

STATEMENT OF

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*Foreign Assistance Reform:
Rebuilding U.S. Civilian Development and Diplomatic Capacity
in the 21st Century*

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Mr. Chairman and members of the Committee on Foreign Affairs, I welcome this opportunity to testify before you on topics of deep interest to the Committee and me. I am also very pleased to be here with my good friend Brian Atwood.

I have been engaged with the issues of international development for decades as a Peace Corps volunteer, USAID Administrator and Deputy Secretary of the U.S. Treasury. Later for 11 years I was President of Michigan State University which has a long history of working in developing countries. I was in Iraq for five months in 2003 heading a team working on the currency, the banking system and related matters, and now am President of NASULGC, the association of the large public universities. I also presently serve as chair of the boards of three non-profits working on development matters: the Partnership to Cut Hunger and Poverty in Africa, Harvest Plus and IFDC.

Calls for reviewing the delivery and organizational structure of U.S. foreign assistance appear to be coming to a head. Though there is not an agreement on what to do, few are satisfied with the status quo. I strongly support the goal of you and others here, Mr. Chairman, to rewrite the Foreign Assistance Act and hope my comments are helpful to that end.

Officially, the U.S. government's foreign policy is "Diplomacy, Development and Defense." I strongly agree with the elevation of development to this first tier. The question is: How the U.S. can best to undertake these functions?

NECESSARY HISTORY

To gain perspective on what changes might be necessary, we need to review the history of U.S. foreign assistance, particularly USAID. USAID has had some wonderful successes that have made a difference to millions and cumulatively, billions of lives. These successes have been accompanied by problems but this should come as no surprise. After all, USAID is doing its work in places that by definition face many obstacles.

USAID had other challenges. Over the years USAID had substantial resources that other departments of the government wished to control. For example, in the late 1980s, USAID was thought to have insufficient foreign policy sensitivity to manage the new money for Eastern and Central Europe and the former Soviet Union, so control over this work was assigned to the State Department. In time, USAID's direct relationship with the Office of Management and Budget (OMB) was taken over by the State Department with a huge loss of practical influence.

Over the years USAID became weaker with staff cuts and less programmatic flexibility. (See below) Policymakers continued to look for other vehicles to implement their needs. Accordingly, the Millennium Challenge Corporation (MCC) was created with the Secretary of State as the board chair rather than the USAID Administrator. At least at the beginning, MCC was discouraged from working with USAID. Likewise, the President's Emergency Plan for AIDS Relief (PEPFAR) was created with the head of the program reporting to the Secretary of

State and program responsibilities held by the State Department, USAID and the Department of Health and Human Services. In addition, several years ago USAID was effectively folded into State with an "F" budget process. A strategic budget and tracking process certainly makes sense. However, the massive problems of "F" and the reorganization confirmed the views of many that integration of USAID into the State Department was a mistake

A significant contributing factor in a weakening of USAID was staff cuts and the resulting changes in operations. In 1980, USAID had 4,058 permanent American employees. By 2008 the number has gone down to 2,200. In the same timeframe the number of permanent foreign officers declined from about 2,000 to a little over 1,000.

These cuts have had several detrimental impacts. The staff loss caused significant cuts in mission capacity and the closing of missions in a number of countries. Through the years, field presence has been a comparative advantage for USAID and the United States with other donors. USAID historically has been closer to the problems and people than most other bilateral donors, and country presence made their programs more effective and allowed the U.S. to impact the allocations of other donors. It is an unfortunate time to have cut field presence because the U.S. percentage of global Overseas Development Assistance (ODA) has been decreasing over the past couple of decade as other bilateral donors increased the size of their programs. U.S. based NGO contributions to developing countries from non-governmental sources probably now equal or exceed USAID's resources. Note that foreign direct investment is now much greater than ODA in many countries. In short, USAID has lost some of the comparative advantage of sufficiently staffed field missions when they could be of greatest advantage, especially because many other bilateral donors still do not have a substantial field presence and are informed by those that do. The point here is that field staff are critical for USAID to leverage money and ideas.

Another impact of the USAID staff cuts has been the dramatic loss of technical expertise. For example, USAID now has only two engineers, 16 agriculture experts and 17 education experts. So the combination of reduced staff overall and the loss of technical expertise puts the agency in the difficult position of trying to manage projects and programs with technical expertise and numbers of staff that are substantially inadequate.

Because of these staff cuts, USAID has been forced to move from an implementation to a contracting agency. USAID has been forced to farm out large portions of the foreign aid program and found it increasingly difficult to provide proper technical oversight to these contracts (as opposed to financial oversight, on which USAID put a priority). The existing situation means less coherence in the overall effort, less flexibility and diminished leverage with other private and public donors.

These staff reductions, particularly of technical staff, contribute to an agency that is risk adverse and bureaucratic. A development agency must have the capacity to take some risk. It is in the nature of their work. However USAID staff are cautious and work often more slowly because of the lack of technical staff; high workloads; criticism of decisions by the Government Accountability Office (GAO), USAID Inspector General and Office of Management and Budget (OMB); and regulatory and reporting requirements.

Note that the Administration and USAID Administrator Henrietta Fore have asked for a substantial increase of staff in the FY 09 budget, as set forth in their Development Leadership Initiative.

Another issue that sometimes comes up when USAID is dealing with the State Department is whether USAID has a sufficiently broad view/culture, e.g., is USAID too development/humanitarian focused. That has sometimes been true, though I saw many examples during my time at USAID when I felt USAID staff, especially those on the ground, understood the full picture, e.g., Central America in the 1980s. It is worth noting that some NGOs and others criticized USAID at the time for this broader view. I think USAID has the capacity to understand and work with the full range of issues if the agency has the sustained responsibility to do so and other personnel steps suggested below are undertaken.

I want to say here, as a former USAID Administrator, I deeply respect the dedication and commitment of USAID employees. I know that their dedication measures up against any other department or agency.

It is also important to consider the great increase in program content control of USAID by Congress and the Administration. In the 1980s when I was Administrator of USAID, the Cold War was an important force in the allocations of USAID monies. There were of course many exceptions, e.g., large amounts of money to Bangladesh, substantial African investments, food to Ethiopia and Mozambique for the famine in the mid-1980s, etc. The Cold War allocations by Congress or the Administration were often only decisions on how much money was to be given to a country. The interest from Congress and the pressures from program or development policy constituencies were relatively limited with some exceptions such as family planning and non-governmental organizations. USAID had functional accounts including agriculture, health care, family planning, etc., but overall USAID had substantial program flexibility especially in the context of the country allocations. A good example is USAID's funding for Pakistan in the 1980s. The Administration agreed upon a dollar amount and Congress approved it. USAID, with little outside concerns expressed, determined with Pakistan the programs to implement, which, for example, included female education. Another example of flexibility is that USAID put several million dollars into HIV-AIDS education in the 1980s after informing Congressional committees and reallocating money. HIV-AIDS education may seem like an obvious decision now but it was certainly ahead of most at the time. There are many examples of substantial flexibility in that period.

In the years since the end of the Cold War, strong domestic political support has produced large Presidential initiatives and Congressional allocations for health care, AIDS, K-12 education, micro-finance, environment, etc. All of these legislative allocations are practically and politically appealing because they often directly impact individuals and many have short-term quantifiable impact. No doubt the Presidential initiatives and Congressional program allocations have become extensive. It is widely understood that new or renewed efforts, e.g. agriculture, probably need Congressional program allocations in order to receive resources. I support the work of these program allocation and the monies spent for them. However, taken as a whole, USAID has much less flexibility today to respond to new problems and the needs of countries as the countries define them. There is not the flexibility to respond sufficiently to

opportunities to leverage enough resources from others. The lack of flexibility limits the capacity to work with other U.S. government agencies because the uses of the appropriations are so prescribed. The situation has evolved over many years and over several Administrations and Congresses. Clearly Congress must provide direction to USAID for appropriated monies. However, some means should be found for greater flexibility within the context of the appropriation process and oversight which Congress has the constitutional requirement to perform.^[1]

In recent years the Department of Defense (DOD) has become a major participant in foreign assistance. However, DOD's involvement, which can be of critical importance, should be carefully limited to where they have a comparative advantage. DOD has significant resources and in various countries people on the ground to commit to the development process. They have been crucial first responders in situations where security made development actions possible. For example, in 2003, I had a role in putting in place a new national currency for Iraq. The process of creating and exchanging a new currency, the equivalent of billions of dollars, went effectively and efficiently with no material losses. This was made possible by the active participation of U.S. and British armed forces.

No doubt DOD can be critical as an early responder, especially where security is needed, but DOD does not have the expertise for long-term development work. To date, their comparative advantage for long-term development work has been that they had resources. The Administration is working to put in place the United States Africa Command (AFRICOM). It appears that AFRICOM will have some diplomatic and development role with senior people from the State Department and USAID assigned to the organization. The full role of AFRICOM is not yet clear and I think needs to be carefully reviewed.

Over the years, besides DOD there has been substantial diffusion of foreign assistance programs around the government. The diffusion is in part because of globalization. Domestic departments now have international agendas. How to organize and bring coherence to U.S. assistance when it is spread across multiple U.S. governmental units is a challenge.

Proposals

I wish to make suggestions on the roles of USAID, the State Department and DOD. Each has important roles that should be defined by their capacities and comparative advantages. My

^[1] The program allocations in the USAID budgets are for important work and I support those projects. However, long-term development work should not have been reduced at the time short-term efforts were increased. Too many long-term efforts have been reduced, e.g., agriculture, including agriculture research. Reductions in long-term work were also in part because of expectations from Administrations and Congresses that there should be measurable outcomes within a fairly short period. USAID responded and for example the long-term training in the U.S. went from about 15,000 per year in the 1980s to about a 1,000 last year. Note that long-term investments tend to be more staff intensive than contracting out the delivery of goods and services. Staff cuts, especially technical staff, contributed to the reduction of long-term development capacity at USAID.

comments will go beyond organizational changes as some modifications are integral to the results sought. Let me quote a scholar on the politics of bureaucratic structure, Terry Moe who states, "Structural choices have important consequences for the content and direction of policy and content, and political actors know it. When they make choices about structure, they are implicitly making choices about policy."^[2]

I would like to say here that I hope that key leaders from Congressional authorization and appropriation committees, and the new Administration work together to develop an integrated organizational and budget approach to U.S. government foreign assistance. The Wye River Group (the Modernizing the U.S. Foreign Assistance Network) has recently recommended this approach. While there is not general agreement on the solutions, there is broad agreement that Congress and the new Administration should come to agreement on a new approach. It would be unfortunate to miss this opportunity to solve a set of problems that has festered too long.

USAID

Whatever else is done with USAID, a substantial build up of "Operating Expenses" for the purposes of increasing permanent staff, including a great increase in technical staff, is critical to effective foreign assistance. More staff will allow USAID to be more of an implementer of projects as opposed to an agency managing large contracts. More staff will allow USAID to adequately staff missions and to reopen closed missions in key countries.

With more staff, USAID should take more of a technical leadership role in Washington and in the missions. It could play a greater leadership role with other bilateral and international organizations to help set the development agenda in a coordinated fashion. Too often now because of inadequate staffing, there are not even regular in-country donor meetings with or without the local government, an activity that USAID traditionally encouraged and often led. These meetings were traditionally a mechanism to engage a diverse set of partners, and to leverage and coordinate strategies and funding to be more effective at the country level.

USAID has a much smaller percentage of total ODA than 20 years ago. Moreover there have been large increases in the resources of NGOs, foundations and universities, as well dramatic increases in foreign and local investments and remittances in many countries. This diversity of funding agents suggests that USAID could frequently play a facilitator, catalytic and foundation like role, not just the role of a traditional funder. USAID's Global Development Alliance performs this role but the concept needs to be expanded in Washington and to the missions. A much expanded approach is practical only if USAID is provided more flexibility.

More staff will allow for more training including education on foreign policy and security, and the challenges of health, environment, climate change, and food production and systems. Training existing staff and bringing in new people will be an important part of revitalizing and broadening the agency. A strong and confident USAID is an important part of building the trust of the other departments and agencies. USAID and the State Department need an act similar to

[2] "The Politics of Bureaucratic Structure," in *Can the Government Govern?* Edited by John Chubb and Paul Peterson (Brookings, 1989), p.268.

the Goldwater-Nichols Department of Defense Reorganization Act of 1986 that authorized substantial exchanges of assignments between the branches of the armed services. This legislation produced a great improvement in the way that the services work together at DOD. In time, a State Department foreign service officer (FSO) should not expect to be an ambassador to a developing country and an USAID FSO should not expect to be appointed to a senior position at USAID without first serving for a time in the other organization. If development and diplomacy are linked in our foreign policy we need sustained efforts and appropriate mechanisms for the organizations to understand and appreciate each other.

An aggressive review of USAID's current policies and procedures should be undertaken. Some lessons can be taken from the procedures of the disaster relief work done by USAID where many regulations can be waived to gain timeliness without sacrificing integrity and efficiency. Former Administrator Andrew Natsios worked hard to strengthen the administration at USAID and took some important steps. Nevertheless, a major revitalization is the right time to make major procedural and cultural changes. It also may be time for an agency name change to emphasize a new day.

As to the organization and reporting relationship of USAID, in balance I support USAID returning to the status of a separate agency but with the Administrator reporting only to the Secretary of State. In a number of ways the new USAID should be a much stronger agency.

Many do not believe the integration of USAID has worked and there are some basic reasons it has not. The State Department and USAID missions and people are too different for USAID to be subordinated State. The development mission will be too reduced. The State Department has many short-term foreign policy needs that might be addressed with money as opposed to the long-term development goals of USAID. The very able State Department staff are generally promoted because of policy, analytical and communication skills, not for skill in managing large staffs and budgets. USAID is an operational agency with staff and budgets used to achieve specific goals. The State Department tends to see their role as determining "policy," but when State controls "policy" there is often the classical disconnect between policy people without line responsibilities and the operational people in the field. If USAID is too close to the State Department, the State Department's mission tends to dominate the USAID's development mission because they are the stronger bureaucratic player. This is not a judgment about individuals but is in the nature of things.

A separate department for USAID has some appeal as a way to advance overall development goals. However, to direct foreign policy the Secretary of State needs to have some involvement and oversight with the largest sources of resources traditionally available to him or her. Those that support a separate department would be disappointed at how many resources and programs would remain under the State Department's control. They would find that a new Development Secretary would not have the day-to-day support within the Administration and in Congress that I for example had from Secretary of State George Schultz.

The new USAID should have an expanded role. The USAID direct relationship with OMB should of course be restored and USAID should have its own general counsel. The USAID Administrator should be a statutory member of the National Security Council with the

expectation that USAID will be present when a broad range of issues are discussed. The PEPFAR Director should report to the USAID Administrator, as should refugee work. The USAID Administrator should also be the chair of the board of the Millennium Challenge Corporation (MCC).

I strongly support the Civilian Reserve Corps sponsored by Sens. Richard Lugar and Joseph Biden. In principle, I would like the Reserve Corps to report to the USAID Administrator rather than to State, but I do not think that is not going to happen for reasons I fully understand. I do think the new Reserve Corps should be closely associated with USAID and that a large Reserve Corps staff should not be built up in the State Department.

A difficult issue is how to coordinating with other departments and agencies that do foreign assistance work. Those departments and agencies are going to continue to be involved because they often bring unique skills to the task (e.g., the Treasury Department working with currency and bank issues in developing countries) and globalization means that many domestic agencies and their Congressional oversight committees have international agendas. There was a best forgotten experiment in the 1970s of having a statutory coordinator for all this work (IDCA).

The high expectations for the role were always unrealistic. The best and practical option in my view is to create a White House located committee of departments and agencies representatives to which issues and opportunities can be brought. It should be co-chaired by the USAID Administrator and the NSC Deputy with some kind of formal role for the appropriate assistant director of OMB. OMB is the only party at the table that would have a chance of knowing what all other departments were doing. The first order of business would be to pull together the information of what work is being done by the departments and agencies. The committee under the direction of the USAID Administrator should do a quadrennial international development review like the QDRR of the Department of Defense.

In addition, USAID needs some reasonable connection to the Treasury Department in its role with the World Bank and regional banks. USAID should have a statutory responsibility to comment to the Treasury Department on the bank projects brought to the boards of those banks for a vote and the Treasury Department should give full consideration to the comments. USAID did this informally for a time in the 1980s and it had value. These responsibilities for USAID and Treasury should be in the law.

Department of State and Others

The State Department needs substantially more people. State must be a stronger department to fully perform its role and again this is about resources and people. I am a member of the advisory group to the American Academy of Diplomacy that is considering recommendations on personnel levels for the State and USAID, as well as related matters. At this point, let me just say that many more people and related support are needed to fully carry out State Department functions. These staff are needed to perform functions that are not being done sufficiently or are being undertaken by others that do not have a comparative advantage. Clearly the State Department needs the resources and staff to have a more traditional and balanced relationship with DOD.

I strongly agree with Secretary of Defense Robert Gates that we need to rebuild human capacity for our international work in a number of departments and agencies. I know, for example, that the Treasury Department could better serve the country with more people abroad. The last time I knew, the Treasury Department only had one attaché stationed in South America to cover much of the continent.

Department of Defense

DOD has an important role where they have forces on the ground and there are security needs, such as in Iraq and Afghanistan. In any case DOD has more resources than the State Department and USAID. Good and practical people have moved to address problems that others could not do, and some part of AFRICOM is a probably a reflection of that situation. DOD should not do work for which it does not have a comparative advantage and is better done by USAID and State. I do believe it can be helpful to everyone for USAID and the State Department to have some staff assigned to various parts of DOD and for DOD to have some people in State and USAID. Nevertheless the broader issues of the role of DOD will only be addressed if State and USAID are provided the staff and resources needed to deal with their problems. In addition I strongly support the legislation that you, Mr. Chairman, have joined Reps. Skelton and Lowey in introducing which would provide a means for DOD, State and USAID to work out their respective roles. I have felt for some time that this would not happen without some kind of formal process.

Conclusion

In conclusion, I hope this Committee will play a leadership role in coming to reach an agreement between Congress and the new Administration on refocusing and strengthening the functions of State, AID and DOD. I also hope that the Skelton, Berman, Lowey legislation is enacted, providing a means to sort out the roles of State, AID and DOD. This next year is likely to be the window to deal with these matters for another generation.
