



The FY2011 Budget Agreement for Foreign Operations Sets the Stage for Future Funding

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Summary

Congress approved a spending plan for the remainder of 2011 on April 14, 2011, some six months after the start of the fiscal year. Before Congress reached this agreement on final funding levels, it passed seven short-term continuing resolutions. The bill, HR 1473, provides funding for programs across government, with virtually all budget functions being reduced. The agreement cuts \$38.5 billion from 2010 levels and is \$78.5 billion less than the 2011 request.

Eleven percent of the total cut is in the international affairs budget, or function 150, which is now funded at \$48.3 billion, \$8.4 billion less than the request. This is an 11 percent decrease from 2010 levels and 15 percent from the 2011 request. The decrease is less than the \$11.7 billion cut proposed in HR 1, an earlier plan passed by the House, but more than the \$6.5 billion cut envisioned in the Senate version.

This USAID Monitor Analysis focuses on the foreign assistance accounts, or Foreign Operations, portion of the function 150 budget. While the cuts are not as deep as many expected or as drastic as those initially proposed by the House Appropriations Committee, they are still significant and will prove challenging for the State Department and USAID. The budget agreement also signals future debates on United States' global leadership in general, and the role of foreign assistance, in relation to other budgetary priorities.

The USAID Monitor provides timely analysis and research on the U.S. Agency for International Development and the issues affecting its ability to live up to the administration's pledge to make it the world's premier development agency. It is part of CGD's Rethinking U.S. Foreign Assistance program that tracks efforts to reform aid programs and improve aid effectiveness.

The FY2011 Budget Agreement for Foreign Operations Sets the Stage for Future Funding Bills

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The budget agreement also includes \$1.7 billion for food aid, a \$200 million reduction that is provided in agriculture appropriations. When food aid is included, the international affairs budget for FY2011 will top \$50 billion.

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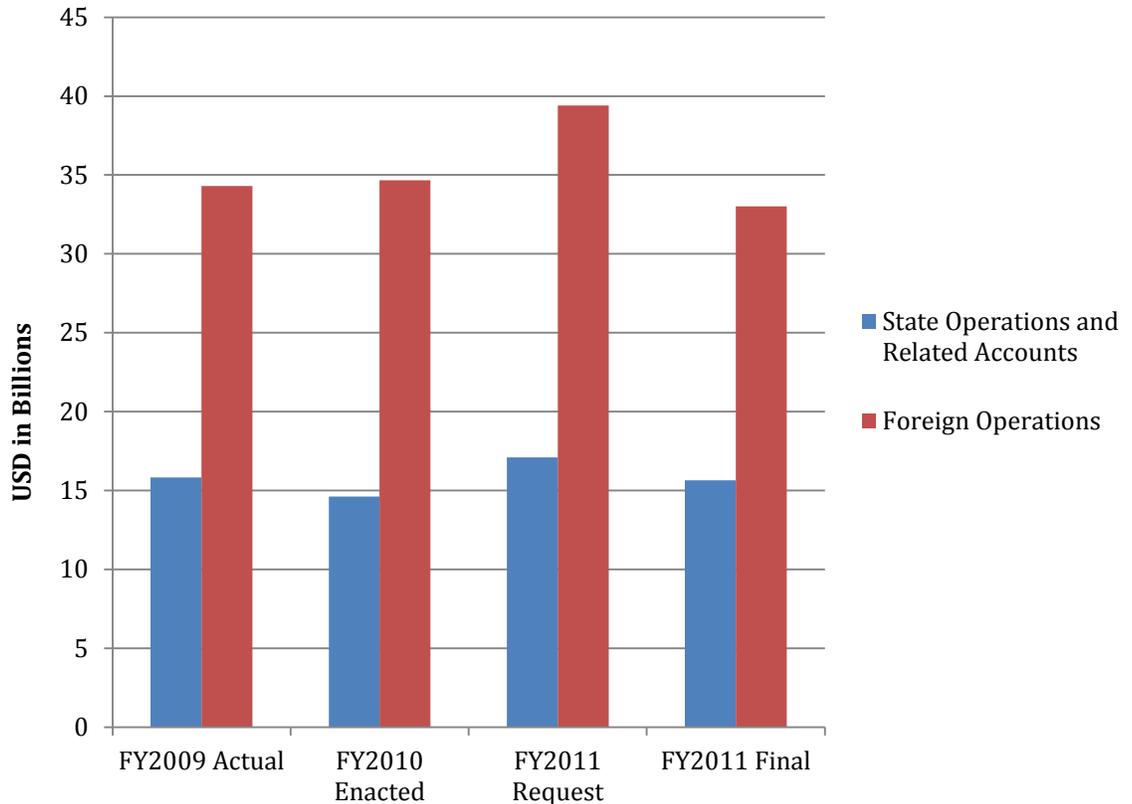
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U.S. Foreign Assistance in a Time of Budget Austerity

Foreign Operations is the largest portion of the international affairs budget, currently encompassing some 48 accounts and line items providing assistance for development, military assistance, humanitarian response, and a host of other purposes. Some accounts are managed by either USAID or the State Department while others are co-managed. Independent agencies such as the Millennium Challenge Corporation, the Trade and Development Agency, and the Overseas Private Investment Corporation, as well as

contributions to multilateral organizations and international financial institutions, are also funded in this section of the State and Foreign Operations Appropriations bill.

Of the total \$8.4 billion cut from the international affairs budget, foreign operations accounts for roughly \$7 billion or 84 percent of the cuts. This brings foreign operations levels below those appropriated for FY2009.



Nearly every account was cut in relation to the president's 2011 budget request, but the cuts are not as deep as in HR 1. Indeed, some accounts will increase slightly in comparison to 2010 funding levels. Health and development accounts fare relatively well, receiving slightly more funding than in 2010 but substantially less than what was requested for 2011. USAID's operating expenses, key to the agency's ability to rebuild its capacity, were reduced but, again, not by as much as first proposed in HR 1. The Economic Support Fund was hit harder as were the Millennium Challenge Corporation and many multilateral accounts.

Below are some of the highlights, although it should be noted that these figures do not include an additional 0.2 percent across-the-board cut to nondefense accounts. At the end of this report, a table provides data on all Foreign Operations accounts.

- The **Global Health and Child Survival** accounts total \$7.845 billion, which is \$66 million more than 2010 levels. The State Department's portion would be \$5.345 billion, or \$14 million below 2010. USAID's health account would increase by \$80 million to \$2.5 billion. The Global Fund to Fight AIDS, Tuberculosis and Malaria would equal the 2010 level of \$750 million. Clearly, White House and Congressional negotiators see the value in global health programs, although it should be noted that funding for voluntary family planning and women's health gets a \$85 million cut.
- USAID's **Development Assistance** account would receive \$2.525 billion, an increase of \$5 million from 2010 but a \$456 million decrease from the request. At this level of funding, USAID will have to be judicious in its spending but should still be able to manage Feed the Future and other important programs. The agreement allows a \$100 million contribution to the Global Agriculture and Food Security Program located at the World Bank.
- USAID's **Operating Expenses** would be reduced by \$39 million from 2010 and \$122 million from the request. With \$1.350 billion, the agency should not have to reduce its ranks, but it is unclear whether they will be able to bring in some of the new contracting officers and midlevel professionals as planned. Even so, this is much better than the \$121 million cut below 2010 envisioned in HR 1.
- The **Millennium Challenge Corporation** is cut by \$205 million from 2010 and \$380 from the request of \$1.280. At \$900 million, the MCC is only slightly better than its 2009 funding level requiring difficult choices with implications for pending compacts in Cape Verde, Zambia, and Indonesia.
- **International Disaster Assistance** is funded at \$865 million, an increase of \$20 million over 2010. This represents an enormous turnaround from the HR 1 level of \$429 million.

- The **Economic Support Fund** is funded at \$5.958 billion, a slight reduction from 2010 but more than \$1.8 billion below the request. While ESF is often allocated for strategic reasons, it also provides a large amount of money for development purposes.
- The **Pakistan Counterinsurgency Capability Fund** was scheduled to be taken over by the State Department but will instead remain under the Department of Defense's management and was funded at \$800 million rather than the \$1.2 billion request. The Secretary of State will remain involved in determining the use of those funds with the Secretary of Defense.
- Allocations within **International Organizations and Programs** that fund voluntary contributions would receive \$335 million, approximately \$16 million less than the request and \$59 million less than in 2010. **Contributions to International Organizations** funds dues to the United Nations and other international organizations. The budget agreement funds CIO at \$1.582 billion. This is \$377 million below 2010 levels and \$304 million less than the request.
- **Assistance to Europe, Eurasia, and Central Asia** will receive \$697 million, a modest reduction of \$44 million from 2010 and \$19 million from the request.
- **Migration and Refugee Assistance** funding is \$1.69 billion, comparable to 2010, and an increase of \$85 million over the request.
- There are winners and losers among **International Financial Institutions**. The Asian Development Fund is zeroed out despite a request of \$115 million, but its general capital increase is authorized in HR 1473, allowing FY2010 payments to the Fund to be made. The African Development Fund is cut from the \$156 million request to \$110 million. The Global Environment Facility is reduced to \$90 million from the \$175 million request, and the International Clean Technology Fund would receive \$185 million rather than the \$400 million request. On the other hand, the World Bank's International Development Association, which provides interest-free credits and grants to the world's poorest countries, is reduced by a modest \$50 million, while the Inter-American Development Bank and the International Fund for Agricultural Development are funded roughly at requested levels.

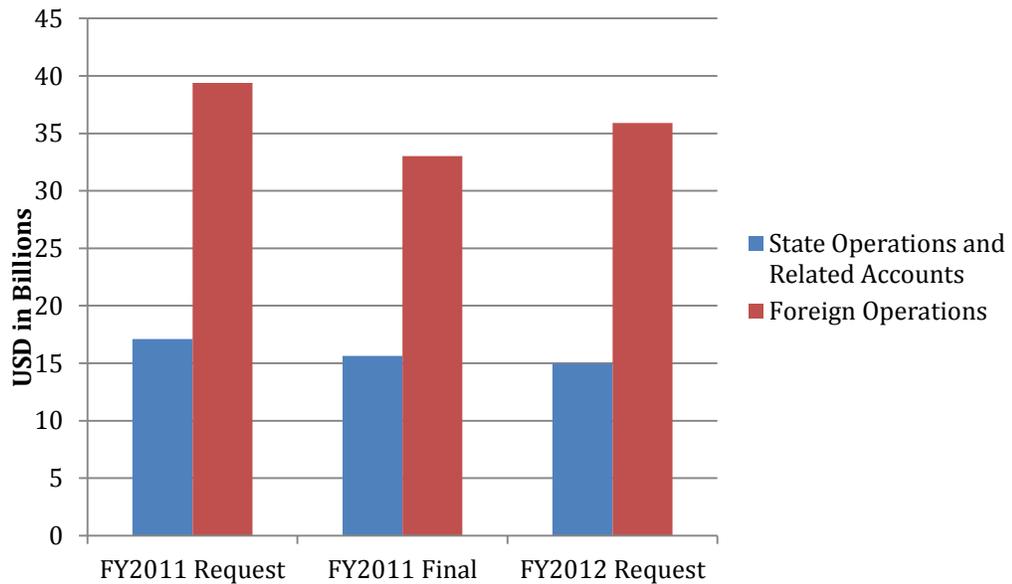
The Looming Debate on the 2012 Budget

President Obama included a pledge to double U.S. foreign assistance during his campaign for the White House. His 2011 and 2012 budget requests reflect sizeable increases toward this commitment. With 2011 levels reduced by 15 percent from his request and 11 percent from 2010, it is doubtful that funding will rebound in 2012. Considering the congressional focus on budget austerity and concerns with the size of the national debt, it is likely that foreign assistance will continue to be scrutinized.

Indeed, the 2012 budget passed by the House of Representatives calls for international affairs spending at just \$37 billion, compared to the \$48.3 billion provided for 2011. By 2016, the House budget envisions just \$29 billion. Such levels would require a major reorientation of U.S. international engagement in both diplomacy and development.

The Senate's budget blueprint is likely to differ substantially from that of the House. Some observers, notably Judd Gregg, former ranking member of the Budget Committee, predict that the two chambers will be unable to bridge their differences and will fail to pass a budget for 2012. Because the budget is not enacted into law, but is rather an internal congressional document, such a failure would not be catastrophic. However, the budget does set a framework that guides the appropriations process. Having two widely divergent budget proposals means that the House and Senate Appropriations Committees will be using different top-line numbers, unless the Committees reach an informal agreement as they proceed to write 2012 funding bills. This will make reconciling differences all the more difficult and may set a scenario of possible government shutdowns similar to those of 2011. Approaching presidential and congressional elections will only harden positions, making compromises more difficult to achieve.

On the other hand, the fact that the final 2011 figures were not as draconian as first proposed by the House spending plan may bode well for 2012. It is entirely possible that the value of development is becoming better understood on the Hill, if not perhaps within the rank and file then certainly among those who are writing and negotiating funding levels. The final numbers could have been influenced by persuasive arguments from administration officials, lobbying by interest groups, ongoing turmoil in the Middle East, and the start of a food-price crisis similar to that of 2008 and 2009 that stirred violent clashes in some two dozen countries.



However, future support for the foreign operations budget should not be assumed. Many believe there is still room for a thorough scrubbing of accounts to determine their effectiveness and whether they support U.S. goals. Some of this has occurred in the 2012 budget request, but those levels exceed the 2011 enacted levels by roughly \$2.5 billion.

Going forward, the debate will center on value for money. The State Department and USAID's ability to demonstrate that its evidenced-based approach is providing the focus and selectivity highlighted in the President's Policy Directive on Global Development will be a critical component in driving the debate on the international affairs budget.

Foreign Operations and State Department Operations: Selected Accounts	FY2010 Base	FY2011 Request	FY2011 CR	FY11 CR/% Chge FY10	FY2012 Request
USAID Operating Expenses	1,388.8	1,476.0	1,350.0	-3%	1,503.4
USAID Civilian Stabilization Initiative	30.0	0.0	5.0	-83%	0.0
USAID Capital Investment Fund	185.0	173.0	130.0	-30%	189.2
USAID Inspector General	46.5	46.5	45.0	-3%	51.5
USAID Health & Child Survival	2,420.0	3,013.0	2,500.0	+3%	3,073.6
State Health & Child Survival	5,359.0	5,500.0	5,345.0	-0.3%	5,641.9
Development Assistance	2,520.0	2,980.9	2,525.0	+0.2%	2,918.0
Disaster & Famine Assistance	845.0	860.7	865.0	+2%	860.7
Transition Initiatives	55.0	48.0	55.0	0%	56.0
Complex Crises Fund	50.0	100.0	40.0	-20%	75.0
Economic Support Fund	6,344.0	7,812.0	5,958.0	-6%	5,968.7
Europe, Eurasia, & Central Asia	741.6	716.4	697.1	-6%	626.7
Fund for Ireland	17.0	0.0	0.0	-100%	
Democracy Fund	120.0	0.0	115.0	-4%	0.0
Migration & Refugee Assistance	1,693.0	1,605.4	1,690.0	-0.1%	1,613.0
Emergency Refugee & Migration	45.0	45.0	50.0	+11%	32.0
Millennium Challenge Corporation	1,105.0	1,279.7	900.0	-19%	1,125.1
Inter-American Foundation	23.0	22.8	22.5	-2%	19.1
African Development Foundation	30.0	30.0	29.5	-2%	24.0
Peace Corps	400.0	446.2	375.0	-6%	439.6
Treasury Technical Assistance	25.0	38.0	25.5	+2%	30.1
Debt Restructuring	60.0	70.0	50.0	-17%	15.0
Narcotics Control & Law Enforcement	1,597.0	2,136.0	1,597.0	0%	1,511.8
Nonprolif., Anti-Terror. & Demining	754.0	757.6	740.0	-2%	708.5
Military Education & Training	108.0	110.0	106.0	-2%	110.0
Foreign Military Financing	4,195.0	5,473.3	5,385.0	-28%	5,550.5
Peacekeeping Operations	331.5	286.0	305.0	-8%	292.0
Pakistan Counterinsurgency Fund	0.0	1,200.0	0.0	--	0.0
Global Security Contingency Fund	0.0	0.0	0.0	--	50.0
Global Environmental Facility	86.5	175.0	90.0	+4%	143.8
Clean Technology Fund	300.0	400.0	185.0	-38%	400.0
Strategic Climate Fund	75.0	235.0	50.0	-33%	190.0
International Development Association	1,262.5	1,285.0	1,235.0	-2%	1,358.5
Inter-American Development Bank	0.0	0.0	0.0	--	102.0
Enterprise for Americas Fund	25.0	25.0	25.0	0%	25.0
Inter-American Investment Corp	4.7	21.0	21.0	+347%	20.4
Asian Development Fund	105.0	115.3	0.0	-100%	115.3
African Development Fund	155.0	155.9	110.0	-29%	195.0
Int'l Fund Agricultural Development	30.0	30.0	29.5	-2%	30.0
Global Food Security Fund	--	408.4	100.0	--	308.0
Multilateral Debt Relief Initiative	0.0	0.0	0.0	--	174.5
Int'l Organizations & Programs	394.0	350.6	355.0	-10%	348.7
Export-Import Bank	2.4	- 9.5	3.0	+25%	-212.9
Trade & Development Agency	55.2	56.2	50.0	-9%	56.3
State: Civilian Stabilization Initiative	120.0	184.0	35.0	-71%	92.2
State: Contributions to Int'l Organizations	1,682.5	1,595.4	1,582.0	-6%	1,619.4
State: Contributions to Peacekeeping	2,125.0	2,182.3	1,888.0	-11%	1,920.0