



**Foreign Assistance in the Americas**

Testimony for the House Foreign Affairs Subcommittee on the Western Hemisphere

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## Introduction

Chairman Engel, Congressman Burton, and distinguished members of the committee, I am delighted to have the opportunity to share with you my views on the state of U.S. foreign assistance efforts in general and in the Americas more specifically.

As many of you know, the Center for Global Development is an independent, non-partisan think tank dedicated to improving the policies of the rich countries as they relate to the world's poor countries and poorest people. Like this committee, we recognize the enormous opportunity that the 2008 U.S. presidential and congressional elections present to revisit the strategic rationale and the effectiveness of U.S. foreign assistance programs in Latin America and other developing regions. We look forward to working with the new administration, both parties in Congress, and our colleagues in the think tank and development advocacy communities to help ensure our foreign assistance programs not only reflect American values but effectively address the 21<sup>st</sup>-century imperative of promoting global prosperity and security globally in America's own interests.

I would like to raise and comment on three issues of concern to this committee.

### **First: I fervently hope Congress will work with the next president and his administration in implementing a major overhaul of the organization of foreign assistance programs.**

As the saying ought to go, "The developing world isn't Las Vegas; what happens there doesn't stay there." Drug and corruption problems in Mexico, deforestation in Brazil, demagoguery in Venezuela—all these and other problems in Latin America, which you know well, affect our well-being here in the U.S. Although Latin America is less likely to become a source of terrorist activity or nuclear proliferation than countries in other regions, its geographic proximity binds our economic and social fortunes closely together. Its markets and natural resources create a rich set of investment opportunities in such areas as agriculture and energy security, and its growing middle class provides ample markets for U.S. exports. Mexico alone currently accounts for 12 percent of all U.S. exports—and U.S. exports account for almost all of what U.S. growth there has been in the last three quarters.

This committee and at least three recent bipartisan and independent commissions<sup>1</sup> have concluded that U.S. foreign assistance programs are vital tools for strengthening U.S. foreign policy and restoring American global leadership but are out of date and badly in need of reform. Let me mention several issues of key relevance for the work of this committee. (A full agenda for designing and implementing a major reform has been set out by my colleague Steven Radelet

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<sup>1</sup> "A Smarter, More Secure America: Report of the CSIS Commission on Smart Power," co-chaired Richard L. Armitage and Joseph S. Nye Jr. [http://www.csis.org/component/option,com\\_csis\\_pubs/task,view/id,4156/type,1/](http://www.csis.org/component/option,com_csis_pubs/task,view/id,4156/type,1/); "Beyond Assistance: The HELP Commission Report on Foreign Assistance Reform," <http://www.helpcommission.gov/>; and "On the Brink: Weak States and U.S. National Security," A Report of the Center for Global Development's Commission for Weak States and U.S. National Security <http://www.cgdev.org/content/publications/detail/2879>.

in recent testimony to the full House Foreign Affairs Committee last April<sup>2</sup> and in his chapter “Modernizing U.S. Foreign Assistance for the Twenty-first Century” in our book *The White House and the World: A Global Development Agenda for the Next U.S. President*.<sup>3</sup>)

1. **The outdated and unwieldy 1961 Foreign Assistance Act** needs to be rewritten to streamline the overall goals, procurement rules, earmarks, and restrictions, and to reestablish a stronger partnership between the executive branch and Congress that allows greater flexibility toward the former provided there is greater accountability and responsiveness in the latter.
2. **The organizational structure for policy and implementation of foreign assistance needs to be restructured and strengthened** by merging most foreign assistance programs and related development policy instruments into a new cabinet-level department for global development cooperation, by expanding and deepening the professional staff, by revamping delivery mechanisms, and by building a serious monitoring and evaluation system.
3. **The U.S. has to learn to work more effectively with its allies in the coordination of aid programs, and it must match its longstanding commitment to multilateral assistance programs at the United Nations agencies and multilateral development banks with increased contributions and greater attention to effective leveraging of those institutions’ strengths.**

There is a growing consensus among development policy experts, practitioners, and development advocacy groups that these steps must be taken to improve our foreign assistance. The Modernizing Foreign Assistance Network—a group of academics, policy experts, development practitioners and advocacy groups—is actively engaging Congress and the presidential campaigns in calling for these reforms.<sup>4</sup> There is also a growing constituency in the U.S. for both more and better aid. Key polls show that regardless of political affiliation, gender, or race, a majority of Americans—more than 80 percent in one recent poll—support foreign assistance and see it as a way to restore American credibility and make the world a safer place.<sup>5</sup> The Bush Administration has effectively tapped this growing support and together with Congress managed to double U.S. foreign aid in the last eight years and to create the Millennium Challenge Corporation (MCC) and the President’s Emergency Plan for AIDS Relief (PEPFAR).

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<sup>2</sup> “Seizing the Moment for Modernizing U.S. Foreign Assistance: Testimony for the House Committee on Foreign Affairs,” by CGD Senior Fellow Steven Radelet, April 23, 2008, <http://www.cgdev.org/content/opinion/detail/15863/>.

<sup>3</sup> “Modernizing U.S. Foreign Assistance for the 21<sup>st</sup> Century: An Agenda for the Next U.S. President” by CGD Senior Fellow Steven Radelet 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 <http://www.cgdev.org/content/publications/detail/16560>.

<sup>4</sup> “New Day, New Way: U.S. Foreign Assistance for the 21<sup>st</sup> Century”, co-chaired by Steve Radelet and Gayle Smith, <http://www.cgdev.org/content/article/detail/16211/>.

<sup>5</sup> America and the World, Evolving Attitudes on National Security and Foreign Policy, The American Security Project, <http://www.americansecurityproject.org>.

I believe that the forces of bureaucratic and political inertia that have hamstrung a more comprehensive and durable reform for more than three decades can now be overcome—assuming there is leadership and vision in the new administration and Congress.

A key challenge in the Congress is and will be rationalizing the current congressional committee structure which deals with foreign assistance programs, both to restore balance between authorizers and appropriators, and to reduce the overlap and debilitating lack of symmetry that undermines Congress's strategic role and ability to hold the relevant development agencies accountable. One example: oversight of U.S. policy regarding the multilateral development banks is currently shared on the House side by the House Foreign Affairs Committee, the House Financial Services Committee, the House Agriculture Committee, and the Ways and Means Committee—and then there are the appropriations committees, and then there is the Senate side. Like the aid programs themselves, the committee structure is fragmented, lacks overall strategic vision and coordination, and generates high transaction costs.

**Second: I believe the Congress should urge the Treasury to press for faster and deeper changes at the Inter-American Development Bank, an institution of special interest to this committee, and at the World Bank. For most countries in Latin America, these institutions should become reluctant lenders. Instead of pushing loans they should concentrate on deepening and expanding their role in the provision of technical advisory services—on investment regimes, debt management, development of local currency markets, innovative approaches to delivery of education and financing of health, and so on.**

Of course in the low-income countries of Central America, in Bolivia and possibly in Paraguay, both banks should continue to play the standard role as the multilateral aid vehicle which provides the glue, as World Bank President Robert Zoellick says, coordinating the many donors and creditors in close partnership with their borrowing members, and in some cases acting as a creditor or grantor of last resort. However, in the middle-income countries of the region, the banks should be encouraged to work out mechanisms for financing—at reasonable cost—their advisory services in technical, insurance, and financial areas, and for making it easier for countries to buy those services without borrowing.

At the same time, the banks should be urged to be more creative and aggressive in the support of cross-country, regional, and global public goods, in such areas as climate change and agricultural and health research and development.

I have written extensively on this issue, and would like one essay, entitled “From World Bank to World Development Cooperative,” co-authored with my colleague Arvind Subramanian, to be entered into the record.<sup>6</sup>

**Third: I want to support, but with some reservations, the proposed legislation for establishing an Economic and Social Investment Fund for the Americas.**

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<sup>6</sup> “From World Bank to World Development Cooperative,” Nancy Birdsall and Arvind Subramanian, CGD Essay, October 2007, <http://www.cgdev.org/content/publications/detail/14625>.

There are many good things about this bill. First it will notably increase U.S. assistance for development in the region—which, depending on definitions, amounted to less than \$500 million in 2007 excluding Plan Colombia and other anti-narcotics efforts. This will help reverse the sense that the U.S. is turning a blind eye to the tremendous problems of poverty and social exclusion that plague our neighbors and thereby abandoning the discourse on these issues to Chavez and the far left despite the obvious success of countries that have enjoyed leadership emphasizing a pragmatic combination of market-led growth with protection for the poor.

On the one hand, our foreign assistance programs for Latin America and the Caribbean are tiny relative to the size of the regional economies and regional government spending. Brazil, for example, spent 37 percent of its GDP on public services in 2004 and nearly \$27 billion on education alone. The size of our foreign assistance programs pale in comparison to Venezuela President Chavez's largesse in the region and to the \$10 billion that the richer economies of the European Union transferred to Ireland alone in the 1990s and will transfer in the next decade to Poland.

On the other hand, and this is the second plus with this bill, the increases implied in the bill give new flexibility to USAID and the IDB to test new modes of delivering grant money and give flexibility to countries in the region to test and evaluate their own new approaches (such as, in the case of education, incentive payments for teachers in rural areas, implementation of achievement testing, and special language and other programs for disabled children and marginalized indigenous and minority groups).<sup>7</sup> Grant resources also allow the U.S. to provide highly leveraged support for work on creating and fine-tuning the regulatory and financing framework for the major new investments in urban transportation, energy, port renovation and regional road infrastructure that are keys to attracting private investment.

Third, it makes sense to see the division of resources and labor between USAID and the IDB in the bill. USAID has long experience in the region but has been greatly weakened by the accumulation of congressional mandates and the loss of staff. I hope this legislation provides USAID a shot in the arm. The IDB has the capacity and the experience (including in the form of the Multilateral Investment Fund established as part of President George H.W. Bush's Enterprise for the Americas) to support innovative financial and social programs.

Finally, I applaud the emphasis given to serious impact evaluation, something my colleague Ruth Levine and others at the Center have strongly urged. I hope that USAID and the IDB will become members of the newly organized International Initiative for Impact Evaluation.<sup>8</sup>

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<sup>7</sup> One new mode of delivering grant money that my colleagues and I have proposed is a "cash on delivery" approach to aid, under which donors would pay for measurable progress on specific outcomes pre-agreed with recipient governments. In education, donors could pilot "cash on delivery" aid by offering a contract to poor countries for \$100 per additional child completing a quality primary education, to be used as the country chooses (<http://www.cgdev.org/section/initiatives/active/pbaedu>). These and other innovative aid mechanisms could leverage additional private philanthropic investments.

<sup>8</sup> The International Initiative for Impact Evaluation (3IE) is a new international entity created to dramatically increase the number of rigorous impact evaluations in areas such as health and education to provide the global development community with more knowledge about what works when and where--and what doesn't (<http://www.3ieimpact.org/>). The 3IE is a membership organization that currently includes the Mexican Ministries of Health and Education, Ugandan Ministry of Finance, UK Department for International Development, Netherlands

My only reservation about this legislation is that the proposed new fund adds to the existing fragmented and apparently ad hoc nature of U.S. foreign assistance spending. It is a reasonable outcome in the absence of a broader strategy defining the purpose, size, and allocation of U.S. foreign assistance. I hope, however, that this committee will not let this particular (good but limited) legislation undermine your commitment to the larger reform I emphasized above.

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Ministry of Foreign Affairs, Canadian International Development Agency, Government of Denmark, African Development Bank, Bill & Melinda Gates Foundation, William and Flora Hewlett Foundation, Google, CARE USA, the International Rescue Committee and Save the Children (United States). The 3IE grew out of CGD's Evaluation Gap Working Group: "When Will We Ever Learn? Improving Lives through Impact Evaluation" (<http://www.cgdev.org/content/general/detail/15102>).