

## Introduction

Over the past seven years, the Bush administration has launched a transformation of U.S. foreign aid. No time since the administration of President John F. Kennedy has seen more changes in the volume of aid, in aid's purposes and policies, in its organization, and in its overall status in U.S. foreign policy. If "transformation" in politics is taken to mean fundamentally changing existing systems, President Bush has initiated one.

But the notion of "transformation" also implies radical change in pursuit of a broad new vision. Such a vision has been absent from the numerous changes in aid implemented by the Bush administration, leaving an aid system—already in considerable disarray—in chaos. However, the policy and organizational chaos characterizing U.S. aid offers the next administration an important and compelling opportunity to reshape U.S. economic assistance while engaging the emerging world of the twenty-first century.<sup>1</sup>

The view that U.S. aid in 2008 is badly in need of policy and organizational reform is reflected in the veritable blizzard of books, study commission statements, and congressional reports on aid published in recent years, especially in 2007 (see box 1-1). These efforts share a number of common concerns though the specifics of their policy recommendations are quite different.

These reports and studies reflect the extraordinary interest combined with considerable disquiet about foreign aid in the foreign policy and

**BOX 1-1 . Books and Reports on Foreign Aid, Development, and Foreign Policy**

*Beyond Assistance*, HELP Commission Report on Foreign Assistance Reform (2007)

*Commission on Smart Power* (Center for Strategic and International Studies, 2007)

*Embassies Grapple to Guide Foreign Aid*, A Report to Members of the Committee on Foreign Relations, United States Senate, November 16, 2007, 110 Cong. 1st sess.

*Integrating 21st Century Development and Security Assistance*, Final Report of the Task Force on Nontraditional Security Assistance (Center for Strategic and International Studies, 2008)

*On the Brink: Commission on Weak States and US National Security* (Center for Global Development, 2004)

*Security by Other Means*, Lael Brainard, ed. (Brookings, 2006)

**Major Concerns and Recommendations**

- ◆ Need to elevate development as key element in U.S. foreign policy to support U.S. interests, values, and leadership in the world
- ◆ Need for overall vision of the role of foreign aid
- ◆ Need for greater focus on a limited number of goals for the use of aid
- ◆ Concern about the impact of the Department of Defense in the aid and development business
- ◆ Need for reform to overcome problems of organizational fragmentation and disarray in aid system
- ◆ Need to better explain to the American people the objectives and importance of foreign aid/development

development communities. They mostly examine foreign aid from a particular policy perspective—for example, its relation to security or broader foreign policy issues or fragile states. This study adds to the aid discussion by examining U.S. economic assistance as a whole, analyzing in detail the array of recent reforms and the difficult issues they raise, and placing these changes and the manner of their implementation in a historical and political context. It agrees with many of the reports and commissions that a major reform in U.S. foreign aid is urgently required, including elevating “development” in U.S. foreign policy in reality as well as in rhetoric. It considers the creation of a Department for Development has much to recommend it. But it also recognizes that a Department for Development is

controversial, especially in the foreign policy community, and could be politically costly and time consuming to plan and implement for a new administration. It thus offers a “Plan B” that would improve the existing system but imply fewer political costs for a new administration, which will inherit a large number of urgent and difficult problems, domestic and foreign, that it will have to confront once in office.

### **Elements of a Transformation: Changes in U.S. Foreign Aid**

Foreign aid is an instrument of U.S. foreign policy and sometimes of U.S. domestic policy. It is used to pursue a variety of national purposes, including providing humanitarian relief, furthering diplomatic goals, promoting development and democracy abroad, addressing global issues, supporting economic and political transitions, expanding export markets, preventing and mitigating conflict, and strengthening weak states. Of all of these, promoting diplomacy and development have long been the most prominent purposes of U.S. aid, reflecting U.S. interests and values abroad and sustaining an often uneasy coalition of domestic support for aid-giving from the political right and left within the United States.

It is worth considering what I mean here by “diplomacy” and “development” as purposes of U.S. economic assistance. Strictly speaking, *diplomacy* includes the tools and tactics used to shape relations between countries. In this study, I shall take the liberty of using the term somewhat differently—to refer to the issues in U.S. relations with other countries that relate to U.S. national interests (primarily security and political interests) and U.S. leadership abroad. The specific diplomatic goals for which U.S. economic assistance has been used include containing the spread of communism, promoting peace (for example, in the Middle East and the Balkans) and fighting the global war on terror. In addressing these issues, U.S. aid has been used to strengthen friendly governments and their economies, to reward desirable behavior (for example, the provision of base rights, votes in the United Nations, support of U.S. policies generally) and to secure the U.S. presence, access, and influence worldwide. I shall use *development* to refer to rising levels of per capita income and reductions in poverty with all the complex changes, including improved health and education, robust political institutions, high levels of savings, investment and

trade, and other social, political, and economic changes that are both causes and consequences of development.<sup>2</sup>

Aid for development has been used to expand the capacity of developing country governments to manage their economies (for example, through technical assistance and training), to increase assets supportive of development (for example, through funding increased infrastructure, health, education, credit, agricultural support), and to act as an incentive for governments to adopt economic and political reforms regarded as essential to foster investment, growth, and poverty reduction.

In the 1990s, with the end of the cold war, the value of aid as an instrument of diplomacy diminished, and with growing doubts about its effectiveness in furthering development (especially in Africa), the importance of aid and of promoting development abroad declined, along with the volume of that aid.

President Bush dramatically reversed both of these trends. In his two major statements on the national security strategy of the United States, he dedicated one or more sections to development, signaling that it is in the first tier of U.S. foreign policy priorities, along with defense and diplomacy.<sup>3</sup> This is the first time for many decades that a U.S. president has declared that promoting development abroad is a key priority in U.S. foreign policy. And the major instrument of that policy was inevitably foreign aid.<sup>4</sup>

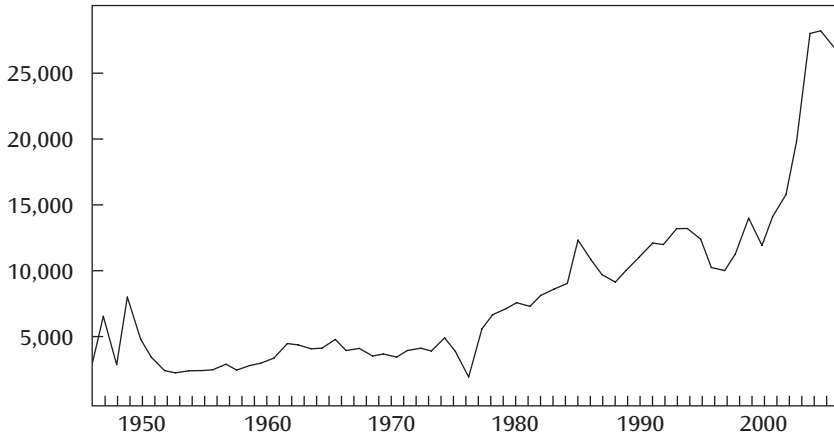
Following these statements, the *volume* of U.S. aid has grown dramatically during the Bush administration—faster than at any time since the Marshall Plan. In current dollars, U.S. aid was higher in 2005 (and slightly down in 2006, the last year for which data are available, see figures 1-1, 1-2) than at any time in U.S. history, even deducting the monies for reconstruction in Iraq and Afghanistan and aid to Pakistan (figure 1-3).<sup>5</sup> (The light bars—series 2 in figure 1-3—represent aid to Pakistan, Iraq and Afghanistan.)

This increase has lifted the United States out of bottom place on the list of governments providing aid as a percentage of Gross National Income (GNI)—a position it occupied for many years. (However, it is still only one rung from the bottom.)<sup>6</sup>

The purposes governing U.S. aid also changed during the Bush administration. Aid for diplomatic purposes now includes fighting the global

**FIGURE 1 - 1. U.S. Foreign Aid, 1946–2006<sup>a</sup>**

U.S. dollars (current), millions

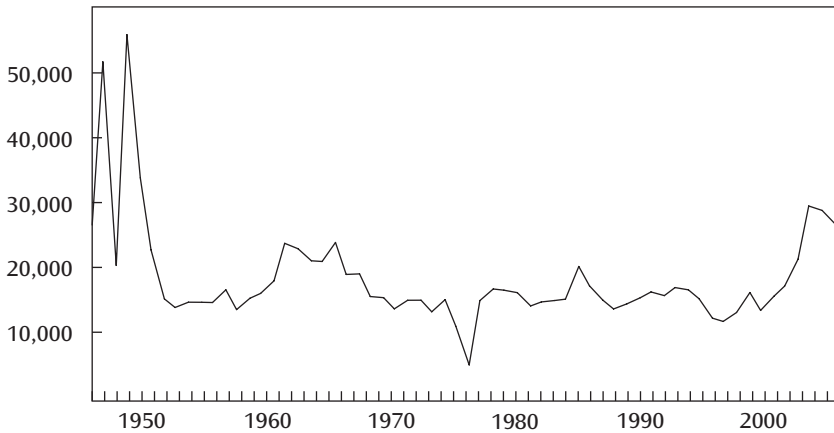


Source: U.S. Agency for International Development (USAID), *U.S. Overseas Loans and Grants (Greenbook)* (<http://qesdb.usaid.gov/gbk/index.html>).

a. If one deducts funds spent on Iraq reconstruction during 2004–05 (amounting to \$6 billion in 2004 and \$10 billion in 2005), these increases in U.S. aid are still significant.

**FIGURE 1 - 2. U.S. Aid in Constant Dollars, 1946–2006<sup>a</sup>**

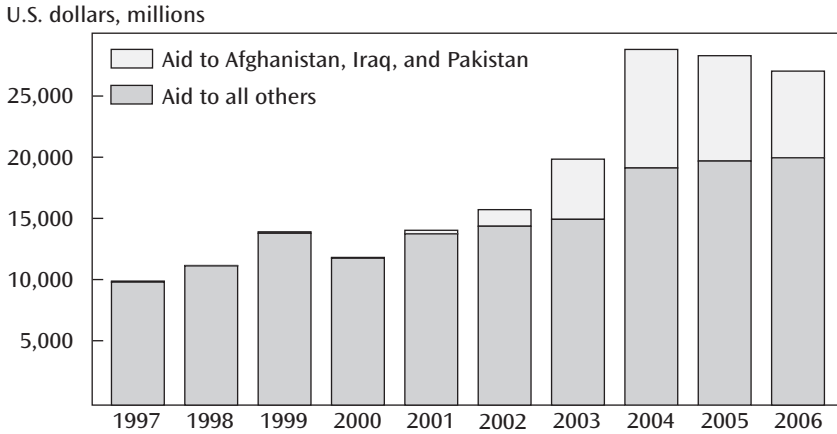
U.S. dollars, millions



Source: U.S. Agency for International Development (USAID), *U.S. Overseas Loans and Grants (Greenbook)* (<http://qesdb.usaid.gov/gbk/index.html>).

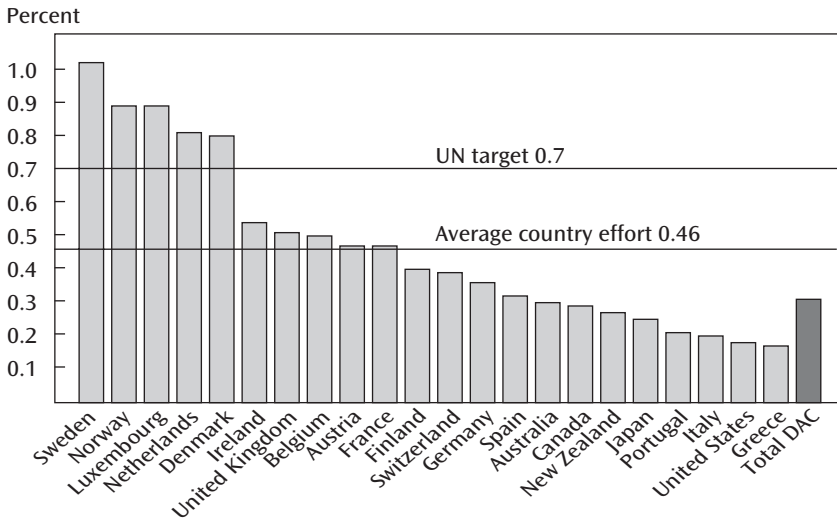
a. In constant dollars, U.S. aid between 2004 and 2006 was larger than at any time since the Marshall Plan.

**FIGURE 1-3. U.S. Aid for Afghanistan, Iraq, Pakistan, and Others, 1997–2006**



Source: U.S. Agency for International Development (USAID), *U.S. Overseas Loans and Grants* (Greenbook) (<http://quesdb.usaid.gov/gbk/index.html>).

**FIGURE 1-4. Net ODA as a Percentage of GNI, 2006**



Source: Development Assistance Committee (DAC), Organization for Economic Cooperation and Development ([www.oecd.org/dataoecd/23/14/37955301.pdf](http://www.oecd.org/dataoecd/23/14/37955301.pdf)).

GNI: gross national income.

ODA: official development aid.

war on terror.<sup>7</sup> And there has been a dramatic increase in aid for global health, especially fighting HIV/AIDS—a use of aid that is aimed at addressing a global issue but has great relevance for development in poor countries as well.

Changes in aid in the Bush administration have involved the way the U.S. government organizes itself to manage its aid. An entirely new aid agency has been established—the Millennium Challenge Corporation (MCC). There has been an integration of planning and budgeting by the U.S. Agency for International Development (USAID) and the Department of State. The President’s Emergency Plan for AIDS Relief (PEPFAR)—a new aid program to fight HIV/AIDS—is up and running. And the Department of Defense (DoD) has become increasingly prominent in providing economic assistance, with every sign that that prominence will continue to grow.

Two new approaches to delivering aid have been implemented. One, led by the MCC, involves performance-based aid—providing relatively large amounts of aid to countries that are deemed “good performers” to spur their economic growth. And to ensure ownership of aid-funded activities, the recipients must take an active role in deciding how the aid is to be spent. A second approach, led by PEPFAR, involves applying very large amounts of aid (\$30 billion for the coming five years) to tackle a single major problem: the scourge of HIV/AIDS. Aid monies have been used to address a variety of functional or global problems in the past, but never has the amount of aid allocated to PEPFAR been used against a single world problem in the space of a relatively short period of time.

Each of these changes in U.S. aid giving has much to recommend it. Elevating the promotion of development abroad as a priority in U.S. foreign policy reflects the realities of the twenty-first century in which massive disparities in wealth and opportunity in a rapidly integrating world can generate serious threats to U.S. interests abroad and the well-being of Americans at home. Addressing the problems of poverty abroad as a priority of U.S. foreign policy also reflects the values and views of many Americans that they, being among the most blessed and wealthy of peoples in human history, should act to help bring those blessings to the 2 billion of the world’s population living in severe deprivation. Further, giving development a central place in foreign policy strengthens U.S. leadership

in the world by combining “soft power”—the ability to attract and persuade others to do what you want (often through demonstrating that you have their interests at heart as well as yours)—with “hard power”—threats, sometimes involving the use of force, to compel compliance from others. And expanding the volume of U.S. aid dramatically brings it to a level more consistent with international needs, with the U.S. role as the world’s sole superpower, and with the ability of the United States to provide international economic assistance.<sup>8</sup>

With regard to the aid policy and programmatic initiatives of the Bush administration, the approach of the MCC to aid giving—preferring those countries whose governments performed well in promoting democracy and development—has been welcomed with its promise of more effective aid in support of more rapid development. The large increase in U.S. aid to fight HIV/AIDS—one of the worst plagues to afflict humanity for many centuries—has been very well received by groups and individuals from all points on the political spectrum. The State Department–USAID integration of aid budget and policy planning was seen by many as a useful reform that would enhance the coherence of U.S. aid giving and align it more closely with U.S. foreign policy. The rise of the DoD as an aid-giving agency and, in particular, the creation of AFRICOM (a new military command for Africa) have been regarded as innovations justified by the problems of fighting terrorism generally as well as the difficulties of managing community relations during U.S. military occupations.

At the same time, a number of these changes have raised serious concerns. The MCC has been extraordinarily slow in disbursing the sizeable amount of funding appropriated to it, raising questions about the efficacy of this new model of performance and ownership-based aid giving. There is some evidence that large amounts of funding for HIV/AIDS have begun to have negative effects on other efforts to address health conditions abroad and may simply be too large for recipients to absorb quickly and effectively. More basically, the massive increase in aid for HIV/AIDS skews overall U.S. bilateral aid away from development, which requires addressing many obstacles impeding economic progress in poor countries, including limited health care. The integration of USAID and Department of State planning and budgeting has sowed confusion and discontent in both agencies and raises fear in the development community that aid

programs will eventually focus more on short-term diplomatic goals, and not the longer-term development mission of USAID. The increasing engagement of the DoD in aid giving adds yet another big player to a cluttered landscape of aid organizations in the U.S. government, a player with, as yet, no professional capacity to manage aid for stabilization and development and that can give the impression of a militarization of U.S. foreign aid.

Finally, in addition to the substance of the changes, there has been considerable controversy about the ideas behind some of them (such as the “failing states” paradigm), their organizational implications, and the manner in which some of them have been implemented.

This book offers a stocktaking and analysis of U.S. foreign aid as it has changed since 2000 and offers recommendations for its future. It examines the principal changes in four chapters: first, it describes the individual changes themselves, including their origins, their promise, and their potential problems; second, it analyzes several major policy issues raised by the changes; third, it examines the organizational issues raised by the reforms and the problems in their implementation, including change management in the public sector; fourth, the book concludes with a look at the evolving context of aid giving in the twenty-first century and recommends a set of changes in U.S. aid to meet the opportunities and challenges of the new world of aid giving.

The message of this study is simple: first, foreign aid is an essential instrument of U.S. foreign policy, broadly defined, and will remain so for the foreseeable future; second, initiatives over the past seven years have produced both a transformation *and* chaos in an aid system that was already in disarray and ripe for change. The next administration must address the challenge and opportunity of keeping what is valuable in these changes, discarding what is not working, and melding these initiatives into a coherent vision of the role of foreign aid and U.S. foreign policy. In short, it has the chance to complete a transformation of U.S. aid.