

Foreign Aid Reform
Andrew Natsios
Professor in the Practice of Diplomacy
The Walsh School of Foreign Service
Georgetown University
Testimony before the Senate Foreign Relations Committee
April 1, 2009

Mr. Chairman, I would like to thank the committee for the invitation to speak this morning. This is a matter of great importance for the United States. Two former USAID administrators, Brian Atwood and Peter McPherson, and I wrote an article on aid reform which appeared in *Foreign Affairs* in December 2008. I stand behind the analysis and recommendations we made in that article, but will review this morning a few of the issues we covered.

I am convinced no great power can maintain its preeminence without a robust foreign aid program. Given what defense intellectuals call the asymmetrical threats facing American vital national security interests since 9/11, we are likely entering a period in international affairs where foreign aid, humanitarian assistance and long term development may be the most important instrument of national power available to our policymakers, more important than diplomacy or military power, or at the very least, of equal importance. I know that members of both parties of this committee for some time have been trying to rewrite the Foreign Assistance Act to correct the current chaotic organizational structure, inadequate staffing, and confused mission of our current US foreign assistance program which is spread out across 20 agencies. President Bush accomplished two important tasks in foreign aid: he increased funding from \$10 billion to \$23 billion, placed heavy focus on the foreign aid in our foreign policy, and made major changes in the doctrine and theory of our aid program. The organizational structure is, however, a different matter: it remains confused and dysfunctional.

Let me begin by talking about the mission and mandate. Some will argue that poverty alleviation should be the only mission of our assistance programs. While poverty reduction must be one of its central objectives, it is insufficient alone as a mission given the threats facing America and our allies, and the need of developing countries to move away from aid dependency. We must also be engaged in state building, that is, helping countries build the public and private institutions necessary to keep order and administer justice, provide public services such as schools, health services, and roads, facilitate and encourage economic growth, and improve governance to protect human rights and democratic principles. This goes beyond an exclusive poverty focus.

Because of the demand in this city (which has grown stronger over the past 15 years) for quicker, measurable, and quantifiable results our aid program has gradually moved away from institution building, program sustainability, and capacity

building towards the delivery of services directly to poor people in developing countries. The HIV/AIDS PEPFAR program is one example of this. Building institutions takes a long time and a great deal of patience, requires local political will and leadership, and sustained funding, but it ought to be the ultimate objective of aid programs. Progress in building states can not be easily quantified as required by federal law, OMB, GAO, and IG audit requirements. One of the major reasons that OMB phased out funding for USAID scholarship programs, one of the most successful programs in doing institution building, is that its outcomes can not be easily measured, particularly over the short term. The focus on measurement is now mandated under federal law, called GYPR (Government Performance and Results Act). This is also one reason USAID programming has become increasingly risk averse, avoiding experimentation and innovation, because new approaches increase the risk of project failure which the regulatory apparatus in Washington was designed to minimize.

We can correct some of these problems through reform. The grant making portion of USAID's portfolio should be redefined and overhauled to encourage new non-traditional partners, more indigenous organizations and institutions, and new experimental approaches to development, a clear exemption of grants from results measurement requirement for all aid programs (allowing that there will be failures sometimes), with a more lenient standard for IG audits, GAO evaluations, and OMB oversight (so long as there is no malfeasance).

Much of what people say is wrong with our aid program regardless of which agency is running the program is more a problem with the federal government broadly and this has to do with the regulatory environment in which all federal agencies must do their work. Our aid programs must conform to the 1,982 pages of the Federal Acquisition Regulations which govern all federal procurements. It has no control over the contradictory demands made on it by the Congress, State, OMB, IG, and the GAO. I found the most frustrating element of my job was getting agreement among overseers to do anything complex took a very long time and this was because stakeholders and overseers often disagree with each other even on mundane matters. As the Committee I am sure knows unlike most other federal departments the work of our aid agencies is not done in the United States but developing countries of very different culture, norms, and worldviews which do not always see things exactly the way people do in countries contributing the funding. If we are to undertake successful development programs they must be tailored to the local circumstances or they will fail.

Because USAID has been traditionally associated with the State Department organizationally, development and diplomacy have some how become conflated. They are alike in every unimportant way, to paraphrase Wallace Sayre. While diplomacy is all about managing our relationships with other countries, development is about changing and transforming countries. The State Department focuses on managing external relationships and short term crisis management, USAID focuses on long term transformational change inside other countries

through its development portfolio. Certainly over the past 15 years USAID has become much more skilled at assisting our military officers and diplomats in crisis management, but at the heart of it the three D's are very different instruments of national power. The tools of the development professional in USAID are technical expertise in development sectors, country strategy papers, procurement instruments, assessment and evaluation tools, financial spread sheets, and implementation plans. USAID is a program management organization which hires, promotes, rewards, and trains staff to develop their skills as technical leaders in their disciplines and as good program managers.

Conversely, the State Department is an information collection, analysis, and foreign policy coordination institution which values good writing, interpersonal, political and negotiating skills. The current gradual absorption of USAID by stealth into the State Department through the merging of the agency's budgeting system, procurement, electronic mail system, its logistics, office space, motor pool, reduction in USAID field presence, and warehousing capability in the field, is gradually eroding the Agency's capacity to carry out its mission. OMB has been facilitating this merger using the argument of efficiency, ignoring the program consequences of this merger. I believe the result will be organizational failure. Unless this trend is reversed the foreign aid program of the US government will end up the way our public diplomacy program did when State absorbed USIA. USAID and State are like oil and water. This is not an attack on the State Department. I served as a diplomat for a time and I must say I have great respect for our diplomats and for the fine work the State Department does around the world, but that work should not be confused with development. If the Congress intends on having an competent international development agency, its independent policy making authority over the allocation of its budget with a direct line relationship to OMB should be restored and its business systems made once again independent. Structurally a reformed foreign aid agency should be organizationally independent of the State Department.

While I support a cabinet level position I am not certain there is political support for such a change in Washington, and so I believe a good compromise would be organizational independence with a dotted line relationship to the Secretary of State for the Administrator of the Agency with an independent statutory seat on the NSC, statutory responsibility of the USAID administrator as the chief US international development officer, as the coordinator of international disaster assistance for the US government, and independent legal authorities for the Agency under the Foreign Assistance Act.

Having foreign aid programs run by 20 different federal agencies embarrasses the US government abroad with contradictory programming, endless transactional costs in program implementation, time delays, interagency fighting, and unclear decision making. For example, over the past 12 years two federal departments have written Memos of Understanding with dozens of countries to provide technical assistance without funds to carry out the programs, no staff, no field presence and no coordination with the Embassies or USAID missions. None of the agreements

have been implemented which has been an embarrassment to the US government. Inevitably the country cabinet ministers who signed the agreements end up in the USAID mission director's offices asking why the program hasn't started, which the USAID mission were not party to. During the Cold War, OMB enforced an administrative discipline on the federal system that all program money spent in development projects had to go through and be managed by USAID, a discipline which ended with the cold war. We should restore the discipline now that we have a new war on our hands. One of the principles of war I learned as a military officer was unity of command; that should be equally true for aid programs with the US government as well.

I would like to suggest several organizational changes to improve the structure of our aid program. One immediate change would be for the PEPFAR HIV/AIDS Office in State to be moved to USAID where it properly belongs. The independent MCC board should be kept in place, along with the indicators and central staff to review proposals and do evaluations, but the field presence of the MCC should be merged into the USAID mission abroad and have a reporting line back to Washington. The sector earmarking by both the executive and legislative branches of all development spending outside the MCC has come at the cost of local ownership, local leadership, and decentralized decision making. The World Bank, UN, and European aid agencies are now generally moving to much greater degree of decentralization, while our aid program, which had been for decades the envy of the development community because of its high level of decentralization and heavy field presence, is being centralized in the State Department through the F process. This has been further aggravated by the sector earmarks of OMB and appropriations process which now absorb any remaining discretionary funding in the accounts. I think the abolition of sector earmarks is unlikely, and thus I would suggest this committee consider giving USAID Mission Directors transfer authority of up to 10% (or more) of the country budget allocation out of one or more earmarks to another priority demanded by the local situation, with full disclosure to Washington. This would mean total sector earmarks spending levels would not be exactly the same as required by law. I would urge Congress to support the tripling of the size of the USAID foreign service to 3000, which would require a relaxing of Embassy restrictions on the size of USAID field staffs, the rewrite of the Embassy security statute to allow more flexibility to get staff to the field and then let them leave the embassy compounds more regularly. The Embassy Security Act is now a serious impediment for USAID getting its work done.

Finally I would add that USAID did its job exceptionally well during the cold war and was regarded as the preeminent development agency in the world twenty years ago. When the bipartisan coalition behind foreign aid ended with the collapse of the Soviet threat, the base of support eroded and led to the current weakened agency. If the United States is to have a robust development agency to match its diplomatic and defense capability, a bipartisan coalition is needed to sustain the program over the long term. My hope is that the Congress will move to form the bipartisan coalition support base once again. Thank you.

