

**TESTIMONY OF
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Chairman Menendez, Senator Hagel, distinguished members of the Subcommittee, I appreciate the opportunity to testify today on the subject of Foreign Assistance Reform: Successes, Failures, and Next Steps. I hope this hearing will be the first of several by this subcommittee that call attention to the critical importance of strengthening the nation's foreign assistance.

Smart Power

In a world transformed by globalization and challenged by terrorism, foreign aid deserves attention as a critical instrument of American soft power and a key determinant of the face of America seen by poor people around the world. With hard power assets stretched thin and facing 21st century threats from global poverty, pandemics, and terrorism, the U.S. must deploy its soft power more effectively. But America's weak aid infrastructure hampers our ability to do so.

Recent polls underscore the importance of getting this right. Abroad, Terror Free Tomorrow found that foreign aid dramatically improved public perceptions of the United States in Pakistan, Bangladesh, and Indonesia, for a sustained period following U.S. generosity in the wake of the tsunami and the Pakistan earthquake. Here at home, a majority of Americans appreciate that linkage: the Program on International Policy Attitudes/Knowledge Networks found that fully 57 percent of Americans favor

"building goodwill toward the US by providing food and medical assistance to people in poor countries."

When designed and executed well, foreign assistance is not just soft power but smart power, working to advance national security, national interests and national values. It works best when there is clarity about the objectives it is designed to serve and well aligned with the other instruments of American engagement. Unfortunately, at present clarity and alignment are the exception rather than the rule.

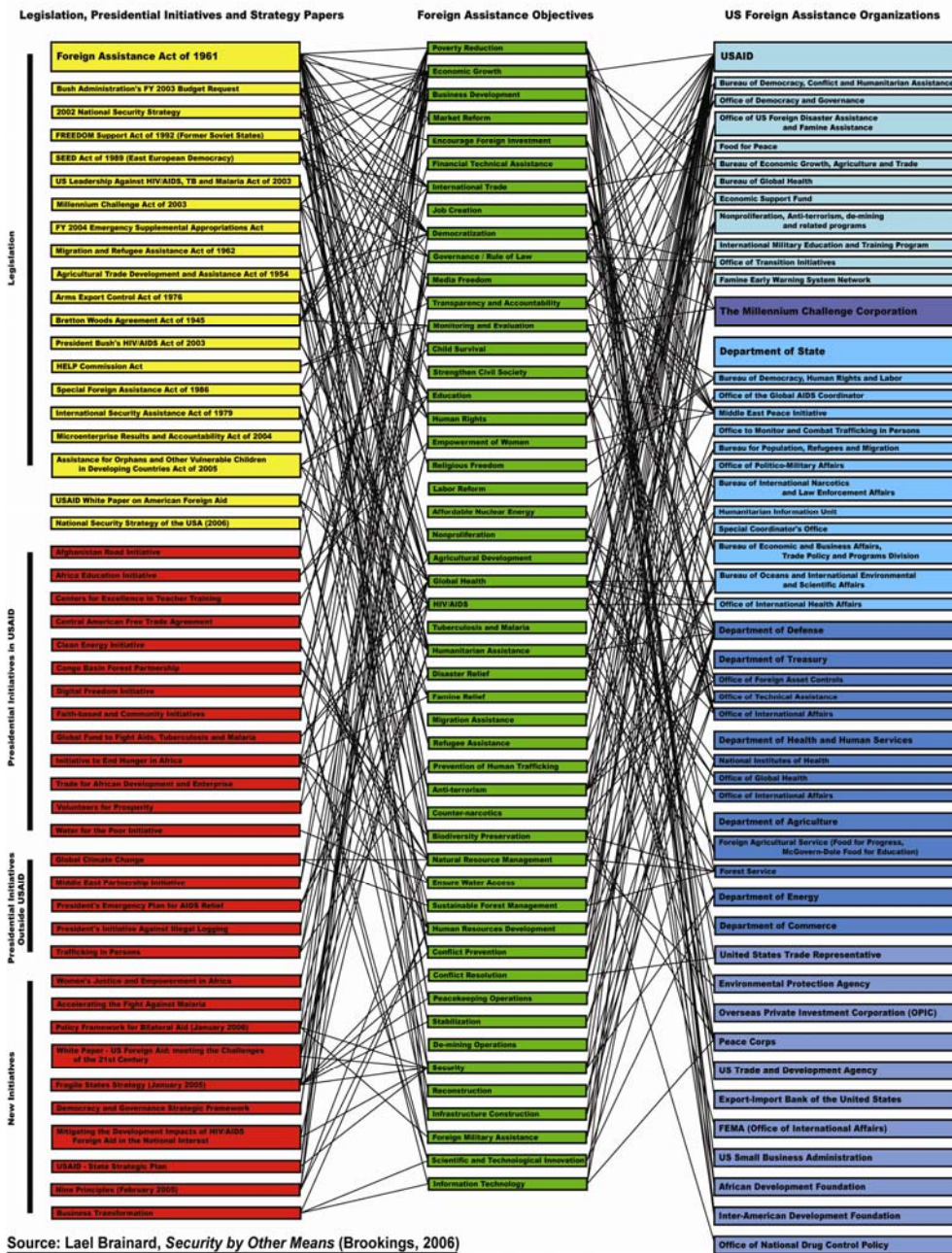
A Haphazard and Irrational Structure

America's foreign assistance structure has been criticized as "a haphazard and irrational structure covering at least four departments and several other agencies." That was the assessment of John F Kennedy in 1961, when he proposed the creation of USAID. More than four decades later, his words again ring true.

The urgent demands of post-conflict reconstruction in Iraq and Afghanistan and humanitarian disasters have led to a faster rate of expansion of foreign assistance dollars in the last six years than at any point since the Cold War. The administration has responded to each new global challenge by creating new institutional arrangements alongside existing ones, most notably the President's Emergency Plan for AIDS Relief (PEPFAR) and the Millennium Challenge Corporation (MCC).

As shown in the chart below, dozens upon dozens of separate units share responsibility for aid planning and delivery in the executive branch, with a dizzying array of objectives ranging from narcotics eradication to biodiversity preservation. Different agencies pursue overlapping objectives with poor communication and coordination. At best, the lack of integration means that the United States fails to take advantage of potential synergies; at worst, these disparate efforts work at cross purposes. As a result, the impact of American foreign assistance falls far short of the value of aid dollars expended – which remains unmatched among bilateral donors.

US Foreign Assistance Legislation, Objectives and Organizations



The Secretary of State in January 2006 designated a Director of Foreign Assistance with the rank of Deputy Secretary of State as the Administrator of USAID with the mandate to provide strategic direction, coordination and guidance over foreign

assistance. Last month, Undersecretary Henrietta Holsman Fore was nominated to serve as Administrator of USAID and appointed to concurrently serve as Director of Foreign Assistance. This change in leadership provides a welcome opportunity to reflect upon the direction and scope of the current foreign assistance reforms.

Despite the creation of the State/F bureau and the energetic efforts of Ambassador Tobias and his staff, lack of coherence is still a significant problem for overall U.S. foreign assistance and development policy. Little progress has been made in addressing the confusion demonstrated by the chart because the reforms to date are piecemeal and have not incorporated a truly consultative process across the legislative and executive branches of government or with outside stakeholders, which will be critical to building support for the statutory changes necessary for fundamental reform.

Foreign Assistance Reform: Successes and Failures

The bipartisan *Task Force on Transforming Foreign Assistance for the 21st Century* recommended a number of principles for effective foreign assistance reform that provide useful benchmarks to assess progress to date.ⁱ According to this assessment framework, the State/F process has been successful on one important criterion but has not made progress on several others:

1. Track Resources against Objectives by Country

State/F deserves great credit for the significant progress it has made in a short time in developing a consistent system for categorizing and tracking resources for programmatic activities from a number of different foreign assistance budget accounts. In recent years, strategic, development, and humanitarian funds have been intermingled, with individual projects often in receipt of money from several types of accounts. This process was further complicated because the State Department and

USAID budget offices tracked funding with two different systems that could not easily be cross-referenced.

The new Office of the Director of Foreign Assistance was created in part to streamline this process within the confines of the current budget accounts. One result is an information management system with a standardized lexicon. The new reforms incorporate a computerized accounting system (the Foreign Assistance Coordination and Tracking System or FACTS) that includes funding levels, objectives, indicators, and outcomes, albeit for State and USAID only. This facilitates a basic set of management tools and enables successful queries regarding funding levels by year across regions, countries, program objectives and program elements. It is astonishing that such a system did not exist earlier.

2. Stakeholder Ownership

Aid works best when it supports priorities determined locally and recipients are invested in achieving success. Just two years ago, congress made the principle of country ownership one of the central tenets of the design of the MCC.ⁱⁱ Obviously, the extent of U.S. oversight and control of aid implementation should vary with the quality of local governance, with poorly governed countries less likely to formulate national strategies based on the priorities of poor communities and thus requiring greater oversight in the aid process. But the principle of stakeholder ownership applies to the entire aid enterprise –even if it requires different mechanisms of implementation depending on circumstances on the ground.

To date, the State/F reform process has ignored this important design principle. Programming decisions are made from a playbook put together by State/F known as the “Standardized Program Structure and Definitions.” The State/F process has provided

no formal mechanism for recipient country input – let alone soliciting proposals or reflecting national priorities. This contravenes considerable research and experience.

Indeed, the lack of stakeholder engagement seems to be the central weakness of the State effort overall. Not only are potential beneficiaries in the dark about what the reforms might mean for their ability to meet the needs of their constituents, but State/F interactions with key members of congress, delivery NGOs, and field staff have been perceived as informational briefings rather than truly consultative in nature. As a result, there is little sense of buy-in outside the narrow confines of State/F.

3. Practice Transparency

Transparency is critical for achieving aid effectiveness. Transparency about the criteria by which countries are classified into different eligibility groups and resources are allocated has two virtues: it diminishes the scope for short-term political considerations in what should be a long-term investment process, and it provides clear incentives to potential recipients to improve policies in priority areas (such as investing in health or education). For these reasons, the administration and congress put a high priority on transparency in the design of the MCC eligibility criteria.

In contravention of transparency, teams established by the State/F bureau assigned countries to five categories based on new and poorly explained terminology in an opaque manner with no outside consultations. For instance, a country classified as a “rebuilding state” might justifiably be confused regarding the point at which its status might change to a “developing state,” and how that change would affect U.S. assistance.

The State/F process allocates budget resources among countries in a similarly opaque manner that provides ample scope for short term political expediency and scarce inducement for policy reform on the part of beneficiaries. The process involves a complicated combination of country team input via Mission Strategic Plans, functional

roundtables, a computational “budget model,” regional assistance working groups, Washington-based country core teams, country team feedback and senior reviews. Perhaps the most conspicuous outcome of this process has been the request to reduce the Development Assistance (DA) account by \$468 million while correspondingly requesting a \$703 million increase to the Economic Support Funds (ESF) account, which coincidentally provides greater flexibility and discretion to the Secretary of State. This request is driven by the assignment of ESF to the Rebuilding and Restrictive Countries categories, but it will be hard to obtain support for the request as long as the country categorizations are not well understood or supported.

4. Elevate the Development Mission

Many applauded when the President’s 2002 National Security Strategy recognized development alongside defense and diplomacy as a third critical and independent pillar of national security.ⁱⁱⁱ Many now worry that the 2006 decision to bring the Director of Foreign Assistance formally within the State Department structure subordinates development to diplomacy.^{iv} Indeed, early versions of the State/F framework were marked by the conspicuous absence references to “poverty,” and there is still an overwhelming focus on the capacity of states and little reference to the well being of the poorest.

Development and diplomacy are fundamentally different; it is important not to confuse them through such terms as “transformational diplomacy.” The primary function of diplomacy is state-to-state relations, whereas development and democratization often require working around foreign governments and sometimes with groups opposed to them. Development seeks not only to develop state capacity – the overarching objective of the State/F process --but to ensure that poor communities have the tools and resources they need to lift up their lives. Moreover, maintaining the

integrity of independent diplomatic and development functions makes it far easier to manage the frequent tension between short term political objectives—which often requires working with undemocratic regimes-- and longer term economic and political reform objectives.

If there is one principle that applies above all others to the revitalization of the U.S. foreign assistance enterprise, it is that the development mission—construed to include security and democratization—must be elevated to coequal status with defense and diplomacy not just in principle but also in practice. The sense of mission—vital to America’s interests as well as to global peace and prosperity—must be restored in order to elevate the stature and morale of the enterprise and to attract and retain the most talented professionals in the field. One of the most compelling reasons for standing up the MCC independently was to create a strong organization that would attract top talent and instill a culture of delivering results in innovative ways. The MCC was recently rated among the top 5 in a ranking of the best small government agencies to work, while USAID was ranked among the bottom 10, a troubling trend.

5. Achieve Policy Coherence

At a time when the international community has identified policy coherence as a core principle for aid effectiveness, the United States too often stovepipes decisions on the key policy instruments affecting nations it seeks to support.^v Foreign assistance is but one of several tools to support development. Other instruments such as trade provisions, investment agreements, financial stabilization policies, debt relief, and economic sanctions are now more important than aid for many developing countries.

The United States could wield greater influence per aid dollar spent than any other nation simply by deploying its influence in world trade, investment, debt, and financial policies in a deliberate manner as a force multiplier. Regularized mechanisms for policy integration are vital either by coordinating across agencies or assigning authority

to a single empowered agency. Integration across agencies is just as important at the level of planning and operations, as illustrated by recent post conflict experiences. Achieving integration requires removing disincentives and creating positive incentives, such as reserving special budgetary funds to reward effective interagency collaboration on priority goals – as is done in the UK-- and tying career advancement to interagency rotations and participation in joint operations.

6. Rationalize Agencies and Clarify Missions

Ultimately, the mark of a successful reform will be a reduction in the number of players within the executive branch and elimination of overlapping jurisdictions. The current reforms superimpose another player into the mix – the new State/F bureau – without eliminating any of the offices or criss-crossing lines shown in the chart. The mandate of the Director of Foreign is expansive, but the office’s actual power is more limited. It does not have jurisdiction even over PEPFAR within State, let alone foreign assistance administered by the MCC and the Departments of Treasury, Agriculture, and Defense. A more extensive effort will be required that reaches across the entire executive branch – possibly through White House coordination. This will require much greater congressional involvement and the expenditure of political capital.

Next Steps

Successful foreign assistance reform will require vision, patience, and congressional involvement. Instead of the 50 separate offices that currently manage U.S. aid programs, we should have one integrated agency. Instead of the 50-odd objectives these offices currently pursue, we should have no more than five strategic aid priorities. The ultimate goal should be to create a unified framework that fuses America’s objectives—supporting sustained development, democratization, and poverty alleviation and countering security, humanitarian and transnational threats—

with differentiation based on the governance and economic capacities of recipients. This requires integrating the national security perspective of foreign assistance as a soft power tool with that of a development tool allocated according to impact and human needs.

❖ **Lessons for Fundamental Reform**

The *Task Force on Transforming Foreign Assistance for the 21st Century* identified several episodes of reform that offer important lessons to guide these efforts. Outside the United States, the UK reforms of the 1990s are widely credited with boosting the impact of UK foreign assistance programs and Britain's influence in the international aid community. The UK reforms demonstrated that according development equal standing and independent status can yield an enormous payoff.

In the United States, there have been seven major foreign aid reform efforts since 1960. Two of these were successful: the Kennedy reforms and passage of the New Directions legislation in 1973. These hold important lessons for successful reform today. The conditions for fundamental reform include an emergent political consensus surrounding the urgency of the mission, strong support from key groups outside government, and personal commitment on the part of the president or key congressional champions. Any successful reform process must engage all stakeholders—across branches of the government, across agencies, and outside government.

Congress has an integral role in shaping the organization and delivery of U.S. foreign assistance by holding hearings such as this, mandating independent analysis of the current structure and operations, and requesting expert input on

alternative organizational structures. The process leading to the Goldwater-Nichols Defense Reorganization Act of 1986 can serve as a model.

Finally, timing is critical: successful instances of transformation both here and in the UK have been initiated early in the course of a new administration. At the outset of the Goldwater-Nichols process, there was broad agreement on the problems confronting the military, but it took more than two years for key lawmakers and administration officials to build consensus on a road map for reform. If America is to develop an effective soft power response to new global challenges in this decade, the clock has already started ticking.

❖ **Quick Fixes for the Current Foreign Aid Coordination Process**

While broader reforms are being contemplated, foreign assistance planning and implementation can be improved in immediate ways. First, true consultation and greatly improved transparency should be built into the evolving system of foreign aid coordination immediately even as more fundamental changes are contemplated. Second, it is critical to improve morale at USAID or risk further erosion on recruitment and retention. Third, the process of formulating and requesting budgets must take given constraints into account. The process of planning budgets and operations for specific countries without taking into account the realities of stringent budget accounts, congressional earmarks and other initiatives can waste time and demoralize the valuable foreign service officers and other public servants working to get U.S. foreign aid right in the field. Finally, the State/F process to date has been overly Washington-centric. Whereas Washington is an appropriate locus for discussions on strategic vision and objectives, the specifics of country programs are best developed by the country teams who are implementing in the field.

Achieving Success

The challenge of strengthening the planning and delivery of foreign aid is neither partisan nor short-term. To achieve success, a patient effort will be required that involves congress centrally at the outset and reaches across the entire executive branch. The development mission must be enhanced, stakeholder ownership strengthened, transparency instituted, and the number of players within the executive branch rationalized in order to achieve greater impact from foreign assistance dollars.

These steps would go a long way in making U.S. foreign aid more strategic and effective during a time of intense global need and would also help showcase America's true spirit. On this 60th anniversary of the Marshall Plan, when our friends and partners abroad are looking to America to show a more compassionate and cooperative face, the time to act is now.

ⁱ This testimony draws upon the work of the bipartisan task force, *Transforming Foreign Assistance for the 21st Century*, which I co-directed. The task force included representation from staff of both houses of congress and all committees of jurisdiction, current and former members of relevant executive branch agencies, practitioners from the NGO community, a senior UK foreign assistance official, and outside experts. The task force met nearly 20 times, benefited from presentations by administration officials, congressional staff and leading practitioners, and invited outside experts to critique all of the recommendations. The findings were published by Brookings in *Security by Other Means: Foreign Assistance, Global Poverty and American Leadership*

<http://www.brookings.edu/press/books/securitybyothermeans.htm>

ⁱⁱ For detailed analysis of the design of the MCC, see Lael Brainard, Carol Graham, Nigel Purvis, Steve Radelet, and Gayle Smith, *The Other War: Global Poverty and the Millennium Challenge Account*, Brookings Press, 2004.

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

^{iv} Carol Lancaster, "Bush's Foreign Aid Reforms Do Not Go Far Enough," *Financial Times*, January 19, 2006.

^v For example, determinations on investments in rural infrastructure and agricultural extension in cotton-growing parts of Africa are made by USAID, subsidies for American cotton farmers are made by the Department of Agriculture and Congress, and cotton trade barriers are made by the Office of the U.S. Trade Representative (USTR).