Billions for War, Pennies for the Poor: Moving the President's FY2008 Budget from Hard Power to Smart Power

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President Bush's $2.9 trillion FY2008 budget hit the streets on February 5 and the public got its first look at how the rhetoric about "transforming" U.S. foreign aid has translated into reality. Contrary to expectations when it came into office, the Bush administration has devoted substantial attention and resources to global development, including the biggest percentage increase in U.S. foreign assistance in decades.[2] Nevertheless, the United States continues to devote a relatively small share of its national wealth to alleviate poverty and promote self-sustaining growth in the developing world. This trend will be reinforced if President Bush's proposed FY08 budget is approved without alteration.[3]

Although recent foreign aid reforms promise greater transparency (and presumably accountability) in the uses of U.S. assistance, their impact on the world's poor is uncertain. The administration's rhetoric of elevating development to the same level of national strategic importance as defense and diplomacy in the National Security Strategy of 2002 is not reflected in its FY2008 budget request. The request, despite the increases of the last few years, comes from what is still a low base, and leaves the U.S. inadequately funded to address the root causes of political and human insecurity and state failure in the developing world.

In this paper we examine the administration's foreign assistance priorities, as outlined in the FY08 budget. The FY08 budget request reflects the administration's preliminary efforts to provide more information about where our current aid dollars are spent and for what purpose. We argue that Congress should increase what are still modest expenditures on development assistance – a key component of U.S. national security and global influence – recognizing that investment in the prevention of poverty and instability reduces the strain on national defense and helps make the world a safer and healthier place. But it should also use the FY08 budget request as a starting point to seriously deliberate and debate U.S. foreign assistance priorities and the policies and structures needed to have a measurable positive impact on global development. We conclude that the administration has still not recognized that the new demands of a more integrated global system require a smarter balance of power whereby military strength is reinforced by a coherent and strategic approach to global development.

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[2] Todd Moss, "US Aid to Africa after the Midterm Elections: A 'Surprise Party' Update", *CGD Brief*, January 2007.

[3] Comparisons in this paper are made between FY06 and FY08 given the status of available details within the FY07 Continuing Resolution.

Major Takeaways:

- The administration's rhetoric of elevating development to the same level of national strategic importance as defense and diplomacy is not reflected in the FY08 budget request:
  - The defense budget is 21.5% of the federal budget; the international affairs budget, despite a 10.5% increase over FY06, is just over 1.3% of the FY08 federal budget.[4]
  - Almost 50% of U.S. international assistance goes to 6 countries that are U.S. allies in the global war on terror or the war on drugs.
  - Development-type assistance (as defined by the administration)[5] increases only slightly from a very low base of 0.38% to .41% of the federal budget. At less than ½ of 1% of the federal budget and only .27% of GDP in FY06[6], it is not enough to address 21st century challenges.
  - Increases in development-type assistance are concentrated in presidential initiatives that either displace existing development assistance (Millennium Challenge Account) or are not bolstered by necessary investments in long-term growth and poverty reduction programs (the President's Emergency Plan for AIDS Relief and the Malaria Initiative).

- The administration's framework for reforming aid by matching country characteristics with objectives represents a good first attempt at rationalizing U.S. foreign aid, but the FY08 budget at this point is mainly a new and improved bookkeeping exercise. The administration, Congress, and the American people must work hard to ensure that the budget accurately reflects U.S. interests in its prioritization of objectives and countries -- and that we have the policies and aid architecture required to achieve these ends.

- The reformed foreign aid budget is inadequate to have a positive impact on global development. Real reform that puts development on comparable footing with diplomacy and defense requires at least 5 critical additional steps:
  - *A comprehensive national strategy for development* to ensure that increases in development-type aid are not concentrated in one sector (e.g., HIV/AIDS) but encompass a strategy to cover comprehensively (including, multilaterally) the longer-term obstacles to growth and poverty reduction.
  - *A coherent approach to weak and failing states*. The FY08 foreign assistance request does not correspond to the administration's own analysis of the main threats to U.S. national security.
  - *A hard look at the top recipients of overall foreign aid and development aid to ensure the right aid, in the right amounts is going to the right countries*. The lion's share (63%) of U.S. foreign aid still goes to ten countries, the majority of which are political allies in the wars on terror or drugs. Scattering the remaining

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[4] Figures throughout our paper include supplementals and compare FY06 to FY08 as comparisons to FY07 are complicated by unknown allocations within the continuing resolution.

[5] The administration defines "development-type aid" as any assistance in the Ruling Justly and Democratically, Investing in People and Economic Growth baskets. It includes PL480 because the administration allocated it to countries in those baskets, although we consider PL480 to be humanitarian aid.

[6] Includes PL480 and supplementals.

assistance over another 143 countries is neither effective nor efficient; it is time to introduce greater country selectivity for better results.

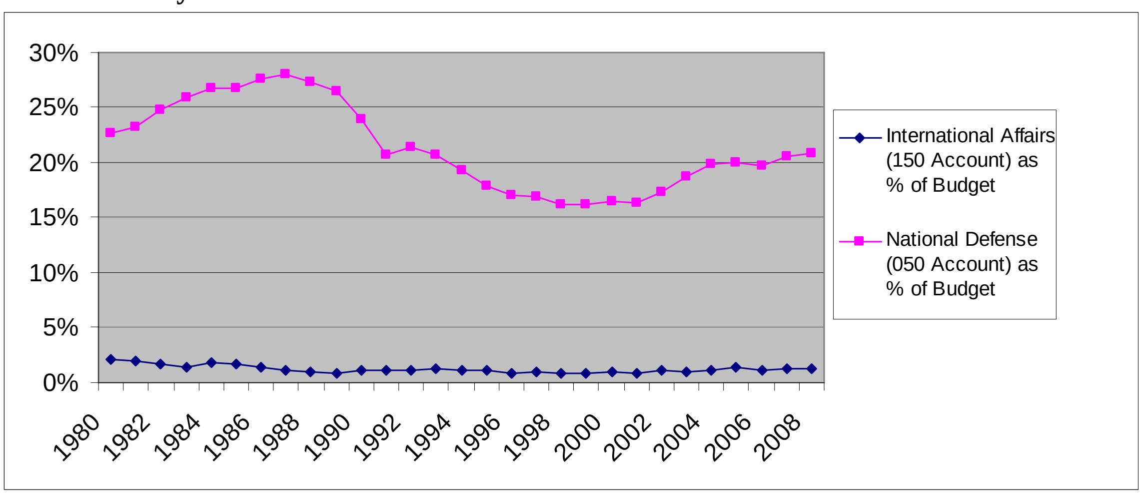
- *An integrated impact evaluation function built into the budgeting process from the beginning*, to maximize the impact of U.S. development interventions.
- *A rewriting of the Foreign Assistance Act of 1961 and consideration of a Cabinet-level Development Agency*, as part of a "smart power" approach to U.S. foreign policy.[7]

Guns over Butter Abroad

Notwithstanding a significant increase in overall U.S. foreign assistance over the past several years, the FY08 budget request remains heavily skewed toward military expenditures, short-changing critical civilian components of U.S. national security and global influence. Of the administration's $2.9 trillion FY08 request, only $39.49 billion, or 1.37%, is devoted to the International Affairs budget, which funds the diplomatic and development components of U.S. national power and influence. Less than ½ of 1% (0.41%) of the national budget is dedicated to the development pillar, as defined by the administration.

By contrast, the FY08 request for the Department of Defense amounts to a whopping $623 billion,[8] or 21.5% of the federal budget – more than the rest of the world's defense expenditures combined.[9] By way of comparison, this is more than the total GDP of all 47 countries in sub-Saharan Africa and twenty-seven times more than the aid that the World Bank provides each year.[10] The massive DoD budget, which includes $245 billion in supplemental requests for the Global War on Terror, highlights the opportunity costs of the war in Iraq in reducing funds available for other purposes, not least among which is global development.

Table 1: Closing the gap: Smart power requires a disproportional increase in international aid to bolster military investments and make a safer world



[7] The term "smart power" was coined by Suzanne Nossel in "Smart Power", *Foreign Affairs*, March/April 2004.
[8] As noted above, this figure includes $245 billion requested for FY07 and FY08 GWOT supplemental funds.
[9] Jim Lobe, "Proposed '08 Pentagon Earns Superlatives all Around," *Inter Press News Service* (February 7, 2007).
[10] Jim Lobe, "Proposed '08 Pentagon Earns Superlatives all Around," *Inter Press News Service* (February 7, 2007)

Beyond exaggerating the position of the Department of Defense in the country's national security framework, this imbalance leaves the U.S. resourced to fight wars but inadequately prepared to address the root causes of political and human insecurity and state failure in the developing world which, if left untended, could threaten U.S. and global security. In post-conflict environments, it also encourages an over-reliance on U.S. soldiers to conduct reconstruction activities more appropriately performed by civilian actors.[11]

Foreign Aid Reform: Above and Beyond the Numbers

Before poring over the aid numbers to assess how particular accounts and countries have fared, we credit the administration's foreign assistance reform for introducing an organizational platform for U.S. foreign aid. In early 2006, Secretary Rice announced an overhaul of foreign assistance in which a new director of foreign assistance, Randall Tobias, was named and given coordinating authority of State and USAID aid programs.[12] That effort created a single budget reflecting USAID and State Department foreign aid spending, and the result is reflected in the President's FY08 budget.

For the first time ever, the foreign aid budget has been subjected to a strategic planning and bookkeeping process that provides the public and policy analysts with an unprecedented level of detail about how the use of foreign aid correlates with the main objectives of U.S. foreign policy. The new budget explicitly aligns U.S. foreign assistance *objectives* (e.g., peace and security, investing in people) with recipient *country characteristics* (e.g., income level, governance, security situation, social investments), moving away from an account structure presentation.[13] This enhanced transparency -- and the attempt to rationalize aid by objectives and expected outcomes – creates the possibility for a more constructive dialogue on whether the priority goals and countries identified by the administration are appropriate. It should also prod the development community to reach an agreed definition of "poverty-focused development assistance," beyond simply tagging individual accounts.

Table 2 shows the new framework for allocating foreign aid. In direct response to frustration with the fragmentation of aid and the immeasurability of aid results, the reformed foreign aid budget focuses on five objectives that together address the perceived underlying causes of persistent poverty, despotic governance, insecurity, and economic stagnation.[14] These goals include (1) advancing peace and security; (2) promoting just and democratic government; (3) encouraging investments in people; (4) promoting economic growth; and (5) providing humanitarian assistance. ***Importantly, the Administration defines any assistance under the three rubrics of "Governing Justly and Democratically", "Investing in People", and "Economic Growth" as "development-focused" aid.***

[11] Stewart Patrick and Kaysie Brown, "Fragile States and U.S. Foreign Assistance: Show Me the Money," *CGD Working Paper* 96 (August 2006)
[12] Stewart Patrick, "U.S. Foreign Aid Reform: Will It Fix What Is Broken?" *CGD Essay* (September 2006).
[13] For example, Child Survival and Health, Development Assistance, Peace Corps, Economic Support Funds, Refugee and Migration Assistance, International Military Education & Training, Peacekeeping Operations, etc.
[14] http://www.state.gov/documents/organization/80701.pdf

Similarly, the administration classifies recipient countries into several categories based on common traits -- from "rebuilding" to "sustaining" countries -- and then matches foreign aid accounts with the country circumstances they are designed to address. As our analysis shows, the greatest impact of this approach to rationalizing the foreign aid budget takes place at the level of shifting resources between ESF and DA accounts.

Table 2 provides a breakdown of the FY08 budget request by country category, in terms of the percentage of aid for each category devoted to the five overall strategic objectives.

Table 2: A Breakdown of the FY08 Foreign Aid Budget

FY2008 Bilateral Aid by Country-type and Objective					
	Peace and Security	**Governing Justly and Democratically**	**Investing in People**	**Economic Growth**	**Humanitarian Assistance**
Rebuilding	35%	18%	16%	20%	11%
Developing	32%	6%	44%	17%	1%
Transforming	6%	3%	52%	38%	0%
Sustaining	76%	1%	21%	1%	0%
Restricted	2%	63%	16%	8%	11%
Regional	13%	12%	36%	38%	1%
Global	16%	3%	34%	7%	41%

*Source: State Department FY08 Congressional Budget Justification; includes projected FY08 MCC disbursements.

Winners and Losers

The administration's international affairs budget continues the modest upward trend of recent years, but it remains far from adequate both in terms of its overall size and composition. Of the $39.49 billion international affairs budget, foreign aid (the foreign operations account) amounts to some $25.71 billion, a 10.5% increase from FY06. This overall increase conceals significant changes in the trajectory of particular accounts, however. Besides several billion dollars for Afghanistan and Iraq, including emergency supplementals, the big winners in the FY08 request are the President's Emergency Plan for AIDS Relief (PEPFAR), the Millennium Challenge Account (MCA), and Economic Support Funds (ESF). The big losers are programs traditionally aimed at poverty alleviation: Development Assistance (DA) and Child Survival and Health (CSH) accounts.

For FY08, the administration proposes a massive, 110% increase in HIV/AIDS spending, from $1.97 billion for FY06 to some $4.2 billion in FY08. This assistance goes overwhelmingly to fifteen focus countries, most of which are in sub-Saharan Africa. The administration is also proposing a significant increase in spending for its other signature aid initiative, the MCA, envisioning a rise from an estimated $1.75 billion in 2007 to $3 billion in 2008. MCA money is intended to target countries that have made a commitment to "governing justly, investing in their people, and encouraging economic freedom."

Beyond these two programs, the FY08 budget suggests a dominance of geo-strategic calculations in the administration's foreign aid plans. ESF funds, traditionally directed toward allies and other pivotal countries on largely political (rather than development) grounds, are envisioned to surge by 27% from FY06, to $3.32 billion. ESF funds have traditionally not been linked to performance goals but rather are viewed as payments in exchange for supporting various U.S. political and/or military objectives.

In contrast to these increases, what are typically termed the "core poverty focused accounts,"-- Development Assistance (DA) and Child Survival and Health (CSH) -- take big hits. DA is reduced by 31%, or some $450 million, from FY06, with shifts apparently going to ESF (see below for discussion). CSH funds are down 7% from FY06. The cuts to these accounts are troubling, since they cut what is already a very small fraction -- 10% -- of total U.S. assistance. Moreover, because the new foreign aid budget presentation does not provide country by country details within accounts, it is difficult to track the impact on sector-specific (including poverty-focused) interventions.[15] ***Breakdowns of "objective" within accounts would greatly facilitate transparency of resource shifts, particularly from DA to ESF.***

At the regional level (Table 3), Africa is the biggest winner, with an 83% increase in foreign aid, largely attributable to PEPFAR and new aid to Sudan (particularly to the government of South Sudan). Europe and Eurasia take the biggest hit, and Latin America drops 7%.

Table 3: Regional Rankings: Africa wins with AIDS funding

	FY06 Actual	FY08 Request	% Change FY06/FY08
Africa	2,774,422	5,090,994	83.5%
East Asia & the Pacific	523,292	539,439	3.1%
Europe & Eurasia	1,023,259	770,098	-24.7%
Near East	5,216,683	5,405,626	3.6%
South & Central Asia	1,917,932	2,144,098	11.8%
Western Hemisphere	1,530,166	1,417,398	-7.4%

*Source: State Department CBJ; excludes supplementals and regional MRA account; excludes PL480 because FY06 emergency food aid is allocated and FY08 is not, making comparisons difficult.

What are we to make of these winners and losers? First, the concentration of large funds to a small subset of countries through its two signature aid programs gives short shrift to other aspects of development assistance. This is not to imply that the United States should reduce its expenditures on the HIV/AIDS crisis. Indeed, while there are legitimate questions about how prepared poor countries are to absorb a huge increase in assistance to fight this disease, programs for HIV/AIDS prevention, treatment and care have shown a positive impact on development. ***What is of concern, rather, is the relative inattention to other aspects of development, and particularly to assisting long-term growth and poverty reduction in the full range of poor countries***. Indeed, if the current budget is approved, more than two thirds of all U.S. development assistance to sub-Saharan Africa will be devoted to HIV/AIDS funding, an imbalance that threatens to undermine the total effectiveness of U.S. development assistance. While HIV/AIDS support is important in its own right, it cannot substitute for critical investments in economic growth, basic education, family planning, agricultural development, health and the environment. And ***there is reason to question the administration's presumption***

[15] See U.S. Global Leadership Campaign "International Affairs Budget Update", February 26, 2007 for further analysis.

underlying the reform process that "developing" and "transforming" countries (e.g., Ghana, Burkina Faso) are capable of handling their own social investments, like health and education, particularly when many of the well governed MCA countries still fail health and education policy performance indicators. Such a questionable presumption appears to be driving lower development investments to these countries. Over the medium term, this may contribute to poor performance and even instability in those affected countries.

Similarly, the proposed increase in MCA, although addressing long-term growth and poverty reduction, applies only to a handful of poor but well-governed countries. From the beginning, the Bush administration has described MCA and PEPFAR as representing U.S. aid above and beyond existing development assistance. But when one looks closely at the administration's budget increases, this promise is fulfilled at the global level but not necessarily at the country level. The FY08 budget proposes cuts in traditional development assistance accounts (DA, CSH, ESF) in all MCA countries that also have USAID programs (9 of the 11 MCA compact countries).[16]

Implications of the Shift from DA to ESF

The second notable change in the FY08 budget is a substantial shift in funds from traditional development assistance accounts to ESF. The administration is quick to point out that aggregate development-type aid (as defined by the Governing Justly and Democratically, Investing in People and Economic Growth baskets) actually increases, from 51% of U.S. foreign affairs budget in FY06 to 54% (and to 57% if MCA disbursements are included). The rise in ESF, it contends, is not a reflection of an increase in geo-political aid but rather of the new process of "country categorization by objective." As defined by the administration, some 84.3% of ESF is actually "development-type aid." On face value, this suggests a good story in terms of overall attention to development.

However, two caveats are in order. First, the absence of country breakdowns within objective and program element make it impossible to judge the appropriateness of development aid to certain countries (i.e., the large amount of development-type aid to, say, Pakistan). Second, it has in the past been difficult to track the use of ESF because these funds are typically more flexible (i.e., easier to shift between countries and between objectives) than DA funds. In other words, there is now a larger pot of money within which political imperatives could result in a shift from the objective of Investing in People to the goals of Peace & Security. This possibility poses two potential problems: first, less money may ultimately be devoted exclusively to development; and, second, the effectiveness of that money may be measured against development outcomes, when in fact its primary purpose is to advance political outcomes.

Table 4 shows the changes in level of funding between ESF and DA within the five new foreign aid objectives. The table confirms the administration's contention that development-type aid has increased in the aggregate, despite the shifts from DA to ESF. It also shows where some of the biggest increases and hits at the programmatic level take place.

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[16] Kaysie Brown, Bilal Siddiqi, and Myra Sessions, "US Development Aid and the Millennium Challenge Account: Emerging Trends in Appropriations," (October 2006).

Table 4: Shift from DA to ESF Raises Some Sectoral Darlings but Cuts Economic Growth Programs

		$ Amt. Change DA FY08/FY06	$ Amt. Change ESF FY08/FY06	$ Amt. Change DA+ESF FY08/FY06	$ Amount Change Total Aid FY08/FY06	% Change Total Aid FY08/FY06
Peace & Security		10,841	96,085	106,926	61,915	0.9%
	Counter-Terrorism	8,658	-375	8,283	28,224	18.0%
	Combating WMD		-100	-100	-13,132	-5.7%
	Stabilization & Security Reform	4,199	-27,702	-23,503	66,897	1.3%
	Counter-Narco	-10,936	133,887	122,951	-18,626	-1.8%
	Transnational Crime	-836	-9,502	-10,338	-1,993	-3.3%
	Conflict Mitigation & Reconciliation	9,756	-123	9,633	545	0.3%
Governance		5,768	289,715	295,483	214,766	17.4%
	Law & Human Rights	10,889	24,743	35,632	98,202	32.6%
	Good Governance	-379	155,642	155,263	153,167	43.2%
	Political Competition & Consensus Building	-1,797	2,271	474	-11,234	-5.7%
	Civil Society	-2,945	107,059	104,114	-25,369	-6.7%
Investing in People		-221,154	189,214	-31,940	1,996,940	40.3%
	Health	-21,631	-23,552	-45,183	2,050,562	49.6%
	Education	-187,893	185,437	-2,456	-11,878	-1.7%
	Social Services & Protection	-11,630	27,329	15,699	-41,744	-30.5%
Economic Growth		-244,925	72,210	-172,715	-455,831	-16.1%
	Macro Foundation	-2,644	-25,342	-27,986	-32,570	-8.0%
	Trade & Investment	-1,986	-156,140	-158,126	-170,159	-41.6%
	Financial Sector	-20,925	-171,189	-192,114	-209,764	-75.7%
	Infrastructure	-82,460	114,145	31,685	26,439	6.4%
	Agriculture	-34,885	120,379	85,494	-63,264	-11.3%
	Private Sector Competitiveness	14,546	105,968	120,514	28,073	8.0%
	Economic Opportunity	-28,759	34,153	5,394	8,793	7.9%
	Environment	-87,812	50,236	-37,576	-43,379	-14.9%
Humanitarian		-11,692	56,268	44,576	315,826	17.5%
	Protection, Assistance & Solutions	979	56,028	57,007	389,517	23.4%
	Disaster Readiness	-12,671	540	-12,131	-57,326	-76.7%
	Migration Management		-300	-300	-16,365	-23.5%

Big programmatic (or sectoral) winners include foundational development needs: good governance, rule of law, civil society participation, agriculture and private sector competitiveness. At the same time, these funds are targeted predominately to Iraq and Afghanistan (explaining the large increase in ESF). Basic education remains at about the same aggregate level, but major regional shifts have occurred (also explaining the large increase in ESF), with the Middle East (Egypt and Jordan in particular) receiving a 123% increase; Africa and Latin America receiving cuts of 27% and 48% respectively. Environment takes a 15% cut.

The FY08 Budget and Global Development: First Impressions and Unanswered Questions

What can we conclude about the administration's first post-reform foreign aid budget? First, the proposed FY08 budget does indeed show an aggregate increase in overall "development-type" aid, as defined by the administration. Moreover, we find the administration's definition of "development-type" aid to be a credible one. It captures the program elements that promote long-term sustainable growth and poverty reduction – good governance, social investments, infrastructure, agriculture, private sector development, environment, etc. Indeed, for FY08 there is a 91% correlation between the administration's definition of "development-type aid" and CGD's traditional definition of "core development aid."[17] We also agree with the administration that while humanitarian aid is a hugely important component of U.S. foreign aid, it is primarily intended as short-term relief, as opposed to long-term investment in addressing the root causes of under-development and lack of capacity.

Second, the administration's framework for organizing aid by country characteristics and by objective represents a good first attempt at rationalizing U.S. foreign aid. It provides a platform to begin an honest and informed discussion on the uses and priorities of foreign aid to promote U.S. interests. That said, the FY08 budget at this point appears to be mainly a new and improved bookkeeping exercise. The hard work of ensuring that the budget accurately reflects U.S. interests -- both by objective and by countries – awaits more thorough deliberation and debate among the administration, Congress, and the American people.

Third, without additional structural changes, the reformed foreign aid budget is unlikely to have a measurable positive impact on global development. The fact that aggregate development-type aid has not declined is simply not good enough. Real reform that puts development on a comparable footing with diplomacy and defense requires at least 4 critical additional steps. These include:

- *A comprehensive national strategy for development* to ensure that increases in development-type aid are not concentrated in one sector (e.g., HIV/AIDS or basic education) but encompass a strategy to cover comprehensively (including, multilaterally) the longer-term obstacles to growth and poverty reduction.

- *A coherent approach to weak and failing states*. In his National Security Strategy of September 2002, President Bush declared that the U.S. was for the first time in its history "now more threatened by weak and failing states than we are by conquering ones."[18] Yet more than five years later, the administration has failed to come up with a serious strategy to bolster the institutional capacities of poorly performing developing countries, so that they can deliver to their inhabitants the fundamental goods of physical security, economic growth, and accountable governance.

- *A hard look at the top recipients of overall foreign and development assistance to ensure that the right aid in the right amounts is going to the right countries*. As Table 5 and

[17] See Rikhil Bhavnani, Nancy Birdall and Isaac Shapiro, "Whither Development Assistance? An Analysis of the President's 2005 Budget Request", Center for Global Development and Center on Budget and Policy Priorities, July 2004.

[18] *National Security Strategy of the United States of America* (2002). The 2006 installment of this document expanded on this theme, declaring, "Weak and impoverished states and ungoverned areas are not only a threat to their people and a burden on regional economies, but are also susceptible to exploitation by terrorists, tyrants and international criminals. We will work to bolster threatened states, provide relief in times of crisis and build capacity in developing states to increase their progress." *National Security Strategy of the United States of America* (2006).

Figure 1 illustrate, the lion's share of U.S. foreign aid still goes to ten countries, the majority of which are geo-political allies in the GWOT or the war on drugs. The other countries that break into the top ten do so only because of HIV/AIDS spending (with the exception of Sudan). Scattering the remaining 37% of U.S. assistance across another 143 countries is neither effective nor efficient. Table 6 shows that many of the same geo-political allies receive the lion's share of development assistance. The concentration of development-type assistance to these higher-income allies raises concerns about the seriousness with which the administration – as well as Congress, which establishes constraining earmarks -- takes "poverty reduction" as an overall goal of foreign assistance.

- *Finally, an integrated impact evaluation function, built into the budgeting process from the beginning is critical to the success of U.S. development interventions*. Although the administration has introduced performance indicators to measure the effectiveness of U.S. foreign aid, these are predominately geared to measure *inputs* (amount spent on education) and *outputs* (number of schools built, teachers hired and textbooks procured) as opposed to *impact* (have education outcomes improved?). Without impact measures, we will never be able to assess whether the reforms made any real difference.[19]

Table 5: Top 10 total aid recipients: It pays to fight wars and AIDS

		Total Aid	GDP Per Capita	Aid Per Capita	% of Foreign Operations Aid	% of Bilateral Country Aid
1	Israel	2,400,500	17,194	347.45	9.34%	14.41%
2	Egypt	1,720,870	1,085	23.24	6.69%	10.33%
3	Afghanistan	1,406,050	228	45.27	5.47%	8.44%
4	Iraq	1,331,800	1,736	49.72	5.18%	7.99%
5	Pakistan	785,000	632	5.04	3.05%	4.71%
6	Sudan	679,200	594	18.75	2.64%	4.08%
7	South Africa	612,028	4,675	13.54	2.38%	3.67%
8	Colombia	589,710	2,176	12.93	2.29%	3.54%
9	Kenya	543,511	481	15.87	2.11%	3.26%
10	Nigeria	533,550	560	4.06	2.08%	3.20%
	Total Top 10	10,602,219			41.24%	63.62%

*includes supplementals

[19] See The Evaluation Gap Working Group Report, "When Will We Ever Learn? Closing the Evaluation Gap ", Center for Global Development, May 2006.

Figure 1: One piece of pie for 4.9 billion people?

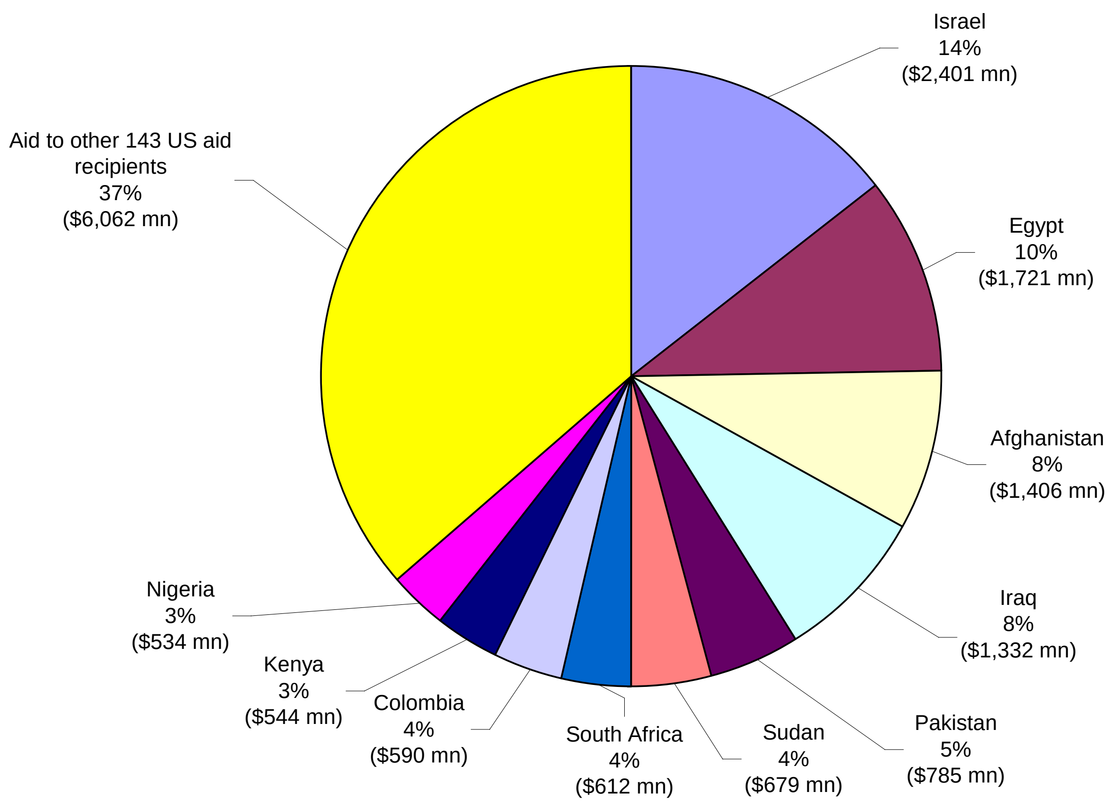

Table 6: Top 10 development assistance Winners: Politics over poverty

		Total "Development-Type" Aid	GDP Per Capita	"Development-Type" Aid Per Capita	% of Total "Development-Type" Bilateral Country Aid
1	Iraq	1,066,820	1,736	39.83	12.5%
2	Afghanistan	1,041,300	228	33.53	12.2%
3	South Africa	606,800	4,675	13.43	7.1%
4	Kenya	531,650	481	15.52	6.2%
5	Nigeria	528,200	560	4.02	6.2%
6	Ethiopia	501,115	114	7.03	5.9%
7	Egypt	415,000	1,085	5.61	4.9%
8	Pakistan	393,300	632	2.52	4.6%
9	Tanzania	340,650	288	8.89	4.0%
10	Uganda	324,500	245	11.26	3.8%

*includes supplementals

A Unified Front and Renewed Multilateralism

The administration's commitment to development will be more credible and effective if the White House works with Congress to create a U.S. version of Britain's robust Department for International Development (DFID), to serve as a full partner with the State Department in designing and implementing the totality of foreign aid. USAID is today bereft of most of its once vaunted technical expertise and professional Foreign Service officers. Integrating USAID into State will not correct these shortcomings or ensure that the sensibilities and operational culture of development professionals are adequately represented in U.S. decisions in the design and allocation of U.S aid. The most promising way to achieve these goals would be to work with Congress to rewrite the Foreign Assistance Act of 1961 and to create a cabinet Department for Global Development. In bringing the FAA in line with today's national and global realities, the administration and Congress will have to take another crack at delineating the increasingly gray area between military and non-military aid and actors.

The U.S. also needs to embrace collaboration with other donors in addressing the problems of the world's poorest countries. The recent U.S. penchant for unilateral and bilateral development initiatives is problematic because it hinders policy coherence within the international community, complicates U.S. efforts to leverage the contributions of fellow donors, increases transaction costs and inefficiency, and strains the limited capacity of developing countries.[20] For example, although PEPFAR and the MCA place a laudable emphasis on accountability, their bilateral aid streams also impose burdens on recipients, forcing resource strapped governments to create new structures of aid coordination. The U.S. could better leverage these and other resources by channeling and coordinating more of its assistance through existing multilateral approaches.

What Next? 8 Steps Toward A Smart Power Budget

Now the hard work begins. Congress faces the very real challenge of reconciling the president's budget request with the will of the American people, against a backdrop of escalating costs of war, a burgeoning deficit, competing domestic demands, and continued daunting challenges in developing countries. We propose eight steps toward a smart power budget:

Step 1: Determine that a U.S. international affairs budget twenty-one times smaller than its defense budget does not reflect the right combination of hard power and ***smart power*** for American values, security and global leadership in the 21st century. Protect the modest FY08 international affairs budget request and work to continue the upward trend in development assistance funding with commensurate efforts to put the right policies and structures in place to address U.S. foreign aid priorities and have a measurable positive impact on global development.

Step 2: Recognize that a large majority of the ***U.S. public supports right-sizing the international affairs budget***, increasing spending for diplomacy and development programs and working multilaterally. In a recent Program on International Policy Attitudes (PIPA) poll, 67% say that the U.S. should "put more emphasis on diplomatic and economic methods." Large majorities favor putting greater emphasis on non-military forms of pursuing security such as

[20] Nancy Birdsall, Stewart Patrick and Milan Vaishnav, "Reforming U.S. Development Policy: Four Critical Fixes," *CGD Essay* (February 2006), pp. 18-20.

working to reduce U.S. dependence on oil (84%), coordinating intelligence and law enforcement efforts with other countries (83%), working through the United Nations to strengthen international anti-terrorism law and enforcement (71%), and building goodwill toward the United States by providing food and medical assistance to people in poor countries (57%). Using an innovative survey technique that allowed respondents to redistribute spending within the federal budget, respondents recommended shifting $17 billion in U.S. aid to "helping poor countries develop their economies."[21]

Step 3: Determine that a ***paradigm shift is needed*** within the international affairs account. Specifically, rebalance geopolitical aid and development aid, including by challenging the history of large earmarks to a small number of political allies to free up a larger portion of the aid budget to countries with more pressing development needs.

Step 4: Introduce ***country selectivity*** into the aid allocation process, acknowledging that the effectiveness of U.S. aid requires prioritizing not only the objectives of the aid but also the recipients. Scattering several billions of dollars over 150 countries will not give us the biggest bang for our assistance bucks. This is not to say U.S. assistance should only go to the good performers; rather, it is to say that concentrating larger amounts of bilateral resources (human and financial) to a smaller set of countries, and working multilaterally to address others may yield better results.

Step 5: Ensure that the big increases for HIV/AIDS and malaria are complemented with a ***comprehensive strategy for development, including a strategy for weak and failed states,*** that addresses the real challenges to sustained growth and poverty reduction. Keeping more people alive is good. Growing their nation's economies, creating jobs and building institutions to serve those saved lives is even better.

Step 6: Give the administration, and Ambassador Tobias and his team in particular, ***credit for attempting to rationalize and make more transparent*** U.S. foreign assistance. Use the administration's foreign aid framework as a starting point for serious bipartisan collaboration with the executive branch and the public, to get foreign aid reform right.

Step 7: Demand that ***impact indicators*** be developed to evaluate whether U.S. reforms are making a measurable difference to recipient countries and their people. Current performance indicators are predominately input and output indicators.

Step 8: Ensure that the ***right architecture*** is in place to most effectively implement and track these reforms. Specifically, rewrite the Foreign Assistance Act of 1961 and consider establishing a Cabinet-level Department for Global Development, as a critical component of a new "smart power" strategy that acknowledges that defense, diplomacy and development are equal and mutually reinforcing priorities.

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[21] Program on International Policy Attitudes and Knowledge Networks, "What Kind of Foreign Policy Does the American Public Want?" October, 2006.
http://www.worldpublicopinion.org/pipa/articles/home_page/262.php?nid=&id=&pnt=262&lb=hmpg1

These steps will not be easy but nor are they unrealistic. Moving toward a smart power budget that places development on equal footing with diplomacy and defense is in our national interest. It is both smart and right, and reflective of American values and appropriate global leadership.

Appendix 1: US Aid Recipients by Total Aid and Development-Type Aid (includes supplemental funding)

	Country Category	**Total Aid**	**"Development-Type" Aid**	**"Development-Type" Aid Ranking (1-102)**
Israel	Sustaining Partnership	2,400,500	0	102
Egypt	Developing	1,720,870	415,000	7
Afghanistan	Rebuilding	1,406,050	1,041,300	2
Iraq	Rebuilding	1,331,800	1,066,820	1
Pakistan	Developing	785,000	393,300	8
Sudan	Rebuilding	679,200	229,180	14
South Africa	Sustaining Partnership	612,028	606,800	3
Colombia	Rebuilding	589,710	63,456	28
Kenya	Developing	543,511	531,650	4
Nigeria	Developing	533,550	528,200	5
Jordan	Developing	514,807	283,597	12
Ethiopia	Developing	507,430	501,115	6
Tanzania	Transforming	344,303	340,650	9
Zambia	Developing	339,793	320,587	11
Uganda	Developing	331,099	324,500	10
Mozambique	Transforming	283,929	280,435	13
Haiti	Rebuilding	222,900	178,226	15
Indonesia	Developing	185,639	143,924	16
Kosovo	Rebuilding	151,646	102,646	19
Rwanda	Developing	142,202	141,802	17
Bangladesh	Developing	119,790	101,955	20
Namibia	Transforming	117,986	115,225	18
Liberia	Rebuilding	115,575	91,845	23
Bolivia	Transforming	114,571	61,500	29
Cote d'Ivoire	Rebuilding	96,100	96,000	21
Vietnam	Developing	94,715	93,400	22
Peru	Developing	93,198	22,724	52
Ukraine	Developing	89,151	46,900	34
Philippines	Transforming	87,422	65,106	27
Botswana	Sustaining Partnership	81,366	49,000	32
India	Transforming	81,000	76,600	24
Dem. Rep. of Congo	Rebuilding	80,200	71,650	26
West Bank/Gaza		77,000	49,000	33
Iran		75,000	75,000	25
Georgia	Developing	66,421	36,300	42
Malawi	Developing	61,578	59,000	30
Serbia & Montenegro	Developing	61,522	57,472	31
Lebanon	Rebuilding	59,776	42,100	38
Guatemala	Developing	53,422	43,800	36
Russia	Sustaining Partnership	52,200	0	102
Mexico	Sustaining Partnership	47,001	20,345	56
Cuba		45,700	45,700	35
Ghana	Transforming	44,293	39,900	39

Honduras	Transforming	42,510	37,131	41
Cambodia	Developing	42,285	37,926	40
Armenia	Developing	40,781	31,400	44
Senegal	Developing	38,458	31,300	45
Madagascar	Transforming	35,657	32,701	43
Angola	Developing	34,950	28,035	48
Dominican Republic	Developing	34,646	28,400	47
Bosnia & Herzegovina	Developing	32,950	18,400	58
Morocco	Developing	32,910	21,500	53
Mali	Transforming	32,875	28,830	46
Tajikistan	Developing	32,120	16,380	63
Nicaragua	Transforming	32,086	27,000	49
Kyrgyz Republic	Developing	31,429	20,315	57
Poland	Sustaining Partnership	29,200	0	102
Burundi	Developing	28,550	26,000	50
El Salvador	Transforming	27,506	17,475	60
Azerbaijan	Developing	27,409	16,800	62
Guyana	Developing	27,331	25,405	51
Macedonia	Developing	27,066	18,150	59
Nepal	Rebuilding	26,625	20,485	55
Kazakhstan	Developing	24,315	13,197	67
Ecuador	Developing	23,435	7,010	78
Romania	Developing	23,432	0	102
Yemen	Developing	23,059	12,833	68
Albania	Developing	22,079	13,200	66
Niger	Developing	21,497	17,405	61
Zimbabwe		21,010	21,010	54
Turkey	Sustaining Partnership	18,375	800	95
Bulgaria	Transforming	18,093	0	102
Sierra Leone	Rebuilding	16,550	16,000	64
Moldova	Developing	16,466	12,000	69
Guinea	Developing	15,593	14,943	65
Benin	Transforming	14,014	10,824	70
Jamaica	Developing	13,654	8,112	75
Oman	Sustaining Partnership	13,505	0	102
Burkina Faso	Developing	13,314	10,000	71
Somalia	Rebuilding	12,300	10,000	71
China		11,243	9,290	73
Cyprus	Sustaining Partnership	11,000	0	102
Mongolia	Transforming	10,835	6,200	80
Mauritania	Developing	10,358	6,320	79
East Timor	Transforming	10,050	8,640	74
Belarus		10,000	9,700	72
Lesotho	Transforming	9,985	7,500	76
Thailand	Transforming	9,818	1,040	93
Paraguay	Developing	9,744	5,800	81
Uzbekistan	Developing	9,374	7,474	77
Swaziland	Developing	9,033	7,500	76

Turkmenistan	Developing	8,430	5,100	82
Bahrain	Sustaining Partnership	7,300	1,100	92
Djibouti	Developing	7,090	3,240	85
Sri Lanka	Transforming	6,950	3,500	84
Chad	Developing	5,300	5,000	83
Panama	Sustaining Partnership	5,093	0	102
Tunisia	Developing	4,764	200	99
Cameroon	Developing	4,703	1,000	94
Burma		4,630	2,575	87
Laos	Developing	4,571	1,321	90
Czech Republic	Sustaining Partnership	4,300	0	102
Estonia	Sustaining Partnership	4,100	0	102
Latvia	Sustaining Partnership	4,100	0	102
Lithuania	Sustaining Partnership	4,100	0	102
Slovakia	Sustaining Partnership	4,100	0	102
Malaysia	Sustaining Partnership	3,730	0	102
Brazil	Transforming	3,718	2,000	89
Hungary	Sustaining Partnership	3,200	0	102
Guinea-Bissau	Developing	3,193	600	96
Venezuela		3,050	3,000	86
Togo	Developing	2,895	120	101
Algeria	Developing	2,885	1,165	91
Mauritius	Sustaining Partnership	2,672	190	100
Belize	Sustaining Partnership	2,485	0	102
Cape Verde	Developing	2,418	0	102
Papua New Guinea	Developing	2,360	2,080	88
Vanuatu	Transforming	2,310	0	102
Fiji	Developing	2,138	0	102
Costa Rica	Sustaining Partnership	2,063	0	102
Argentina	Sustaining Partnership	2,022	0	102
Gambia	Transforming	2,008	0	102
North Korea		2,000	2,000	89
Suriname	Developing	1,974	0	102
Tonga	Developing	1,653	0	102
Trinidad and Tobago	Sustaining Partnership	1,478	0	102
Samoa	Transforming	1,473	0	102
Slovenia	Sustaining Partnership	1,385	0	102
Chile	Sustaining Partnership	1,350	0	102
Bahamas	Sustaining Partnership	1,200	0	102
Libya		1,150	500	97
Ireland	Sustaining Partnership	1,000	500	97
Taiwan	Sustaining Partnership	775	0	102
Croatia	Sustaining Partnership	774	0	102
Singapore	Sustaining Partnership	725	0	102
Portugal	Sustaining Partnership	690	43,500	37
United Arab Emirates	Sustaining Partnership	615	0	102
Greece	Sustaining Partnership	590	0	102
Kuwait	Sustaining Partnership	485	470	98

Qatar	Sustaining Partnership	285	0	102
Gabon	Sustaining Partnership	200	0	102
Sao Tome & Principe	Developing	200	0	102
Maldives	Developing	195	0	102
Uruguay	Transforming	187	0	102
Solomon Islands	Developing	177	0	102
Saudi Arabia	Sustaining Partnership	115	0	102
Central African Rep.	Developing	100	0	102
Comoros	Developing	100	0	102
Rep. of the Congo	Developing	100	0	102
Seychelles	Sustaining Partnership	100	0	102
Micronesia		60	0	102
Equatorial Guinea	Sustaining Partnership	45	0	102
Malta	Sustaining Partnership	45	0	102
Barbados		0	0	102
Eritrea	Developing	0	0	102
Kiribati		0	0	102

*we assume blank country category boxes are “restrictive” countries that the administration does not want to official categorize, with the exception of some small island countries.