US Development Policy Initiative

Five Approaches to Doing Better in Foreign Assistance during Times of Budget Cutting

US Development Policy Initiative

Summary

The deep cuts to foreign assistance proposed by the Trump administration in its FY2018 budget request were met with strong resistance from members of Congress on both sides of the aisle. But even as Congress rejects the severity of the administration's proposed spending reductions, budget pressure is likely to persist, contributing to an environment in which "doing more with less" becomes the mandate of the day.

Where politically-driven budget cuts can have negative consequences for programs and outcomes, the White House and Congress may find common ground in embracing an agenda that prioritizes achieving greater effectiveness in US development assistance as well as value for money.

CGD has a history of thought leadership on questions of aid reform and is weighing in again with new work by CGD fellows Jeremy Konyndyk and Cindy Huang.[1] To home in on the budget question, CGD's US Development Policy Initiative (DPI) has assembled five proposals to do foreign assistance better, drawing on both new and long-standing work and analysis from the Center.

As a starting point, we do not think the appropriate framework is to aspire to "do more with less" or even accept as inevitable that the outcome will be "doing less with less." Instead, we believe there should be a shift in mindset to embrace "doing better" in a way that can be applied in times of budget-cutting or even budget expansion. The ideas we promote here do not call for budget cuts. But they do offer ways in which our aid enterprise can pursue qualitative improvement alongside budgetary savings:

1. Cash transfers: lower costs, greater impact
2. Evidence-based policy making: A foreign assistance review commission
3. Increase budget flexibility to achieve sustainable results
4. Leveraging the power of multilateralism
5. Better match instruments and programs with country needs

This brief was revised on July 27, 2017. It was first published on July 24, 2017.

[1] Jeremy Konyndyk and Cindy Huang, "A Practical Vision for US Development Reform," *US Development Policy Initiative Product* (Center for Global Development, July 2017), https://www.cgdev.org/publication/practical-vision-us-development-reform.

Center for Global Development

Proposal 1: Cash transfers: lower costs, greater impact

The administration should increase the use of cash in humanitarian contexts and within development-oriented social safety net programs. This should be facilitated through new legislation that would remove barriers to fully utilizing cash and by a study on the cost effectiveness of cash assistance in sector-based interventions.

Delivering more assistance through cash—versus goods like food and temporary housing—will both lower costs and increase the impact of US humanitarian assistance programs. Cash assistance supports longer-term recovery and development while achieving greater value for money by working through local markets—most of which continue to operate in emergency contexts, particularly for basic goods like food—and using, rather than displacing, local suppliers. Yet despite the strong evidence base, cash transfers as part of overall food aid accounted for a mere 5 percent of the $2.8 billion the United States spent on humanitarian food assistance in FY2016,[2] and overall, international donors deliver only around 6 percent of humanitarian assistance via cash.[3] The administration has an opportunity to save and support more lives at a reduced cost, by 1) increasing the use of cash in humanitarian contexts, and 2) increasing efficiency and effectiveness through development-oriented cash transfers targeted to the poorest and most vulnerable.

The benefits of cash transfers in humanitarian settings

The benefits of cash, highlighted by the High Level Panel on Humanitarian Cash Transfers chaired by CGD's Owen Barder,[4] are striking:

Cash transfers **decrease overhead costs** related to logistics, personnel, and transport, leading to greater impact on impoverished and vulnerable communities. A four-country study of food assistance programs found that 18 percent more people could have been reached at no extra cost had assistance been in cash rather than food.[5] By providing more

---

[2] "Fiscal Year 2016 Food For Peace Fact Sheet," *Fact Sheet* (USAID, July 2017), https://www.usaid.gov/what-we-do/agriculture-and-food-security/food-assistance/quick-facts/fiscal-year-2016-food-peace.

[3] This estimate, from CGD's High Level Panel on Humanitarian Cash Transfers, is calculated using 2014 data on cash and vouchers from the World Food Program and the United High Commissioner for Refugees, as well as the panel's rough estimate of other international aid programming. The High Level Panel on Humanitarian Cash Transfers, "Doing cash differently: How cash transfers can transform humanitarian aid," *Report* (Center for Global Development and Overseas Development Institute, September 2015), https://www.cgdev.org/blog/transforming-humanitarian-aid-cash-transfers-high-level-panel-report.

[4] Ibid.

[5] Similarly, an evaluation of cash assistance in Somalia during the 2011 famine found that while only 35 percent of food aid budgets reached beneficiaries, 85 percent of cash transfer budgets went directly to these populations. The High Level Panel on Humanitarian Cash Transfers, "Doing cash differently: How cash

freedom in consumption, cash transfers **reduce inefficiencies in aid delivery** that occur when goods and services provided do not align with needs and preferences on the ground. A study of food assistance from the World Food Programme (WFP) to refugees in Ethiopia found that most beneficiaries were reselling 30-50 percent of wheat entitlements received at prices as low as a third of those paid by WFP. Switching to a cash-based system for part of the food basket in this instance led to cost savings of 25-30 percent.[6,7] Finally, cash transfers in humanitarian settings also deliver **versatile results** across a range of measures. For example, cash increased dietary diversity in internally displaced people by 24-38 percentage points in the DRC, decreased anemia among children by 10 percentage points in conflict affected regions of Uganda, and halved rates of child labor and increased school enrolment by 6 percentage points for Syrian refugee families in Lebanon.[8,9] The adaptability of cash interventions presents a clear value-add in the complex needs context of emergencies and displacement.

Furthermore, cash assistance provides **spillover benefits** that improve economic outcomes for the broader community. Refugees given cash assistance tend to spend this cash on goods and services from surrounding businesses and households, creating a stimulus effect. For example, every $1 of cash assistance spent by a Syrian refugee family in Lebanon generated $2.13 in local economic activity.[10] With cash transfers, each dollar of aid provided creates broader community benefits at no additional cost.

---

transfers can transform humanitarian aid;" Amy Margolies and John Hoddinott, "Costing alternative transfer modalities," *Discussion Paper* (International Food Policy Research Institute, September 2014), http://www.ifpri.org/publication/costing-alternative-transfer-modalities.

[6] Courtenay Venton, Sarah Bailey, and Sophie Pongracz, "Value for Money of Cash Transfers in Emergencies," *Report* (UK Department of International Development, February 2015), http://www.cashlearning.org/downloads/summary-vfm-cash-in-emergencies-report-final.pdf.

[7] Similarly, 70 percent of Syrian refugees resident in camps in the Kurdistan region sold all or some of the in-kind assistance they were provided with, highlighting a clear mismatch between supply and demand. "Multi-Sector Needs Assessment of Syrian Refugees Residing in Camps," *Assessment Report* (The UN Refugee Agency, March 2015), http://reliefweb.int/sites/reliefweb.int/files/resources/reach_irq_msna_of_syrian_refugees_in_camps_march2015_3.pdf.

[8] "Cash Transfers in Humanitarian Contexts," *Strategic Note* (World Bank, June 2016), http://documents.worldbank.org/curated/en/697681467995447727/pdf/106449-WP-IASC-Humanitarian-Cash-PUBLIC.pdf.

[9] "Emergency Economies: The Impact of Cash Assistance in Lebanon," *Impact Evaluation* (International Rescue Committee, August 2014), https://www.rescue.org/sites/default/files/document/631/emergencyeconomiesevaluationreport-lebanon2014.pdf.

[10] "IRC releases evaluation: Cash transfers work for refugees in emergencies," *Press Release* (International Rescue Committee, September 2014), https://www.rescue.org/press-release/irc-releases-evaluation-cash-transfers-work-refugees-emergencies.

Streamlining food assistance could lead to savings for US taxpayers

Reforming food assistance to reorient resources towards cost-efficient cash transfer programs is politically challenging, but can generate major cost savings for the US government and taxpayers. **Ending monetization**, which requires that a portion of US-sourced food aid be sold by recipient agencies on local markets regardless of demand, and **eliminating cargo preference**, which dictates that food aid must be delivered via American vessels even where cheaper alternatives are available, would collectively save $80 million per year.[11] **Permitting local or regional procurement of food aid** rather than requiring all food aid be sourced from US suppliers would also lower costs by as much as 62 percent, depending on the commodity.[12]

Efforts to modernize US food assistance programs have enjoyed bipartisan support, with reform proposals championed by Senate Foreign Relations Committee Chairman Bob Corker (R-TN) and Senator Chris Coons (D-DE) as well as the House Foreign Affairs Committee Chairman Ed Royce (R-CA) and Ranking Member Eliot Engel (D-NY).[13,14] The impact on US suppliers would be minimal; between 2002 and 2011, US food aid accounted for less than 2 percent of net farm income, and was not a major source of revenue for the shipping industry, where it accounted for a mere 0.86 percent of US agricultural exports.[15] Freeing up resources through improving the US aid delivery system and channeling more aid through cash interventions could allow US assistance to reach more people at less cost to American taxpayers.

The value-add of safety net cash transfers

The United States, including in partnership with the World Bank, has also funded several development-oriented social safety net programs, which provide cash payments to vulnerable households to encourage productive behaviors and insulate against shocks. The United States has funded such programs in Iraq, Ethiopia, and Armenia, among

---

[11] "Food Aid Reform," *Fact Sheet* (House Committee on Foreign Affairs, June 2013), https://foreignaffairs.house.gov/files/06-11-13%20Food%20Aid%20Reform%20Fact%20Sheet%20PDF.pdf.

[12] Kim Elliott and William McKitterick, "Food Aid for the 21st Century: Saving More Money, Time, and Lives," *Brief* (Center for Global Development, June 2013), https://www.cgdev.org/publication/ft/food-aid-21st-century-saving-more-money-time-and-lives.

[13] Bob Corker and Chris Coons, "A Better Way to Help the World," *Op-ed* (The New York Times, May 2017), https://www.nytimes.com/2017/05/10/opinion/a-better-way-to-help-the-world.html?_r=0.

[14] Ed Royce and Eliot Engel, "International food aid needs reform," *Blog* (The Hill, June 2013), http://thehill.com/opinion/op-ed/306363-international-food-aid-needs-reform.

[15] "Corker, Coons Reintroduce Food for Peace Reform Act of 2015," *Press Release* (United States Senate Committee on Foreign Relations, February 2015), https://www.foreign.senate.gov/press/chair/release/corker-coons-reintroduce-food-for-peace-reform-act-of-2015.

others.[16] Accelerating progress here could also improve the reach and effectiveness of US development assistance.

Cash transfers have proven effective at **increasing productive employment and investment** among beneficiaries, enabling them to contribute to their own socioeconomic wellbeing. Recipients of a one-time cash grant for a business start-up in Uganda had incomes 41 percent higher than their peers, and were 65 percent more likely to practice a skilled trade.[17] **Combating hunger and improving nutrition** are other challenges against which cash transfers have proven an effective tool. Conditional cash transfer programs in the Philippines reduced severe stunting by 10 percentage points while in Brazil, children under 5 whose families received cash transfers were 26 percent more likely to attain an appropriate height and weight for their age.[18] Evidence from long-term cash transfer programs delivered as social protection suggests that cash assistance can work to **improve educational attainment and health outcomes** by incentivizing families to invest in preventive healthcare for their children and reducing dependence on child labor. In Mexico, a state-run conditional cash transfer program led to an 11 percent increase in girls' school enrollment and a 7.5 percent increase in boys' school enrollment.[19,20] Cash transfers can also reduce rates of infectious diseases like HIV by providing incentives for adolescents and other vulnerable groups that discourage sexually risky behavior. For example, cash transfers targeting at-risk girls in Malawi led to a 64 percent reduction in HIV risk among beneficiaries by encouraging them to stay in school and providing a measure of economic freedom.[21]

---

[16] "USAID, World Bank Partner with Iraqis to Launch Social Safety Net Program," *Press Release* (USAID, May 2009), https://www.usaid.gov/news-information/press-releases/usaid-world-bank-partner-iraqis-launch-social-safety-net-program; Kelly Ramundo, "Catching Ethiopians Before They Fall," *Article* (USAID, May 2012), https://www.usaid.gov/news-information/frontlines/child-survival-ethiopia-edition/catching-ethiopians-they-fall; "USAID Completes Successful Effort to Improve Social Protection System in Armenia," *Press Release* (USAID, November 2016), https://www.usaid.gov/armenia/press-release/nov-10-2016-usaid-completes-successful-effort-to-improve-social-protection-system-in-Armenia.

[17] "Northern Uganda Social Action Fund – Youth Opportunities Program," *Web Page* (Innovations for Poverty Action, May 2013), http://www.poverty-action.org/study/northern-uganda-social-action-fund-%E2%80%93-youth-opportunities-program.

[18] Amanda Glassman, "Cash Transfers and Deeper Causes of Poverty," *Blog* (Center for Global Development, October 2013), https://www.cgdev.org/blog/cash-transfers-and-deeper-causes-poverty.

[19] "Mexico - Scaling Up Local Innovations for Transformational Change," *Report* (United Nations Development Programme, November 2011), http://www.undp.org/content/dam/undp/library/Poverty%20Reduction/Participatory%20Local%20Development/Mexico_Progresa_web.pdf.

[20] Similarly, in Brazil, overall school attendance for children aged 6-17 increased by 3.7-4.4 percentage points and rates of grade progression increased by 6 percentage points. Daniel Gilligan and Anna Fruttero, "The Impact of *Bolsa Familia* on Education and Health Outcomes in Brazil," *Presentation* (The World Bank, October 2011), http://siteresources.worldbank.org/SOCIALPROTECTION/Resources/280558-1138289492561/2158434-1319815902013/AnnaFruttero_DanielGilligan.pdf.

[21] Similarly, in Kenya, a cash transfer program targeting orphans and vulnerable children led to a 30 percent reduction in the age at which beneficiaries had their first sexual experience. Amanda Glassman, "Cash Transfers: Good for HIV/AIDS Too," *Blog* (Center for Global Development, August 2012), https://www.cgdev.org/blog/cash-transfers-good-hivaids-too.

Critics of cash transfers have argued that beneficiaries are apt to misuse the income, using it to consume "vice goods" like cigarettes and alcohol. But robust evidence shows otherwise.[22] For example, an evaluation of GiveDirectly's unconditional cash assistance in Kenya found that beneficiary households did increase consumption, but of food, medical services, education, and building social capital with no increase in expenditures on goods like alcohol or tobacco.[23,24]

Recommendations

While cash transfers are not a panacea, they are a relatively inexpensive, versatile, and efficient means of helping households rise out of poverty and vulnerability in the short and medium-term. Innovative and cost-effective tools like cash transfers demonstrate that we can spend less and achieve more in the humanitarian and development sectors through smarter approaches without compromising on results.

Recognizing the potential value of cash transfers, the United States committed to increasing its use of cash in humanitarian contexts through the Grand Bargain—an agreement adopted by more than 30 of the largest donors to improve both the efficiency and effectiveness of humanitarian action.[25] The administration should make good on this commitment, and quickly scale up the use of cash, including in meeting the needs of the 20 million currently facing famine. It should also collaborate with Congress on legislation that would remove barriers to fully utilizing cash, including those preventing the implementation of recommendations of the High Level Panel on Humanitarian Cash Transfers.

The United States channels significant development assistance to improve labor markets, combat hunger and malnutrition, and promote better health and education outcomes through sector-specific interventions. The administration should commission a study of where it would be cost-effective to transition some sector assistance to cash-based interventions, or introduce cash transfers to consolidate gains and complement sector-based interventions.

---

[22] Christopher Blattman and Paul Niehaus, "Show Them the Money," *Essay* (Foreign Affairs, May 2014), https://www.foreignaffairs.com/articles/show-them-money.

[23] Johannes Haushofer and Jeremy Shapiro, "The Impact of Unconditional Cash Transfers in Kenya," *Web Page* (Innovations for Poverty Action), http://www.poverty-action.org/study/impact-unconditional-cash-transfers-kenya.

[24] Additionally, an RCT of the Tanzanian government's pilot cash transfer program financed increased savings and investment, improved health and education outcomes, and saw no increase in expenditure on tobacco and alcohol. Justin Sandefur, Nancy Birdsall, and Mujobu Moyo, "The Political Paradox of Cash Transfers," *Blog* (Center for Global Development, September 2015), https://www.cgdev.org/blog/political-paradox-cash-transfers.

[25] "Grand Bargain – A Shared Commitment to Better Serve People in Need," *Agreement* (May 2016), http://reliefweb.int/sites/reliefweb.int/files/resources/Grand_Bargain_final_22_May_FINAL-2.pdf.

Proposal 2: Evidence-based policymaking: A foreign assistance review commission

Congress should establish an evidence-based portfolio review across US bilateral and multilateral assistance efforts in order to lay the groundwork for driving reform within institutions and an analytical basis for allocating scarce resources across the foreign assistance budget.

Over the last decade, US foreign assistance agencies and many of the multilateral institutions substantially increased their use of evidence to inform development policy and programing. This shift, led by both the executive branch and members of Congress, was undertaken to improve the delivery of concrete development results to aid beneficiaries and better support American interests.

Now, with the foreign assistance budget facing cuts of some magnitude and amid calls for the reform and restructuring of the US foreign assistance architecture, it becomes all the more critical to bring evidence to bear in foreign assistance allocation decisions. While much more could be said about how the agencies themselves should (and should not) use evidence in individual programmatic decisions, there is a first-order need for an evidence-based portfolio review across US bilateral and multilateral assistance efforts.[26,27] A review would provide the analytical basis for allocating scarce resources across the foreign assistance budget. It would also lay a rigorous foundation to continue to improve our development assistance institutions, with a relentless eye on development effectiveness and value for US taxpayer money.

Providing an analytical basis for funding allocations

An evidence-based portfolio review would allow more informed allocation decisions to be made across funding streams, thereby permitting cuts with the proverbial scalpel, rather than a bludgeon. There is a significant risk that without reliance on evidence to make funding decisions, the foreign assistance budget will emerge from required cuts supporting only those programs with loud constituencies; with little thought to

[26] See: Scott Morris and Madeleine Gleave, "Realizing the Power of Multilateralism in US Development Policy," *White House and the World 2016 Briefing Book* (Center for Global Development, 2016), https://www.cgdev.org/sites/default/files/whw-multilateralism.pdf; "Raising the Standard: the Multilateral Development Review 2016, *Report* (UK Department for International Development, 2016), https://www.gov.uk/government/publications/raising-the-standard-the-multilateral-development-review-2016; "Australian Multilateral Assessment (AMA) Full Report, *Report* (Australian Government DFAT, 2012), http://dfat.gov.au/about-us/publications/Pages/australian-multilateral-assessment-ama-full-report.aspx.

[27] See: "Rising to the challenge of ending poverty: the Bilateral Development Review 2016," *Report* (UK Department for International Development, 2016), https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/573899/Bilateral-Development-Review-2016.pdf.

sustainable development impact, supporting US strategic priorities, or whole portfolio effect.

An evidence-based review would allow thoughtful decisions about how to maximize development impact and US interests despite required trade-offs. Congress was quick to dismiss the deep cuts to foreign aid included in the Trump administration's FY2018 budget request, but even a more modest reduction to the topline could result in cuts to worthy programming. Under budget pressure, trade-offs need to be made: between multilateral and bilateral agencies, among US agencies, among recipient countries, among sectors, and so on. Evidence should inform these decisions.

Improving our foreign assistance institutions

A portfolio review would also provide a basis for driving reform within institutions. It would allow the administration and Congress to ensure that our foreign assistance agencies and multilateral investments remain fit for purpose, maximize development impact, and deliver strong US taxpayer value.

A review could also strengthen Congress' oversight position. Appropriators would retain discretion over funding decisions, but would be armed with more information to evaluate an agency's budget request. Likewise, review findings could trigger a process through which Congress can reevaluate the earmarks and directives that encumber the foreign assistance budget, in particular, the United States Agency for International Development (USAID).[28]

Agencies and our multilateral partners should welcome the scrutiny a commission would bring as an opportunity not only to improve their development impact but also to help make the case to the new administration, Congress, and the American people that development assistance works and has significant value.

Recommendations for the focus of a review

A review should include an assessment of the following seven criteria:

1. country-level factors, like need, access to alternative sources of financing, and institutional strength;
2. program performance and results;[29]

---

[28] Casey Dunning and Ben Leo, "Making USAID Fit for Purpose - A Proposal for a Top-to-Bottom Program Review," *White House and the World 2016 Briefing Book* (Center for Global Development, July 2015), https://www.cgdev.org/publication/ft/making-usaid-fit-purpose-proposal-top-bottom-program-review.

[29] See: Sarah Rose, "Some Answers to the Perpetual Question: Does US Foreign Aid Work – and How Should the US Government Move Forward with What We Know?" *Note* (Center for Global Development, April 2017), http://www.cgdev.org.ln.is/V9u3D, for discussion of considerations around the applicability of program results to cross-sectoral and cross-country allocations.

3. alignment with country priorities;
4. the opportunity cost of program interventions, including cost-benefit analysis, where possible;
5. the extent to which aid finances public goods (things the private sector will not finance) and global public goods (things more efficiently done collectively);
6. comparative advantages between the United States and other bilateral and multilateral donors; and
7. US foreign policy and national security interests.

This review would then allow the administration and Congress to allocate scarce resources where they will most effectively achieve development impact in the US interest.

Proposal 3: Increase budget flexibility to achieve sustainable results

In a resource-constrained environment, Congress should give USAID greater budgetary discretion to ensure value for money through allocation decisions informed by evidence, including applicable ex ante diagnostic tools, and alignment with partner country priorities.

When development dollars are scarce, US foreign assistance agencies must seek more "bang for each buck." A focus on value for money, however, is often undermined by a complicated web of presidential priorities and congressional earmarks[30] and directives that dictate how development dollars are spent.

The extent of the constraints

Problems with budget inflexibility are most acute for USAID. Some estimates put the agency's discretionary funding at a quarter or less of its overall budget.[31] For many individual USAID missions, the percentage is even lower. A review of 12 missions conducted by USAID's inspector general found nondiscretionary—or restricted—funding accounted for 80 percent or more of the FY2014 budgets of eight missions.[32]

[30] We use the term "earmarks" broadly to refer to congressional directives about how programmatic funding should be deployed or allocated.
[31] "Audit of USAID Country and Regional Development Cooperation Strategies," *Audit Report No. 9-000-15-001-P* (USAID Office of the Inspector General, 2015), http://pdf.usaid.gov/pdf_docs/PA00KB67.pdf.
[32] Ibid.

Not only that, evidence indicates that flexible funding has been declining. USAID reported that earmarked funds increased by more than $300 million between FY2013 and FY2014, while discretionary funding decreased by $858 million.[33] In recent years, Congress has passed appropriations bills accompanied by joint explanatory statements that carry their own directives while also giving power to language included in reports advanced by each chamber's appropriations committees. This practice can increase the volume of congressional directives associated with a spending measure.

Many of the restrictions Congress places on bilateral economic assistance are considered "soft earmarks" or directives—meaning they are included in report language—rather than strict legal requirements ("hard earmarks"), which are written into the bill itself.[34] Nevertheless, agencies often make significant efforts to comply with the range of earmarks and directives to avoid the risk of reduced appropriations in subsequent years.

Tellingly, when Congress partnered with the George W. Bush administration to create a new foreign assistance account focused on effective aid delivery, they created a new agency—the Millennium Challenge Corporation (MCC)—to sidestep the spending constraints that dominate the rest of the foreign assistance budget. Rather than relying on earmarks and directives to account for how MCC spends its funds, the agency's accountability for quality programming and results is driven by its use of data to identify relatively well-governed partner countries taking responsibility for their own development; its alignment with country priorities; its selection of individual projects on the basis of expected economic returns; and its commitment to conduct rigorous ex-post evaluations on the vast majority of its portfolio.

The implications of inflexibility for delivering results

Lack of flexibility hampers USAID's ability to shift funds in ways that seek to maximize results. For instance, budgetary restrictions can hamper USAID's ability to allocate funds based on evidence of demonstrated program success. Restricted funding also limits the agency's ability to align its programming with country-identified priorities, even though

[33] Ibid.

[34] Based on data gleaned from the Consolidated and Further Continuing Appropriations Act for FY2015 and accompanying reports, only around 10 percent of the specified restrictions on bilateral economic assistance (by value) were "hard earmarks," or legal requirements. Around 80 percent of the specified restrictions were "soft earmarks" In sum, these cover 100 percent of the Global Health Programs account plus a significant portion of Development Assistance and Economic Support Fund accounts. Soft earmarks refer to language in a report or explanatory statement rather than text of the bill, and though these provisions may explicitly direct agency action ("USAID shall…") they do not have the force of law. Directives—report language that issues recommendations and guidance rather than requirements—comprise around 10 percent of restrictions. It was not possible to calculate exact percentages of hard earmarks, soft earmarks, and directives since some earmarks cut across economic and security assistance. The approximate value presented here applies to an estimated midpoint between a scenario in which bilateral economic assistance absorbed the entire earmark and one in which security assistance absorbed it in its entirety. It is also important to note that this analysis does not make any attempt to quantify the effect of earmarks that lack a specified funding level.

such alignment is considered critical for achieving and sustaining program results.[35] USAID's Country Development and Cooperation Strategies (CDCSs) recognize the critical nature of country ownership and strategy development and involve consultation with local governmental and non-governmental actors. However, in practice, budget realities rather than priorities from local actors often end up shaping a mission's focus. A 2015 report from USAID's Inspector General notes, "The budget often trumped local priorities, and nondiscretionary funding—such as presidential initiatives and earmarks—drove the selection of development objectives."[36] The CDCS for Mozambique references the issue directly, stating, "Currently, USAID/Mozambique's portfolio is 100 percent earmarked by Presidential Initiatives and other requirements. The Mission has no funds to use at its own discretion, and the vast majority of its programming falls under strategies that were approved prior to this CDCS. As such, Presidential Initiatives and USAID global strategies greatly influenced the strategic choices made in this CDCS."[37] Indeed, one mission director, whose mission's budget was also almost 100 percent earmarked, characterized the CDCS process as "largely a waste of time."[38]

Recommendations

Congress should significantly lessen the burden of earmarks and directives and other funding restrictions that encumber US foreign aid, particularly for assistance implemented by USAID. To preserve accountability for effective use of funds, Congress should instead ask USAID to adhere to a suite of more effective aid delivery practices. These should include greater use of evidence in program design, including, as relevant, evaluation results from prior programming, growth diagnostics, and cost-benefit or cost-effectiveness analysis. Congress should also encourage transparent monitoring of program implementation and the expansion of high quality, rigorous evaluation. Finally, Congress should acknowledge the fundamental importance of alignment with country priorities for achieving sustainable results and urge greater incorporation of local ownership in project design, implementation, and resourcing.

While there are a number of possible approaches to reduce the burden of earmarks and directives, one option would be to authorize a pilot program that eliminates earmarks and spending directives in a limited number of countries. This would allow select missions to develop and execute a CDCS for maximum results by aligning areas of investment with country priorities and with evidence of program effectiveness. It would be critical that

[35] Casey Dunning, Sarah Rose, and Claire McGillem, "Implementing Ownership at USAID and MCC: A US Agency-Level Perspective," *Policy Paper* (Center for Global Development, January 2017), https://www.cgdev.org/sites/default/files/implementing-ownership-USAID-MCC.pdf.

[36] "Audit of USAID Country and Regional Development Cooperation Strategies," *Audit Report* (USAID Office of Inspector General, February 2015), http://pdf.usaid.gov/pdf_docs/PA00KB67.pdf.

[37] "Country Development Cooperation Strategy 2014-2019," *USAID Country Strategy Document* (USAID, April 2015), https://www.usaid.gov/sites/default/files/documents/1860/Mozambique_CDCS_February_2019.pdf.

[38] Dunning, Rose, and McGillem, "Implementing Ownership at USAID and MCC: A US Agency-Level Perspective."

appropriators ensure that any such pilot avoid inadvertently increasing the burden of earmarks on partner countries that are not selected as part of the pilot.

Proposal 4: Leveraging the power of multilateralism[39]

To capitalize on multilateralism as a tool for efficient and cost-effective development assistance, the White House and Congress should establish new targets for multilateral spending, informed by a multilateral aid review, and work to improve existing coordination mechanisms amongst actors that help to define multilateral aid allocations within the US government.

All donors employ a mix of bilateral and multilateral development assistance. Although US bilateral assistance has played and will continue to play a foundational role in US development policy, the unique characteristics of multilateral assistance, including leverage and effectiveness, the range of financing mechanisms, and geographic and sectoral scope of projects, represent multilateralism's compelling case as an instrument of cost-effective development policy.

However, while the United States enjoys particular benefits from being the largest shareholder in the multilateral development banks (MDBs) relative to other countries, US leadership in these institutions is currently in doubt as evidenced by cuts the administration proposed of 20 percent and more to the MDBs and full elimination of funding for some UN programs—which some members of Congress seem willing to embrace.[40] Yet, particularly when budgets are constrained, the United States should turn to the power of multilateralism as a tool to achieve more effective development outcomes.

Value-for-money in multilateralism

From a financial perspective, the multilateral channel allows the United States to leverage every dollar of foreign assistance. By US Treasury estimates, the combination of multidonor leverage and the leverage provided by the ability of MDBs to borrow in capital markets means that every dollar of US paid-in capital leads to $25 in lending.

---

[39] For the full analysis, see: Morris and Gleave, "Realizing the Power of Multilateralism in US Development Policy."

[40] "Budget of the US Government: A New Foundation for American Greatness," *FY2018 White House Budget Proposal* (Executive Office of the President, March 2018), https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/budget/fy2018/budget.pdf; "House of Representatives Budget Resolution," *FY2018 House of Representatives Budget Resolution* (House of Representatives, July 2017), House Budget https://budget.house.gov/wp-content/uploads/2017/07/7-18-17-225-FY2018_Budget_Resolution_xml.pdf.

"Over time, this effect is compounded, as demonstrated by a capital increase contribution of $420 million made under the Reagan administration that helped support $325 billion in lending over the subsequent two decades."[41] In 2015, total financial commitments from the five MDBs to which the United States contributes totaled over $116 billion, while total US bilateral commitments totaled approximately $43 billion, highlighting the leverage multilateralism brings to US development policy.[42,43]

In addition to the "bang for the buck" the United States gets out of leverage through multilateral channels, these channels afford the United States more opportunities to achieve positive development outcomes and increase the effectiveness of its foreign assistance dollars. In various initiatives that evaluate global aid agencies, multilateral organizations have consistently outperformed bilateral institutions in organizational effectiveness, programming, and "best practices."[44]

Leveraging a broader toolkit for effectiveness

Multilateral institutions employ a wide range of instruments, offering the United States greater flexibility in targeting appropriate and cost effective tools for different initiatives. In contrast to US bilateral programs, which rely heavily on grants (over 90 percent of the portfolio), multilateral institutions offer loans, equity investments, guarantees, grants, insurance, and research.[45] This is important for maximizing cost-effective assistance

---

[41] "International Programs Justification for Appropriations," *FY2013 Budget Request* (US Department of Treasury, 2013), https://www.treasury.gov/about/budget-performance/Documents/FY2013_CPD_FINAL_508.pdf.

[42] "The World Bank Annual Report 2015" *Annual Report* (The World Bank, 2016), https://openknowledge.worldbank.org/handle/10986/22550; "2015 Annual Report: Scaling Up To Meet New Development Challenges," *Annual Report* (Asian Development Bank, 2016), https://www.adb.org/documents/adb-annual-report-2015; "The Year in Review, Inter-American Development Bank Annual Report 2015," *Annual Report* (Inter-American Development Bank 2016), https://publications.iadb.org/handle/11319/7554; "Annual Report 2015," *Annual Report* (African Development Bank, 2016), https://www.afdb.org/fileadmin/uploads/afdb/Documents/Generic-Documents/Annual_Report_2015_EN_-_Full.pdf; "Annual Report 2015," *Annual Report* (European Bank for Reconstruction and Development, 2016), http://www.ebrd.com/news/publications/annual-report/annual-report-2015.html.

[43] "Total Obligations 2015" from *US Foreign Assistance Dashboard* (USAID, accessed July 2017), https://explorer.usaid.gov/#2015.

[44] Nancy Birdsall and Homi Kharas, "The Quality of Official Development Assistance (QuODA)," *1st and 3rd Eds.* (Center for Global Development and Global Economy and Development at Brookings; 2010 and 2014), https://www.cgdev.org/page/quality-oda-quoda; William Easterly and Tobias Pfutze, "Where Does the Money Go? Best and Worst Practices in Foreign Aid," *Journal Article* (Journal of Economic Perspectives 22(2), October 2013), http://courses.arch.vt.edu/courses/wdunaway/gia5524/easterly2008A.pdf; Stephen Knack, F. Halsey Rogers, and Nicholas Eubank, "Aid Quality and Donor Rankings," *Journal Article* (World Development 39(11), November 2011), http://www.sciencedirect.com/science/article/pii/S0305750X11002038.

[45] "The World Bank Annual Report 2013," *Annual Report* (World Bank, 2014), https://openknowledge.worldbank.org/handle/10986/16091; "IFC annual report 2013," *Annual report* (International Finance Corporation, 2013), http://documents.worldbank.org/curated/en/728101468326955026/Main-report; "OPIC Annual Report

because increasingly, non-grant instruments are better aligned with major development initiatives such as infrastructure investment and private sector development. Additionally, the multilaterals tend to have far more presence in middle-income countries, with lending and investment programs that are better matched to these countries' financing needs than the grant-dominant model employed by the United States.

Engagement in multilateral institutions allows the United States to magnify its geographic and sectoral reach beyond its bilateral engagements. The United States is the largest donor in 30 countries worldwide, but US-supported multilateral organizations are the top donors in 43 countries across nearly every region.[46] The MDBs also offer greater sectoral diversity. For instance, while US bilateral programs funded approximately $1 billion in infrastructure projects in 2015, World Bank infrastructure lending totaled over $14 billion.[47] MDB dominance in infrastructure finance explains why the institutions play explicit roles in prominent US initiatives such as Power Africa, where multilateralism is better matched to the objectives of the initiative.

Contemporary constraints on US multilateral engagement

The Trump administration has shown significant resistance to multilateral approaches, displayed most starkly by the announced withdrawal from the multilateral Paris climate agreement as well as the rejection of the Trans-Pacific Partnership. But in reality, the use of multilateral aid channels had already fallen out of priority in recent years, and US multilateral engagement has long been marred by a fragmented decision-making process. For example, the United States is providing its modest resources through too many multilateral channels. The World Bank alone receives support from 10 different US government agencies through more than 175 dedicated channels, most of which are trust funds. These proliferated funds are difficult to track, often have overlapping mandates and one-off financing patterns, and broadly contribute to an inefficient and incoherent system.

There are a few reasons why the US multilateral agenda lacks funding priority and coherence. First, decisions about multilateral funding are spread across multiple agencies.[48] Secondly, existing budget processes do not consider bilateral and multilateral

---

2013," *Annual Report* (Overseas Private Investment Corporation, 2013), https://www.opic.gov/media-events/annual-reports.

[46] "Statistics on resource flows to developing countries," *Web page* (OECD, 2016), http://www.oecd.org/dac/stats/statisticsonresourceflowstodevelopingcountries.htm.

[47] "Total Obligations 2015," US Foreign Assistance Dashboard; "The World Bank Annual Report 2015," The World Bank. Infrastructure includes Energy and Mining, Information and Communications, Transportation, and Water, Sanitation, and Flood Protection.

[48] The majority of US multilateral funding flows through the Treasury's International Affairs budget, followed by global health funding decisions through the State Department, and smaller decisions made by the USAID regarding trust funds.

trade-offs between agencies. Thirdly, absent overarching policy direction, existing coordination mechanisms do not seek to prioritize among multilateral programs.

Recommendations

To capitalize on multilateralism as a tool for efficient and cost-effective development assistance, the White House and Congress should establish a target share for multilateral and bilateral spending, aiming for example to meet the OECD average multilateral share of 41 percent of total gross ODA over a multi-year period.[49] Compared to other leading donors, the United States provides a much smaller share of its aid budget to multilateral institutions at just 16 percent. By setting a target as part of the annual budget process, the United States could take full advantage of the leverage multilaterals bring.

From this starting point, the administration and Congress could work together on the terms of a multilateral aid review—as outlined in Proposal 2—drawing on the models and lessons learned from similar exercises in the United Kingdom and Australia. Such a review could provide an analytical framework for prioritizing among multilateral institutions according to measures of cost effectiveness and alignment with US policy priorities.

Finally, more reliance on multilateral aid channels, and more effective engagement with multilateral institutions, depends on better use of existing coordination mechanisms within the US government, including the US Treasury-chaired National Advisory Council on International Monetary and Financial Policies, the annual Office of Management and Budget-led budget process, White House-led interagency policy processes, and the State Department's leadership on international organizations. Inevitably, each of these processes will continue to exist, with some say in issues related to multilateral aid allocations. It would be better to acknowledge this reality and work to improve coordination among them, guided by clear high-level policy guidance from principal actors in the White House and key agencies.

Proposal 5: Better match instruments and programs with country needs

US development agencies should better match instruments to partner country need by identifying when and how to transition some middle-income countries away from grant-based assistance and increasing the use of alternative, non-grant instruments that promote other types of mutually beneficial partnerships.

[49] "Multilateral Aid 2015: Better Partnerships for a Post-2015 World," *Report* (OECD Development Assistance Community, 2015), https://www.oecd.org/dac/aid-architecture/OverviewChapter-MEP.pdf.

The likelihood of a leaner budget means the United States may have to become more selective about the number of countries with which it engages through traditional foreign assistance. This creates a good opportunity for the United States to reevaluate which financing and other instruments are best matched to which countries. This may mean that traditional grant-based foreign assistance—which currently makes up the vast majority of US bilateral economic assistance—is no longer the most appropriate tool for engaging with certain middle income countries, especially those with strong institutions, growing middle classes, and the ability to finance their own development needs.

To more appropriately match instruments to partner country need, US development agencies should (1) develop a set of principles and criteria to inform when and how to transition countries away from grant-based foreign assistance, and (2) increase, with these transitioning countries, the use of alternative instruments that promote other types of partnerships that mutually benefit the United States and partner countries.

US development instruments in a new context

The United States currently delivers over 90 percent of its bilateral economic assistance through grants. These grants are provided to 144 (as of FY2015) deeply heterogeneous countries,[50] ranging from upper-middle income, fellow donor countries like Brazil to fragile, low income states like South Sudan.

The United States' overwhelming reliance on grant-based assistance may no longer be appropriate, and not just because of domestic political pressure to cut foreign assistance. Several global trends suggest grant financing is not always the most appropriate tool for US engagement with all 144 aid recipients. First, the proportion of countries classified as upper-middle or high income has increased over the last twenty years.[51] Second, other financial flows to developing countries, like remittances, foreign direct investment, and domestic resources, have increased relative to US bilateral economic assistance.[52] At the same time, the world still faces serious development challenges: one billion people are living on less than $1.25 a day, sixty-five million people are forcibly displaced, and a disproportionate share of the extreme poor live in fragile and conflict-afflicted states.[53]

---

[50] Curt Tarnoff and Marian Lawson, "Foreign Aid: An Introduction to US Programs and Policy," *Report* (Congressional Research Service, June 2016), https://fas.org/sgp/crs/row/R40213.pdf.

[51] Matt Juden, "Which Countries Have Graduated from Each Income Group, and When?" *Blog* (Center for Global Development, March 2016), https://www.cgdev.org/blog/which-countries-have-graduated-each-income-group-and-when.

[52] Dunning and Leo, "Making USAID Fit for Purpose - A Proposal for a Top-to-Bottom Program Review."

[53] "Ellen Starbird, "Family Planning for the World's Youth Promotes Peace, Health and Prosperity," *Blog* (USAID 2016), https://blog.usaid.gov/category/extreme-poverty/; Theodore Talbot and Cindy Huang, "What's So Hard About a Refugee Crisis? Making Displacement a Development Problem," *Blog* (Center for Global Development, November 2016), https://www.cgdev.org/blog/whats-so-hard-about-refugee-crisis-making-displacement-development-problem; Homi Kharas and Andrew Rogerson, "Horizon 2025: creative destruction in the aid industry," *Report* (Overseas Development Institute, July 2012), https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/7723.pdf.

The current budget environment provides an opportunity for US development agencies to step back and reevaluate where grant-based foreign assistance should remain a priority and where the US government should transition away from grant assistance and make greater use of alternative instruments—including loans, private sector engagement, and trade facilitation—that promote a mutually beneficial, sustainable partnership.

Identifying candidates for transition

There is no ironclad formula for determining when to transition a country from grant-based assistance to other forms of development finance. Such decisions must be made flexibly and on a case-by-case basis, with due consideration to the US government's foreign policy priorities in the country and broader region. With that said, US development agencies should evaluate countries across a number of criteria to identify potential candidates for transition. These include:

1. Country-level characteristics, including:

    a. **Need:** It is relevant to assess not only per capita income, but also the extent and distribution of poverty. Low-income countries are clear candidates for continued grant assistance and many middle-income countries have significant poverty and inequality.

    b. **Financing capacity:** To what extent can countries redistribute their own resources or access alternative resources to address poverty and finance their own development priorities? Many low-income countries have little prospect of making a dent in extreme poverty through domestic redistribution; for these countries grant resources will continue to be important.[54] Other countries, like Brazil, have substantial domestic resources to tackle domestic poverty. And since many middle income countries have greater access to other sources of private financing and lending than lower income countries, they could be considered less of a priority for scarce grant resources.

    c. **Institutional strength and fragility:** Strong institutions are needed to collect taxes, deliver public services, provide safety nets, and manage a developed economy. Where institutions are relatively weaker, grant assistance may continue to play a role in strengthening these institutions.[55] However, it is important to evaluate institutional strength in conjunction with other criteria of need and fragility. In some cases, indicators of institutional strength may signal capacity for countries to address their own poverty outside of donor assistance; in other cases,

[54] Martin Ravallion, "Do Poorer Countries Have Less Capacity for Redistribution?" *Journal Article* (Journal of Globalization and Development: 1(2), December 2017), https://www.degruyter.com/view/j/jgd.2010.1.2/jgd.2010.1.2.1105/jgd.2010.1.2.1105.xml.

[55] Jose Alonso, Jonathan Glennie, and Andy Sumner, "Recipients *and* Contributors: Middle income countries and the future of development cooperation," *DESA Working Paper* (UN Department of Economic and Social Affairs, July 2014), http://www.un.org/esa/desa/papers/2014/wp135_2014.pdf.

they may signal reform-oriented governments in need of additional donor support as they translate improved policies into broader-based well-being. Fragile and conflict-afflicted states, which are increasingly where poverty is concentrated, present unique challenges to building strong institutions and addressing poverty. Grant assistance will continue to play a critical role addressing service gaps in fragile states, providing humanitarian relief, and supporting disaster response during crises.

2. An assessment of the country's aid landscape, focusing on the type of US government presence (e.g., USAID mission or office, MCC compact, non-presence country), the magnitude of US economic assistance, the relative importance of US development assistance vis-à-vis development assistance from other donors, and the sectoral balance of programing. These factors contribute to a bigger picture of the role of US foreign assistance and its comparative advantage in a particular country.

Planning for transition from grant assistance

US development agencies should approach the transition from grant-based assistance in selected countries in a deliberate and principled manner. Past experience has shown that a hasty process with insufficient time to develop a strategy in meaningful consultation with a partner country and US interagency stakeholders can damage bilateral relationships and compromise US interests.[56] Not only that, USAID mission closures are costly in the short-term, so decisions to close that are revisited shortly thereafter (e.g., the reopening of the closed mission in Tunisia) can be deeply inefficient.

As the US government seeks to transition countries from traditional economic assistance to more appropriate alternative financing mechanisms, grant-based assistance may continue to play a role for a period of time. Particularly useful in some contexts may be grant financing specifically focused on building capacity in preparation for transition. US development agencies should explore such efforts, including:

1. **Expanded technical assistance at the policy level, including for domestic resource mobilization:** Several US development agencies, including USAID, MCC, and the Treasury, provide technical assistance to countries at the policy level to improve the effectiveness of policymaking and regulation across a range of sectors. Treasury's Office of Technical Assistance (OTA), for example, embeds advisors in finance ministries and central banks of developing countries, providing working-level guidance on issues of public financial management. There is a particular case for targeting technical assistance in transition countries given their additional domestic resource mobilization needs in the face of

[56] Dan Runde, Amasia Zargarian, and Ilona Teleki, "Strategic Foreign Assistance Transitions," *Report* (Center for Strategic and International Studies, June 2012), https://www.csis.org/analysis/strategic-foreign-assistance-transitions.

declining foreign aid. While the US government is one of the largest funders of domestic resource mobilization activities worldwide, expansion of these activities in countries targeted for transition could help build the partner government's ability to finance its own development with less assistance from international aid.[57] More generally, technical assistance at the policy level (whether for Domestic Revenue Mobilization (DRM), health, or education sector policy) can also be good value, if well implemented, since programs are typically less costly than interventions that entail the delivery of goods or more costly services and can return multiples of what is invested in them.

2. **Increased use of country-led programming, including outcome-based aid:** Over the past decade or so, US government development agencies have increasingly emphasized country-led programming. Local ownership of the design and implementation of donor-funded programming is considered critical for building local capacity to help countries transition from aid and strengthening the citizen-state compact by shifting accountability for results to the partner government.[58] Results-based financing mechanisms are a particularly promising way to give partner governments and other local actors greater responsibility over donor-financed development programing. With outcome based-aid models—like Cash on Delivery and Development Impact Bonds—the US government pays only for verified outcomes achieved, giving the implementing partner (e.g., country government or local actor) the flexibility and discretion to experiment and identify the best ways to achieve them within the local context.[59]

Continued Engagement Through Alternative Instruments

As countries transition away from predominantly grant-based assistance, the US government should increase the use of alternative instruments that create a mutually beneficial partnership. These could include bilateral investment treaties, increased facilitation of American private sector investment, new trade promotion activities, binational foundations or endowments, and partnerships between universities or other non-governmental entities.[60] To strengthen and expand on some of these options, the US government should take two important steps:

1. **Strengthen development finance with a unified US Development Finance Corporation:** The United States seeks to crowd in private-sector investment to

[57] "Domestic Resource Mobilization," *Web Page* (USAID, May 2017), https://www.usaid.gov/what-we-do/economic-growth-and-trade/domestic-resource-mobilization.

[58] Dunning, Rose, and McGillem, "Implementing Ownership at USAID and MCC: A US Agency-Level Perspective."

[59] Nancy Birdsall and Bill Savedoff, "Cash on Delivery: A New Approach to Foreign Aid," *Book* (Center for Global Development, March 2010), https://www.cgdev.org/publication/9781933286600-cash-delivery-new-approach-foreign-aid; Development Impact Bond Working Group, "Investing in Social Outcomes: Development Impact Bonds," *Report* (Center for Global Development, October 2013), https://www.cgdev.org/publication/investing-social-outcomes-development-impact-bonds.

[60] Runde, Zargarian, Teleki, and Forman, "Strategic Foreign Assistance Transitions."

achieve development outcomes with the help of the Overseas Private Investment Corporation (OPIC), which offers direct loans, guarantees and insurance to American enterprises investing in developing countries. However, some of OPIC's authorities are outdated and complementary tools are spread across multiple agencies.[61] The US government should create a new US Development Finance Corporation (USDFC) that strengthens OPIC while combining the dispersed authorities of existing agencies into a single window, eliminating redundancies and closing existing gaps. The new corporation should be empowered with new authorities like equity authority, the ability to use technical assistance, a grants window, and first-loss funding.[62]

2. **Employ new lending instruments:** The United States should examine sovereign loans as another potential instrument of direct engagement. Consider, for example, MCC, whose strengths rest on principles and approaches similar to institutions like the World Bank: a focus on addressing the constraints to growth in a recipient country, incentives for good performance, and reliance on a partnership model for engagement. Yet, the World Bank's engagement is typically through a sovereign loan to the partner government, whereas MCC assistance is purely grant-based. Nearly exclusive reliance on grants, at MCC and more generally in US foreign assistance, limits the scale and scope of US engagement by making certain sectors (e.g., energy infrastructure) difficult to reach and by virtue of how far grant dollars can be stretched relative to loans. The US government has made limited use of lending to other governments through the Department of Agriculture and Foreign Military Financing (FMF) programs, but so far, lending has not been defined as a core instrument in the US development assistance toolkit. Expanding in this area carries risks, of course, and would depend on the creation of a strong framework for defining country eligibility consistent with standards used by the MDBs.

[61] Ben Leo and Todd Moss, "Bringing US Development Finance into the 21st Century," *White House and the World 2016 Briefing Book* (Center for Global Development, July 2015), https://www.cgdev.org/publication/ft/bringing-us-development-finance-21st-century-0.

[62] Ibid.