

U.S. Aid Going Forward

This book has examined the recent history of U.S. foreign aid. It is now time to turn to the future. Given the Bush administration's efforts to transform aid and the resulting chaos of the past seven years, how should the next administration shape the purposes, policies, and organization of such aid to ensure its future effectiveness? And how should it manage the implementation of needed changes smoothly, avoiding the evident problems of the recent past?

Foreign Aid and the Evolving World of the Twenty-First Century

U.S. foreign aid evolved after the Second World War as an instrument for containing the expansion of Soviet and Chinese influence, first in Europe and then in the developing world. The world of the twentieth century that gave rise to foreign aid is mostly gone. These first few years of the twenty-first century have presented seven new changes that have dramatically affected the purposes, uses, and organization of U.S. aid. They should be taken into consideration in any reconceptualization and reorganization of U.S. aid in the future:

Rise of Terrorism and Asymmetrical Power

The problems of terrorism and the location of sources and sanctuaries for terrorist organizations in fragile states have been explored in chapter 2.

These problems are likely to remain with us for the foreseeable future along with the challenge of developing effective policies and programs to deal with them.

Concentration of Poverty and Problems of Growth in Sub-Saharan Africa

What was called a third world of developing countries in the last half of the twentieth century has broken into disparate parts. Some countries have made remarkable economic progress (for example, Korea, Botswana, and Chile) and no longer need foreign aid. Others, including China and India, with promising rates of growth and poverty reduction, need aid less and less and provide foreign aid themselves—China in particular. While they still have pockets of severe poverty, they are also increasingly capable of dealing with those problems through rapid growth and direct interventions. Where the problems of development are most concentrated and where aid is most needed is in much of sub-Saharan Africa and several other very poor countries in other parts of the world, such as Haiti, Laos, and Bolivia. And the difficulties of development in these countries are as much related to institutions—that is, involving the capacity and quality of governance—as they are to scarce resources. These are the true “third world” countries of the twenty-first century, and they present a continuing and difficult challenge for development and development aid in coming years.

Global Issues and International Public Goods

As noted above, these issues are not new to aid giving. But they will almost certainly become far more prominent in this century with globalization and worldwide economic growth. Fighting HIV/AIDS is already a high priority for U.S. aid giving. Addressing problems of climate change is surely next in line, and this purpose could also absorb large amounts of aid. Water scarcity is another looming transnational problem and potential cause of humanitarian crises, food shortages, and interstate conflict in some of the world’s already troubled regions. Continuing population growth, economic development, and the physical and economic integration of the

world will likely expand and deepen problems of global public goods throughout the twenty-first century. And many of them are likely to make a claim on foreign aid.

Technological Change

We are living through a revolution in information technology perhaps as important as the industrial revolution of the nineteenth century. It involves not only the creation of worldwide networks of communication through computers and cell phones but the rapidly evolving capabilities of cell phones themselves—from instruments of communication toward mechanisms for photography, banking, medical assessments, market knowledge (even for small farmers in Africa), and other, as yet unimagined, uses. It seems likely that the pace of technological change will continue to be rapid and bring other surprises in the future. Development agencies and development aid should be nimble enough to help exploit those changes for their development potential.

Expansion in the Number and Types of Development Actors

In the twentieth century we thought of governments as the main promoters of development: rich donor countries provided aid to the governments of poor countries to fund agreed programs and projects. That world is long gone. There are now thousands of nongovernmental organizations in both developed and developing countries involved in supporting development. Some, like the faith-based nongovernmental organizations (NGOs) and megachurches in the United States, manage large amounts of private aid as well as flows of public aid from donor governments. Some fall into the category of social entrepreneurs, seeking not just to deliver resources to the needy but to discover sustainable, profit-making ways to improve the human condition. There are an increasing number of philanthropic foundations, large and small, engaged in large-scale aid giving—the Bill and Melinda Gates Foundation being the most prominent but far from the only one. Finally, more and more private enterprises are engaged in good works abroad—at times on their own and at other times in public-private partnerships with governments. Many of these efforts

may fail; others may not be what they seem. But there is no doubt that something important has happened in the world of development—a lot more organizations and individuals are involved in aiding development abroad than in the past. U.S. aid will need to be flexible in the future if it is to collaborate with and influence the growing number of actors in international development. The Global Development Alliance, mentioned in chapter 2, is a promising innovation that can be expanded to help engage these opportunities.

New Politics of Aid in the United States

U.S. aid has traditionally rested on a right-left coalition, with those on both sides of the political spectrum supporting it as a useful instrument promoting U.S. security during the cold war (and later, to promote peacemaking in the Middle East). Those on the left were more supportive of using aid to reduce poverty abroad. With the cold war over and economic assistance for Middle East peacekeeping much reduced, the traditional anti-aid right had potentially much less at stake in supporting U.S. aid abroad. But several things have happened in the twenty-first century to change this old political equation. First, the terrorist attack on the United States has given the right a new reason to support aid as a tool in the fight against terrorism. Second, George Bush has sold performance-based aid (that is, from the Millennium Challenge Corporation, MCC) as more effective, addressing one of the objections to aid from the political right in the United States (though this claim has yet to be proven). Third, and perhaps most important, the political right has divided over the aid issue, with many conservative evangelicals increasingly supportive of aid for humanitarian relief, fighting HIV/AIDS, and other activities associated with improving the human condition abroad and especially in Africa. This change could represent a major shift in the politics of aid giving in the United States, providing stronger public support for aid than at any time in the past. In short, the domestic politics of U.S. aid in the twenty-first century may prove to be quite different from those of the last century. These changes will influence how aid is used, as well as how the political coalition supporting it in Congress and beyond is put together and managed.

*Hard Power, Soft Power, Smart Power,
and the International Politics of Aid*

One of the lessons of the first seven years of the twenty-first century is that while the United States has unchallenged world supremacy in military capabilities and the largest and one of the most dynamic world economies, its power to shape world policies is also constrained in important ways. Alone it cannot solve many of the important problems confronting it in a world that is increasingly integrated and interdependent. Soft power—intangible qualities such as reputation, trust, the admiration of other peoples, cultural attractiveness—can make it easier for a nation to persuade other governments and their peoples to adopt desired policies.¹ U.S. aid that benefits others abroad—whether humanitarian relief (as with the Asian tsunami in late 2004), development aid, or assistance in dealing with global problems—is an important element in soft power. In a world where U.S. leadership requires the use of force and pressure, generous foreign aid is a balance to muscular unilateralism, a symbol that the United States cares about interests other than its own. One should not overestimate the impact of aid as soft power—it cannot overcome fundamental differences of values and interests. But it has never been more useful in smoothing the hard edges of worldwide leadership, a role that the United States will surely continue to have for the foreseeable future with generous levels of aid clearly tied to improving the human condition abroad.

These changes in the world of the twenty-first century together argue for a future U.S. aid program that will have at its core a development mission (with development broadly defined as relief, growth, and poverty reduction together with global problems related to development), which will be both an *end* in itself—that is, a reflection of U.S. values of helping others to help themselves—and a *means* to other ends tied to U.S. national interests, for example, fighting terrorism and demonstrating U.S. soft power. A U.S. aid program that is agile and flexible is called for, one that can engage other development actors effectively and exploit new technological opportunities. If such a program can include new domestic groups that support development along with those who have been a traditional part of the development coalition, strong domestic support for aid and development programs could be cemented for the foreseeable future. How

do these imperatives and opportunities translate into concrete policy and organizational arrangements?

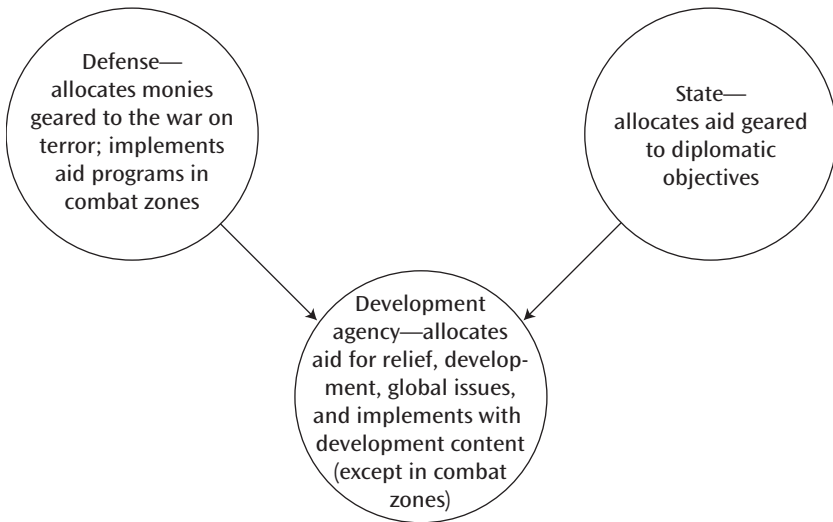
U.S. Aid Policies and Organization in the Twenty-First Century

If we agree that in the future there are likely to be five main purposes of U.S. aid—providing relief in natural or man-made crises; assisting in development, that is poverty reduction and economic growth; addressing global problems; fighting terrorism; and pursuing other diplomatic and security goals, for example, supporting Middle East peace, countering drug production and crime—we can begin to see the outlines of a rationalized aid organization described in the previous chapter.

Development and addressing global problems involve similar types of activities but from two different angles—the first with a *country focus* including work in multiple sectors, and the second with a *worldwide sector focus*, operating primarily in poor countries that cannot (or will not) address the key global issues on their own. The actual activities funded with the aid might be the same—strengthening health systems, assisting with environmental protection, and providing reliable sources of clean water. Programs addressing development and global issues will call on many of the same professionals and the same programming systems. They should be located in the same aid agency. Relief and development work also overlap; when relief is winding down, it is almost always the case that development work gets under way. They too should be co-located.

Policy decisions involving the country allocation of aid for ends that do not involve development as a primary goal—for example, pursuing diplomatic objectives with aid provided as an incentive or fighting drugs or terrorism in priority countries—should be located in the agencies seeking to achieve these goals. But where that aid is actually used to fund development activities, it should at least be implemented by the development aid agency (wherever it is located bureaucratically), and officials of that agency should have a say in how the aid is used. Figure 5-1 suggests such an arrangement.

To ensure that the development agency is competent to deal with all issues falling within its areas of responsibilities, it will be important that it has the knowledge and technical expertise on staff in trade, finance,

FIGURE 5 - 1. Structuring U.S. Foreign Aid: A Model

debt, and sector specializations. The U.S. Agency for International Development (USAID) lacks adequate staff and expertise, which has weakened its ability to function as a source for analysis and voice for development inside and outside the government. Indeed, its overall staff has been severely reduced over the past decade with constraints on operating expenses, low staff morale, and a large number of retirements. This is a problem but also an opportunity for the next administration to rebuild a strong aid agency relevant to the needs of the new century. It is noteworthy that the Bush administration has recognized this problem in its proposed aid budget for fiscal year 2009 and has requested a significant increase in funding for operating expenses and personnel for USAID.

The development agency will also need the kind of personnel who can engage collaboratively with other development actors—not just in writing contracts but also working closely with others. It will also need some flexible funds in its annual budgets to permit it to sponsor research and encourage innovation in development practice and to take advantage of new breakthroughs.

A perennial issue regarding the organization of development aid among all donor governments and international institutions is to what extent should there be a field presence of aid officials and what authorities should they have over the use and implementation of aid activities. USAID has long had a strong field staff with considerable delegated authorities to plan and manage U.S. aid. As noted earlier, the apparent shift of these authorities to USAID headquarters in Washington as part of the F process caused much discontent and was seen as weakening the ability of the agency to do its work well.

It is clear that the more ambitious the type of aid intervention in another country, the more important it is to have staff in the country to manage the intervention—a fact that the World Bank and many other agencies have recognized in their operations and organization. Where, for example, aid is used to promote economic and political reforms or to strengthen local institutions, or is planned with direct participation by intended beneficiaries, it is important for officials to have the knowledge and contacts that come from living and working in the country (and speaking the language) for an extended period of time. Where the aid is essentially a cash transfer (as was the case for many years in U.S. aid to Israel) and implemented by reliable, competent, and “clean” partners in the field, a limited presence in country—for example, a development officer in the U.S. embassy or a regional platform to service multiple countries—might be adequate. In short, a field presence can be important, especially in poor countries, but the type and degree of field presence needs to be decided in the context of the nature of aid interventions undertaken by the aid agency.

The big question in the structuring of U.S. aid in the future is, where should the development agency be located bureaucratically? We have touched on the three main alternatives in the previous chapter: a Department of Development; a subcabinet-level aid agency; and full merger of USAID at least into the Department of State. This discussion will examine some concrete ideas and make some recommendations for the future.

A Department of Development would include all major programs of U.S. bilateral relief and development aid: USAID, MCC, the President’s Emergency Plan for AIDS Response (PEPFAR), and aid for international migration and refugees (now in the Department of State), U.S. contributions

to multilateral development banks, now housed in Treasury, and other smaller development aid programs now in U.S. government departments and agencies. The Department of Development would implement aid for development from the Defense and State departments. If most of the largest of U.S. development aid programs are not folded into a Department of Development, it is difficult to justify its creation at the cabinet level.

The many advantages of a cabinet-level development agency have been recounted in chapter 3. The disadvantages are mainly political: it would take a major effort on the part of a U.S. president to create such a department; programs long established in State and Treasury would have to be moved, presumably in the face of serious resistance by the secretaries of both departments. Members of Congress would have to be persuaded, pressured, or provided incentives to support the legislation needed for such an organizational initiative. This would all take presidential attention and energy, not to mention a well-organized and effective lobbying campaign outside the U.S. government in support of it. And it would probably have to be initiated right at the beginning of a new administration when individuals and interests are less entrenched and when there is usually something of a honeymoon with Congress.

But a look at the urgent and difficult issues likely to be facing the next president—dealing with the war in Iraq and the growing insecurities in Afghanistan, the continuing threat of terrorism and the spread of weapons of mass destruction, an American economy that seems to be sliding into recession, concerns about health care in the United States, about immigration, about education, about the Social Security system, and the looming threats from climate change—suggests that these issues are more likely to take priority over creating a cabinet-level development agency. Indeed, with these other pressing problems, it might well be seen as a serious misstep for a new president to spend a significant amount of time and political capital on development issues and organization, even if those too are badly in need of attention.

A second organizational alternative—a “Plan B”—would be to create a subcabinet-level bilateral development agency that combines the largest programs—MCC, USAID, and PEPFAR—into one organization. These three components, each with its own *modus operandi* and staff, would work best together, taking advantage of their similar synergies while

administering their particular programs separately. One minor but potentially contentious issue—the differing salaries among the three programs—would need to be aligned to ensure equity among staff. This new umbrella-type agency could also act as an implementer for development-oriented programs of other departments and agencies, much as a cabinet-level development agency would and much as USAID has done in the past.

There would need to be mechanisms for ensuring that the new agency be coordinated closely with the Department of State in its activities in the field. At a minimum, it could “take policy guidance” from the secretary of state, as USAID has done. It could continue the joint planning process with State, put in place in the F process. However, it would handle the budgets for its components independently but in consultation with State. To formalize a close relationship, it may make sense to adopt the MCC governance model—a board that includes the secretaries of state, Treasury, and defense, and other senior officials from the administration whose agencies may have some engagement with development issues plus several outside representatives (including individuals from the business, philanthropic, and NGO communities).

The board model makes sure that all relevant voices are heard periodically and establishes a formal channel for coordination. Using the MCC board model may also mean that this new agency could be created by amending existing MCC legislation (legislation governing the establishment and authorities of USAID and PEPFAR would also have to be amended) rather than taking on the passage of an entirely new piece of foreign assistance legislation—potentially at a lower cost in terms of time and effort expended with Congress.² Neither the model of cabinet department or of subcabinet-level agency would obviate the need for other interagency coordinating mechanisms described in chapter 3. Interagency coordination on development abroad will undoubtedly remain a challenge—probably a growing one—in the foreseeable future.

The advantage of this alternative is that it creates a single major bilateral aid agency dedicated to the overlapping issues of relief, development, and global issues abroad, thus strengthening the profile of development within the administration (though not as much as a cabinet-level development agency would); it reduces to a substantial degree the existing organizational chaos, and it does so at a reasonable political cost. Because it

is far less ambitious than the creation of a cabinet-level agency, it would likely require less presidential involvement and so draw less criticism that a new president was spending his or her time and precious political capital on a relatively low priority issue. It could be framed as part of a much needed cleaning up of problematic organizational changes under the Bush administration and part of a new approach to effective, competent government. The timing is promising for a proposed Plan B because both MCC and PEPFAR are up for reauthorization this year or next (which could easily be put off until a new administration takes office).

A third option is to merge USAID completely into the Department of State, leaving MCC as the principal independent bilateral aid agency. This would mean that there would no longer be an administrator of USAID; its personnel would become part of the Department of State's personnel systems, and its budgets would be fully merged with those of State. A decision on whether USAID's foreign service personnel would be made a separate "cone"—administrative specialty—of the Department of State's system would have to be made. A senior person within State—either a second deputy secretary of state or an under secretary—would serve as the director of the remnants of USAID. It would seem likely that USAID's regional bureaus would merge into those of State and its functional specialists would join those in State. Placing USAID units in State bureaus might be cost saving (if duplication of positions in the two agencies is significant—but I have not seen solid evidence that this is the case) and provide maximum policy coherence between U.S. bilateral aid and U.S. foreign policy goals.

This alternative makes sense if greater coherence between USAID's development work and State's diplomatic mission is the first priority of a new administration. But it is likely that a merger would lead to a downgrading of USAID's traditional development mission in favor of urgent diplomatic concerns in the more powerful Department of State, as has been discussed in other chapters. And if Global Health/Child Survival and Development Assistance came to be regarded by Congress and the development community as diplomatic "walking around money" (a term applied to U.S. aid during the 1950s before USAID was established), support for aid would vanish.

When it was originally set up, USAID existed as a separate agency as a result of a "delegation of authority" from the secretary of state. That is,

there was no legislative basis for its existence, and it could have been merged or extinguished at the decision of the secretary. In 1998 legislation was passed establishing USAID as a separate agency. But many of its authorities still derive from the secretary of state. This legislation would have to be amended, but that would probably be the only congressional action needed.

However, there would likely be political problems with this alternative: specifically, resistance from those in Congress and the development community who would see a full merger as the beginning of the end of USAID's development mission as well as the end of the agency itself. Judging from the reactions to the F process, this resistance could be significant and powerful, especially now that the development community is aware of the problems and implications of a full merger.

This argument suggests that while the creation of a cabinet-level development agency may be regarded as the ideal alternative by those in the development community, the political costs of that alternative may be unacceptable to a new president. The probable consequences of a full merger between USAID and the Department of State may prove equally unacceptable to members of Congress and outside interests supportive of aid for development. That leaves the middle option as the most attractive from the point of view of needed organizational reform—combining major bilateral aid agencies and programs into one semi-independent sub-cabinet level aid agency—while minimizing the political cost of change.

Change Management

How should a new president initiate the reforms in aid suggested here? First, the sooner reforms are initiated after the inauguration, the better. In the case of aid reform, this would mean that legislation should be ready to go to Congress quickly after the inauguration. That in turn implies that as much of the planning and consultation as possible will have been done during the period between the election in November and inauguration in January. A transition team for development would be required to work hard during this roughly two-month period. The team would also need to work as transparently and inclusively as possible with the aim of having a final plan by mid-January.

At that point, the new president would announce plans for the reorganization and explain why it is urgent and important. Senior posts in aid agencies would be filled with individuals committed to the reorganization (as a requirement of their appointment) or not filled at all until the organization is ready to be implemented. Shepherding needed legislation through Congress will take time and attention; it is essential that there be champions of the reform in key committees (that is, the Senate Foreign Relations Committee, the House Foreign Affairs Committee, and the foreign operations appropriations subcommittees of both houses of Congress).

Coalitions of professional staff from within affected agencies should be created to guide, explain, and give legitimacy to the reforms as they are implemented. If planned and implemented well, an organizational reform of U.S. development aid could make a major improvement in the way the U.S. government addresses international relief, development, and global issues, which are and will be essential to U.S. leadership worldwide in the twenty-first century. In short, the new administration could realize the promise and possibilities of the transformation in foreign aid sought but not achieved by the Bush administration.