



## U.S. Foreign Assistance for the Twenty-first Century

by Sheila Herring and Steve Radelet

Meeting today's foreign policy challenges requires a new vision of American global leadership based on the strength of our core values, ideas, and ingenuity. It calls for an integrated foreign policy that promotes our ideals, enhances our security, helps create economic and political opportunities for people around the world, and restores America's image abroad. We cannot rely exclusively or even primarily on defense and security to meet these goals. Instead, we must make greater use of all the tools of statecraft, including diplomacy, trade, investment, intelligence, and a strong and effective foreign assistance strategy.

Foreign policy experts on both sides of the political aisle recognize that foreign assistance is a vital tool for strengthening U.S. foreign policy and restoring American global leadership. But they also recognize that our foreign assistance programs are out of date and must be modernized to meet the challenges of the twenty-first century.

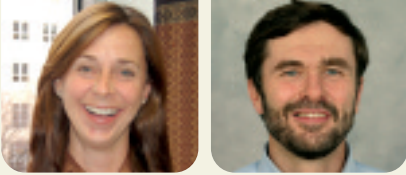
### The need for deeper reform

The Bush administration deserves credit for taking steps to increase the amount of foreign assistance and beginning to change how it is managed (see Box 1, next page). It sharply increased total U.S. assistance from \$12.6 billion in 2001 to \$23 billion in 2006 (see figure, next page), although the majority of the increase went to Iraq and Afghanistan.<sup>1</sup> The administration introduced several new programs, most prominently the President's Emergency Plan for AIDS Relief (PEPFAR) and the Millennium Challenge Account (MCA). And during its second term, it introduced several organizational changes through the so-called "F-process," including naming a new Director of Foreign Assistance and bringing the United States Agency for International Development (USAID) more closely under the direction of the State Department. But these changes fall short of what is needed to modernize U.S. foreign assistance programs and in several key areas may be a step in the wrong direction. Today's challenges require a fundamental rethinking of the purposes, scope, and organization of foreign assistance, and its underpinning legislation.<sup>2</sup>

Today's foreign assistance programs date back to the Kennedy administration and were designed for a different time and purpose. The Foreign Assistance Act of 1961 has been amended many times, leaving a patchwork of highly fragmented programs in different government agencies that sometimes work at cross-purposes or are duplicative. An elaborate web of legislation and directives from Congress and the White House slows delivery, bogs down disbursements, and impedes effectiveness. Weak monitoring and evaluation systems lead to poor accountability. These problems have significantly weakened USAID, once among the premier foreign assistance agencies in the world, and have resulted in a large portion of assistance dollars being directed at Washington's priorities rather than the needs of recipient countries.

The lack of attention and funding for multilateral programs is also a major missed opportunity for the United States to better leverage its assistance dollars. Large U.S. contributions to the multilaterals are typically followed by increased contributions by other members, and a multilateral approach lightens the administrative burden on recipient countries because it reduces the number of donor agencies involved. But only 10 percent of U.S. Official Development Assistance is channeled through multilateral agencies in comparison to 33 percent of assistance from other Development Assistance Committee members of the Organisation for Economic Co-operation and Development. Scant funding to the multilaterals weakens U.S. ability to provide positive leadership to strengthen and shape these agencies.

The United States is undoubtedly still the strongest single voice within these agencies, but it often appears to lead by brute force (or not lead at all) rather than by building consensus. In many countries, the most effective way for the United States to support development programs could be through existing multilateral channels rather than through bilateral programs, but doing so will require a change in strategic approach.



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## The White House and The World

Each day brings fresh evidence that Americans' well-being is linked to the lives of others around the world as never before. Accelerating advances in technology and the creation of new knowledge offer undreamed-of opportunities. Yet global poverty, inequality, disease and the threat of rapid climate change threaten our hopes. How will the U.S. president elected in November 2008 tackle these global challenges?

*The White House and the*

*World: A Global Development Agenda for the Next U.S. President* shows how modest changes in U.S. policies could greatly improve the lives of poor people in developing countries, thus fostering greater stability, security, and prosperity globally and at home. Center for Global Development experts offer fresh perspectives and practical advice on trade policy, migration, foreign aid, climate change and more. In an introductory essay, CGD president Nancy Birdsall explains why and how the next U.S. president must lead in the creation of a better, safer world.

*The White House and the World Policy Briefs* present key facts and recommendations drawn from the book in a succinct form designed for busy people, especially senior policymakers in the executive and legislative branches of government. This brief is drawn from "U.S. Foreign Assistance for the Twenty-first Century" by CGD senior policy analyst Sheila Herrling and senior fellow Steve Radelet.

*The White House and the World Policy Briefs* were made possible by the Connect US Fund of the Tides Foundation, by Edward Scott Jr., the chairman of CGD's board, and by others whose unrestricted funding makes such collaborative and cross-cutting work possible.

## Box 1. Foreign assistance under the Bush administration

After September 11, 2001, the Bush administration greatly increased assistance from \$12.6 billion to \$23 billion by 2006 and directed it to four major areas. (1) Iraq, Afghanistan, and other "frontline states" in the war on terror: these states received most of the increase in assistance, and responsibility for its oversight moved to the DoD. (2) The Millennium Challenge Account (MCA), which provides grants to poor but well-governed countries: creating the MCA bypassed the onerous Foreign Assistance Act but worsened fragmentation. (3) The President's Emergency Plan for AIDS Relief (PEPFAR): the plan called for an increase in funding of \$10 billion over five years (bringing the total to \$15 billion over five years) but, like the MCA, worsened fragmentation. (4) Debt relief: the three largest debt deals were for Iraq, Nigeria, and the Democratic Republic of the Congo.

### The "F process"

In its second term, the Bush administration initiated a set of organizational reforms dubbed the "F process." A new Foreign Assistance Strategic Framework was drafted, a Director of Foreign Assistance appointed, and USAID was brought more closely under the direction of the State Department. But these reforms omitted many programs and did not fully incorporate the views of Congress and other key players, creating resentment and undermining support.

## Modernizing and strengthening U.S. foreign assistance

Building an effective assistance program will require a bold vision and strong leadership. There are five key steps that should be taken.

**First, develop a national foreign assistance strategy.** A comprehensive framework should be developed that lays out principal objectives and priorities of foreign assistance as a part of broader U.S. policies for engaging with the world. This strategy should incorporate all government agencies and the views of Congress, lay out guidelines for assistance in different types of recipient countries, and describe detailed strategies for interagency coordination and the integration of programs with other policy tools, such as trade and immigration. It should summarize budgetary requirements necessary to achieve the goals and explain how our bilateral programs can work with key multilateral organizations. Developing this strategy should not be a one-time process; each administration should be expected to renew and revise the strategy as a Quadrennial Global Development Review, much like the Quadrennial Defense Review Report of the Department of Defense.<sup>3</sup>

**Second, reform the organizational structure.** It is essential to rectify the fragmentation and institutional weaknesses of the U.S. foreign assistance apparatus. We offer four alternatives but believe the first offers the best chance of success.

**1. Create a cabinet-level Department for Global Development.** This option would establish development as the primary mission of U.S. foreign assistance, putting it on par with diplomacy and defense as the key pillars of U.S. foreign policy. It would bring nearly all assistance programs under one roof (with the exception of debt relief and assistance for supporting political allies) and would thus streamline the bureaucracy and align major programs with key objectives. The department would focus on long-term development and guard against pressures to achieve short-term political goals. It would have a mandate for policy coherence on the full range of U.S. policies affecting low-income countries and facilitate professionalization of a development expertise core within the U.S. government. Strong coordination at the cabinet level would ensure consistency in foreign policy without usurping the role of the Secretary of State.

This option is the ideal way to strengthen foreign assistance and will be a heavy lift to achieve politically. But the growing recognition of the importance of foreign assistance—on Capitol Hill, within the executive branch, and among Americans more broadly (see Box 2)—makes this a timely opportunity to create this powerful new instrument for U.S. leadership in making a stronger and safer world.

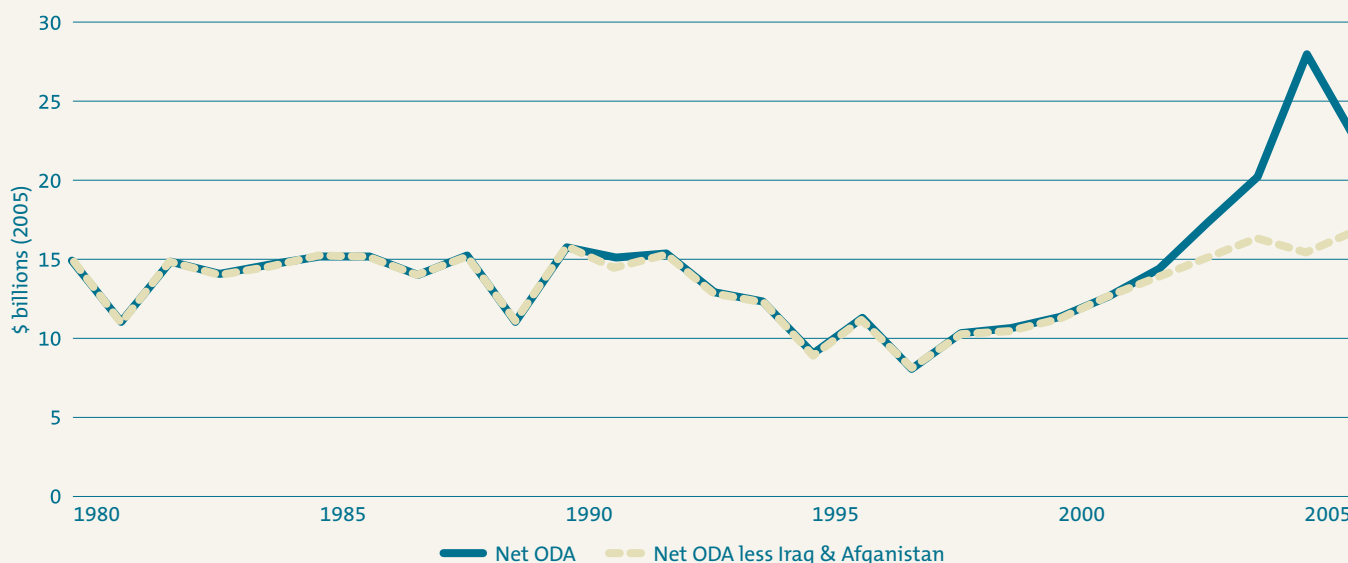
**2. Fundamentally rebuild and reinvigorate USAID (or a strong successor agency).** This option sees the creation of a strong sub-

cabinet agency with responsibility for most assistance programs, new underlying legislation, a direct relationship with the Office of Management and Budget (rather than through the State Department), and the ability to rebuild a strong staff with development expertise. This could be done either through a deep restructuring and rebuilding of USAID or by creating a strong successor agency. The head of the agency would hold the title of Director of Foreign Assistance, and a board of directors, chaired by the Secretary of State, would oversee operations and ensure compatibility with broad foreign policy goals.

If done right, this option would bring many of the benefits of a fully separate cabinet-level department. But it would not have the same authority or independence, would not be able to attract the same caliber of professional staff, and would not be able to speak with the same stature as a cabinet agency, either in Washington or around the world.

**3. Merge all assistance programs into the State Department.** Advocates for this option argue that it would streamline bureaucracy and improve coordination across programs. But it will likely weaken programs because the required expertise, objectives, and time frames relevant for the State Department fundamentally differ from the long-term engagement in institution-building needed for development. The State Department is oriented toward achieving immediate political and diplomatic objectives and is driven by crisis management and a focus on meeting the immediate needs of the day. Giving the State Department greater control over foreign assistance is likely to increase funding for political and strategic allies as a quid pro quo for other actions where cooperation is needed rather than lead to a focus on long-term development. While it is important to properly align foreign

Net Official Development Assistance (ODA), 1980-2006



assistance programs with broader U.S. foreign policy goals, this does not require that foreign assistance come under the direct authority of the State Department.

**4. Name a cabinet-level coordinator.** The president could designate one person to coordinate all assistance programs and other policies affecting developing countries. This alternative would be the easiest to implement, but, as with other “czar” positions, the coordinator’s effectiveness would depend on his or her relationship with the president and have little long-term impact. Without deeper changes, the coordinator would not have authority over the budgets and personnel in the many agencies that provide assistance. It is likely that a coordinator at the National Security Council will be necessary to synchronize assistance programs—wherever they end up—with other policies that affect low-income countries.

#### Steps needed regardless of the organizational structure

- Rewrite the Foreign Assistance Act (as discussed below). This is not an alternative to reform—it is at the core of it.
- Beef up U.S. development expertise to improve analysis of U.S. policies affecting low-income countries, which has been reduced through the weakening of USAID.
- Ensure that any new organization has a direct relationship with the Office of Management and Budget rather than having its budget go through the State Department.
- Develop a wide range of programmatic approaches across the spectrum of countries: failed and failing states, post-conflict countries on the rebound, fragile states that are showing some promise, and “MCC-type” countries with strong governance.
- Establish strong monitoring and evaluation systems aimed at keeping programs on track, guiding the allocation of resources toward successful activities and away from failures, and ensuring that the lessons learned—from both successes and failures—inform the design of new programs. The United States should support and join the International Initiative for Impact Evaluation for professional, independent evaluations of development initiatives.<sup>4</sup>

**Third, rewrite the Foreign Assistance Act (FAA).** The amended FAA of 1961 is a complex web of rules, regulations, and multiple objectives and directives. Writing a new FAA is central to clarifying the mission, mandate, and organizational structure for U.S. foreign assistance. It is an opportunity to strengthen and clarify the budget process and to reduce the extensive amount of earmarking and “tied aid”—much of it well-intentioned—that severely cripples the ability of agencies to effectively allocate funds to the highest priority areas. Despite the challenges of writing a new FAA, there is little chance of modernizing U.S. foreign assistance and making it an effective tool for today’s challenges in the absence of new legislation.

### Box 2. Key polls show that regardless of political affiliation, gender or race, a majority of Americans support foreign assistance and see it as a way to help restore American credibility and make the world a safer place.

1. 83% of respondents agree effective foreign assistance can be successful in improving America’s image abroad and making the country safer.<sup>1</sup>
2. 52% of Republicans and 77% of Democrats wanted the Bush administration to put more emphasis on diplomatic and economic methods, rather than military might, to combat terrorism.<sup>1</sup>
3. On average, respondents would increase the current budget for helping poor countries develop their economies from \$7.3 billion to \$24.8 billion.<sup>2</sup>
4. 62% of respondents would support increasing funding for humanitarian and disaster assistance from \$1.4 billion to \$26.8 billion.<sup>2</sup>

<sup>1</sup> American and the World, Evolving Attitudes on National Security and Foreign Policy, The American Security Project, <http://www.americansecurityproject.org>

<sup>2</sup>What Kind of Foreign Policy Does the American Public Want? The PIPA/Knowledge Polls Network, [http://www.worldpublicopinion.org/pipa/pdf/oct06/SecurityFP\\_Oct06\\_quaire.pdf](http://www.worldpublicopinion.org/pipa/pdf/oct06/SecurityFP_Oct06_quaire.pdf).

### Fourth, place a higher priority on multilateral channels of assistance.

The United States provides a small share of its foreign assistance—just 10 percent in 2006—through multilateral channels; other major donors average 33 percent. This is a missed opportunity for the United States to leverage its funding and to exert greater influence over the programs and priorities of the major multilateral agencies. While the performance of multilateral agencies can be strengthened, the United States does much less than it could by providing such a small share of funding. The next administration should work closely with and strengthen multilateral channels of foreign assistance and allocate a greater share of funding for these organizations. Responsibility for the multilateral development banks currently rests with the Department of the Treasury but could shift to a new cabinet department (or strong sub-cabinet agency). Moving this responsibility would allow for stronger coordination between our bilateral and multilateral approaches and would place authority for multilateral development bank policy in the context of the full range of development policies affecting low-income countries. But it would separate it from International Monetary Fund and debt relief policies, which would remain at Treasury. Either way, it will require strengthening expertise and channels of communication and joint decision making between the two agencies.



## Fifth, increase the amount and improve the allocation of funding.

For the U.S. to achieve its foreign policy goals in developing countries, additional funding for foreign assistance will be required. More money alone is not the solution. But more money better spent is an important part of the answer. Although the increases in funding in recent years are welcome, they were on top of a very low base, and are inadequate for the United States to fight poverty, state failure, and instability in low-income countries around the world—objectives that are crucial to Americans' own well-being.

In 2008, the defense budget accounted for 21.5 percent of the administration's fiscal year budget request, while funding for development-related assistance was just 0.4 percent.<sup>5</sup> A ratio of 50:1 is clearly out of balance at a time when foreign policy experts agree that stronger and more diversified foreign policy tools are required to achieve today's objectives.

## Conclusion

By implementing the reforms outlined above, the United States can fight poverty, address the root causes of state failure, and support democracies around the world.<sup>6</sup>

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

## Further Reading

Sheila Herrling and Steve Radelet. 2008. "Modernizing U.S. Foreign Assistance for the Twenty-first Century." *In The White House and the World: A Global Development Agenda for the Next U.S. President*. Nancy Birdsall, editor. Washington, D.C.: Center for Global Development.

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## Endnotes

<sup>1</sup> All references to amounts of foreign assistance in this chapter are based on data for "official development assistance" as reported by the United States and other countries to the Organisation for Economic Co-operation and Development. This is the standard international source for information on foreign assistance. These figures capture amounts of assistance actually disbursed (as opposed to committed) and include assistance for humanitarian and development assistance but not military assistance. These figures differ from numbers drawn from the U.S. budget, which typically include amounts appropriated or authorized rather than amounts disbursed.

<sup>2</sup> For earlier discussions see Steve Radelet, "Bush and Foreign Aid," *Foreign Affairs* 82 no. 5 (2003); Stewart Patrick, "U.S. Foreign Aid Reform: Will it Fix what is Broken?" (Washington, D.C.: Center for Global Development, 2006); Lael Brainard, ed., *Security by Other Means: Foreign Assistance, Global Poverty, and American Leadership* (Washington, D.C.: Brookings Institution Press, 2006); Carol Lancaster, *George Bush's Foreign Aid: Transformation or Chaos?* (Washington, D.C.: Center for Global Development, 2008); and "Beyond Assistance," The HELP Commission Report of Foreign Assistance Reform (December 2007).

<sup>3</sup> Steve Radelet, "U.S. Foreign Assistance after September 11th, Testimony for the House International Relations Committee (February 2004), and Stewart Patrick, "U.S. Foreign Aid Reform: Will it Fix What Is Broken?" (Washington, D.C.: Center for Global Development, 2006), among others, have called for developing a strategy along these lines.

<sup>4</sup> For more on this proposal, see "When Will We Ever Learn? Improving Lives through Impact Evaluation," Report of the Evaluation Gap Working Group (Washington, D.C.: Center for Global Development, 2006), [http://www.cgdev.org/section/initiatives/\\_active/evalgap](http://www.cgdev.org/section/initiatives/_active/evalgap).

<sup>5</sup> For more analysis on these points, see Samuel Bazzi, Sheila Herrling, and Stewart Patrick, "Billions for War, Pennies for the Poor: Moving the President's FY 2008 Budget from Hard Power to Smart Power" (Washington, D.C.: Center for Global Development, 2007).

<sup>6</sup> See Landon Lecture by Robert Gates (Manhattan, Kansas: Kansas State University, 2007). [www.defenselink.mil/speeches/speech.aspx?speechid=1199](http://www.defenselink.mil/speeches/speech.aspx?speechid=1199).