

**U.S. Foreign Assistance After September 11th
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Thank you, Chairman Hyde, and other Members of the House Committee on International Relations. I commend you for addressing this set of very difficult and important issues concerning the role of foreign assistance in U.S. foreign policy. I am honored that you have invited me to offer some perspectives on these issues.

The world has changed dramatically since the end of the Cold War and the dissolution of the Soviet Union. Some traditional challenges have faded, but others have risen to take their place. September 11th made us all aware of the very real security threats from weak and failings states that can serve as breeding grounds for terrorism. Diseases such as HIV/AIDS claim millions of lives each year, exacerbate destabilizing tensions, weaken fragile economies, and threaten our interests and those of our friends and allies. The process of globalization has created tremendous opportunities, but at the same time poses significant challenges, particularly to those who start from a position of disadvantage. Partly because of these changes, new tensions have sprung up between rich and poor countries around the world.

To address these challenges, the United States requires an integrated foreign policy that promotes our values, enhances our security, and strengthens the global economic system. There are several interlocking components to such a policy, including diplomacy, defense, trade, investment, intelligence, and – the subject of our discussion today – a strong and effective foreign assistance strategy.

Unfortunately, U.S. foreign assistance is a hodge-podge of uncoordinated initiatives from multiple institutions without a coherent guiding strategy. There are too many actors, with little clarity on overall objectives and purposes. Many of the structures and guiding principles of current programs have their roots in the Cold War, and have not evolved in tandem with recent changes in the global environment. Although some of our aid programs are effective – more effective than they are often given credit for – it is critically important that we strengthen and refocus our overall foreign assistance programs to better match today's major foreign policy goals. A strong foreign assistance policy would clearly identify the motivations for and purposes of foreign aid, and would develop the institutional tools necessary to deliver aid more effectively. It would more fully integrate foreign assistance into a broader foreign policy that recognizes and more strategically links the full array of policies at our disposal -- including trade, migration, investment, environmental stewardship and peacekeeping policies – into a powerful arsenal for engaging with countries around the world.

In this testimony I would like to make three key points:

1. The United States needs to develop a strategic vision for foreign assistance that clearly articulates our motivations and objectives and their relationship to our foreign policy goals, and includes a range of strategies for engaging with different kinds of countries around the world.
2. While some of our programs have been successful, our current approach to foreign assistance is not adequate to meet our strategic, economic, political, and humanitarian foreign policy objectives, either in terms of the amount of funding we provide or, importantly, in how we provide it.
3. The U.S. can take several specific actions that would improve the quality of our aid administration and would make our foreign assistance much more effective in achieving our goals.

I. Motivations: Why Foreign Assistance Matters

To begin with, let me suggest three basic motivations for why we need a strong and effective foreign assistance program:

1. ***National Security.*** Foreign assistance is a vital tool for strengthening our national security. It has played a crucial role in the war on terrorism by supporting both frontline states and weak states where terrorism might breed. In the last two years aid has helped support key allies such as Pakistan and Jordan as well as in rebuilding Afghanistan and Iraq. Foreign assistance has also been an important instrument, when used judiciously, as part of our approach in failed states that have no functional governments (such as Liberia), failing states that seem dangerously headed for collapse (such as Zimbabwe), and key fragile states that could easily implode with potentially serious regional spillover effects (such as Nigeria or Indonesia). Foreign assistance has been central to achieving a range of other security goals, such as supporting the Camp David Peace accords that brought an end to armed conflict between Egypt and Israel, and in strengthening the states of the former Soviet Union.

2. ***Promotion of American Values of Openness, Prosperity, Freedom, and Democracy.*** Foreign assistance is a key tool for the United States to lead the world in promoting its vision for a more prosperous and democratic world – a vision shared by most people around the world. Unfortunately, many people in low-income countries see economic opportunity, escape from poverty and political freedom only as distant dreams. The gap between the richest and poorest countries in the world has widened considerably during the last 20 years, breeding resentment and anger among people who believe – rightly or wrongly – that the rich have rigged the international system in their favor. In addition, an increasing number of groups around the world promote radical ideologies that blame the United States and the values we and others espouse as the problem, not the solution. The United States needs poor countries as well as rich countries to support the values we champion, and to believe that they, too, can climb out of poverty and achieve economic and political freedom. It is directly in our national interest to help low-income countries achieve rapid economic growth, both in terms of expanding markets for our products and

to enhance global economic and political stability. Ultimately, of course, the key to poverty reduction is economic growth, which depends far more on a country's own policies and on world trade and financial systems than on foreign aid. Nevertheless, appropriately designed and effectively delivered foreign assistance can be a key tool to help countries escape poverty, promote democratic reforms, and build vibrant private sectors to participate in the global economy.

3. ***Humanitarian Values.*** For most Americans, helping the poorest people of the world is simply the right thing to do. Relieving human suffering; providing economic and educational opportunities; supporting human rights; and promoting a better and safer world are all goals that have all been at the core of American foreign policy since the founding of the Republic. Putting aside national security, many Americans believe that the growing gap between the rich and poor is morally unacceptable. These views are behind the protests against the World Trade Organization, the IMF, and the World Bank and the drive for greater debt relief for poor countries. They are also a key reason for the strong support behind the United States' new Global AIDS Initiative. There is growing support from conservatives and liberals, Republicans and Democrats, faith-based groups and others that we must do more to fight the ravages of global poverty.

II. Objectives: What Do We Want to Achieve?

These three motivations are at the heart of *why* we want to have an effective foreign aid program. But *what*, specifically, do we want to achieve? I believe the U.S. has four key objectives, each of which is closely related to the motivations I have just described.

1. ***Enhance our National Security.*** A key goal should be to help to win the war on terrorism, strengthen our security, and make the world a safer place. Foreign assistance programs should also support important allies and help achieve our other key foreign policy objectives, such as supporting Middle East peace.

2. ***Promote Economic Development and Poverty Reduction.*** We should aim to help countries build roads, schools, and clinics; improve the delivery of social services; strengthen the private sector; build key institutions for good governance; and develop sustainable environmental policies. Ultimately our assistance programs should be designed to help countries reduce poverty, increase literacy, improve basic health, and accelerate economic growth.

3. ***Promote Political Stability and Political Development.*** Some of our assistance programs should be directed at conflict prevention; others should be used to build peace in post-conflict situations. In addition, we should continue to strive to help build strong democracies around the world, including helping to strengthen fragile democracies.

4. ***Respond Effectively to Humanitarian Crises.*** The U.S. needs the capacity to respond to humanitarian crises around the world, whether resulting from natural disasters, political crises, or other causes. We need to be able to respond quickly and effectively in concert with other governments and international organizations.

Although each of these objectives is central to our foreign policy goals, it is important to note that they differ and at times conflict with one another. This implies that we need to formulate different approaches for foreign assistance in different circumstances. It also suggests we need to take great care in assessing the effectiveness of foreign aid – some programs that may have failed to spur economic growth may have been very successful in averting humanitarian crises or promoting peace.

III. New Initiatives by the Bush Administration

The Bush administration has taken important steps towards elevating the importance of developing countries in our foreign policy dialogue by initiating some dramatic new programs aimed at improving the effectiveness of U.S. foreign aid.

- First, the administration's National Security Strategy of September 2002 gives rare prominence to development alongside defense and diplomacy. It proclaims that "We will actively work to bring the hope of democracy, development, free markets, and free trade to every corner of the world." The administration clearly understands that the economic development of low-income countries is directly in our national interest, and that we should help support development and poverty reduction around the world, not just in a few countries.
- Second, it introduced the Millennium Challenge Account (MCA) 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.
- Third, it introduced the Emergency Plan for AIDS Relief last year to focus resources on 15 countries ravaged by this killer disease.

The MCA and the Emergency Plan for AIDS Relief both have great potential. Together they represent an important increase in resources and an attempt to improve the way in which foreign aid is delivered. The MCA, in particular, will not only provide more funds, but promises to deliver them in innovative ways that give recipients more responsibility, reduce administrative costs, and focus on achieving results. In addition, the administration has proposed something on the order of 15-20 other smaller foreign aid initiatives. Some of these are notable and are being implemented, such as the push for the World Bank to provide more of its funds as grants and the bilateral program focusing on mother-to-child transmission of HIV. Many, however, have simply been promises announced during meetings with various heads of state or at international meetings with little or no follow-up.

IV. Falling Short of a Coherent Strategy

Although the new programs are welcome, they do not add up to a coherent and comprehensive strategy for foreign assistance designed to meet our major foreign policy goals in the post-September 11th world. The new programs will reach only a relatively small number of countries, and there remain some gaping holes in our foreign assistance program. Shortcomings of the current approach include:

1. ***Incomplete Country Coverage.*** The MCA will provide funds to perhaps 15-20 low-income countries in its early years, and the administration has yet to develop any real plans for working with the countries that do not qualify. Surely our national interests expand beyond the limited number of countries that will qualify for this important program. On several occasions President Bush has committed the administration to fighting poverty around the world, not just in a few countries. But so far the administration has not translated this commitment into a complete set of programs sufficient to achieve that goal.

Similarly, the Emergency Plan for AIDS Relief will focus on 15 countries that have some of the highest HIV/AIDS prevalence rates in the world. But it leaves out several countries with high prevalence rates (such as Malawi, Swaziland, and Lesotho) and does not increase assistance for the many countries in the world that are struggling to contain the epidemic, such as Senegal, India, Russia, Bangladesh, and Ukraine. Some of these countries are of great strategic interest to the United States, and we should be working much harder with them to keep the epidemic under control. In addition, the program maintains, but does not increase, support for research into new treatments and a vaccine, even though the latter ultimately is the only way to stop this disease.

2. ***Lack of Attention to Consolidating Political Change.*** Moreover, there is no strategy to help consolidate democracy and political stability in key states around the world, and many are at risk. The lack of strategic thinking has become apparent on several occasions. For example, when President Gonzalo Sanchez de Lozada of Bolivia visited the White House in November 2002, he requested \$150 million to support social programs to fight poverty. He feared that without such support, major political unrest was inevitable. Despite Bolivia's solid record of good governance and strong friendship with the US, he was rebuffed, and received just \$10 million. As he feared, he was forced out of office 11 months later. The ousting of Sanchez, the fourth elected Latin American president to be driven out of office by opposition protests in only four years, represents a dramatic setback to U.S. regional objectives and is a force for destabilization throughout the Andean region. There are many fragile democracies like Bolivia around the world, and the U.S. does not have a clear, focused strategy to support them.

3. ***No Strategy for Failed and Failing States.*** Perhaps most strikingly, the administration has yet to develop a strategy for working in failed and failing states. Some of these countries present an immediate threat to U.S. security since they can become havens for terrorist activity, as evidenced by Sudan, Somalia, and Afghanistan. Others are a less immediate threat, yet are vulnerable to the spread of illicit criminal networks, as with the growing flow of narcotics through the Caribbean, the trade in conflict diamonds in West Africa, and the explosion of small arms trafficking in Central Asia.

There are many complex issues involved in working in failed states. Effective crisis diplomacy is our most important tool; a strong, flexible, and capable military response should be the option of last resort. Foreign assistance has an important role to play in these environments in mitigating impending conflicts, bringing warring parties to the table, and in securing a stable peace and transition. The U.S. government must take

seriously the tasks of preparing to engage in these environments where appropriate, more effectively linking our military and civilian capacities, and identifying the technical skills and expertise needed to prevent already fragile situations from getting worse.

4. ***Lack of Coordination Across Programs.*** U.S. foreign assistance programs are scattered across several departments and agencies with little coordination and communication. There are at least sixteen U.S. agencies involved in the delivery of foreign assistance, including USAID, the State Department, Treasury, HHS, Defense, Agriculture, Peace Corps and several others. The new Millennium Challenge Corporation has now been added to the mix, and there is a significant risk that adding the new corporation will further fragment our foreign aid programs and make coordination more difficult. It takes a great effort, even for administration insiders, to determine all our assistance programs in any given country. There is little coordination or communication across activities, resulting in a lack of clarity of purpose, some duplication of efforts, and administrative waste.

V. Toward a More Comprehensive Foreign Assistance Strategy

Many of our foreign assistance programs have been successful, either in supporting economic growth, improving health and education, and reducing poverty; or in achieving other goals of averting conflict, securing peace, and responding to humanitarian crises. But many others have been ineffective, and there is substantial room for improvement. Developing a comprehensive foreign assistance strategy should be at the heart of improving our programs. Four basic pieces are required:

- First, the strategy should lay out clearly the motivations and objectives for foreign assistance and their relationship to our foreign policy goals.
- Second, it should establish a set of operational plans for assistance programs in different kinds of recipient countries.
- Third, it should ensure coordination across our foreign assistance programs and integrate these programs with our other policy tools for working with low-income countries (e.g., trade, immigration, investment, etc.), as well as for better harmonizing our efforts with those of other donors.
- Fourth, it should summarize the budgetary requirements necessary to achieve those goals.

I have already outlined some of our key motivations and objectives. Let me now turn to the importance of establishing a set of operational plans for delivering aid effectively in recipient countries.

Expanding the Toolkit: Different Approaches in Different Countries

The different objectives we have for foreign assistance, coupled with the reality of very diverse circumstances on the ground across recipient countries, call for a set of distinct but coordinated operational plans. Our current programs are too close to a “one-size-fits all” approach which treats all low-income countries as if they were similar in their quality of governance and ability to use aid effectively. We need to develop a set of foreign

assistance strategies that differ across countries depending on their level of poverty, development priorities, quality of governance, vulnerability to political uncertainty, and their strategic interests to the United States. A recent "White Paper" by USAID is perhaps a first step in this direction with some promising ideas, but it is a discussion paper rather than a policy statement, and only deals with programs run by USAID.¹

Let me suggest five different approaches for delivering our assistance more effectively in different kinds of countries.

1. ***MCA Countries***. These countries have shown the best governance and the strongest commitment to development, and it makes sense to have both high standards for this program and a different way of delivering aid to those that qualify. These countries should be given larger amounts of funding and more responsibility for setting priorities and choosing the best ways to spend foreign assistance dollars. We should be willing to provide funds to these countries to support broad programs or directly to their budget. We should expect that they spell out the specific goals they are hoping to achieve, many of which should be consistent with the Millennium Development Goals, and that they are held accountable for achieving results. Most MCA funds should go through the national government, but regional government, local governments, NGOs, and certain private entities should be eligible to receive funding for promising programs as well.

2. ***"Tier-II" Countries***. These countries just miss qualifying for the MCA and could qualify within two or three years. The MCA authorization allocated 10% of MCA funding for these countries, but the administration has yet to lay out a strategy for working with them. These countries should receive more funding than under our standard programs, but substantially less than they would under the MCA. But we should not simply allocate more money and deliver it in the old standard way. This portion of our funding should operate like the MCA: let the governments write a proposal for how they would use the funds (but for a much more limited set of activities than under the MCA), expect that they describe precise benchmarks for monitoring progress, and hold them accountable for achieving results. In other words, we should be getting these countries ready for the MCA in a broader sense than just making the indicators: they should be designing some of their own programs, be given more flexibility with how they use part of the funds, and be expected to show results.

3. ***Countries with Weaker Governance***. These countries have a poorer record on economic policy and governance and a weaker commitment to poverty reduction, but are not failed or failing states. These countries should receive fewer funds than countries in the first two groups, and activities should be focused narrowly in areas where the government shows strong commitment. For example, if the Ministry of Health has a good record of results with aid-funded projects, resources should be focused there. Activities in these countries should be directed more toward projects

¹ U.S. Foreign Aid: Meeting the Challenges of the Twenty-First Century.
http://www.dec.org/pdf_docs/PDABZ322.pdf

than broader programs, and they should be monitored carefully. As in other countries, specific benchmarks for progress should be identified, and countries should be held accountable for achieving results. A greater share of resources in these countries should be directed to NGOs and private groups that may be able to deliver services more effectively to the poor.

4. ***Failed and Failing States.*** This is the most difficult category. Because of the complexities and risks involved, these countries must be dealt with on a case-by-case basis. We should develop strategies for each country, detailing our strategic interests, the range of tools we have to work with them (diplomatic, military, financial, debt relief, market access, etc), and a plan for using these tools together to achieve our specific goals. Financial aid should be tightly focused on humanitarian relief and providing basic services to the poor. In some countries, no aid should be provided at all; where it is, much of it should go through NGOs. Where we can identify key government leaders committed to change, we should be prepared to assist in the most basic tasks of state-building: the regeneration of government institutions, support for transparent and accountable police and military services, and technical assistance to develop sound economic policies. States emerging from violent conflict face a significant risk of collapse, and it is at that transitional juncture that U.S. foreign assistance can play a catalytic role. Programs in failed states require very careful monitoring, regular re-appraisal, flexible responses as initiatives begin to work or fail, and a higher tolerance for failure than when working in other countries. The complex issues of U.S. policy in weak and failing states are currently being examined by a senior bi-partisan Commission at the Center for Global Development.²

5. ***Humanitarian Relief.*** We should strengthen our ability to respond effectively to humanitarian crises around the world, whether emanating from natural disasters or political upheaval. Humanitarian assistance should be provided in addition to, not as a substitute for, the development programs described above. Although our core relief programs are laudable, we do not invest sufficiently in prevention of humanitarian crises. For example, our food relief efforts in Ethiopia in recent years have been substantially larger than our investments in agricultural development. We do not make sufficient links between our emergency programs and longer-term development. One reason is that the different offices involved in humanitarian relief have different procedures and processes both from each other and from those used in other long-term development programs.

Coordination and Integration Across Programs and Policies

A strong strategy should include a vision for how our many different foreign assistance programs should work together, and how they integrate with other policy tools for working with low-income countries. The administration has taken a step in this process by forming a coordinator's office within the State Department for HIV/AIDS programs and in establishing a Joint Policy Group between USAID and State. Whether these

² The report of the Commission on Weak States and National Security, co-chaired by John Porter and Stuart Eizenstat, is due to be released in May 2004.

changes ultimately streamline our programs or simply add new layers on top of existing efforts remains to be seen. In addition, deeper consideration is needed of the possibility of eliminating programs in some agencies and merging the efforts of others. Although these kinds of bureaucratic changes are difficult, they could significantly improve the effectiveness of our programs.

In addition to thinking about various bilateral strategies, we must consider when to provide funding through multilateral organizations rather than bilaterally. While working through our own programs allows us to maintain full control, multilateral approaches can leverage funds from many sources, provide efficiency gains in administration and oversight, and ease the burden on recipient countries as they deal with fewer donors. However, the quality of multilateral agencies varies widely, and there are no hard and fast rules about how to allocate funds in bilateral versus multilateral agencies. In addition to providing funding to the multilateral agencies, we need to find ways to better integrate our foreign assistance programs with those of other donors. Aid recipients are often swamped by the sheer number of different aid donors, each with their own requirements for project design, procurement, monitoring and reporting. U.S. foreign assistance programs have the reputation of always insisting on doing things their own way, even if appropriate alternatives are available. The U.S. should *seriously* engage with other donors to find harmonized systems that will uphold donor standards while easing the burden on capacity-constrained recipients.

In developing these approaches, it is important to remember that foreign assistance is only one of the many policy tools that the U.S. has to promote economic, social, and political development. Foreign assistance should compliment policies in trade, peace-keeping, investment, migration, and environmental stewardship. Our foreign assistance will be more effective if it is aligned with these other policy areas, and if it is part of a broader global engagement strategy that ensures that the U.S. is not giving development assistance with one hand and taking away economic opportunity with the other – such as by subsidizing agricultural or restricting imports of textile products from poor countries.

The Quantity of U.S. Foreign Aid

The United States provides more foreign assistance than any other country. U.S. non-military aid for economic development in the poorest countries of the world – called “Official Development Assistance” by the Development Assistance Committee of the OECD – reached \$13 billion in 2002. Aid to richer countries such as Israel pushes the figure higher.³ However, the U.S. provides much less than any other donor as a share of our national income. Official Development Assistance from the U.S. is the equivalent of 0.13 percent of U.S. GNP – just slightly more than one-eighth of one percent of our total income. The next lowest country on the list – Italy – provides almost 50% more as a share of its income, about two-tenths of one percent. Even if the MCA and Emergency Plan for AIDS Relief are fully funded, the U.S. will remain 22nd out of 22 OECD donors in official foreign aid as a share of national income. Aid as a share of our national

³ Note that these figures are lower than the total amounts in the foreign operations budget, since some of those funds do not count as “official development assistance” by the standard international definitions.

income will still remain far smaller than it was between 1975 and the end of the Cold War in 1990, when aid averaged over 0.20% of U.S. GNP, about 50% more than the 2002 level. Even adding in upper range estimates of private contributions through foundations and charitable organizations, total U.S. foreign aid – public and private – is the equivalent of only about 0.30 percent of U.S. income, which would move the U.S. up to about 16th place of the 22 donors in terms of total foreign aid.

The total quantity of U.S. foreign aid, of course, is not really the point, nor is where we rank relative to other countries. This is not a beauty contest. *The real problem that these figures highlight is that the current quantities of U.S. foreign aid are too small for us to meet our key foreign policy objectives.* Consider the following examples:

- (1) While important progress has been made in the war on terrorism, we have not yet fully turned the tide. The Bush administration has provided significant funding for frontline and weak states, but these amounts will have to continue and likely increase. For example, Afghanistan is only receiving 1/20th of the funding that Iraq receives, despite its similar size and much greater development needs, and its future prospects remain murky. Pakistan, Indonesia, Turkey and other countries will require significant support going forward.
- (2) Increasingly, and unfortunately, people around the world look to the U.S. with resentment and distrust, rather than as a beacon of hope for prosperity and peace. All indications suggest that the tide of global opinion has turned against the U.S. in the last two years. Simultaneously, in many countries public opinion is also turning against more open trade and globalization. Regardless of whether these views are justified or not, the key point is that in many developing countries we are not winning the war for hearts and minds to believe in our vision for the world.
- (3) The gap between the “haves” and the “have-nots” in the world economy has widened substantially during the last 20 years. As many people enjoy greater prosperity, 1.2 billion people are left behind to live on \$1 a day or less. Approximately 113 million primary-school age children are not in school, a fact that does not bode well for future generations. We are not winning the fight to reduce global poverty and build a more inclusive world in which poor countries can prosper.
- (4) HIV/AIDS, tuberculosis, malaria, and diarrheal diseases continue to ravage poor countries, and threaten to expand to create major social and economic disintegration in key countries such as South Africa, Nigeria, Ethiopia, India, China, and Russia. Public health spending in sub-Saharan Africa (outside of South Africa) averages just \$6 per person per year, and with incomes averaging less than \$350 per year, they simply do not have the resources to fight these diseases on their own. Even with the Emergency Plan for AIDS Relief, we are losing a war that we possess the technology to prevent, and history and humanity will judge us severely as a result.

In my opinion, and in the opinion of many others, the United States needs to significantly expand the size of its foreign assistance programs beyond the MCA and the Emergency Plan for AIDS Relief if we are serious about trying to achieve our main foreign policy goals. But not only must we increase the size of the programs, we must significantly improve the way we organize and deliver our aid if it is to become more effective.

VI. Some Steps Forward

Several actions could be taken to improve coordination, clarify objectives, and create a more coherent, effective, and strategic foreign aid program.

1. ***A New Department?*** At the broadest level, one possibility would be to create a new Department for International Development that would bring under the direction of one Cabinet official all U.S. foreign aid programs. This would not entail an expansion in the size of the U.S. bureaucracy, but rather a re-organization across existing agencies. This new department (or agency) would incorporate all of USAID and the foreign aid programs currently run by State (e.g., the Economic Support Fund), Treasury (including U.S. government relationships with the IMF and multilateral development banks), HHS, Agriculture, Defense, and others. This step would ensure greater coordination, and would designate one person, reporting to the President, to be responsible for all aid programs. The United Kingdom took this step several years ago, and its foreign aid programs are now considered among the very best of the bilateral donors.

2. ***Rewrite the Foreign Assistance Act.*** The Foreign Assistance Act (FAA) of 1961, which governs most U.S. foreign aid activities, is badly out of date and needs to be rewritten. The current amended version of the Act is nearly 2,000 pages long and includes a complex web of rules, regulations, and directives. The FAA contains a remarkable 33 objectives and 75 priorities for USAID. A new FAA is central to clarifying the central objectives and methods of foreign assistance to meet U.S. foreign policy goals in the 21st century. Re-writing the FAA would allow a fundamental redesign of the morass of personnel and procurement regulations and other rules that undermine USAID's effectiveness. In particular, and among other issues, a new FAA should aim to:

- ***Reduce Earmarking.*** The current foreign aid budget is subject to an astonishing amount of earmarking. Although many earmarks are well intentioned, as a whole they severely cripple the ability of the USG to effectively allocate funds to the highest priority areas. The result is a misallocation of funds, with too much money forced into some areas, and leaving too little for others where stronger results are possible.
- ***Eliminate Tied Aid.*** "Tied aid" mandates that goods and services can be procured only from the U.S. or the recipient country. Tied aid decreases the effectiveness of foreign aid by forcing the recipient to purchase goods and services that may not be the most cost effective available. By some estimates, tying aid increases its costs by 15-30%. Our aid programs should aim to support innovative development projects and programs using the best expertise available, not to support U.S. contractors. When we add regulations that require that funds be directed to particular contractors, we undermine the goal of reducing poverty in recipient countries. The U.S. ties more of its aid than most other donors, which significantly weakens the effectiveness of our aid programs. The U.S. has made numerous pledges in recent years to reduce tied aid, but little has actually been accomplished.

3. ***Develop a National Foreign Assistance Strategy.*** Each administration should be expected to prepare, early in its tenure, a national foreign assistance strategy. This

document would lay out its main objectives and priorities, describe the main programs it will use to meet these objectives, and explain its strategies for coordinating and communicating across agencies. It would not be necessary to prepare such a strategy every year. Each administration should be expected to complete it by the end of its first year in office, and perhaps to revise it during the third year if necessary.

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. Even within the 150 Account, where most assistance activities are located, it is difficult to clearly understand the amounts being allocated to different purposes and priorities. It is very difficult to look through the budget and determine where and how we are spending our assistance dollars. As a policy and planning document, the foreign assistance budget needs to be significantly strengthened.

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. We need to orient our programs much more toward achieving results. 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

6. ***Refocus USAID.*** The administration and Congress should develop a new strategic vision for USAID. The agency's report "Foreign Aid in the National Interest" contains some useful ideas, but falls far short of proposing a new strategy and vision. The recent "White Paper" goes further, but is a discussion document rather than a policy paper. The Agency should define more clearly the different approaches it will make in "Tier-II" countries, weaker countries, and failed and failing states to achieve results, recognizing the greater risks inherent in these circumstances. It should narrow the scope of substantive activities that it funds. USAID now takes on too wide a range of activities in many countries, making it more difficult to achieve strong results in any. Setting priorities means making clear decisions about the range of activities that the agency will *not* undertake, and will leave to other agencies (some outside the U.S. government) that have greater expertise. In addition, it should work to streamline its contracting and procurement procedures and otherwise simplify bureaucratic processes. Finally, Congress needs to do its part by reducing the amount of earmarked funds and tied aid that severely limit the agency's flexibility and effectiveness.

Taking on these challenges will not be easy. But today there is backing for a renewed focus on foreign assistance in the administration and among lawmakers on both sides of the aisles, with a growing consensus around objectives, methods, and strategies. It is time to take advantage of this rare opportunity to make U.S. foreign assistance more effective in combating poverty, widening the circle of development and prosperity, fighting terrorism, and furthering other U.S. strategic interests abroad.