heads. Each would be responsible for specific goals and have contracts for performance. Funds would be given only to the functional sub-secretaries, however only the geographical sub-secretaries would be allowed to spend the funds. A structure like this would force the matrix of geographical and functional areas to interact, and would encourage global thinking.
- Policy coordination should be under the purview of the **regional Assistant Secretaries**.
- Create a "**bureau of mobilization**" to coordinate international activities of domestic agencies.
- The **Executive Branch** should coordinate all implementing agencies in a coherent fashion to allow for a balanced approach to foreign assistance.
- Dividing foreign assistance into different categories should be done in a manner that preserves the way **funding** traditionally flows within the U.S. Government. Focus should be placed on how funds can be better coordinated to achieve foreign assistance goals, rather than on changing the funding categories.
- The U.S. Government need to increasingly **consider regional opportunities** to carry out foreign assistance.
- The **State Department's regional Assistant Secretaries** should carry out their jobs being fully informed by all foreign assistance programs, even though they do not have direct line authority over this area. They should act as arbiters and provide guidance for foreign assistance in their regions.

- **Local responsibility** is key to effectively carrying out policies abroad. As such, the ambassadors and the country teams should drive some of the coordination and thinking around country priorities.
- **In-country coordination** is important. The Afghani coordination plan is a good example of successful coordination.
- In country, each U.S. embassy could have a Deputy Chief of Mission for development and humanitarian programming; this DCM would be responsible for interfacing with other donors.
- **Ambassadors can take on a larger coordinating role in-country**; however, in order to avoid parochialism and a disjointed overall strategy, this must be twinned with an effort to roll ideas up to the headquarters level in Washington, DC.
- A Cabinet-level position, if established, should be responsible for **coordinating with international donors**, such as the United Nations.
- The oversight of USAID and the multilateral development banks should be aligned. The U.S. Government should maintain and better define its relationships with the World Bank and the IMF.
- The U.S. Government's development assistance should be better aligned with the policies and programs of the World Bank.
- **Reach out to NGOs**—their lobbying efforts are partly responsible for the incoherence of policy.
- **DFID (UK)**, an organization well integrated into international donor organizations such as the World Bank and IMF, is one of the most effective models.

Performance Measures

- Realistic goals must be set for foreign assistance; realistic programs must be created to reach these goals.
- A discontinuity exists between the highest-level strategy of the U.S. Government, and the programmatic goals and measures of USAID.
- Distinctions between categories of foreign assistance goals (i.e. humanitarian, economic, or development) can be misleading in measuring success. For example, the assessment of humanitarian goals is usually not held to the same level of rigueur as development goals, even though the same rigueur should theoretically be applied.
- Each different foreign assistance goal should be measured separately against its own criteria for success. For example, security assistance should not be measured against or similarly to development assistance.
- Freedom House assessments, country transparency ratings, U.S. foreign policy goals or objectives achieved could serve as tools to assess development effectiveness.

- The U.S. Government cannot achieve development if its main foreign assistance goals are domestic, and if all foreign assistance programs must be justified on the Hill only in terms of how they benefit Americans.
- Developing metrics to measure impact against resources for foreign assistance should be a high priority. Common metrics should be used across the U.S. Government.

Program and Resource Flexibility

- The funding account structure for foreign assistance does not work.
- It is currently difficult to convert authorized money to another purpose.
- Every account should be monetized, and a multi-year development assistance account should be established under the purview of a new Department for International Development.
- Create more flexible funding at the Ambassador level. Expand the "Self Help Fund" to give Ambassadors the opportunity to pursue development initiatives that will improve the US image in country.
- Establish funding mechanisms, such as contingency funds, that allocates money by region or theme and which can be used in emergency situations.
- In the past, earmarks have hindered the development of an overall strategy for foreign assistance.
- Reducing Congressional earmarks would add balance to the process, giving the Administration flexibility and adaptability, while allowing Congress to retain authority over foreign assistance program definition.
- The creation of foreign assistance contingency funding with adequate safeguards would be feasible if carefully structured. This approach is being used in the war on terrorism, but it would have to begin modestly to gauge its effectiveness.

Sustained Commitment

- Foreign assistance should be **multi-year** and **multi-dimensional**, and include or involve private investment and trade.
- The **Millennium Challenge Corporation** is the best vehicle or design for foreign assistance, as it will prevent erosion by special interests.
- The success of initiatives like the MCC and PEPFAR will help ensure high level of funding in the future and a commitment to development.
- If State gains authority over long-term development and other foreign assistance efforts, **State will bear the burden of proving it is capable of supporting long-term efforts.**
- State should not be oriented towards short-term goals exclusively, but should focus on long-term goals as well if the Department is to engage further in development.
- **Long-term objectives are best handled by the multilateral development banks.** Even when USAID implements long-term development programs, the programs

end up more fragmented than intended because the agency does not have access to long-term funds.

- In contrast, some suggest that characterizing programs as short-term or long-term represents a **false dichotomy**. Many agencies do both short- and long-term assistance. For example, resource limitations at USAID have forced the agency to focus on short-term programs.
- The U.S. has frequently espoused a unilateral approach to foreign assistance. If the U.S. **contributed to multilateral assistance programs**, the U.S. would be able to influence 100% of the funds and activities in these programs, as opposed to the 25% they influence now when acting only bilaterally or unilaterally.
- In contrast, some suggest that it is important for foreign populations to recognize that it is the **USA –distinct from other international donors- contributing abroad**.

Reasons for Reform

- **Current world conditions** create a powerful argument to reorganize foreign assistance, particularly assistance for the Near East. Reformers need to **put security at the forefront** of the push to alter foreign assistance, and demonstrate the link between poverty and violent conflict. **Globalization has not yet permeated** the U.S. Government's mentality, even though the majority of its activities possess international elements or ramifications.
- The U.S. Government currently **underutilizes foreign assistance as a policy tool**. The current times require the U.S. Government to be bold and more imaginative in the use and deployment of foreign assistance.
- There are **too many restrictions** on foreign assistance spending.
- There is a **lack of coordination** in current foreign assistance programs.
- Almost all U.S. Government agencies **now have a foreign component**; as a result, the State Department no longer has exclusive control over relationships abroad.
- Foreign assistance **lost its rationale** after the Cold War.
- The U.S. has **no clear foreign assistance objectives**.
- The U.S. has **lost its preeminent position** of influence on development policy internationally.
- The **Foreign Assistance Act is outdated**.
- A **multiplicity of actors** currently plays in the foreign assistance arena.
- There is **no clear authority** on foreign assistance policy (e.g. DOD's authority has increased over security and law enforcement assistance).
- A **variety of new authorities** were created to deal with the emerging global problems, but this has not allowed the system to work effectively as a whole.
- Recent initiatives (e.g. MCC, HIV/ AIDS Coordinator) were simply layered on top of each other and existing foreign policies.

- There is an appreciation in Congress that the foreign assistance program is **micromanaged** and that the Foreign Assistance Act ties the assistance program in knots.
- The foreign assistance process is **not holistic** – various measures are thrown piecemeal into one authorization bill or another.
- USAID is **no longer nimble**.
- Justice, USAID and DRL are all managing **overlapping programs** dealing with democracy and rule of law issues.
- The MCC can develop into a **new model** different from the current USAID approach.
- Showing a clear continuity between high-level U.S. Government strategy and programmatic goals of agencies implementing foreign assistance could **help obtain funding** from Congress.
- Foreign assistance has become a **product of the appropriators** – foreign assistance outcomes are a product of the appropriations sub committee. The administration spends all its time with the appropriators – the authorizers are taken out of the process.
- **Fragmentation** is more prevalent within the U.S. Government’s foreign assistance programs than it is within other international donor programs.
- The U.S. **does not participate** as much as other international donors in **co-financing** or other **multilateral** assistance activities.
- In many countries, the U.S. is a **solitary player** with its own in-country assistance program, while all of the other donors collaborate together on one joint program.

Approach to Reform

- Focus reform on USAID and State initially.
- Identify what the U.S. Government defines as “foreign assistance.” The U.S. maintains defense and security relationships; diplomatic relationships; global financial and economic relationships; and development relationships. Development primarily addresses issues of inequity and attempts to level the playing field worldwide. Together these relationships comprise the U.S. Government’s total international relations package. Each of these needs to be managed in relation to one another.
- Reform is possible. We must avoid the Washington way of creating new programs while leaving old ones in place.
- Changes in the existing foreign assistance structure should be considered before blue-sky reforms are examined.
- In contrast, some suggest that to reform it is easier to start all over, because it is so hopeless to work with the existing framework. If you want to move quickly, you must move outside the current structure.

- Earlier program reforms such as SEED and the Freedom Support Act succeeded because they had strong administration support, their appeal crossed the aisle, and powerful members of Congress backed them.
- The starting point of any reform should begin with senior level coordination.
- Reformers must first decide who is setting foreign policy in the government.
- Presidential support is crucial. This is one reason why the MCC succeeded.
- President Bush's decision not to fight the big structural issues has been relatively successful.
- The Administration must make foreign assistance reform a priority.
- The President could support foreign assistance reform by linking foreign assistance to the war on terror.
- Cabinet commitment to foreign assistance is necessary.
- State needs to be on board with any proposed legislation.
- Foreign assistance needs the equivalent of the 9/11 Commission.
- Champions on the Hill need to support a rewrite of the Foreign Assistance Act.
- Members of Congress are currently likely to support foreign assistance reform programs because of the current popularity of humanitarian assistance and narcotics eradication programs. Anti-terrorism programs would also resonate with Congress, since military assistance and strategic support programs, though increasing, do not approach the levels of the Reagan years.
- Workshops for Congress members could be held to teach the fundamentals of development, and emphasize the importance of development to national security.
- Rewriting the Foreign Assistance Act will inevitably lead to reorganization.
- Reformers should assess whether there is real opportunity for legislative change, or whether it would be more feasible to achieve better coherence and coordination of foreign assistance primarily through the Executive Branch.
- Given the pace of any potential Foreign Assistance Act re-write, it may be too late to try to push it through the first year of the incoming Administration, and thus it may be better to wait a few years.
- A revision of the Arms Export Control Act could alleviate current impediments to decision-making in the area of security assistance, and help drive forward other reform initiatives.
- Authorization of "single purpose" bills is successful.
- Create bi-partisan legislation to avoid polarization and increase its chances of being passed.
- Legislation similar to the Freedom Support Act would benefit the U.S.A's foreign assistance.
- Legislation would be possible to enact, if:
 - it has a high level (at a minimum the Secretary of State) of administration backing
 - care is taken to build behind the scenes support by providing context and a candid, in-depth explanation of new program designs and funding.

- **“Workarounds”** that deal with foreign assistance problems that actually *do* work (such as promise of the MCC) will relieve the pressure for reform.
- The **Joint Management Council should select five new areas for reform** (not the Joint Financial Management System which is already moving forward), and if three were attainable in the end, it would be progress towards ultimate reform. If three cannot be accomplished, then it is unlikely any further reform will occur.
- A reform effort should include a **more strategic budgeting process** for foreign assistance that includes a few clear goals and involves dialogue with Congress.
- The main distinction in foreign assistance is not multilateral versus bilateral, but rather **diplomatic versus operational**.
- Increase the engagement of **NGOs and grassroots organizations** in the foreign assistance dialogue and structure.

**Appendix C:
Current Reform Efforts**

The following Current reform efforts were reviewed and summarized:

| Current Reform Efforts | Date |
|---|------------------|
| United States Agency for International Development (USAID) "U.S. Foreign Aid: Meeting the Challenges of the 21 st Century (White Paper) | January 2004 |
| Center for Global Development "On the Brink: Weak States and US National Security" | May 2004 |
| Patrick Cronin Testimony and remarks to the U.S House of Representatives House International Relations Committee | February 2004 |
| Lael Brainard Testimony and remarks to the U.S House of Representatives House International Relations Committee | February 2004 |
| Stephen Radelet Testimony and remarks to the U.S House of Representatives House International Relations Committee | February 2004 |
| Sponsors Rep. Frank R. Wolf and Rep. Henry Hyde HELP Commission Legislation Helping Enhance the Livelihood of People (HELP) Around the Globe | October 2003 |
| Stabilization and Reconstruction Civilian Management Act Bill S2127 (Lugar-Biden-Hagel) | March 2004 |

Each current reform effort was analyzed according to seven dimensions of reform:

10. Vision
11. Goals and Objectives
12. Capacity alignment
13. Coordination and Coherence
14. Performance Measurements
15. Program and Resource Flexibility
16. Sustained Commitment

U.S. Agency for International Development (USAID)
"U.S. Foreign Aid: Meeting the Challenges of the 21st Century (White Paper)"
January 2004

The USAID White Paper - created within the Agency to stimulate a discussion of major issues surrounding foreign assistance - focuses upon international development, and explores ways to increase the effectiveness and policy coherence of assistance by clarifying objectives, aligning resources with those objectives and managing strategically. The White Paper does not discuss reform methods across the entire foreign assistance community.

Vision

The White Paper defines the objectives of foreign assistance reform to include:

1. Redrafting the Foreign Assistance Act to establish a comprehensive vision
2. Maintaining USAID's central foreign assistance role.

Goals and Objectives

The White Paper suggests five core goals for foreign assistance and argues that each goal requires a tailored approach for policy and program design and in accounting for its effectiveness. The core goals embrace strategic, country-specific, and global and transitional issues:

- Promoting transformational development
- Strengthening fragile states
- Providing humanitarian relief
- Supporting US geo-strategic interests
- Mitigating global and transnational ills.

Capacity Alignment

The White Paper envisions that USAID would retain its central foreign assistance agency role, working closely with the Department of State to align assistance policy with the national security strategy, and - through incorporation of its reforms - create a coherent, effective foreign assistance program.

Coordination and Coherence

The White Paper advances its reform suggestions within the context of the current development environment: the elevation of development in the National Security Strategy; the Millennium Challenge Account; the impact of weak/failed states; wide acknowledgement of the need for international cooperation; and the lessons from nearly five decades of experience.

Performance Measures

The White Paper suggests designing an effective assessment of each of the five core goals listed above. In addition, assistance should be linked to a country's commitment and performance, emphasizing a timely graduation from assistance programs.

Program and Resource Flexibility

If a new foreign assistance act proved unfeasible, the White Paper suggests that even without legislative intervention State, USAID and OMB could develop a program and funding realignment that closely conforms to the five core goals and that provides additional funding flexibility. USAID would then adjust its monitoring, evaluation and reporting to conform to the realignment.

Sustained Commitment

The White Paper suggests linking development assistance (or continued assistance) to a country's commitment and performance.

Center for Global Development
“On the Brink: Weak States and US National Security”
May 2004

The Center for Global Development examines the adverse effects on U.S. security and the international community made by failed or weak states. The report also provides a comprehensive set of reforms addressing multiple aspects of American foreign aid, economic assistance and related foreign policy.

The study, based upon the collective efforts of a Commission of more than thirty respected experts with broad experience in government, the private sector, academia and the NGO and think tank community, argues that current aid and development programs lack coherency and overlook the weakest and poorest states – states that pose enormous local, regional and international security threats.

In addition, the study states that current aid programs employ outdated organizational platforms and program designs and that a multiplicity of domestic and international aid entities fragment responsibility, have program effectiveness and efficiency and lack a comprehensive, overarching policy.

Foreign assistance policy makers do not have access to rapid, comprehensive intelligence and analysis that would help identify a developing crisis. They therefore lack the ability to quickly authorize a response or the capacity to deploy rapid response teams to quickly begin remediation of impending problems.

Vision

“On the Brink” calls for policies that would: invest in preventing states from sliding into poverty and failure, as an enhancement to U.S. security; develop new methods and tools such as a surge capacity to quickly intervene to prevent state failure or stem its consequences; reform aid institutions to consolidate foreign assistance policy; and share the burdens inherent in adopting these policies by engaging the support and participation of international and regional donor organizations and donor countries.

The paper also suggests creating a National Security Directorate and Policy Coordinating Council to reflect the priority of failed states and charge with early warning and response responsibilities. In addition to developing an analysis/information system combining intelligence and open source information that monitors weak and failed states.

Goals and Objectives

One goal mentioned in the paper was to extend duty free access and eliminate all quotas for 64 countries including the heavily indebted and least developed.

Capability Alignment

Suggested Capability Alignments include:

- Reinvigorate the Department of State
- Increase staffing and presence in less developed countries
- Incentives for diplomats to work in weak/failed states
- Reform OPIC to increase its role in industries beneficial to the poorest countries; increase the number of sectors where OPIC can support U.S. investment.

Coordination and Coherence

1. Improve program integration among U.S. agencies and coordination with international donors
2. Mandate interagency coordination to streamline security assistance.

Performance Measures

Remove regulatory impediments to U.S. assistance for foreign military and police; make these programs more effective in helping secure borders, territories and populations.

Program and Resource Flexibility

1. Invest in multilateral capacities - to enhance development crisis quick response capabilities of the UNDP
2. Create a multilateral entity able to rapidly disburse grant monies trans-nationally
3. Develop rapid response capability to bring concentrated assistance to emerging crises, staff with permanent cadre of assistance experts. Surge capacity supported through \$1 billion, no year, replenish able budget
4. Expand the number of countries currently eligible for debt relief.

Sustained Commitment

1. Develop an assistance strategy to promote democracy, making it a budget line item
2. The U.S. should address public expectations by discussing the strategic value of aid, emphasizing that the assistance process is long term
3. Build or increase support for International and regional aid/development initiatives that target failed, weakened and poor states. Use the G-8 as a catalyst for the process and expand it to include regional organizations such as the G-20
4. Increase U.S. assistance proportionate to GDP

5. Make same policy priority/resource commitments to failed/weak states as for MCC-targeted states.

Patrick Cronin

**Testimony and remarks to the U.S. House of Representatives
House International Relations Committee**

February 26, 2004

After nearly a decade of atrophy, the foreign assistance program has been reinvigorated under the Bush administration, and has re-emerged in a critical foreign policy role. The MCC and the Plan for AIDS bring substantial additional resources to foreign assistance. These initiatives attempt to make assistance more effective in sustaining economic growth and - through incentives - tie assistance to the recipient country's commitment to just governance, economic freedoms and its investment in education and health programs for their populations.

The MCA should serve as the paradigm for achieving economic growth and hence sustainable development in the U.S. foreign assistance program. The MCA and Global AIDS Initiative should catalyze a wider effort to address additional shortcomings in the foreign assistance program, which is broken and obsolete and marked by opaque, unfocused and sclerotic development assistance programs. Reform should be as holistic and robust as was the impact of the Goldwater-Nichols Reorganization Act on the Department Of Defense.

The 2000-page Foreign Assistance Act has 300 competing "strategic objectives" linked to 100 countries. Its myriad directives and earmarks and administrative initiatives create chaos and incoherency. With its competing priorities, therefore assistance programs lack focus and needs a process that identifies clear and obtainable goals.

Vision

In his testimony Cronin states that the three main objectives of U.S. foreign assistance should be:

1. Reform should be as holistic and robust as was the Goldwater-Nichols reorganization
2. Rewrite all or major parts of the Foreign Assistance Act
3. Establish an overarching foreign assistance strategy that relates programs and budgets to National Security Strategy; create new strategy document every four years.

Goals and Objectives

Cronin testified that focusing on the three points below would help restructure U.S. foreign assistance:

- Poverty reduction
- Effectively dealing with weak and failed states
- Humanitarian assistance.

Capacity Alignment

Considerations for organizational consolidation include:

- Create a cabinet-level department for foreign assistance with policy and operational responsibilities
- Give policy responsibility to Secretary of State who supervises program implementation through USAID and MCC deputies.

Refocus USAID to address countries that are not qualified for MCC funding.

Coordination and Coherence

1. Increase efforts to leverage development assistance with trade and investment
2. Coordinate policy and programs, both domestically and with the growing international donor community
3. Achieve more effective cooperation between the Department of State, USAID and the MCC; fence off their development assistance funds.

Performance Measures

Improve measurements of foreign assistance effectiveness.

Program and Resource Flexibility

Develop the flexibility to identify emerging assistance needs and reorient resources to address them.

Sustained Commitment

Development assistance must be viewed as a long-term process, spanning administrations and multiple budget years.

Lael Brainard

**Testimony and remarks to the U.S. House of Representatives
House International Relations Committee
February 26, 2004**

The U.S. is confronting new threats that could prove as sustained as the totalitarian challenge of the last half-century. The post-September 11th war on terrorism expanded strategic calls on foreign aid to reward allies, shore up frontline states, rebuild Afghanistan and indirectly address poverty that weakens states and provides space for terrorist networks. Unless the benefits of rapid globalization in the increasingly connected world are better shared, the rich-poor divide could contribute to civil conflict, extremism, resources conflicts and environmental degradation.

U.S. foreign assistance is undergoing a fundamental transformation by default, rather than design. Resource increases occur in an ad hoc manner, through a proliferation of new programs and organizational arrangements, layered on top of an already complicated maze of U.S. programs for developing countries. There is a proliferation of organizations (16 to 18 that administer FA programs) and over fifty stated objectives for foreign assistance within the FAA, the 2002 National Security Strategy and the President's FY 2004 budget request.

The global HIV/AIDS Initiative, Millennium Challenge Corporation, Middle East Partnership Initiative, reconstruction in Iraq and Afghanistan, etc. are new initiatives reinventing the wheel through new mechanisms whose internal logic may be extremely compelling but whose place in the overall structure was little considered. This has contributed to the morass and the problem of international coordination.

Vision

In her testimony, Brainard envisioned the following three areas as fundamental purposes of U.S. foreign assistance:

- Promote U.S. national security
- Advance the national interest
- Respond to humanitarian imperatives.

Goals and Objectives

1. Increase resources for AIDS initiative; coordinate the effort between multilateral and bilateral programs
2. Develop mandate and resources to address weak/failed states/stabilization and transition in post-conflict societies; create standing civilian capacity to quickly deploy and ramp up

3. Rationalize the multiplicity of U.S. agencies administering assistance; create clear reporting lines
4. Expand existing coordination mechanisms to develop policy coordination process to ensure deployment of all development tools in a mutually-reinforcing way.

Capacity Alignment

1. Establish a clearer division of labor between USAID and the MCA
2. Clarify USAID's three core missions which currently include:
 - Providing humanitarian assistance
 - Helping post conflict countries through transitions
 - Addressing basic health, education, and governance challenges in poorly performing states.
1. Consider creating a new cabinet department and appointing a "czar" to oversee coordination
2. Subsume all Foreign Assistance activities under the State Department. Also developing a coherent strategy in which U.S. foreign assistance instruments are arrayed against policy requirements.

Coordination and Coherence

1. Increase emphasis on working with other donors rather than unilateral actions
2. Establish a coordinating mechanism to bring coherence across U.S. trade, aid, investment, and financial policies.

Performance Measures

One key criterion for evaluating assistance programs should be their complementarity with international donor efforts, and the quantity of international funding leveraged by U.S. dollars.

Program and Resource Flexibility

Policy makers should consider a "notwithstanding authority" approach as a means to rapidly move money to support newly identified needs. This approach makes it possible to bypass time-consuming contracting requirements and procurement regulations.

Sustained Commitment

1. A deliberate, consistently applied, medium -term strategy supported by appropriate funding and greater coherence of U.S. development policies for targeted foreign countries should replace episodic humanitarian interventions or particular strategic initiatives
2. Appropriate funds on a "no-year," or several-year, advance basis..

Stephen Radelet

**Testimony and remarks to the U.S House of Representatives
House International Relations Committee
February 26, 2004**

Many of the structures and guiding principles of current programs have not evolved in tandem with recent changes in the global environment. U.S. foreign assistance is a hodge-podge of uncoordinated initiatives from multiple institutions without a coherent guiding strategy. There are too many actors, and little clarity on overall objectives and purposes. U.S. foreign assistance is not adequate to meet strategic, economic, political, and humanitarian foreign policy objectives, either in the amount of funding or in how it is provided.

The United States needs to develop a strategic vision for foreign assistance that clearly articulates motivations and objectives and their relationship to foreign policy goals, and includes a range of strategies for engaging with different kinds of countries around the world.

Vision

In his testimony Stephen Radelet identified the following core areas that should be the purpose and focus of U.S foreign assistance:

- Enhance U.S. national security
- Promote economic development and poverty reduction
- Promote political stability and political development
- Respond to humanitarian crises.

Goals and Objectives

1. Rewrite the Foreign Assistance Act - include reducing tied aid and earmarks
2. Develop national Foreign Assistance strategy- strategy renewed by each new administration, and updated periodically.

Capacity Alignment

1. Refocus USAID by developing a new, agency-wide strategic vision
2. Create a new Department for International Development incorporating USAID and the aid programs of The Department of State, Treasury (including IMF and multilateral development banks), HHS, Agriculture, Defense, and others.

Coordination and Coherence

1. Better harmonize the U.S. Government's efforts with those of other donors
2. Seriously consider leveraging benefits of multilateral aid.
3. Clarify the Foreign Assistance budget - consolidate and clearly tie it to purposes and priorities
4. Ensure coordination across our foreign assistance programs and integrate these programs with our other policy tools (e.g., trade, immigration, investment)
5. Develop strategy and capacity for dealing with failed/weak states
6. Better harmonize our efforts with those of other donors
7. Increase amount of foreign assistance - current quantities are too small meet key foreign policy objectives
8. Develop strategy to help consolidate democracy and political stability in key states around the world.

Performance Measures

1. Strengthen Monitoring and Evaluation of Foreign Assistance Programs
2. Assess effectiveness of foreign aid carefully, being careful to approximately recognize that programs failing to spur economic growth may nevertheless have averted humanitarian crises or promoted peace, for example
3. Develop the institutional tools necessary to deliver aid more effectively.

Program and Resource Flexibility

Develop a set of foreign assistance strategies appropriate for countries in different circumstances.

Sponsors Rep. Frank R. Wolf and Rep. Henry Hyde

HELP Commission Legislation

Helping Enhance the Livelihood of People (HELP) Around the Globe Commission
October 2003

Introduced in October of 2003, the HELP Commission Act established a commission to identify objectives and beneficiaries of U.S. Development assistance. The commission will also study ways of coordinating U.S. assistance programs with those of other countries and international organizations. Included in the commission's study is an analysis on how political pressures affect the assistance decision making process and how assistance decisions can involve more people of the recipient countries.

Vision

This commission established to improve U.S. development assistance and food aid and will comprehensively review policy decisions, delivery obstacles, methodology and results.

Goals and Objectives

1. Identify the objectives and beneficiaries of development assistance
2. Examine which countries receive humanitarian assistance and how that assistance is provided
3. Analyze whether Foreign Assistance should be used to achieve foreign policy objectives
4. Examine which efforts have succeeded, which have failed and why
5. Analyze the aid-trade relationship
6. Determine how the U.S can improve its ability to quickly and effectively provide foreign assistance.
7. Assess need for additional resources for least developed countries.

Coordination and Coherence

The commission will determine ways to better coordinate U.S. development assistance programs with other donor countries and international NGOs.

Performance Measures

1. Assess conditions for assistance
2. Examine ways to increase recipient country population involvement in aid decisions

3. Analyze performance results
4. Provide recommendations to improve foreign assistance programs.

Program and Resource Flexibility

Analyze how political pressures affect the assistance decision-making process

Sustained Commitment

The commission will recommend standards for graduating recipient countries from U.S. assistance.

*Stabilization and Reconstruction Civilian Management Act***Bill S2127 (Lugar-Biden-Hagel)**

March 2004

S2127 was referred to the Senate without amendment on March 18, 2004. (The same bill as HR 3996 was referred to the House International Relations Committee.)

This proposed legislation gives the Department of State and USAID responsibility for stabilization and reconstruction for areas in - or transitioning from - conflict or civil unrest. It responds to threats posed by weak and failed states by providing a civilian U.S. rapid response capacity, relocating the burden of responsibility from Defense Department forces.

The intent of the bill is to enhance current and future stabilization and reconstruction activities by establishing a new system of planning, organization, personnel policies, and education and training, and by providing adequate resources.

It establishes an Office of International Stabilization and Reconstruction in the State Department and a Coordinator, reporting to the Secretary of State, who is appointed by the President and subject to Senate confirmation. The Stabilization Office would monitor political and economic instability, and plan for stabilization and reconstruction responses. It has responsibility for interagency coordination and for coordinating joint military-civilian planning.

The Stability and Reconstruction Office would be funded with a \$100 million "no year" budget that is replenished annually.

Vision

The bill did not provide a comprehensive strategy however, it does address stability and reconstruction in support of weak/failed states.

Creation of the Office would require amendments to the FAA of 1961 and the State Department Basic Authorities Act of 1956.

Goals and Objectives

1. Enhance stabilization and reconstruction by establishing a new system of planning, organization, personnel policies, and education and training, and provide adequate resources

Capacity Alignment

2. Establishes an Office of International Stabilization and Reconstruction in the State Department

3. Allows the Secretary of State to consult the Administrator of USAID to establish the Response Readiness Corps; coordinates in recruitment, hiring, and training of personnel
4. Gives Department of State and USAID responsibility for stabilization and reconstruction activities in areas transitioning from conflict or civil unrest; removes overarching responsibility from DOD.
5. Develops capacity to field stabilization and reconstruction needs assessment evaluation team on short notice
6. Recommends new directorate of stabilization and reconstruction activities in the NSC to oversee interagency contingency planning and procedures, including joint civilian-military operations.

Coordination and Coherence

1. The State Department and USAID would be responsible for interagency coordination and for coordinating joint military-civilian planning
2. Recommends information sharing and plan coordination with the UN and its specialized agencies, NGOs and other foreign national and international organizations
3. Recommends standing committee of Foreign Assistance agencies to oversee stabilization and reconstruction policy, chaired by the NSC
4. The bill also suggests that State, USAID and DOD establish a personnel exchange program to enhance military and civilian personnel skills and joint operations abilities.

Program and Resource Flexibility

Modifies or exempts Stability Office from contract and personnel regulations to provide for rapid contracting and hiring procedures and use of volunteer labor.

Sustained Commitment

The Stabilization Office would be funded with a \$100 million "no year" budget that is replenished annually.

**Appendix D:
Past Reform Efforts**

The Booz Allen effort includes reviewing major past and current reform efforts from 1961 to 2004. These reform efforts were also used to determine the thematic basis for the interview guidelines.

Each of the past reform efforts below were reviewed and summarized within the following categories:

1. Main features
2. Political Drivers
3. Responses/Analysis

| Past Reform Efforts | Year |
|--|------|
| Foreign Assistance Act (FAA) | 1961 |
| United States Agency for International Development (USAID) | 1961 |
| Overseas Private Investment Corporation (OPIC) | 1971 |
| International Development and Cooperation Act (IDCA) | 1979 |
| Trade and Development Agency (TDA) | 1981 |
| Development Fund for Africa (DFA) | 1987 |
| Support for Eastern Europe Democracy (SEED) | 1989 |
| Woods Report | 1989 |

| Past Reform Efforts | Year |
|---|------|
| Hamilton Report | 1989 |
| Intl Cooperation Act | 1989 |
| Intl Cooperation Act | 1991 |
| Freedom Support Act (FSA) | 1992 |
| Government Performance and Results Act (GPRA) | 1993 |
| Wharton Report | 1993 |
| Peace, Prosperity and Democracy Act (PPDA) | 1994 |
| Foreign Affairs Restructuring Act | 1998 |
| Trafficking Victims Protection Act (TVPA) | 2000 |
| AIDS Coordinator | 2003 |
| Millennium Challenge Account (MCA) | 2004 |

**Foreign Assistance Act (FAA) &
United States Agency for International Development (USAID)
1961**

Summary

In 1961, Congress passed the Foreign Assistance Act (FAA), landmark legislation, which reorganized the US foreign assistance program. The legislation responded to concerns that the country's assistance overseas had become incoherent and ineffective, and was putting America's security at risk. The FAA separated military and economic assistance and mandated the creation of USAID, an independent agency intended to unify existing efforts and administer economic and social development aid. President Kennedy was intimately involved in the reform of the foreign assistance program, providing the leadership, which led to the passage of the FAA and the creation of USAID.

Main Features

The Foreign Assistance Act, as it was proposed in 1961, was relatively unencumbered legislation, which granted significant flexibility to the Executive. The program was intended to help countries become self-reliant as quickly as possible and consisted of two main components.

- *The Development Loan Fund* was intended to foster programs to "develop economic resources and increase productive capacities."
- *The Development Grant Fund* focused on "assisting the development of human resources through such means as programs of technical cooperation and development."

The FAA introduced three other economic assistance programs including a guaranty program (now the Overseas Private Investment Corporation) to provide risk insurance to US businesses doing business overseas, a "supporting assistance" program (now the Economic Support Fund program) to promote economic or political stability, and an appropriated contingency fund.

USAID, as it was envisioned in the 1961 Foreign Assistance Act, focused primarily on long term and country-by-country development planning. The new agency guaranteed a commitment of resources on a multi-year, programmed basis and promised to focus on development that would lead to growth, democracy, and political stability in the developing world.

Political/Policy Drivers

The United States had been struggling to find the appropriate approach to foreign assistance after the Marshall Plan ended in 1951. Post-Marshall Plan programs included the International Cooperation Administration, the Mutual Security Act, and the Development Loan Fund. While all were important initiatives, none provided a long-

term foreign assistance plan. A series of reports and suggestions as to the future direction of foreign assistance from places like OMB, the Ford Foundation, and the Brookings Institution also surfaced to fuel the debate.

By 1960, public and Congressional support of foreign assistance programs was low. As frustration with foreign assistance increased, the topic became central to the 1960 presidential campaign. The new Kennedy Administration made the reorganization of the foreign assistance program a top priority.

President Kennedy justified the overhaul of the foreign assistance program by highlighting the deficiencies in the existing approach:

- The system was a "multiplicity of programs" plagued by fragmentation and incoherence with overlapping agency jurisdictions and short term financing.
- US foreign assistance was so ineffective that it had "begun to undermine confidence in our effort both here and abroad."
- The economic collapse of developing countries would be disastrous to American national security.
- The United States had a moral obligation to capitalize on an historic opening to assist the developing world in increasing self-sustained economic growth.
- The Soviets were effectively using development assistance to make developing nations economically dependent on Russia, thereby promoting communism.

Analysis

The FAA and the creation of USAID represented a fundamental shift in US foreign assistance. It established for the first time the notion of foreign assistance as long-term aid and introduced the idea of country-specific development plans.

President Kennedy invested the necessary political capital to push through major reform to the foreign assistance program. He was persuasive in his assessment of the need for reform and successful in capitalizing on existing momentum. The Cold War rationale resonated with Americans and gave the foreign assistance program over-arching strategic goals. He made a logical case for the creation of USAID as the glue that would hold together an expanding foreign assistance program.

At its inception, the FAA was widely considered to be unencumbered, clear legislation. The addition of earmarks and reporting requirements began almost immediately, however. Many have argued that the FAA quickly came to represent exactly what Kennedy had hoped to change, namely a program "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."

There have been several attempts to re-write the FAA in order to provide for a more coordinated and effective delivery of foreign assistance. While several efforts have arisen from both the legislative and executive branches, the last major change to the FAA occurred in 1973 with a shift from a "top down" approach to a "basic human needs" strategy, which focused resources on the poorest segments in the developing world.

Some in the foreign assistance community are calling for a re-write of the FAA to fit the changing times. Such a rewrite would need to address the contentious issue of earmarks and would require the conditions that existed in 1961: strong support from both the Executive Branch and Congress and consensus around the country's foreign policy goals.

Overseas Private Investment Corporation (OPIC) 1971

Summary

The Overseas Private Investment Corporation (OPIC), originally created as part of USAID in 1961, became an independent, self-sustaining federal agency in 1971. Designed to expand economic development overseas, OPIC sells investment services including political risk insurance, project finance, and investment funds to American businesses expanding into developing markets. By helping American businesses invest overseas, OPIC claims to foster economic development in new and emerging markets and assist the private sector in managing the risks associated with foreign direct investment.

Main Features

OPIC aims to encourage political stability, free market reforms, and US best practices. The agency focuses its resources on the following activities:

- Provides political risk insurance to US companies
- Provides financing through direct loans and loan guarantees
- Leverages private capital through OPIC-supported funds
- Advocates on behalf of US businesses
- Works with host country governments to create environment that will attract U.S. investment

OPIC holds conferences to explain its services and facilitates meetings between corporate executives and local business leaders and government officials.

Political/Policy Drivers

The U.S. has engaged in OPIC activities since USAID was created in 1961. It was decided that the agency would become independent in 1971 and would be run more like a corporation. From a development perspective, OPIC aligned with articulated objectives of the development community to build up the private sector in developing nations.

Because OPIC's benefit to the US was clear and because of the need for American business to compete with foreign companies, many in Congress supported the agency. Most developed countries (and certainly all G8 countries) have national agencies that function like OPIC. As other countries began to claim international markets, the US needed to protect and expand its commercial interests overseas.

Analysis

OPIC has weathered various levels of criticism. In 1996, a coalition of conservative and liberal Representatives threatened OPIC's survival, but its supporters rallied to ensure

its survival. Critics of OPIC charge that it is a form of corporate welfare and that by shifting jobs overseas, OPIC's initiatives can be disadvantageous to American families. Others claim that OPIC does a disservice to host countries by introducing high levels of pollution through the industries it supports. Still others argue that individuals with political connections make money off of OPIC's work. Conservatives advocate cutting OPIC to shrink government, while Liberals advocate cutting it as a form of corporate welfare. There is widespread agreement that OPIC should be privatized and that if it continues as a federal agency, its operations should be subject to more restrictions and codes of conduct, including greater transparency.

A report from the Center for Global Development (CGD) postulates that OPIC should be reformed to increase its role in industries beneficial to the poorest countries. In other words, OPIC should increase the number of sectors where it can support US investment and should offer its services on "concessional not commercial terms."

Others maintain that OPIC has had only a modest impact in terms of development because it has been torn between its development goals and financial return goals. The agency is guided by its interest in maximizing volume, not necessarily by what would be the right policy decision. Since the agency does not address the policy environment, many question its long-term impact in developing countries. In response, OPIC President and CEO, Peter Watson, has recently explained that since 2001, the agency is focusing more on its development mandate.

OPIC's mission is in line with foreign assistance legislation that reflects the sentiment that development should promote investment and private sector development. Supporters of OPIC claim that the agency promotes political stability through the support of free markets and the introduction of US best practices. In doing so, it also expands the US economy and contributes to US foreign interests. OPIC is also quick to point out that because it charges market-based fees for its services, the agency operates at no net cost to taxpayers.

International Development and Cooperation Agency (IDCA) 1979

Summary

President Carter created the International Development and Cooperation Agency (IDCA) by Executive order in 1979. The agency was intended to coordinate all US bilateral and multilateral foreign assistance except military aid. Due to a lack of support both within the Executive and Congress and the absence of a strong IDCA Administrator, the agency was never successful in its mission and was officially abolished in 1998.

Main Features

IDCA was meant to coordinate the bilateral development and food programs administered by USAID, the multilateral programs of international lending institutions operated by the Department of the Treasury, the voluntary contributions to United Nations agencies administered by the Department of State, and the activities of the Overseas Private Investment Corporation (OPIC).

With the establishment of IDCA, FAA authorities dealing with economic assistance were delegated to the Director of IDCA, (most of which were re-delegated to the Administrator of USAID.) Generally, those authorities dealing with security assistance were delegated to the Secretary of State.

IDCA was intended to be a coordinating mechanism and was not given significant political power. The State and Treasury Departments were still authorized to make most policy decisions concerning foreign aid. After the State Department identified the recipients of strategic aid, IDCA would be responsible for administering programming through USAID. The new agency was intended to offer policy guidance and evaluate programs.

Political/Policy Drivers

In the early 1970s, there was a low level of support for foreign aid due to opposition to the Vietnam War, concern that aid was too focused on short-term military goals, and a worry that development aid produced few foreign policy results for the United States. It was in this environment that Senator Hubert Humphrey introduced legislation to reorganize the foreign assistance management structure and create a Department of International Development.

The bill came up against strong bureaucratic obstacles within the Executive branch and Congress. After Humphrey's unfortunate and untimely death, the bill was without a real champion and was not enacted into law. President Carter, however, established IDCA by Executive Order in September 1979. While it did not provide a Department of International Development, IDCA was an attempt to better coordinate the nation's bilateral and multilateral development efforts.

Analysis

To the disappointment of many, IDCA never became a highly effective coordinating mechanism. Staffed with fewer than 75 people, IDCA could make only a marginal impact on overall bilateral and multilateral assistance policy and essentially only coordinated the activities of USAID.

One of the main reasons for IDCA's failure was its creation at the end of the Carter Administration without support from the major stakeholders in the foreign assistance community. The incoming Reagan Administration had no attachment to the agency and saw it as an unnecessary reorganization of the Executive. The Reagan Administration felt strongly that State and Treasury needed to be able to use foreign aid as a strategic and political policy tool. An independent IDCA might threaten that flexibility. Reagan provided IDCA with neither staff nor funding, and effectively ensured its demise. The *Washington Post* quoted an official from the Reagan Administration who said, "To abolish IDCA would involve a lot of bureaucratic and legislative problems. So the simple thing for the Administration is to leave it there on paper and just ignore it."⁵ The agency was officially abolished during the Clinton Administration as part of the 1998 Foreign Aid Restructuring Act.

IDCA had the difficult role of trying to coordinate all foreign assistance efforts on a super-level, which many agencies resisted. IDCA's critics perceived the agency as another layer of bureaucracy. Each Executive agency involved – Treasury, Commerce, Agriculture, etc – was not interested in ceding control to a coordinating body. These stakeholders were essentially successful in excluding IDCA from involvement in their foreign assistance programs.

The Carter Administration described the IDCA director as the "principal development adviser" to the President and Secretary of State. Yet, only one IDCA director served under Carter. When Reagan arrived, the USAID Administrator became the acting IDCA administrator, effectively limiting the scope of IDCA's coordinating effort to USAID. In order to be successful, IDCA needed an empowered Administrator with strong access to the White House, the ability to bring together high-level stakeholders, and budgetary authority. Since the Administration never assigned a strong Administrator, IDCA never became the coordinating agency it was intended to be.

⁵ John Goshko, *Plan for Reconstruction of Foreign Aid is Offered*. *Washington Post*. February 16, 1979.

Development Fund for Africa (DFA)

1987

Summary

Congress approved the Development Fund for Africa (DFA) in 1987 to promote long-term sustainable economic growth in Africa. With its lack of congressional earmarks, the DFA Fund granted significant flexibility to the Administration to respond to the highest priorities in Africa. Due to domestic politics and changing strategic priorities overseas, the DFA lost its support in the mid-1990's.

Main Features

The DFA, which came out of the Development Assistance (DA) program, addressed several specifically Africa-related objectives. It focused its funds on countries, which had exhibited a commitment to development policies oriented toward equitable and sustainable economic growth.

With broad objectives and vague legislative direction, USAID had new flexibility in designing the Africa assistance program. Congress required only that a minimum of 10% of DFA funds be devoted to each of three broad areas: agricultural production, health, and family planning services. Through the DFA, bilateral development assistance for Africa was merged into a single appropriations account (with no functional accounts) in order to give the Administration the flexibility to respond to changing priorities in sub-Saharan Africa.

While not officially required to follow a performance-based approach to allocation, the DFA focused on results-oriented development. In response to greater freedom, USAID was intended to achieve and report on specific results. This was a new concept and came at a time when most of USAID was judged primarily by whether appropriated funds were utilized, not by whether results were achieved. Additionally, USAID established its own broad operational goals as a way of reporting and focusing programs and asked recipient countries to develop strategic plans. The legislation also relaxed the "Buy America" restriction, which required USAID to favor American suppliers. This gave the agency greater flexibility with resources in country.

Political/Policy Drivers

Through the mid-1980's the US allocated significant funding to sub-Saharan Africa, primarily as a result of a global competition with the Soviet Union. As this competition began to fade toward the end of the decade, DFA funds for Africa threatened to decrease substantially. At this time, a coalition of NGOs advocated heavily for more focus on the Africa region. The NGO community appealed to the Congressional Black Caucus, which helped to push through the Development Fund for Africa.

In the mid-1990's, interest in Africa faded in comparison to other regions, such as the Middle East. With the communist threat to Africa gone, limited funding for foreign aid, and considerable interest in the Middle East, the DFA lost significant support.

Analysis

The DFA's success was largely due to a coalition of NGO's that garnered support among Members of Congress who feared that Africa was at risk of losing funding. Importantly, the initiative was created out of the appropriations process and did not require a full legislative re-write, which would have posed a greater challenge. The authorizing language, which appeared in the appropriations bill, was copied into the legislation's authorization the following year.

Observers have likened the DFA to the Millennium Challenge Account in that it offered flexibility for funding to flow to high priority projects. This flexibility enabled programs to respond to current challenges in Africa. The DFA, in its initial form, was relatively free of earmarks and spending requirements. Over time however, Congress pressed for more earmarks, and USAID itself was forced to self-impose earmarks on the fund in order to meet other agency-wide spending requirements.

The DFA lost support in the mid-1990's, partially as a result of a fading interest in Africa and in the context of the new results-oriented GPRA Act. President Clinton had asked Congress to abolish the DFA in 1994 under the reform proposed in his Peace, Prosperity and Democracy Act. Ironically, while the Democratic Congress did not abolish the DFA at that time, when the Republicans subsequently gained control of Congress, they eliminated the DFA⁶, using Clinton's earlier proposal. At this time, the new leadership of the House Committee on International Relations, in particular, was interested in investing in countries, which were strategically beneficial to the United States. Those countries were primarily in Latin America and Asia.

There were attempts to rehabilitate the DFA, but the needs of the region were eclipsed by other events like the Middle East Peace Process. The foreign aid program was unpopular, with foreign relations appropriations reaching an all-time low in the mid-90s. The DFA, with its considerably less strategic importance, was an easy program to eliminate. While the Africa region did not see a substantial diminution in overall funding, the nature of the programming changed considerably. DFA money was rolled back into a general account where it was vulnerable to earmarks and directives. Because Africa does not hold a great deal of strategic value for the United States, it became a dumping ground for earmarks. Critics have claimed that the addition of earmarks has hampered USAID's ability to respond to countries' needs in Africa.

⁶ The DFA is still technically in the legislation, but is located in the general development assistance funds and is subject to earmarking.

Support for East European Democracy (SEED) & Freedom Support Act (FSA) 1989 & 1992

Summary

Congress passed the Support for East European Democracy (SEED) Act in 1989 to promote democratic and free market transitions in the former communist countries of Central and Eastern Europe. Assistance was intended to help these countries become reliable, productive free-market democracies. The Act initially offered assistance to Poland and Hungary and was subsequently expanded to include all Soviet-satellite countries in Eastern and Central Europe. In an effort to coordinate all SEED-funded assistance programs, Congress established the position of the Coordinator.

When the Soviet Union collapsed, Congress expanded the SEED program with the Freedom Support Act (FSA) in 1992 to increase the stability and performance of the former Soviet states. President George H.W. Bush was a strong proponent for the bill, describing the situation as a "once in a century opportunity to help freedom take root and flourish in the lands of Russia and Eurasia."

Main Features

The SEED program focused on strengthening three main areas: pluralistic democracy, economic freedom and environmental protection. The legislation had three special features:

- **It gave the Executive Branch "notwithstanding authority" which allowed flexibility and avoided traditional earmarks.**
- **It created the Enterprise Fund, which brought private sector expertise to bear on Soviet countries to encourage market economy development. It also worked with country governments to reform policy to allow private sector to expand.**
- **It established the office of the Coordinator to track and coordinate SEED-funded programs throughout the Government. The bulk of the assistance was administered by USAID, which reported to the SEED Coordinator.**

Much like the SEED program in Eastern Europe, the FSA retained these special legislative features. It provided a comprehensive plan to reform the countries of the former Soviet Union and included initiatives that focused on humanitarian aid, nuclear safety and non-proliferation, an economic development.

Politics /Policy Drivers

Because of the tremendous Congressional interest in the former USSR and the Newly Independent States (NIS), the SEED program received widespread support in Congress. Congress loosened previous Cold War restrictions and gave significant authority to the Executive. In return, it required reports of project activities.

Upon the collapse of the Soviet Union, the FSA became a logical extension of the successful SEED program. The initiative was promoted as critical to the peace building process. The White House called for bipartisan support in Congress, explaining that such support was as vital to winning the peace as it was to fighting the Cold War. There was a sense that if not handled appropriately, the Soviet states could fall into a dangerous decline. Furthermore, the region was now seen as a development opening. Supporters of the FSA maintained that democracy and open markets in the region were critical to United States national security. Additionally, stability and development in the region would create opportunities for American investment, previously impossible because of Cold War restrictions.

The SEED Act and the Freedom Support Act had the critical support and participation of the Executive branch, Congress, and the private sector. Because they addressed the national security of the United States as well as American business development, several constituencies were supportive of their passage. The programs called on the American private sector in new ways and ensured that sufficient IMF funds were available for the region.

Analysis

The SEED and FSA programs represent important examples of successful initiatives, which feature enhanced flexibility and a special coordinator.

It is widely believed that the greater flexibility of the legislation has led to impressive program results. Some observers have also pointed out that SEED and FSA have been programmatically successful partially because the recipient countries were transitioning, as opposed to developing. Additionally, the FSA offered mainly technical assistance, as opposed to a transfer of funds to host countries. This effectively reduced opportunities for corruption.

The creation of the SEED and FSA Coordinators represented the first instances of this model. Because many US government agencies desired to get involved in the US assistance response, a comprehensive plan with a coordinating mechanism was needed to organize efforts and funding streams. Critics of the coordinator role claim that it began USAID's gradual loss of independence in the area of development assistance. Supporters assert that it began the closer integration of the State Department and USAID and a better coordination process among agencies.

The Deputy Secretary of State who receives his authority directly from the White House originally staffed the role of Coordinator. Over time, the position was delegated to lower levels until it ultimately settled at the office director level. With a mid-level State Department official in the position, the Coordinator, who was once critical to the program, has lost the ability to play a strong inter-agency coordinating role and, according to some, has become another layer of bureaucracy. In 2001, President Bush merged the SEED and FSA coordinators into one position. Congress, however, still approves the money separately..

**Development and the National Interest: US Economic Assistance into the 21st
Century
(Woods Report)
1989**

Summary

USAID Administrator, Alan Woods, commissioned the "Development and the National Interest" report in 1989 to examine the history, current state, and future direction of US development assistance. The report asserts that the US must do a better job of linking development assistance with national interests, particularly in the context of limited funding. The report calls for the reform of US foreign assistance in order to respond to the changing international environment and to better promote US interests.

Main Findings

➤ New Direction

The report argues for a new direction in foreign assistance in order to meet the development challenges of the 21st Century. In the years since the triumphant reconstruction of post-World War II, the objectives of official US foreign assistance have gradually blurred to the point where US foreign assistance policy has lost focus. Economic growth objectives have been thrown together with other US Government objectives. Successive Congresses and Administrations have piled conflicting foreign assistance objectives on top of each other, resulting in foreign assistance that has gotten progressively more untargeted. The current system is comprised of a multitude of bureaucracies, agendas and constituencies, rather than a unified national approach to assistance.

Furthermore, the task force questions the validity of comparing US economic assistance successes, such as the Marshall Plan, which addressed the reconstruction of economies that were already reasonably market-oriented, with the more fundamental and basic challenges currently facing many developing nations.

➤ Level of Support

In response to weak public support of the foreign assistance program, the report poses the question: "Can Congress and public opinion, in the absence of a unified, coherent assistance policy, be expected to maintain open-ended, uncritical support of an increasingly nebulous, undefined, development assistance package?"

The report asserts that there was little consensus on the direction of reform of foreign assistance. While some criticize that there was too much assistance, others argue that there was too little. While some advocate a closer link between development aid tied and strategic interests, others complain that the two were not linked closely enough.

➤ Recommendations

The task force asserted the need to leverage funds and coordinate all USG assistance policies. Similar to what would later be Millennium Challenge Account rationale, the

report recommended that the US “aim at country specific targets of opportunity where returns are likely to be high, instead of attempting to meet an immense array of global needs.” The report also maintained that evaluation and reporting requirements at USAID should be loosened to give the agency much-needed flexibility.

The report proposes that before the US embarks down any path of foreign assistance reform, policy makers must answer these seven basic questions:

- How do we define success?
- What are our strategic interests?
- What are our humanitarian interests?
- What are our economic interests?
- How can we reconcile sovereignty and assistance?
- How relevant is foreign assistance to development?
- How can we better match US assistance to the national interest?

**Report of the Task Force on Foreign Assistance to the Committee on Foreign Affairs,
US House of Representatives
(Hamilton Report)
1989**

Summary

In the late 1980's, there was much interest both within Congress and the NGO and think tank communities in reforming the foreign assistance program. In 1988, the House Foreign Affairs Committee set up a formal review of the program and its backbone legislation, the Foreign Assistance Act. Chaired by Representatives Hamilton and Gilman, the task force, which included staff from USAID, spent a year conducting interviews and hearings with members of the Executive Branch and non-governmental experts. The task force concluded that foreign assistance was vital to US interests and was currently constrained by conflicting objectives, legislative conditions, earmarks, and bureaucratic red tape. Legislation was drafted in response to the report but was never passed into law.

Main Findings

The report found many of the same deficiencies that instigated the initial Foreign Assistance Act in 1961. Making arguments similar to those that President Kennedy made almost 30 years prior, the report criticized the number of objectives, earmarks, and reporting requirements in the current legislation, complaining that they severely limited the effectiveness of foreign assistance programs. The report also asserted that US economic assistance was spread too thinly and expressed concern regarding the lack of coordination among government agencies and policy objectives. While the report maintained that US public support for humanitarian aid remained strong, its support for the existing US programming was weak and the notion of US foreign policy as a tool to achieve US interests was not widely held.

The report proposed the following recommendations:

- Repeal the Foreign Assistance Act in order to draft a clear and focused piece of legislation that could guide the foreign assistance effort.
- Replace USAID with an independent foreign aid agency focused on economic growth, environmental sustainability, poverty alleviation, and democratic and economic pluralism.
- Increase the flexibility but also the accountability of program implementation.
- Improve coordination with other donors in order to maximize results and avoid duplication.
- Establish cooperative development relationships with developing countries, considered to be relatively advanced.

- In the realm of security assistance, replace the Arms Export Control Act, establishing a single military assistance account and more effective accountability measures.

In response to the report, the Committee drafted legislation, which focused on the economic objectives of foreign assistance and expanded the role of program evaluation in order to ensure the effective measuring of results. The bill offered more flexibility than the existing version of the FAA and encouraged coordination among foreign assistance agencies both within and external to the US Government. While the draft legislation received lukewarm support from the Executive branch, it met its demise in the Committee, which drastically amended the initial draft with earmarks and various requirements, thereby losing any previous support from the Executive branch.

The findings of the report would serve as the basis for another unsuccessful attempt at legislative reform in 1991.

Recent Attempts to Re-write the Foreign Assistance Act 1989, 1991, 1994

Summary

There have been several unsuccessful attempts to re-write the Foreign Assistance Act (FAA), most notably in 1989, 1991 and 1994. The US Congress has not passed a significant reform of the FAA since 1973.

International Cooperation Act (1989)

The 1989 re-write of the FAA began as a strong bill, which incorporated the President's input. After making its way through the House of Representatives, however, it was amended significantly and lost much of its original strength.

The bill featured the following:

- Four objectives of foreign assistance: 1) broad-based economic growth, 2) environmentally and economically sustainable development, 3) alleviation of the worst manifestations of poverty through human resource development, 4) promotion of social and economic pluralism
- Transfer of \$1 billion from Economic Support Funds to Development Assistance programs
- Elimination of many obsolete and redundant reporting requirements
- Proposal to strengthen OPIC
- Proposal to create TDA within IDCA
- Cooperation between USAID and universities

Why did it fail?

The bill passed the House but never made it to the Senate floor. The initiative failed largely because of political reasons.

- The bill did not have the same momentum in the Senate as it did in the House. This was partially because the initial task force (Hamilton/Gilman) did not reach out to the Senate during the research phase.
- The Administration developed a better relationship with the appropriators than the authorizers and did not work with the authorizers on a re-write of the FAA.
- Senate Democrats, including Senate Majority leader George Mitchell, did not want to bring the bill to the floor, fearing that Republicans would sabotage the bill with extensive amendments.
- There was a lack of consultation between the House and Senate, which caused friction and consequent opposition to the bill.
- Specific references in the bill regarding the requirements on countries like El Salvador alienated the Bush administration.
- The resulting bill was full of earmarks and not much different than the original Foreign Assistance Act.

International Cooperation Act (1991)

The 1991 legislative re-write attempt, which attempted to design a piece of legislation that looked like the original Foreign Assistance Act, also failed. Secretary of State James Baker instigated the initiative, which resulted in the Administration's 1991 version of the International Cooperation Act. The bill included the following:

- Congress would give up much of its right to attach earmarks to foreign aid legislation.
- The President would have the right to take up to five percent from previously earmarked aid and use it for unexpected, urgent situations in other countries.
- Congress would stop using aid to Pakistan as a weapon to prevent that country from developing nuclear weapons.
- Congress would substantially limit restrictions that prevented certain countries from receiving aid.

Congress was uncomfortable with the level of discretion given to the Executive branch and dismissed the original proposition. The House Foreign Affairs Committee drafted new legislation, which reflected a compromise between the Administration's wishes and the Committee's earlier efforts. The Senate responded by making the bill even more flexible, yet hope remained that the bill would pass. Unfortunately, the Administration threatened to veto the bill due to provisions (related to abortion and merchant marine subsidies) that were not central to the FAA. The bill was passed in the Senate but vetoed in the House.

Why did it fail?

- The threat of a Presidential veto influenced the vote.
- The President actively opposed the bill.
- Congress was wary of voting for a foreign aid bill during a recession. It was politically risky to support the unpopular foreign assistance program when money was tight on the domestic front.

Peace, Prosperity, and Democracy Act (1994)

In 1994, the Clinton Administration made its attempt to repeal the FAA by introducing the Peace, Prosperity, and Democracy Act (PPDA). There was initially much hope for the Act, particularly given that the White house, Senate, and House were all Democrat. The Act, which promoted flexibility, focused on sustainable development, democracy promotion, humanitarian assistance, and trade and investment. It proposed to fund all development related programs according to these broad categories, instead of by region-specific accounts. The legislation offered the following provisions:

- Prevented USAID from promoting US commercial interests overseas.
- Repealed considerable earmarks in order to strengthen the President's ability to use foreign assistance as a foreign policy tool.
- Removed restrictions on country eligibility for assistance.
- Eliminated Economic Support Funds.

- Established USAID as a statutory agency under the supervision of the Secretary of State in order to coordinate USAID policies and Department of State objectives.

Why did it fail?

The bill was never introduced in the Senate and never reported out of committee in the House.

- The President was unwilling to risk the political capital required to push the bill through Congress.
- The Administration was distracted by domestic concerns.
- The President was more supportive of trade than development and so was not interested when the bill removed trade promotion from the jurisdiction of USAID.
- Congress did not approve of abolishing region-specific accounts.
- The Administration didn't sell the bill to Congress in advance. There was little vested interest for Congress. The PPDA wasn't comprehensive and didn't define sustainable development.
- There was widespread disagreement over earmarks. The NGO community was not supportive of lumping different groups under four broad goals. Once accommodations were made in this regard, the bill lost coherence.
- Congress added earmarks and the bill became just as unwieldy as other reform attempts.

Government Performance and Results Act (GPRA) 1993

Summary

Congress passed the Government Performance and Results Act (GPRA) in 1993 to improve the efficiency and effectiveness of the Federal Government. The Act introduced regular, systematic measurement and reporting of program performance, aligned to pre-determined goals. Through GPRA requirements, government agencies were forced to define their mission, scope of work, and expected outcomes. The initiative was meant to improve public confidence in federal institutions, increase the effectiveness and efficiency of the Federal Government, and enhance Congressional decision-making through the provision of better reporting and evaluative data.

Main Features

GPRA expanded on the Chief Financial Officers Act of 1990, which aimed to improve the financial management activities of the Federal Government. GPRA's performance measurement system includes the establishment of strategic plans, annual performance plans, and annual performance reports.

Strategic plans articulate a comprehensive mission statement of the organization, the long-term goals for implementing the mission, the necessary resources to achieve those goals, and any external factors that may affect the achievement of those goals. GPRA requires that each agency prepare a 5-year strategic plan that also addresses how program evaluation informed the strategic planning process.

Performance plans link the agencies long-term goals with the day-to-day activities of managers and staff. Agency performance plans include performance goals, necessary resources, performance indicators to measure improvement, and validating procedures such as audits.

Performance reports provide feedback to managers, policymakers and the public as to how well the goals were met. An agency's performance report describes actual performance compared to stated goals as well as a strategy to achieve unmet goals.

These plans and reports are "inherently governmental functions" and must be formulated by government managers. In order to encourage innovation and creativity, "waivers" are possible to grant managers exemption from certain procedural requirements in exchange for greater program results. GPRA also proposed performance budgeting as a way to show the relationship between proposed spending and expected results.

Political/Policy Drivers

The Government Performance and Results Act was a response to weak public confidence in government institutions. At the time GPRA was established, the Senate Committee on Government Affairs reported that Americans believed that the Government wasted as much as 48 cents out of every tax dollar.

The Act enjoyed widespread support from the Administration and on the Hill. The Clinton Administration championed the bill as a way to make Government accountable to the public. The Government Accounting Office (GAO) was also strongly in favor of GPRA. The GAO had produced dozens of reports on performance measurement, advocating it as a way to increase efficiency of government programs and improve program evaluation. Many other entities, such as the National Academy of Public Administration and the American Society for Public Administration, also endorsed the bill.

The OMB and Comptroller General reported that the cost of establishing a performance-measurement system would be minimal. With a small price tag and the promise of more effective government programs, Congress was strongly in favor of the bill. Supporters of the bill felt that legislating performance measurement was the best way to ensure an enduring commitment to improving the effectiveness of government programs.

Analysis

While GPRA introduced the important notion of performance measurement to the Federal Government, it has come under attack from many within government agencies. Particularly in the foreign assistance arena, it has been perceived in some cases to be constrictive and counterproductive to the delivery of effective development programs. Critics have claimed that GPRA forces development programs, which usually require longer periods of time to see results, to assess and report short-term results. The GPRA requirements may therefore encourage the reporting of superficial successes.

Others criticize that the US Government should not assess international and domestic programs in the same way. Firstly, additional forces at play in the international environment may make it difficult for US development programs to take credit for events and impact that may come about independent of US activities in country. Secondly, the procedure for verifying program results in Zimbabwe, for example, is much more complex than verifying results in Montana. Yet the same framework is used.

Consistent with GPRA requirements, USAID, for example, maintains at the level of every operational unit a multi-year strategic plan, an annual performance plan and an annual follow up performance report. According to USAID staff, these reporting requirements have resulted in several accomplishments for the agency. Yet the methodological difficulties have been considerable and alternatives have been proposed to continue performance measurement without GPRA. One option involves building up the evaluation arm of USAID and engaging impartial, non-governmental actors in assessments of the agency's programming.

GPRA supporters counter that while the ultimate results in development assistance may need to be measured in decades, not years, there are several measurements within the process that could and should be captured. GPRA promotes a framework for capturing these intermediate steps.

**Preventative Diplomacy: Revitalizing A.I.D. and Foreign Assistance for the Post-Cold War Era – Report of the Task Force to Reform A.I.D. and the International Affairs Budget
(Wharton Report)
1993**

Summary

The Wharton Report was written in response to a directive from the State Department to evaluate the purpose and structure of US foreign assistance and to assess the performance of USAID. Clifton Wharton, the first Deputy Secretary of State in the Clinton Administration, chaired the task force, which evaluated US foreign assistance in the post-cold war era. The task force considered past studies of USAID and liaised extensively with relevant stakeholders in the foreign assistance community.

Main Findings

The report asserts that flexible US foreign assistance is in the national interest and that all assistance should be oriented toward US domestic and foreign policy goals.

The task force decided that although USAID is in need of reform and is currently plagued by an unfocused mandate, over-regulation, and poor management, it should remain a leading institution in the country's bilateral development assistance. USAID's statutory mandate should be clarified with Congress.

The report mentioned the important reforms undertaken by the USAID Administrator, including the reduction of the layers of management, the promotion of staff for results achieved rather than the size of the portfolio managed, and the modification of contracting and grant procedures.

The task force proposed the following recommendations:

- USAID should lead global bilateral development assistance in order to build democracy, promote economic growth and sustainable development, address global problems, and provide humanitarian assistance.
- Congressional assistance is needed in order to clarify USAID's mandate, and reduce regulations and earmarking.
- USAID should reduce its number of projects and countries and hone its focus.
- The Foreign 150 Account should be administered and budgeted by objective, not by single-program approach.
- The US should continue to implement both bilateral and multilateral assistance.
- Coordination mechanisms must be improved.

Foreign Affairs Restructuring Act 1998

Summary

The 1998 Foreign Affairs Restructuring Act merged arms control and non-proliferation (ACDA) and public diplomacy (USIA) into the State Department and abolished the International Development Coordination Agency (IDCA). It reorganized parts of the State Department and established USAID as an independent agency reporting to the Secretary of State. Responding to concerns that US foreign policy was unfocused and uncoordinated, it was intended to strengthen and centralize foreign assistance and enhance State-USAID coordination. Supporters asserted that the reorganization would improve the United States' ability to respond effectively to current and future international challenges and opportunities.

Main Features

- The State Department was significantly restructured with the addition of new bureaus, the streamlining of logistical functions, and the creation of the Corporate Board of Under Secretaries, chaired by the Deputy Secretary.
- USAID remained a separate entity but as of April 1, 1999 ceased reporting directly to the President and began reporting to the Secretary of State, now responsible for reviewing USAID's plans and budgets.
- The International Development and Cooperation Agency (IDCA) was officially abolished and all functions were transferred to the Department of State.
- The US Arms Control and Disarmament Agency (ACDA) was integrated into the State Department with the missions of arms control, nonproliferation, and political-military affairs placed in the portfolio of the Under Secretary of State for Arms Control and International Security.
- The United States Information Agency (USIA) was integrated into the State Department's Bureau for Public Diplomacy and Public Affairs. The two USIA bureaus of international information and exchange programs were fused into a single bureau at the State Department.
- The Broadcasting Board of Governors (BBG), which was formerly part of USIA, became a separate federal entity. The Secretary of State was given a seat on the BBG.

Political/Policy Drivers

The Foreign Affairs Restructuring Act was proposed at a time of international volatility. There was an international financial crisis, instability in the Middle East, Kosovo, and Russia, the threat of terrorism, and the risks of nuclear, biological, chemical weapons. Supporters of the Act effort made a strong case for the need for coordinated US foreign assistance at such a delicate time. This would require both resources and an improved organizational structure. Supporters explained that issues of arms control and non-

proliferation (ANA), public diplomacy (USIS) and sustainable development (USAID) should be central to the country's foreign policy and therefore centrally located within the State Department. An integration of these functions would increase security and capitalize on public diplomacy.

In response to concerns about organizational disruptions and stress, the Act's proponents were careful to consider the workforce complications resulting from such reorganization. Attention was paid to job descriptions and assignment so that no jobs were lost and so that the reorganization was as seamless as possible. Promises to work closely with Congress in the implementation stage gained support for the passage of the bill.

Analysis

The Foreign Affairs Restructuring Act went further than any other initiative to consolidate foreign assistance at the State Department. While the precedent of the State Department's increasingly central role had been set by such initiatives as SEED and FSA, the Foreign Affairs Restructuring Act folded existing agencies into the State Department for the first time. The reform concentrated more activity at the State Department and continued a process by which USAID became structurally subsidiary to the State Department. The State Department took further steps in the direction of coordination with the establishment of a "Corporate Board" of Under Secretaries, chaired by the Deputy Secretary. This Board was intended to address crosscutting issues and overall strategic planning at the State Department.

Some have criticized the re-organization claiming that USAID deserves greater autonomy. Others feel that USIA was dissolved prematurely, particularly given the need for public diplomacy in the current environment.

The details of the Act were conceived of in collaboration with Congress, laying early groundwork for successful passage of the legislation.

Trafficking Victims Protection Act (TVPA) 2000

Summary

Congress passed the Trafficking Victims Protection Act (TVPA) in 2000 to fight human trafficking, prosecute offenders, and protect victims. The mandate includes the Departments of State, Justice, Labor, Health and Human Services, and the U.S. Agency for International Development, with an inter-agency task force coordinating the overall effort.

Main Features

The Trafficking Victims Protection Act established the following bodies:

- *President's Interagency Task Force to Monitor and Combat Trafficking in Persons.* The President established a cabinet-level task force in 2002 to coordinate the implementation of the Trafficking Victims Protection Act. The task force is chaired by the Secretary of State, and includes the Attorney General, Secretary of Labor, Secretary of Health & Human Services, Secretary of Homeland Security, Director of Central Intelligence, Director of the Office of Management and Budget and the Administrator of USAID.
- *National Security Presidential Directive Against Trafficking in Persons.* Created in 2002, the Directive guides the Task Force and a Senior Operating Group. The Directive coordinates the efforts of other agencies in order to ensure collaboration and avoid duplication of effort.⁷
- *Office to Monitor and Combat Trafficking in Persons (OMCTP).* The Office reports to the State Department's Under Secretary for Global Affairs. The Office assists the Task Force and develops and implements US anti-trafficking efforts. It has three main areas of focus. The *International Programs Section* coordinates US international trafficking efforts, and provides assistance to foreign governments. The annual *Trafficking in Persons Report* analyzes and reports international trafficking data. The annual report to Congress ranks countries according to their commitment to reducing human trafficking. The *Public Diplomacy and Outreach Section* conducts outreach with non-governmental organizations and other international organizations and organizes conferences to share best practices.

The Trafficking Victims Protection Reauthorization Act (TVPPA), signed into law in December 2003, has expanded the original legislation, enhancing efforts to prevent trafficking, protect victims, and prosecute traffickers.

⁷ There are currently 11 government agencies, including the Department of Justice, Department of Homeland Security, Department of Health and Human Services, USAID, and the Department of Labor, executing anti-human trafficking programs.

Political/Policy Drivers

According to the State Department, each year at least 700,000 and possibly as many as 4 million people, primarily women and children, are trafficked around the world, including thousands into the United States. To the extent that human trafficking is both an international and domestic problem, the constituencies for the bill were numerous and the support strong. Largely because the problem of human trafficking was perceived to be grave and growing, the Trafficking Victims Protection Act received support from the President, Congress and NGO community.

In addition, the issue had already received significant support on the international level, most notably at the UN, which had established a trafficking in persons protocol as part of its Transnational Organized Crime Convention (2000). The protocol calls for a global effort to prevent and punish human trafficking.

The problem of human trafficking has been presented as a component of a larger policy issue. Supporters of the bill drew the link to organized, trans-national crime, often resulting in the funding of other illegal activities. As Deputy Secretary of State Armitage noted last year at an international conference, "This is an industry that already brings the hardened criminals running it some seven billion dollars a year, a business so lucrative that our intelligence community estimates it will outstrip the illicit trade in guns and narcotics within a decade."⁸

Analysis

The TVPA enhanced the effort of the United States to fight human trafficking and coordinated the various federal agencies involved. It has helped to encourage anti-trafficking laws and initiatives in other countries. Those in the policy and advocacy community have lauded the legislation and commitment of the Administration.

The Trafficking in Persons Report has also proven to be a helpful policy tool. In addition to addressing the problem domestically, it has enabled targeted assistance to other countries and has helped to identify nations that have made the least effort to combat human trafficking. The President has used the findings of the Report as a basis for sanctions against countries with poor human trafficking records.

The creation of the high level interagency Task Force has been critical to the coordination of the country's overall anti-human trafficking effort, allowing for coherent programming in this area. It is a model that could be replicated in other areas

⁸ Ending Modern Day Slavery: U.S. Efforts To Combat Trafficking in Persons. Paula J. Dobriansky, Under Secretary of State for Global Affairs Remarks to the Northern California World Affairs Council San Francisco, California, March 30, 2004

of foreign assistance where there are multiple players. The initiative represents a successful example of interagency coordination, with a centralization of the effort at the State Department.

President's Emergency Plan for AIDS Relief (PEPFAR)/AIDS Coordinator 2003

Summary

In his 2003 State of the Union address, George W. Bush presented the President's Emergency Plan for AIDS Relief (PEPFAR), a unilateral initiative to fight HIV/AIDS primarily in Africa and the Caribbean. The President pledged \$15 billion over five years, effectively tripling previous US commitment to the international fight against AIDS. To manage the program and coordinate all HIV/AIDS initiatives originating in different government agencies, the President created the position of Special Coordinator for International HIV/AIDS Assistance. The Coordinator holds the rank of Ambassador and reports directly to the Secretary of State.

Main Features

PEPFAR represents "the largest single up-front commitment in history for an international public health initiative involving a specific disease."⁹ The program offers a new approach to fighting HIV/AIDS, involving the integration of prevention, treatment and care. It directs funding to nations with the highest HIV/AIDS prevalence rates: Botswana, Cote d'Ivoire, Ethiopia, Kenya, Mozambique, Namibia, Nigeria, Rwanda, South Africa, Tanzania, Uganda and Zambia, as well as Haiti, Guyana and Vietnam.

The program interfaces with other HIV/AIDS initiatives and is managed by the Coordinator who chairs interagency meetings to ensure a unified approach of all HIV/AIDS programming. The Coordinator reports to Congress on HIV/AIDS issues, presents a five-year strategic plan, and reports on The Global Fund to Fight AIDS, Tuberculosis, and Malaria.

Political/Policy Drivers

PEPFAR was proposed in the context of ever-worsening AIDS statistics. Over 40 million people are infected worldwide with HIV/AIDS and this number threatens to rise to 100 million by 2010 if preventative action is not taken. While 70% of the world's AIDS/HIV infections are currently located in Africa and the Caribbean, the pandemic threatens international public health and economic stability worldwide. Secretary of State, Colin Powell, has said that AIDS "is more devastating than any terrorist attack, any conflict or any weapon of mass destruction."

When President Bush introduced his AIDS initiative, many in Congress had already become compelled to fight HIV/AIDS from a humanitarian perspective. In addition to the enormous human tragedy that AIDS has wrought on the developing world, many Members were also convinced that the epidemic threatens to undo progress in many nations and puts further development at risk.

⁹ President George W. Bush, May 27, 2003.

Supporters of the President's plan explained that the Initiative was a new approach to fighting the pandemic. While there were currently several multi-lateral initiatives in place, the President sought an approach that would aggressively attack the disease with a more integrated methodology. PEPFAR ensures that activities are results-driven by demanding accountability and establishing goals against which progress would be evaluated.

Analysis

PEPFAR had tremendous bipartisan support within Congress. This is partially due to an enormous advocacy effort in the late 90s, which involved Members across the political spectrum. Once over the stigma of HIV/AIDS, Congress has firmly embraced efforts to fight the disease. The President's leadership was the needed catalyst for a comprehensive plan to fight HIV/AIDS.

PEPFAR focuses on a targeted number of countries, chosen both by their need and their level of infrastructure. The Initiative's commitment to making policy decisions that are evidenced-based explains some of its Congressional support. With a clear set of goals and activities aligned against those goals, many are hopeful for greater success in the fight against HIV/AIDS. PEPFAR calls for more accountability among partners; the Coordinator is now responsible for ensuring that accountability.

Organizationally, the establishment of the AIDS Coordinator based at the State Department and serving as an inter-agency bridge represents an important step toward enhanced coordination in multi-agency assistance programs. Because a number of offices within the Government address the issue of HIV/AIDS and with a significant budget of \$15 billion over the next five years, an inter-agency Coordinator was a critical step to ensuring an organized fight against HIV/AIDS. On the downside, the position has created some confusion in the way of authority, with field staff at times subject to multiple and sometimes conflicting task orders from the Coordinator's office as well as their home agency.

Some have criticized the targeted approach, claiming that the plan's focus on 15 countries neglects countries with high incidence rates, many of which are strategically important to the United States. In addition, the program maintains, but does not increase, support for research into new treatments and a vaccine, arguably the only way to fight the disease long-term. Critics have also questioned the necessity of taking a unilateral approach to fighting HIV/AIDS given the existence of the multilateral Global Fund to Fight AIDS, Tuberculosis, and Malaria." Supporters of the program explain that PEPFAR amplifies the role of the United States and that the Coordinator ensures the coherency and impact of that amplified effort.

Millennium Challenge Account (MCA) 2004

Summary

On January 23, 2004, President George W. Bush signed a law creating the Millennium Challenge Corporation (MCC), a federal agency authorized to administer the new Millennium Challenge Account (MCA). The MCA was designed to improve economic growth and reduce poverty in a targeted group of countries that have demonstrated a strong commitment to development. By linking aid to performance, the MCA represents a results-oriented, competitive model of development assistance that champions donor transparency and recipient accountability.

The law provided the MCA with \$1B for FY 04, with the expectation that this would rise to \$5B by FY 06. If realized, this pledge would represent a 50% increase of US core development assistance over a period of three years.

Main Features

The Millennium Challenge Corporation (MCC), a rare “corporate” organizational model within the US Government, manages the MCA. The Secretary of State serves as the Chairman of the MCC Board of Directors. Members include the Secretary of the Treasury, the US Trade Representative, the Administrator of USAID, and the CEO of the MCC (appointed by the President and confirmed by the Senate).

In order to qualify for MCA funding, eligible countries must score above the median in the following three categories:¹⁰

- Economic freedom (6 indicators)
- Ruling justly (6 indicators)
- Investing in People (4 indicators)¹¹

Countries considered to be eligible according to the above indicators are invited to submit multi-year plans with specific objectives and benchmarks to measure progress and fiscal accountability of funds. The MCA then chooses to enter into “compacts” with the winning countries, detailing plans to increase economic growth and reduce poverty. The process promotes a collaborative effort as leaders are encouraged to consult with a variety of stakeholders within their countries, including those in the private sector and civil society. The program is designed to give ownership of the development process to recipient countries, thereby promoting “transformational” development and building institutional capacity.

¹⁰Initial eligibility is based on GDP levels. For the first year, countries must not exceed an annual per capita income of \$1,435.

¹¹ The indicators, which were based on metrics from multilateral development banks, policy institutes, international financial institutions, and non-profit organizations, are publicly available in order to assure a transparent process and to offer performance incentives to non-qualifying countries.

Political/Policy Drivers

President Bush proposed the concept for the MCA at the “International Conference on Financing for Development” in Monterrey, Mexico. The MCA gained momentum following the President’s 2002 National Security Strategy, which identified development as one of three pillars essential to ensuring national security. The program was designed to build “good leadership, economies based on sound market principles, and significant investments in health and education,”¹² all critical to the prevention of threats against America’s national security.

The MCA was also viewed as an innovative policy response to ongoing disillusionment with US foreign aid programs. After years of unsuccessful attempts to reform foreign assistance, the MCA was proposed as an independent entity, shielded from the bureaucracy and political wrangling that often complicated existing foreign assistance efforts. In comparison to USAID, which employs 2000+ staff to manage its annual program budget of \$7.5B, the MCA offered the prospect of a much leaner organization with less than 150 staff managing an (eventual) budget of \$5B. While some proponents of the MCC still insisted that its role vis-à-vis USAID needed to be clarified, the initiative was seen as an opportunity to invigorate a foreign assistance program, which many had come to view as ineffectual.

Analysis

Much of the success of the MCA legislation can be attributed to the support of the President. The program also enjoyed critical bi-partisan backing within the government as well as endorsement from the NGO and think tank community. Importantly, the initiative was created out of the appropriations process, minimizing the debate that had characterized past attempts at re-writes of the foreign assistance legislation.

With its new approach to development, the MCA seemed to resonate with legislators traditionally on both sides of the foreign assistance debate. For some of those who felt that foreign aid had become an exercise in “pouring money down a rat hole,” the MCA’s performance-driven approach helped to appease concerns that funds were wasted on programs that offered few results. By concentrating funding among the top performers, the MCA increased the likelihood of successful programs, thereby appealing to many legislators previously skeptical of foreign assistance.

For many of those in favor of foreign assistance, yet concerned about the efficacy of current practice, the MCC was also a welcome initiative. USAID Administrator, Andrew Natsios supported the MCA, calling it a “a model for all of our assistance programs.” He identified ways that the two organizations could work together, proposing that USAID could prepare second-tier candidates for the MCA.

¹² *Opening Statement; Senator Richard Lugar, Hearing on the Millennium Challenge Account March 4, 2003.*

Yet, while there was much support of the MCA, critics and proponents alike raised concerns regarding the MCC's role within the greater foreign assistance community. Those arguing that US foreign assistance policy lacks coherence claimed that the creation of the MCC as an independent body might deepen that incoherence. Some observers also worried about the MCC's level of funding vis-à-vis other foreign assistance programs, as well as the program's country selection process, and the lack of a strategy for responding to non-MCA countries. Still others warned that while the notion of local ownership of the development process was important, recipient countries might not have the internal capacity to absorb and manage large sums of MCA funding. The debate has continued into the MCA's first year of operation. Expectations for the program remain high, particularly within Congress where legislators are anxious to see results.