



## **USAID in the 21<sup>st</sup> Century: What Do We Need for the Tasks at Hand?**

### **Testimony for the Senate Foreign Relations Subcommittee on International Development, Foreign Assistance, Economic Affairs, and International Environmental Protection**

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Thank you, Chairman Menendez, Ranking Member Corker and other members of the Subcommittee. I am honored that you have invited me to offer some perspectives on the role of USAID in the 21<sup>st</sup> century.

#### **I. Introduction: What Happens There Matters Here**

Today we find ourselves at a critical juncture. The challenges our country faces at home and abroad are serious and emblematic of a new era. An era where the world's challenges—disease, human and food insecurity, climate change, financial crises—do not respect borders and are truly global problems requiring global solutions. Trade, remittances, and private investment tie rich and poor countries together, creating shared opportunities for prosperity in plentiful times, but also shared instability and strain in times of financial crisis. Outdated and inefficient policies, instruments, and organizational structures must be brought into the 21<sup>st</sup> century. The new Obama administration is confronting a perfect storm of domestic economic concerns at home and multiple challenges overseas: continued wars in Iraq and Afghanistan, escalating instability in Pakistan, emerging sanctuaries for terrorism and piracy in unstable regions of Africa, and, in the wake of the global economic downturn, deepened poverty and threats of heightened political instability in countries across the world.

All of these global threats pose direct and grave challenges to our national security at home and to fighting disease and poverty around the world. In each and every case, cutting-edge development policy and an empowered development agency are critical to an effective solution. As President Obama outlined in his administration's new strategy for Pakistan and Afghanistan, stability in these crucial areas will remain elusive unless development outcomes are achieved. Part and parcel of the administration's strategy in these countries are core development activities: the delivery of basic health and education services, efforts to bolster the capacity of both states to govern effectively, the introduction of alternative sources of livelihoods for Afghan poppy growers, building infrastructure, and stimulating robust economic growth in the impoverished border regions of Pakistan that are home to extremists, to name a few.

For these reasons, President Obama has pledged his commitment to elevate development as one of the three “D’s” of our national security—alongside defense and diplomacy—and to leverage development and foreign assistance as key “smart power” tools of statecraft. So, too, have a host of public officials across government:

- Secretary Clinton, in her Senate confirmation hearing, said “Investing in our common humanity through social development is not marginal to our foreign policy but integral to accomplishing our goals.”
- Retired Marine Corps General Anthony Zinni has said “We know that the ‘enemies’ in the world today are actually conditions—poverty, infectious disease, political turmoil and corruption, environmental and energy challenges.”
- Defense Secretary Gates said “It has become clear that America’s civilian institutions of diplomacy and development have been chronically undermanned and under-funded for far too long—relative to what we spend on the military, and more important, relative to the responsibilities and challenges our nation has around the world.”
- Former Secretary of Agriculture Daniel Glickman urged this committee just last week to strengthen U.S. development leadership and USAID to address the global food crisis.

Furthermore, global development was part of the political discourse in the 2008 presidential elections, spurred by an informed, supportive and growing constituency of Americans who asked Republican and Democratic candidates alike how they would strengthen U.S. development programs. There has been no greater moment in recent history to modernize and strengthen our development programs to address the challenges and opportunities of the 21<sup>st</sup> century.

## **II. Investing in a Modernization Agenda: What Are We Trying to Achieve?**

As the Obama administration, Congress, military leaders and American voters have recognized, strong development policies and programs are critical to enhancing the U.S. image in the world, achieving our foreign policy goals and increasing our national security. To reap these benefits from development, however, we must have a greater impact on the ground and demonstrate that we are reaching our key objectives in developing countries: stimulating economic growth and poverty reduction, promoting political stability, and responding to humanitarian crises.

Our current development programs deserve more credit than they usually receive. PEPFAR has put 2 million people on life-saving antiretroviral treatment through PEPFAR; the MCC has spurred policy reforms and paved the way for supporting economic growth in 18 countries through investments in agriculture and essential infrastructure; and USAID has many examples of large-scale successes, from the substantial reductions in deaths from maternal and child mortality and diseases like river blindness and polio, to efforts to bring peace and security to countries such as Bosnia and Liberia.

At the same time though, the U.S. development voice is more like a choir, without a conductor. We have twenty-some different agencies with different policy objectives, structures, and bureaucracies and little strategic oversight and coordination. And that is just our foreign

assistance. Policies affecting trade, migration, climate change, capital flows, governance and others also influence America's standing in the world and our relationship with other countries, and at present, these policies often contradict each other and undermine our development objectives.

We can, and must, do better. Getting a bigger bang for our development bucks requires being smarter about our development strategy, legislation and organizational apparatus.

### **III. Steps toward Modernizing Foreign Assistance**

While it may be tempting to consider partial changes that make small improvements in our current development architecture, marginal reforms will only lead to marginal improvements, which will fall short of achieving our objectives and may not be sustained over time. More fundamental changes are needed to meet our foreign policy objectives. In particular, four broad steps should be taken to modernize our foreign assistance programs:

- **Craft a development strategy.** The administration should prepare, under the leadership of the NSC, a National Strategy for Global Development, distinct from but consistent and coordinated with the National Security Strategy. A strong strategy is essential for clarifying goals and objectives, coordinating development-related activities spread across the government, and increasing the efficiency and effectiveness of key programs.
- **Rewrite the Foreign Assistance Act.** The FAA is unwieldy and outdated, and adds significantly to the costs and inefficiencies of many of our programs. While using the authorities in the current act more strategically is a good first step, it is no substitute for reaching a new understanding and alliance with Congress on the goals, objectives, and modalities of foreign assistance programs..
- **Increase funding for and accountability of foreign assistance.** While foreign assistance funding has increased in recent years, it is still a tiny share of the budget, and very small relative to the amounts needed to meet today's challenges. As our HIV/AIDS program has shown, relatively small investments can pay big dividends for both showing strong U.S. leadership abroad and effectively fighting disease and poverty.
- **Build a strong, consolidated, and empowered development agency.** Our programs are spread across too many agencies, and USAID has been significantly weakened over the last decade. President Obama had it right during the campaign: to meet today's challenges we need an elevated, empowered, consolidated and streamlined development agency.

Action on all four fronts is needed to elevate development and modernize U.S. foreign assistance programs. Our discussions today focus on the fourth area, and in particular the next steps for USAID, but these discussions should be seen in the context of the need for other complementary steps to truly make our programs more effective.

## **IV. An Agenda for Building a 21<sup>st</sup> Century Development Agency**

The five most important action steps to rebuild USAID include the following:

### ***1. Put Someone in Charge, with a Seat at the NSC***

To concretely signal President Obama's commitment to elevate development as a "smart power" national security approach alongside defense and diplomacy, the administration should name a strong, capable leader as USAID Administrator as soon as possible to exert leadership on development policy and transform USAID into a 21<sup>st</sup> century development agency. Over time, USAID would be strengthened and re-professionalized to serve as the base for consolidation of other major foreign assistance programs such as MCC, PEPFAR and perhaps even the multilateral development bank programs currently housed at Treasury. The ultimate objective would be to have the USAID Administrator be the one voice of the U.S. government on development policy and development assistance, the one point of contact for the field for questions on development impact of programs and of other government policies (trade, migration, investment, etc.), and the one person accountable to Congress for delivering the development and development assistance agenda.

As a real signal of the importance of development in national security, the USAID Administrator should be included as a member of the National Security Council and other high-level interagency deliberative bodies. At a minimum, the administrator should be invited to all NSC Principals Committee meetings dealing with international economic issues. This will provide professional development perspectives and policy input at the highest policy-setting table, independent from but complementary to diplomatic and defense.

### ***2. Smart Power Requires Smarter Division of Labor***

For our development policies and programs to contribute to the U.S. smart power agenda, we need to be smarter about who sets our development policies, how they inform the decision-making process and where they sit within the U.S. government. Over the last 15 years, we have seen a consistent and substantial reduction in USAID technical staff, a sharp rise in the reliance on private contractors and overall decline in the agency's ability to fulfill its development mission. The creation of the MCC and PEPFAR outside of USAID was viewed an effort to work around USAID dysfunction instead of rebuilding its capacity. And in 2006, USAID's budget, planning and policy functions were transferred into the State Department through the creation of the Director of Foreign Assistance (DFA) further relegating USAID to the status of a contract manager and pass-through for foreign assistance funds. Although the F-Bureau was created in part to better coordinate and elevate foreign assistance, it has come at the expense of a weakened USAID and has divorced on-the-ground implementation of programs from the important policy and budgetary decisions that underpin them. As a result, we now know better where and for what our foreign assistance dollars are going, but the ability to better plan for the most effective use of those resources to meet U.S. objectives have been diminished.

Building a strong and effective development agency will require providing our development programs with a certain degree of autonomy from our diplomatic and defense efforts alongside distinct authority and responsibility over the development budget and policy.

- **Autonomy.** While development programs should be closely aligned with our overarching foreign policy objectives—diplomatic and defense—development is a distinct set of issues requiring very different professional skills and background to address economic development, poverty reduction and long-term management of development programs. Too close of a relationship between State and USAID runs the risk of confusing the two skills sets and not necessarily doing better at either. Some separation between the two objectives will help attract the right experts for each institution and strengthen the core technical development skills required to be more effective with our development dollars. Moreover, direct oversight by the State Department of foreign assistance programs raises the concern that the development mission will be subordinated to the short-term political pressures and diplomatic objectives of the State Department, which could undermine the achievement of key development objectives over time.
- **Budget.** A strong development agency must have budget responsibility to enable the agency to provide a meaningful voice for development (and contribute field perspectives) during the budget preparation and interagency budget negotiations, currently managed by the Office of the Deputy Secretary of State. Many broad budget responsibilities may appropriately lie within the State Department—including responsibilities for *reviewing* and *coordinating* budgets across many foreign affairs agencies, reviewing proposals for reducing inefficiencies and non-performing programs, consulting with Congress on the need to rationalize earmarks, and mobilizing financial resources. But USAID’s authority over its own budget should be restored, including control over the final allocation of development resources across countries and programs based on input from country teams.
- **Policy.** Development assistance strategies, including sectoral and country strategies, should be developed at USAID. The policy function (formerly PPC) currently resides in the F-Bureau and should be transferred back to USAID to facilitate long-term thinking and planning on development policy. Capacity should also be restored to USAID to enable it to design its programs in-house to best meet strategic objectives, ending over time the current practice of outsourcing program design to contractors.

### 3. *Build the Right Team*

One of the key resources needed at USAID is people: both the right *numbers* of staff and the *technical skills* required to function as a premier development agency, as well as the capacity to hire and train staff. Over the past 15 years USAID’s professional capacity has been weakened, not only compared to the past, but also compared to the Departments of Defense and State. In recent years, administrative resources and staffing for USAID have been slashed, at the same time that responsibilities and budgets have grown. Today USAID faces a critical shortfall of experienced career officers and a dearth of technical expertise within USAID in such areas as

science, economics and agriculture, rendering the institution ill-equipped to address the myriad development challenges of the 21<sup>st</sup> century. This combination of staff reductions and scarcity of technical expertise has weakened USAID's capacity to provide strong development input in policy formulation and decision-making, adequately manage projects, and provide appropriate technical oversight.

Fortunately, during the last year this trend has begun to change, with commendable efforts underway to rebuild USAID's staff. But there is still a long way to go. To fill this gap, it will be important to ensure that *net* increases at field posts are significant, above and beyond conversions of Personal Service Contracts (PSCs) and Foreign Service Limited positions (FSLs). To pave the way for an increase in permanent staff hires, it is critical that the constraint on Operating Expenses (OE) be relieved. Other important measures include filling USAID's management gap with an increase in permanent staff, including mid-level managers, possibly through the expansion of the Development Leadership Initiative into civil service and FSN positions, and shifting the balance of USAID human resource from an overwhelming concentration of general management experts to a larger percentage of technical experts.

#### ***4. Provide a Strong Legislative Foundation***

USAID's legislative foundation is the Foreign Assistance Act of 1961. But that foundation is weak and largely out of date. The FAA is nearly 50 years old, grounded largely in Cold War threats, and not focused on meeting today's challenges. Over time hundreds of amendments have added multiple objectives and priorities that in some cases conflict with one another, rendering it ineffectual as a rational policy framework. It has become laden with multiple earmarks that are administratively burdensome, undermine USAID's ability to respond effectively on the ground to greatest needs, and weaken its ability to achieve strong results. The foreign assistance authorization process, which once reviewed and modified the FAA nearly every year, has not functioned in over twenty years.

Rewriting the FAA is central to building a strong and capable development agency. Although several critical pieces of foreign assistance reform can be achieved without legislation—creating a national development strategy, strengthening monitoring and evaluation system, improving procurement and contracting procedures, building human resource capacity—no broad-based foreign assistance modernization initiative can be fully implemented without major legislative modifications.

Rewriting the FAA will require a “grand bargain” between the executive branch and Congress, reflecting a shared vision of the role and management of U.S. foreign assistance, providing the executive branch with the authorities it needs to respond to a rapidly changing world, and ensuring rightful and effective legislative oversight. Done purposefully, inclusively and transparently, this bargain would reestablish confidence in the foreign assistance system among the U.S. public and non-governmental development organizations and reduce the ability of special interests to secure self-serving earmarks. Partially amending the FAA, rather than rewriting it, would run the risk of exacerbating the fragmented and incoherent nature of the existing act, continuing to layer modernized legislative provisions on top of outdated and irrelevant policy authorities. As part of this process, the administration and Congress should

consider renaming USAID to signal a break from the past and its intention transform it into a 21<sup>st</sup> century development agency, perhaps naming it the Development Investment Agency to emphasize our investments in the development process.

The bottom line is that without a restructuring of authorities and a rationalization of restrictions, whether they be congressional earmarks or presidential directives, all the personnel and organizational reforms undertaken will not make a truly material difference in the effectiveness of U.S. foreign assistance programs.

### ***5. More Money, Better Spent***

More money by itself will not help the U.S. to better achieve its foreign policy goals. But more money, better spent, is an important part of the answer. In today's difficult economic times, we must ensure that every dollar we spend is used as effectively as possible on the ground, and the steps outlined above are central to spending U.S. funds more effectively. So too is allocating our funds more wisely, with more funding going to low-income countries with the biggest needs and to better-governed countries that can use it well. We can also allocate funding towards promising new innovations, such as Advanced Market Commitments (AMCs) for vaccines and other applications, and cash-on-delivery programs that provide payment only after the provision of goods and services has been verified.

But additional funding also will be necessary. President Obama's commitment to doubling foreign assistance is critical for the U.S. to meet some of its most important foreign policy and national security goals. The increased funding of recent years is a good start, but it was on top of a very low base, and is inadequate for the United States to fight poverty, state failure, and instability in low-income countries around the world. If we invest in solving global problems early—like halting the spread of new infectious diseases before they reach the U.S., and easing the suffering and indignity that foster anger and violence—we save both lives and money.

To ensure stronger accountability for funds spent, we must establish much stronger monitoring and evaluation (M&E) and impact evaluation processes aimed at keeping programs on track, guiding the allocation of resources toward successful activities and away from failures, and ensuring that the lessons learned—from both successes and failures—inform the design of new programs. USAID—once a leader in this area—has lost much of that capacity, and is behind MCC and PEPFAR in terms of transparency.

One important step would be to establish an independent office for monitoring and evaluating foreign assistance programs. This office should be responsible for setting M&E standards, training, conducting external studies, and collecting and making public all evaluations for the sake of transparency and learning. The MCC model is a best-practice in this regard and could be applied more broadly to USAID and other agencies. It is crucial that measures of ultimate impact be conducted independently of the designers and implementers of the programs. For that reason, the United States should support and ultimately join the International Initiative for Impact Evaluation (3IE), which brings together foreign assistance providers from around the world to provide professional, independent evaluations of the impact of development initiatives.

Finally, a key component of ensuring that funds are better spent will be streamlining and reforming USAID's procurement processes and capacity—both in Washington and in host countries. To promote local ownership, procurement management capacity of host countries should also be bolstered. USAID should prioritize regular publishing of procurement plans, as well as program implementation to apprise partners of USAID's achievements and best practices. The time frame of contracts should be long enough to achieve sustainable results. An expansion of contracts to five years would help reduce transaction costs and create incentives for implementing partners to focus on longer term, complex challenges. The establishment of a unified set of rules and regulations for foreign assistance funds would help reduce the cost of regulatory compliance and risk of non-compliance. To the extent possible, these rules and regulations should be harmonized with other bilateral and multilateral donors.

## **V. Conclusion**

Taking on these reforms will not be easy. Rebuilding USAID into a strong, modern development agency capable of addressing the myriad challenges of the 21<sup>st</sup> century requires investments in resources, organizational change, and real reforms. Yet change we must, and delay we cannot. The impact of the financial crisis—on our budget at home, and on escalating poverty abroad—reminds us of the imperative of using each and every one of our foreign assistance dollars with the maximum effectiveness, to achieve the greatest possible impact in poor countries. Likewise, the national security threats posed by fragile regions abroad—in Pakistan and Afghanistan and in unstable countries that tomorrow might be at the top of the U.S. agenda—point to the imperative of bolstering our ability to deliver development on the ground, and along with it stability and peace. It is time to take advantage of this unprecedented opportunity to modernize and strengthen US foreign assistance and to deliver on the promise of development to serve as a critical pillar of our national security.