



Foreign Assistance Reforms: Successes, Failures, and Next Steps

Responses to Questions for the Record from Senator Lugar following June 12th 2007 hearing of the Senate Foreign Relations Subcommittee on International Development, Foreign Assistance, Economic Affairs, and International Environmental Protection

Submitted by Steven Radelet
Senior Fellow, Center for Global Development

Foreign Assistance Act Questions: You assert that the Foreign Assistance Act of 1961 “is badly out of date” and that a new Act “is central to clarifying the central objectives and methods of foreign assistance to meet U.S. foreign policy goals in the 21st century.”

1. What are the major components of such reform?
2. What would you recommend as to how we can stem earmarking?
3. Would you change the human rights and other restrictions contained in the current law?

Foreign Assistance Act Answers:

1. The Foreign Assistance Act of 1961 and the major US government institutions charged with implementing foreign assistance programs were designed for the Cold War for a set of threats that no longer apply. The Act has been amended many times and is now over 2,000 pages long and contains at least 33 different goals, 75 priority areas, and 247 directives. The Act leads to conflicting objectives, heavy administrative burdens, and weak results. Our current foreign assistance apparatus consists of at least 20 separate government agencies operating without an overarching national mission and sometimes at cross-purposes. The Executive Branch and Congress should work together to reach consensus on several key reform elements as part of a new FAA, including the following:

- Clarifying objectives: Identify a small number (say around five) of key objectives and purposes for foreign assistance.
- Rationalize and strengthen organizational structure: ideally fold all assistance programs into one Cabinet-level agency, or name one person to coordinate all major aid programs, and significantly strengthen the capacity of USAID.
- Clarify the principles for guiding policies and programs (such as local ownership, coordination and harmonization with other donors, transparency, use of budget support, etc.) and how these mechanisms would differ across countries.
- Strengthen monitoring and impact evaluation so that we can better learn what works, what doesn't, and why.

- Review all earmarks and restrictions (including tied aid) and maintain only those that are of critical importance.
- Strengthen the budget and reporting processes, including reviewing the option of moving toward a four-year strategic plan, and moving towards primarily regional or country-based budget lines rather than sector-based approaches.

One option to move forward would be for Congress to create a commission specifically mandated to review and redraft the FAA, a job that is not being tackled by Congressman Wolf's HELP Commission. Members could include Congressional, Executive Branch, independent experts, and representatives from other donors and recipient governments.

2. Earmarks are an inherent tension in the struggle between the Congress and the Executive Branch to assert their respective roles in foreign policy and spending priorities. Earmarks are not necessarily bad in and of themselves at an individual level, but problems arise when there are too many earmarks, they conflict with each other and with major goals, and they add to costs and reduce the benefits of our assistance. The FAA has too many conflicting earmarks, so a major rationalization is required. Some key steps towards doing so include:

- Build consensus on overall goals and objectives. The process of building a new consensus around the critical goals and objectives of foreign assistance should help bring the priorities of the Congress and the Executive Branch into closer alignment and will thereby reduce the pressure for earmarks. The MCA legislation has no earmarks, partly because there was strong agreement on the key goals. If the goals are not clear, than everything seems reasonable, and earmarks proliferate.
- Expand the budget consultation process. The annual process of building the President's next year budget is a closed, internal Executive Branch affair. As part of a new FAA the Executive Branch and Congress should agree on new ground rules that will open the budget process to greater consultation with the Congress. The Executive Branch should consult with key congressional actors during the process of building the budget, take into consideration their priorities, and give them a little ownership, all of which can contribute to the greater likelihood that congressional leaders are able to accept and defend the president's budget.
- Rationalize institutional and reporting lines. The plethora of aid agencies leads to confusion and poor communication with Congress, and therefore to more earmarks. A more rational structure would lead to clearer lines of authority and reporting, and stronger communication with Congress, which would reduce pressure for earmarks.

3. There are two key issues on restrictions (similar to earmarks): First, all restrictions should be reviewed. Second, some should be retained, and in my judgment the human rights restrictions should remain.

The process of developing consensus and writing a new FAA should encompass a review and justification of all of the restrictions which, over time, have been added through amendments without reviewing those that already exist. The review should aim to:

- Remove out-of-date restrictions.

- Justify the retention of restrictions and grouping them into several categories by intent and purpose, with common structures developed for each category relating them to broader objectives. There should be only a few, clear, common standards for applying waivers – (i) who is the decision maker (when the president, when the secretary, when the senior program officer, etc) – and common standards and definitions for the basis of a waiver (national interest, national foreign policy interest, national security – get agreement on one or two terms; and the basis of an administrative waiver might be program efficiency or some other standard).
- Place all restrictions in a single section of the Act.

This kind of review would lead to a streamlining of current restrictions, and the retention of some of the most important. I would support retaining the current restrictions on US foreign aid to countries with human rights violations, along with restrictions related to child labor and human trafficking.

Impact Evaluation Questions:

Your testimony suggests that the U.S. should support and join the International Initiative for Impact Evaluation which joins foreign assistance providers from around the world to provide independent evaluations.

1. What is your assessment of the costs and benefits evaluations?
2. Why has there been reluctance to implement these evaluations?
3. How would the evaluations help ensure that U.S. development dollars were not misused?

Impact Evaluation Answers:

1. The costs of rigorous impact evaluations vary widely, depending on methods, context and the duration of time between baseline and end-of-program period. As a rough guide, a small to moderate-sized impact evaluation might cost about \$250,000 on average; a large impact evaluation might cost about \$750,000. Depending on the design, it is possible for much of this cost to be included in the implementation of the program. For example, it is often reasonable to include a portion of the baseline data collection costs in program budgets because the information is needed for establishing beneficiary needs, targeting benefits, and other program-related activities. In addition, activities typically included in the program implementation to provide information to managers can, in some cases, can be modified to provide much (rarely all) of the data required for end-of-project evaluation. However, evaluation is a specialized activity requiring extensive data collection and analysis; good evaluation isn't cheap.

Although impact evaluations are generally more costly than monitoring of outputs and/or process evaluations, the knowledge generated by impact evaluations can have extremely large benefits relative to its costs if findings are relevant and acted upon. For example, Mexico undertook a rigorous impact evaluation of a new conditional cash transfer program beginning in 1997. Without the study, it is likely that the program would have been eliminated under a subsequent administration and alternative uses of the program funds would probably not have been as effective. Thus, by preserving the program, the

US\$2 million spent on evaluating the intervention can be conservatively estimated to have led to an additional 275,000 children making the transition to secondary school schooling and 400,000 children aged 12 to 36 months, at risk of stunting, experiencing incremental growth of 8 percent – a rather substantial benefit/cost ratio.

Other examples demonstrate similarly high returns to rigorous impact evaluations. In Mexico and Bangladesh, studies found that important nutritional programs were having lower than expected impact on children’s growth. The studies led to important reformulations of strategies and food supplements to improve the return from these large national public expenditures. In Kenya, a study of agricultural extension services aimed at improving rural productivity and incomes found that it had only been effective in areas with low productivity and that the information, messages, and approaches to outreach needed to be updated and adapted to changes that had occurred in farming communities.

Moreover, the benefits of good evaluation can be multiplied many times over when the knowledge is used by decision makers elsewhere facing similar policy and program decisions. So, for example, information about the response of families to a girls’ secondary school scholarship program in Bangladesh can inform design of programs to enhance girls education in Pakistan and India – and even in Senegal. This is the global public good aspect of the knowledge generated through impact evaluation.

Beyond the strategic value of the knowledge generated is the badly needed reputational benefit to the development community when rigorous, credible evaluations are undertaken. As Senator Lugar said, “If development projects are transparent, productive, and efficiently run, I believe they will enjoy broad support. If they are not, they are likely to fare poorly when placed in competition with domestic priorities or more tangible security-related expenditures.”

2. In addition to the inherent reluctance of most bureaucracies to risk exposing failure, there are two core incentive problems that have led to a situation of persistent underinvestment in impact evaluation:

- A portion of the knowledge generated through impact evaluation is a **public good**. Those who benefit from the knowledge include – but go far beyond – the ones directly involved in a program and its funding. But because the cost-benefit calculation by any particular agency might not include those benefits, an impact evaluation appears to be costlier than appears to be justified by the returns.
- Development institutions typically are “doing” organizations, which reward timely implementation rather than learning or “building evidence.” Although those who are designing and implementing programs recognize the value of having a strong evidence base to draw upon, faced with the choice to invest in evaluation or move implementation ahead, they will opt for implementation. Development professionals find it extremely difficult to protect the funding for good evaluation, or to delay the initiation of a program to design the evaluation

and conduct a baseline study. Time and again, resources initially earmarked for evaluation are redirected towards project implementation, perpetuating the cycle.

3. Global progress depends on the success of programs to improve health, literacy and learning, and household economic conditions – and year after year governments, NGOs and private actors dedicate resources to design and implement promising and innovative approaches to achieve those goals. Yet after decades in which US-funded donor agencies have disbursed billions of dollars for development programs, and developing country governments and NGOs have spent hundreds of billions more, it is disappointing to recognize that we know relatively little about the net impact of many important approaches. Instead, the focus has been on how much money has been disbursed and how many outputs have been generated. Addressing this gap in knowledge – systematically building more evidence about what works in development programs – would make it possible to improve the effectiveness of domestic spending and development assistance in low- and middle-income countries, and to sustain support for such expenditures over the long term. Moreover, the simple act of considering evaluation design at the inception of a program forces the appropriate discussion of what relevant and measurable change is being sought, and how. Finally, undertaking rigorous evaluation helps to signal to key constituencies, including the American taxpayer, that good stewardship is being exercised over precious public dollars that are intended to improve the lives of families in poor countries.