



USAID in the 21st Century: What do we need for the tasks at hand?

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Chairman Menendez and Committee members, thank you for the invitation to testify this morning on the future of USAID. It is a fitting and timely topic; there has never been a time when the US has needed a strong voice and leadership in development. And, I fear, there has never been a time when that voice has been more uncertain.

The Importance of Development in the 21st Century

There is more consensus today than ever before among our political leadership, public officials, scholars and policy analysts and the American public that promoting development abroad should be a key element in US foreign policy – along with diplomacy and defense. Helping the 2 billion people in the world to help themselves emerge from poverty and deprivation is not only the right thing for the US to do – even in this time of financial crisis at home and abroad – but it is very much in the US interest to do so. Poverty is often associated with instability, conflict, environmental stress, the spread of infectious disease, and other ills that in our globalized world can race across borders and meet us not just in our living rooms but in our lives and affect our well being and our future. We need a strong US government development agency to lead our government’s efforts to promote development abroad, both as an end and as a means to other ends of US foreign policy.

The Challenges of Development in Coming Decades.

But helping to further development abroad is no simple task; indeed, it has never been more complex and changing. We have seen greater volatility in world economic conditions than at any time in recent memory with not just a financial crisis with ramifications for world production, consumption, incomes and employment but also an energy crisis and a food crisis in which rapidly rising and then falling prices greatly complicated the challenge of development. How, for example, can small farmers in Africa – or farmers anywhere – plan for the next planting if they see the prices of their inputs as well as their products rise and fall and rise again?

The impact of the financial crisis and a drastic slowing of worldwide economic growth are not the only challenges of supporting effective development in the world today. Several others are longer run and equally important. One involves the relationships between development, terrorism, drugs and crime. Many believe that stable and prosperous economies with effective states are the best insurance against terrorists establishing training and operations. It is clear from a look just south of our borders to Mexico and Guatemala that it takes especially strong states to resist the threats and blandishments of narco-traffickers. I fear we are moving close to the establishment of two narco-states very near the American heartland. These problems are not solely about development as traditionally conceived. But they are big and very threatening problems that involve development as well as the effectiveness of states. We need to be far better positioned to address these problems than we are today. An agency with not only a strong development mission but one that can connect that mission with other US interests is essential.

A further set of challenges and opportunities confronts USAID in the 21st century: there are many more agencies and organizations in the development business today than there were just a decade ago – NGOs which have mushroomed in number; philanthropic foundations large and small; corporate foundations; major corporate enterprises themselves; venture capitalists looking for double and triple bottom lines (doing good as well as doing well with their investments) and even internet portals that now make it possible for individuals to provide private aid directly to worthy causes abroad.

In addition to all these new and not so new actors in the development scene, we are now observing new governments becoming sources of development aid. All the new members of the European Union are required to undertake aid programs. Formerly (and still) poor countries like India and China – not to mention Korea, Thailand and Turkey – are also in the aid-giving business. China has become a significant source of aid in Asia, Africa and Latin America – though we remain unsure of just how large Chinese aid actually is.

Finally, there is the technology factor, especially the spread and rapidly evolving uses of information and cell phone technology. We have all seen the pictures of Masai warriors in the African bush standing on one leg talking on their cell phone. That is not just something imagined by clever advertising executives. Even the poor are increasingly part of the global information highway. The information now available to almost everyone informs the fishermen off the coast of India or the cotton farmers in Mali what the daily prices are for their products and empowers them as never before. The Chinese have found ways to connect with one another and share information that allows them to organize and put pressure on their government for reforms. We can now bank, do medical consultations, organize demonstrations in support of political change with these cell phones. Ultimately, the greater knowledge available will empower the poor as well as others to be more productive, have more control over their lives and be better informed and educated. (I can imagine young people in rural areas in poor countries eventually being able to gain high and college degrees through distance education obtainable through cell phones.) The IT revolution and the cell phone that increasingly utilizes it may be the most important revolution in human history.

We need a strong aid agency that understands the details and implications of these changes and is agile and flexible enough to respond to them to realize its mission of furthering development and reducing poverty in this 21st century. .

USAID: The Current State of Play

USAID suffers from several problems that in my view prevent it from providing the leadership needed in US development policy in the 21st century. These problems, I should emphasize, do not exist because of USAID's staff which is committed and experienced but despite its excellent staff. They are structural problems that I very much hope will be addressed soon by the Obama administration and Secretary of State Clinton.

1. USAID's staff has been severely reduced over the past decade and a half, with the training so necessary to rise as effective managers and leaders also much constrained. At the same time, the Agency has taken on the management of much larger amounts of assistance. This situation is not sustainable. These problems were recognized at the end of the Bush administration and Secretary Rice together with partners in Congress supported an expansion of USAID's staff. This expansion should continue but should be keyed to the future organization and functions of the Agency. For that, we need a sense of the future direction of the Agency. I have students who ask me frequently whether it is worth working for USAID given the uncertainties facing it at present.
2. USAID has become little more than an implementing agency for programs decided in the Department of State (the "F bureau and elsewhere). During the reforms associated with "Transformational Diplomacy" in the Bush administration, most of the policy and budgetary expertise in USAID was relocated to the F Bureau, taking away from the Agency the capacity to analyze and develop US development policies and link budgets to policies. Apart from a few policy staff in the office of the Chief Operating Officer dealing mainly with process issues, USAID today is no longer the administration's lead 'thinker' on development. This deficiency limits US leadership in development abroad and at home. This must change if USAID is to have any role in US development policy in the future and if the US is to regain its past position as a leader in the international development field.
3. Somewhat related to the previous point USAID is now one of three major bilateral aid programs that also include the Millennium Challenge Corporation and PEPFAR. There is a notional division of labor between them but also some overlap regarding what they work on and where they work. There are many more US government agencies with their own (mostly relatively small) bilateral aid programs and responsibility for US contributions and policies vis a vis the international financial institutions located in the Treasury Department. There is no reason why all aid should be managed in the same place – indeed, there are arguments against such an arrangement. But the many US government aid programs makes the US the world leader in fragmented aid programs – even surpassing the French government (and probably the Chinese) which are also highly fragmented. There needs not only to be

greater coherence and collaboration among all these programs but a clear division of labor among them. USAID should be the leader in shaping development policies with input and collaboration with other programs; it should also identify its particular functions – including but not limited to taking an overview of development needs in recipient countries and providing advice on economic and political reforms to willing governments; working directly poor communities and civil society organizations on projects and programs involving education, health (not including HIV/AIDS, TB and Malaria which are addressed by PEPFAR and not including infrastructure which is part of MCC's remit); working on food security and agricultural development – essential to economic progress in many poor countries; providing humanitarian assistance and post-conflict reconstruction; and developing an expertise on helping to strengthen weak governments with potential security problems (in collaboration with the Department of Defense).

4. If USAID is to be a truly 21st century development agency, it needs the funding and the staff to permit it to be agile and flexible in collaborating with other development agencies and programs, private and public alike. It is no longer possible for the US government to lead by fiat; it must lead by finding the opportunities to collaborate, sometimes to follow others' initiatives, to innovate and leverage where possible resources to address common problems. The Global Development Alliance created by the Bush administration was an admirable effort in this direction. That effort needs to be extended into other innovative directions. The Agency needs flexible funding to be the innovator and leader it must become, either from fewer earmarks on its development assistance monies or an earmark for flexible funding. It also needs funding to support research in areas important to development but not funded by private enterprises – for example, in agriculture. The pressures within USAID, from other parts of the administration and the Congress are to allocate funding to service delivery abroad, preferably with visible, direct impacts on people. This is an important function for an aid agency. But expenditures on research can make enormous differences in growth, poverty reduction and the quality of lives for everyone – the Green Revolution in agriculture is but one example. However, the results of investment in research are often long term and uncertain; it is thus important but often very hard to preserve funding such expenditures. I hate to recommend another earmark – there are too many already -- but I wonder if funding for research might not warrant one.
5. My greatest concern about the future of USAID is not about any of these internal challenges or about inter-agency collaboration. It is about where USAID is now located – integrated into the Department of State in most essential ways (planning and budgeting) except for its personnel service. Secretary Clinton understands the nature and importance of development better than any other Secretary of State I have observed or worked with. But Secretary Clinton is only one person and she will not be Secretary of State forever. The pressures within the Department of State – where I have served as a Deputy Assistant Secretary of State for Africa – are on dealing with immediate issues and crises, usually in US relations with other governments. There is seldom the luxury of taking the long view, of withholding

development aid from governments whose cooperation we need but who are incompetent, corrupt or uncommitted to the betterment of their populations, or of working with pesky NGOs who can drive our allies abroad to distraction by their criticisms. These latter functions are all part of USAID's work abroad with development assistance. (USAID also implements other aid programs for State – for example, Economic Support Funds – which are intended to support US diplomatic efforts and are very important in that regard.) The danger is that the more USAID is drawn into the State Department orbit, the more its development assistance programs and the more all US aid programs become tools primarily of diplomacy. One key reason for this tendency is that not only USAID's autonomy but its development voice will be lost. Indeed, its autonomy is already lost. When I served in the Agency, we could always appeal to the White House for help when State wanted us to do something we thought ill advised. Ironically, we avoided being merged into State during the Clinton administration because we were able to appeal to then First Lady Hillary Clinton for help. And I have every reason to think we got that help.

That channel of appeal to others outside of State is now extinguished. The USAID administrator reports directly and only to the Secretary of State. (The Administrator reported both to the Secretary of State and the White House in the past.) USAID directors in missions abroad report to ambassadors and these arrangements, I fear, are a recipe for the eventual loss of USAID's development mission in the 21st century. There is at present a letter circulating urging the administration to create a seat on the National Security Council for the USAID administrator. But how long will it be before someone points out that at present that will likely give the Secretary of State two votes on the NSC – for what USAID administrator will openly oppose and even vote against policies favored by the Secretary of State in such a body?

There is considerable support for combining MCC, PEPFAR and USAID in some form in the Obama administration. This makes a lot of sense – but not until USAID's relationship with State is clarified. If USAID gains control over these other agencies but has no autonomy of its own, these agencies will also be moved into State's orbit. And this decision – whether made consciously or as a result of other decisions – will be potentially momentous for the future of US development aid.

Finally, should USAID remain partially merged with State in the future, is there anything that can be done to preserve the development mission and ensure that it is truly a strong element in US foreign policy generally? This is an issue that the development community has avoided tackling but it is time to consider it now. If USAID is not to have a measure of autonomy from State, it must have a measure of protection for its mission within State. Its personnel system should become a new cone for State Department officers with appropriate training, rotation, promotion and other elements of an effective career system. There should be a new Deputy Secretary of State in charge of development – the post of Administrator of USAID is at the Deputy Secretary level and needs to have that degree of status and clout if development is to be an important pillar of US foreign policy.

Ideally, there should be legislation that preserves the development mission of US aid and oversight that ensures the mission is followed and realized.

The current relationship between USAID and state is confused and unsustainable if USAID and the US government generally are to be leaders in development in this century. The most urgent task facing the administration in the area of development is to clarify this relationship and strengthen USAID itself. I hope this committee will keep this issue on its agenda until we have the strong development agency we need, the strong voice for development within the administration and the expertise to back up that voice. We are in great danger of losing it at present.