

## **Foreign Assistance Reforms: Successes, Failures, and Next Steps**

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Thank you, Chairman Menendez, Ranking Member Hagel, and other members of the Subcommittee. I am honored that you have invited me to offer some perspectives on the process of reform in U.S. foreign assistance programs.

#### **I. Introduction and Overview**

Today the United States and its partners face many complex global challenges, including new security threats, the spread of virulent diseases, the opportunities and potential pitfalls of globalization, climate change, and fallout from the war in Iraq. Meeting these challenges requires a bold new vision of American leadership. America must lead with the strength of its core values, ideas and ingenuity. Today's challenges require an integrated foreign policy that promotes our values, enhances our security, helps create economic and political opportunities for people around the world, and restores America's faltering image abroad. To achieve these goals the United States must make greater use of "smart power" by integrating all the tools of statecraft, including diplomacy, defense, trade, investment, intelligence, and – the subject of our discussion today – a strong and effective foreign assistance strategy.

I wish to make three key points in my testimony today. First, the process of reform of our foreign assistance programs is long overdue. While many of our programs are effective in achieving development outcomes, there is little doubt they can be improved. The administration deserves credit for initiating this process, however belatedly.

Second, unfortunately, as designed the reforms are only partial and do not go far enough to substantially strengthen our foreign assistance programs and to meet today's most important foreign policy challenges. Deeper reforms are necessary that incorporate a larger share of assistance programs, involve Congress in changing existing legislation, more deeply change executive branch administrative structures, and guard against the possibility of the politicization of foreign assistance programs.

Third, while the reform process so far includes some important positive elements, the process has not been implemented as well as it could have been. A relatively closed deliberations process and poor communication has led to misunderstandings within the agencies involved, with other agencies, with Capitol Hill, and with key actors outside the government. A reinvigorated approach with greater consultations and some changes in

strategy is needed to move the process forward in the coming months. Key next steps include strengthening communication and building constituencies for reform, bringing in a more experienced team as part of the effort, strengthening the process for developing country plans, further refining the budget process, and developing a stronger approach for monitoring and evaluation.

## **II. What Are We Trying to Fix?**

Strong foreign assistance programs are vital to strengthening our foreign policy and restoring U.S. global leadership. However, we significantly under-invest in foreign assistance programs, and we have structured these programs in ways that weaken, rather than strengthen, their impact.

U.S. foreign assistance programs have been long criticized as being ineffective. However, it is important to recognize that often the criticisms are overblown and miss the fact that many programs have been successful. U.S. foreign assistance was central to supporting the Green Revolution that provided the foundation for Asia's economic miracle; for eliminating small pox and substantially reducing polio, river blindness, maternal mortality and childhood diarrheal diseases; for helping to secure peace in countries such as Liberia and Sierra Leone; and for supporting sustained economic growth in Korea, Taiwan, Botswana, and more recently Mozambique, Tanzania, Ghana, and several other countries. U.S. foreign assistance deserves more credit than it usually receives.

Nevertheless, there is wide agreement that our programs can be significantly strengthened. U.S. foreign assistance programs continue to be a hodge-podge of uncoordinated initiatives from multiple institutions without a coherent guiding strategy. Many of the structures and guiding principles of our programs have their roots in the Cold War, and they are not well-suited to meet today's global challenges. Programs are highly fragmented with little coordination across the 20 or so executive branch agencies that administer foreign aid programs. Sometimes these agencies work at cross purposes with each other with different objectives and techniques. Other times they are aiming to achieve the same goals, but duplicating each other's efforts without realizing it. Each agency has their own different processes, rules and procedures, which can put significant strain on countries. Recipients sometimes need to ask: Does this program need to conform to USAID procedures, PEPFAR procedures, MCC procedures, or Defense Department procedures?

Many programs are subject to heavy bureaucracy that ensures that some funds never get close to its intended recipients. Aid flows are heavily earmarked and subject to myriad directives, procedural rules, and restrictions that add significantly to administrative costs and slow the delivery process. In addition, much aid is wasted on countries with governments that are not serious about development and that cannot use it well.

Moreover, there is little accountability for achieving results. Monitoring and evaluation systems are weak and tend to focus on whether funds are spent where they were supposed

to be, rather than whether programs achieved important strategic or development objectives.

To some extent these problems can be traced to the structures and procedures of USAID and other agencies that administer our assistance. But much of the problem lies with the elaborate web of legislation and directives from Congress that lie at the foundation of our foreign assistance programs. The Foreign Assistance Act of 1961, as amended, is an outdated piece of legislation dating to the early days of the cold War. The Act specifies a remarkable 33 different goals, 75 priority areas, and 247 directives. These multiple goals are more than just an administrative burden: they make it very difficult for the United States to achieve clear development results.

### **III. The Reform Agenda: The Big Picture**

Thus, the reform process is long overdue, and the administration deserves credit for beginning to wrestle with these issues, even if belatedly. However, the process underway is too narrow in its scope and breadth. Partial reforms will not solve the problems of a diffuse and segmented apparatus with outdated legislation that was built during the Cold War. Making our aid programs more effective requires a bold, ambitious vision for updating these programs for the 21<sup>st</sup> century and strengthening America's role in the world. Although the focus of our discussion today is the current reform process, these steps should be seen in the context of the bigger picture of the deeper reforms necessary to put our foreign assistance programs on a stronger footing, including the following.

**1. *Develop a National Foreign Assistance Strategic Framework.*** The most important first step is to reach broad agreement amongst *all* key actors – across the full range of executive branch agencies and with Congress -- on the principal objectives and basic framework for foreign assistance as part of our broader policies for engaging with the world. The new Director of Foreign Assistance (DFA) released a Strategic Framework in 2006 that went part way towards achieving this goal, but since it did not include all agencies and did not fully incorporate the views of Congress it was incomplete. Going forward, a broader framework should be developed with wider participation that lays out key objectives and priorities, describes the key programs that will be used to meet these objectives, and details strategies for coordinating and communicating across agencies. The Strategic Framework must go beyond USAID and State and include Defense, Treasury, Agriculture, Energy, the MCC, and other agencies and organizations.

**2. *Rewrite the Foreign Assistance Act (FAA).*** The FAA of 1961 is badly out of date. The current amended version of the Act is nearly 2,000 pages long and includes a complex web of rules, regulations, multiple objectives and directives. A new FAA is central to clarifying the central objectives and methods of foreign assistance to meet U.S. foreign policy goals in the 21<sup>st</sup> century. Re-writing the FAA would allow a fundamental redesign of the morass of personnel and procurement regulations and other rules that undermine the effectiveness of USAID and other agencies. It would reduce the extensive amount of earmarking and “tied aid” – much of it well-intentioned – but which severely cripples the ability of agencies to effectively allocate funds to the highest priority areas.

The new reform process has come squarely up against existing legislation: the administration cannot easily implement a country-based strategy – however wise that might be – when existing authorities are based on sector accounts rather than countries. Rewriting the Act will not be simple, and concern over the inherent difficulties is a prime reason for the piecemeal approach. But it is becoming clearer that fundamental change is not possible without re-examining the basic legislation.

3. ***Strengthen Coordination Across Agencies.*** U.S. foreign assistance cannot be fully effective when it is spread among nearly 20 different agencies with different objectives and implementing procedures. This problem cannot be solved through commitments for stronger interagency processes. And (according to an estimate by the Congressional Research Service), the current reform process only includes about 55% of the foreign assistance budget. There are at least two bolder possibilities:

- ***Create a new Department for International Development*** that would bring under the direction of one Cabinet official all U.S. foreign aid programs. This step would streamline the bureaucracy, reduce duplication, and strengthen our ability to align major programs with our key objectives. The United Kingdom took this step several years ago, and its foreign aid programs are now considered among the best of the bilateral donors.
- ***Name a Cabinet-Level Coordinator*** reporting to the President, to be responsible for all aid programs. This approach would build on the Bush administration's initial step of naming a DFA, but would widen it to include all agencies providing foreign assistance and would elevate to a Cabinet-level position.

4. ***Clarify the Budget.*** The budget should be at the center of designing clear priorities and tradeoffs. However, foreign assistance activities are scattered throughout several accounts in the budget. It is very difficult to look through the budget and determine where and how we are spending our assistance dollars. The current reform process has tried to begin to tackle this problem, but there is far to go. As mentioned, it will not be possible to design a budget based on country priorities when current budget rules are based on a sector approach.

5. ***Strengthen Monitoring and Evaluation.*** With only a few exceptions, monitoring and evaluation of U.S. foreign aid programs focuses on ensuring that funds are spent according to plan, rather than on their contribution to development or to achieving other objectives. We need strong monitoring and evaluation processes aimed at keeping funded programs on track to meet their goals, guiding the allocation of resources towards successful activities and away from failures; and ensuring that the lessons learned – from both successes and failures -- inform the design of new programs. Monitoring and evaluation should be incorporated into projects from the outset, not added on as an afterthought halfway through the process.

#### **IV. Initial Steps and Missed Opportunities for Fundamental Reform**

The administration deserves credit for some initial steps towards elevating the importance of foreign assistance in our overall foreign policy. Its National Security Strategy calls for

strengthening approaches for development alongside defense and diplomacy. It introduced the Millennium Challenge Account as a way to provide significant support to a small number of low-income countries with good governance and a commitment to strong development policies. It established the Emergency Plan for AIDS Relief to substantially expand resources to fight this killer disease. It has significantly increased total spending on foreign assistance, although much of the increase has been focused on a relatively small number of countries.

However, the administration has had three opportunities to tackle the broader challenges of restructuring and strengthening our foreign assistance organizations and structures, and in each case it has failed to do so. It has shied away from the bold, visionary changes needed to meet today's global challenges, and instead has opted for a partial changes that have left the process incomplete and the future uncertain.

Its first opportunity came with the introduction of the MCA. There was significant debate throughout 2002 about where to house and how to structure the MCA. The administration clearly believed that existing structures were not effective enough to take on this new initiative, but instead of addressing head-on the weaknesses of existing programs, it avoided the problem and decided to establish a new institution to implement the program.

The second opportunity came with the Emergency Plan for AIDS Relief. The new initiative came with a problem: international HIV/AIDS programs were administered by many different agencies with different approaches and mechanisms. These institutional divides and bureaucratic duplication were symptomatic of broader problems in our foreign assistance programs. But again the administration opted for a partial fix: It established a new office to coordinate programs across multiple agencies. While this approach might have satisfied the immediate goal of quickly establishing new HIV/AIDS programs, it separated the HIV/AIDS initiative from other health and development programs, and only added to the broader problem of multiple agencies implementing different programs without a clear and coherent strategy.

The third opportunity came with the current reform process itself. To their credit, the early proponents of the process recognized the deeper structural problems and attempted to deal with them more directly. But a key flaw in the approach is that it is partial and narrow: it only deals with programs under the direct control of the State Department, including the Department itself, USAID, and to a lesser extent PEPFAR and the MCC. It does not include programs run by more than a dozen other executive branch agencies, including the Departments of Agriculture, Treasury, Defense, Labor, and others. The Congressional Research Service has estimated (based on the FY '05 budget) that the DFA will manage just 55% of the foreign assistance budget, with the Department of Defense controlling 19% and other agencies managing 26%. In short, the scope of the reforms was limited to what the State Department could carry on its own without coordinating with other executive branch agencies or Congress. As a result the best it possibly can achieve are incomplete and partial reforms.

## **V. Initial progress in the Current Reform Process**

The current reform process has several positive elements. First, a reform process is long overdue, and the overall objectives of the broadly were the right ones. The designers deserve credit for trying to provide greater coherence to assistance programs, better align programs with objectives, focus first on countries rather than sectors, and to begin to rationalize the budget process.

Second, the naming of a DFA clearly was aimed at bringing greater coherence across significant parts of U.S. assistance programs. The “dual-hatted” nature of the appointment as both DFA and Administrator of USAID should lead to stronger communication and coordination across programs, and hopefully the beginnings of less fragmentation in assistance programs. Observers state that inter-agency coordination and communication has improved, although it still has a long way to go.

Third, the Strategic Framework introduced in May 2006 is a solid initial step toward articulating clear goals and steps towards achieving those goals. The document describes five distinct goals for foreign assistance programs. It then groups all recipient countries into one of five categories, (Rebuilding, Developing, Transforming, Sustaining Partnerships, or Restrictive), reflecting current assessments of those countries circumstances. I strongly support differentiating across countries as a first step towards more clearly identifying appropriate goals and designing more effective implementation strategies (indeed I called for a categorization of countries along these lines in congressional testimony in 2004), and in the idea of building budgets based primarily on country needs and priorities.

Fourth, re-orienting the budget to be more in line with these goals and with country needs is a sensible step. The first budget process revealed several significant concerns in how it was carried out and whether appropriate authorities exist, but a rationalization of budget accounts to better align them with strategic priorities is a welcome step forward.

## **VI. Some Key Concerns**

However, while the reform process has several positive elements, it represents only a partial reform process. It is too narrow and incomplete, and does not add up to a coherent and comprehensive strategy for foreign assistance designed to meet our major foreign policy goals in the post-September 11<sup>th</sup> world. There are several major concerns.

First, the reforms omit large parts of our assistance programs. The DFA will have control over USAID and at least most State Department programs, but will only give “guidance” to MCC and PEPFAR programs, and will have at best only indirect influence over programs administered by other agencies.

Second, by not including Congress in the deliberations, the reforms missed the opportunity to build greater consensus on the path forward and to redress some of the weaknesses in the Foreign Assistance Act. In the absence of agreement with Congress on

major objectives, earmarks, procurement and personnel rules, and key strategies, the reforms will fall short of what is needed. Most importantly, as mentioned, the reform process came up squarely against existing legislation through the budget process. The reforms envisage a country-based budgeting process, while existing authorities provide for sector-based allocations. It is not possible to do both simultaneously in an effective manner. Moving forward with country-based budgeting will require much stronger buy-in from Congress, and probably new or amended legislation.

Third, while the process has been ongoing for over a year, much of the discussion has been restricted to a small number of people, especially during the early months. Substantial confusion and misunderstanding remain about the process, objectives, and steps to date. Discussions with senior people in the process, staff at USAID, officials in other departments, and knowledgeable persons outside the government reveal widely different perceptions and lack of information about what is happening. Many people feel marginalized from and uninformed about the process. While some of this is to be expected in any reform effort, the process to date has been characterized by poor communication, which has undermined morale and potential support.

Fourth, while appointing a DFA to coordinate across programs is welcome, putting that person under the direct control of the Secretary of State raises concerns. There is a danger that foreign assistance allocations will change quickly to address short-range and rapidly changing diplomatic and strategic concerns, sometimes to the detriment of achieving long-term development or institutional changes in recipient countries. While the new strategic framework calls for funding to support democracies and countries with strong governance, a large share of current funding goes to strategic partners with weak governance systems. The history of US assistance to such countries – the Philippines under Marcos, Zaire under Mobutu, and Haiti under the Duvaliers – suggests that achieving development results or strengthening governance systems often takes a back seat to short-term political expediency.

Ensuring that foreign assistance is properly aligned with US foreign policy does not necessarily mean that it should come under the direct authority of the State Department. US policies in defense, international finance, trade, and intelligence are all aimed to be consistent with major foreign policy goals, but they purposively are established independently from (albeit coordinated with) the State Department. Achieving long-term success in supporting development and good governance systems in recipient countries demands programs that are coordinated across agencies and consistent with our foreign policy goals, and yet independent of direct control by the State Department.

## **VII. Some Next Steps**

The reform process is at a crucial juncture as a result of the political calendar and the nomination of a new DFA. Actions taken in the next few weeks and months will determine the ultimate success or failure of the effort. The most important next steps include the following:

1. ***Strengthen communication and build a constituency for reforms.*** Senior officials must make much stronger efforts to communicate more clearly within State and USAID, with other departments, with Congress, and with key non-government agencies. For the reforms to succeed in the long run, they will need much stronger support than they currently enjoy. Building this support will require substantial time and effort, and will be all the harder with the change in the DFA. But it is crucial for success.

2. ***Build a strong and experienced team.*** A widely-held complaint is that key persons in the reform effort lacked significant technical expertise and experience in development and in program implementation, which weakened their understanding of the issues and of options. There is no substitute in development for significant experience living and working in developing countries. The new DFA should move quickly to build a team with strong experience that balances an understanding of the need for fundamental reform with an understanding of what works and does not work on the ground.

3. ***Strengthen the process for developing country-level operational plans.*** Many participants complain that coordination between the center and country offices in the budget process was not sufficient. Guidance for developing country operational plans came late and was often unclear. While the DFA office claims that the process has been decentralized with more authority given to individual country offices, many country offices state that there is more direction from the center on how to use the funds. To some extent, misunderstandings and lack of clarity should be expected in the first year of major reforms where people comfortable with old systems resist changes to new ones. Nevertheless, for FY '09 the process must start sooner and include greater consultations and communications to be more effective.

4. ***Further refine the budgeting process.*** For FY '08 the DFA office provided budget requests consistent with its new Strategic Framework. By many accounts, given the tight time frames and unclear guidance, budgets using the old framework were retrofitted into the new framework with various activities simply re-named to fit the new categories. At an aggregate level, the new presentation failed to recognize the sector-based budget accounts required under existing authorities. Reports suggest that the budget presentation did not meet requirements for many key areas of expenditure under existing legislation. As mentioned earlier, there remains a huge unresolved tension between the vision of country-based budgets and existing sector-based authorities.

5. ***Develop a clearer strategy for monitoring and evaluation.*** One of the central objectives of the reform process is to make U.S. foreign assistance more effective. But at the core of increasing effectiveness is a strong monitoring and evaluation process that includes independent monitoring, regular review, and an assessment of results and impact. But the reform process appears to have made little progress in this area, and may have even stepped backwards. The DFA office has introduced a large number of new indicators to track progress. However, there appear to be far too many indicators, and most of these emphasize immediate outcomes rather than output or actual impact. As of yet there is no independent process to verify results and to evaluate the connection between short- and medium-term results and impact. One key step would be for the U.S.



to support and ultimately join the International Initiative for Impact Evaluation, which would join together foreign assistance providers from around the world to provide professional, independent evaluations of the impact of their initiatives.

6. ***Begin to move to deeper and more fundamental reforms.*** The current reform process has made some positive steps forward, but its limited scope and its location within the State Department will undermine its ultimate effectiveness. It is critical to use these earlier steps to launch a broader discussion among all key parties on making our foreign assistance programs more effective to meet today's foreign policy goals.