



# Engagement Amid Austerity

## A Bipartisan Approach to Reorienting the International Affairs Budget

By John Norris and Connie Veillette

With Casey Dunning and William McKitterick

May 2012



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## Working Group on Aid Priorities amid Declining Resources

In November 2011 the Center for Global Development, or CGD, and the Center for American Progress, or CAP, formed a Working Group on Aid Priorities amid Declining Resources. That group's work informs this report.

The working group was a diverse selection of experts and practitioners who came together to offer independent policy recommendations on crafting an international affairs budget that advances important reforms, maximizes the most beneficial U.S. programs, maintains core operational capabilities, and identifies areas of lesser priority and funding. The recommendations in this report were developed through consultative meetings, one-on-one interviews, literature reviews, and working group deliberations.

The working group's co-chairs, Connie Veillette of the Center for Global Development and John Norris of the Center for American Progress, authored the final report based on the outcomes. **All opinions in this report are those of the co-authors and do not necessarily reflect the endorsement of the working group members in whole or part.** We are particularly thankful for the significant research assistance of Casey Dunning and William McKitterick of CGD.

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# Introduction and summary

U.S. government spending on foreign affairs will face significant pressures in the coming years under almost any scenario. A divisive political environment, continuing worries about a sluggish economic recovery, concerns over rising budget deficits and national debt, and upcoming elections make it difficult for policymakers to reach agreement on budget priorities. That uncertainty will have far-reaching consequences.

This bipartisan report is offered in the spirit of trying to determine how we as a nation can make the most efficient and effective use of scarce resources, reform our foreign affairs institutions, and defend our core national interests amid such major budget uncertainty.

It is important to underscore the importance and value of the international affairs budget in advancing U.S. interests while at the same time conducting reasonable contingency planning for the possibility of sharply reduced funding in the near and medium term. It is ideal for Congress and the administration to reach a sensible 10-year budget plan that includes both cuts and revenues while protecting our core interests both domestically and internationally.

In that light, it is worth mentioning the recently passed “Ryan Budget” to emerge out of the House of Representatives. (This budget plan was issued after the final working group meetings were conducted, and so the opinions on it are solely those of the authors.) The budget plan would slash some \$31.6 billion from 2012 levels out of the foreign affairs accounts in just four years. By any reasonable estimation, such an approach would decimate our nation’s ability to effectively advance our interests overseas, and such budget calculations cannot be justified based on a deliberate analysis of our needs and foreign policy priorities as a nation.

In contrast, we hope that our report can be used to begin a practical conversation even as the high-stakes budget battle is waged and allow policymakers to both

identify areas that require sustained or even increased resources in order to maintain U.S. global leadership as well as areas of lesser priority.

The United States is not alone in trying to better balance its approach to international affairs at a time of declining resources. A number of our key European allies have also reviewed their approach to diplomacy and development in recent years in hopes of better focus.

Central to this challenge is understanding several important developments that will shape America's engagement in the coming years. These mega-trends include enormous pressures on the federal budget, continued globalization, the increasingly important role that private philanthropy plays in international development, and a likelihood that the major state-building exercises of Iraq and Afghanistan over the last decade will be a historical anomaly.

## Why foreign aid is important

Every U.S. president since Harry Truman has seen economic and security assistance abroad—which made up about 1 percent of the federal budget in recent years—as essential to America's national interests even though foreign aid traditionally lacks strong defenders in Congress. In fact, Republican presidents have overseen the largest increases in foreign assistance. To be sure, foreign assistance is an imperfect tool, but it also is a core part of America's strategy to increase the number of stable, free-market democracies around the world. Such countries make better trading partners and better allies, and are an abiding source of stability.

Nations need not be aid recipients forever. In the 1960s nations across Latin America and Asia were dismissed as perennial basket cases yet countries in both regions combined sensible reforms with a jump-start from U.S. assistance programs to achieve dynamic, lasting growth. Ten of the 15 largest importers of American goods and services, including countries such as South Korea, Taiwan, and Singapore, graduated from U.S. foreign aid programs according to the United States International Trade Commission.<sup>1</sup>

Almost every major study and review of our foreign affairs institutions and spending priorities has identified areas of dysfunction and operations that need significant reform. Efforts such as the Obama administration's first-ever Quadrennial Diplomacy and Development Review and a Presidential Study Directive on Global Development are important steps forward on reform. Yet enormous work remains, and the executive and legislative branches do not agree on the underpinnings of effective international engagement.

The Center for Global Development and the Center for American Progress established the senior-level Working Group on Aid Priorities amid Declining Resources to help policymakers and concerned citizens set sensible priorities for international affairs spending in the Function 150 account: the State, Foreign Operations, and Related Agencies appropriations bill containing spending on global economic, diplomatic, and humanitarian programs by the State Department, United States Agency for International Development and the Millennium Challenge Corporation among others, and food aid accounts in the agriculture appropriations bill.



The working group was comprised of a highly bipartisan group of policy experts with long experience in Republican and Democratic administrations, Congress, nongovernmental organizations, philanthropy, and the private sector. The working group's co-chairs, Connie Veillette of the Center for Global Development and John Norris of the Center for American Progress, authored the final report based on the outcomes of the working group's deliberations. All opinions in this report are those of the co-authors and should not be seen as reflecting the endorsements of the working group members in whole or part. The recommendations were developed through consultative meetings, one-on-one interviews, literature reviews, and working group deliberations.

The working group reviewed the entire international affairs budget, which encompasses the operations of the State Department, the U.S. Agency for International Development and the assistance programs they manage, food aid programs, and the programs of many smaller and specialized U.S. agencies. Approximately two-thirds of the 150 account is made up of economic and security assistance provided by both the State Department and USAID. (This report does not cover aid appropriated by the Department of Defense, though the Defense Department delivers some State Department security assistance.) Since this is the largest share of the international affairs budget, the core of our recommendations center on how to improve this assistance.

Given the rapid timeframe of this exercise we focused on areas offering the greatest promise for reform. This report is not a comprehensive review of every single activity carried out through the 150 account. We hope to further articulate and explore some of the key issues in this report going forward.

Further, U.S. contributions to multilateral institutions, such as the World Bank and the United Nations, represent a vital means for the United States to engage the world. They also make an impact on sectors or countries where our bilateral presence is less influential and represent an important complement to bilateral assistance programs. We welcome a closer examination of these multilateral contributions, and a number of other donors and organizations have also begun examining where their multilateral dollars can best be directed to make the greatest impact.<sup>2</sup>

Our work identified four ideas that would fundamentally transform how we conduct diplomacy and development. None of these ideas is without controversy, and all would require significant change to be instituted.

Behind all of our ideas is the belief that America's approach to diplomacy and development requires significant modernization. Our engagement and dollars should be focused where they are going to make a lasting difference, and we have often been too slow to recognize and admit where engagement and investments have little return. But we also argue strongly for increased, not decreased, investments in training our international affairs personnel and feel that universal diplomatic representation very much remains in the national interest. Working group members agreed that America's investments in diplomacy, development, and international trade are extremely valuable and any cuts should not undermine our strategic priorities or values. We identify budget areas that should be protected.

Here are four ideas that have the greatest potential for effectiveness and transforming how this country engages the world.

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#### Make economic and security assistance more selective

In 2012 the United States is delivering bilateral assistance through the international affairs account to 146 nations with 103 of these receiving economic assistance and 134 receiving security assistance.<sup>3</sup> These efforts are far too diffuse, undisciplined, and unfocused, and we could achieve much more by concentrating economic and security assistance where they will be most effective and curtailing resources where they will not. This idea may sound simplistic, but it would be revolutionary in contrast to how aid is currently disbursed.

Our country-by-country analysis of economic and security assistance included in this report was subjective but highly data-informed, taking into consideration a country's commitment to reform, its capacity to achieve lasting development and stability, its need, and its strategic importance to the United States. In a limited number of cases we argue for priority investments based on immediate conflict prevention efforts or to ensure that a country that enjoyed significant postconflict investment does not slide backward. We made the data we used for each country readily available as part of this report to encourage further debate on these issues. (see "Country Profiles" section)

## Bilateral economic assistance

We argue for a major shift away from 103 recipient countries to sustaining or increasing investment in 53 core countries over a five-year period. This includes increasing investment in 32 high-priority countries and holding funding levels flat in 21 countries where there is a continued imperative for engagement but more limited expectations. Eighteen countries would graduate from U.S. bilateral economic assistance within a five-year period; 11 countries would see their programs eliminated because they are small, expensive to operate, or peripheral-interest country programs; and 21 poor-performing countries would see economic assistance largely limited to support for democratic and civil-society groups, humanitarian relief, and PEPFAR funding. Eleven USAID missions could be closed or consolidated as part of this realignment.

## Bilateral security assistance

We argue that aid should be focused on 72 core countries rather than 134 recipients, with increased investment in 45 high-priority countries and flat funding levels in 27 countries where there is a continued imperative for engagement but more limited expectations. Assistance would be curtailed in 62 countries, including 30 that should be able to graduate from U.S. security assistance within the next five years, 15 where security assistance is relatively small or peripheral to our national interest, and 17 we deem to be poor performers.

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## Transition PEPFAR to country ownership

The President's Emergency Plan for AIDS Relief, or PEPFAR, continues to be a very large portion of U.S. international affairs spending. Started by President George W. Bush in 2003 to help provide prevention, treatment, and care services to countries suffering high HIV/AIDS burdens around the world, the initiative represents the largest health commitment ever by one country to combat a single disease internationally.

The Obama administration established PEPFAR Partnership Frameworks—five-year joint strategic frameworks for cooperation between the U.S. government, the partner government, and other partners to combat HIV/AIDS in the host country. These partnership frameworks acknowledge that PEPFAR recipient

countries need to share much more of the burden moving forward. This created some controversy, but sharing costs, particularly with upper-middle-income PEPFAR recipients (Botswana, Caribbean Regional, Central America Regional, Dominican Republic, Namibia, and South Africa) should be accelerated as part of a well-managed and transparent plan that will allow host countries and private philanthropy to work together with the United States to keep momentum going in the battle against HIV/AIDS.

This also recognizes that PEPFAR Partnership Frameworks can provide a model for how to foster country ownership and transfer financial responsibility to recipient countries while changing the program itself from an emergency humanitarian program to more of a long-term, sustainable, and integrated approach to health and development.

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### Overhaul U.S. food assistance

A web of outdated laws and regulations—cargo preference, limitations on local and regional purchase, and monetization—vastly increase the cost and reduce the effectiveness (and timeliness) of our food aid. Food must be purchased in the United States and shipped on U.S.-flagged vessels. Some of the food can then be sold on local markets to raise cash that NGOs use for development projects.

Numerous studies show the inherent inefficiencies of this process. Overhauling these restrictions could save taxpayers billions of dollars and make food aid programs more effective and efficient. Food aid is a classic example of an area where smart reforms would make programs work better and save a great deal of money.

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### Create an International Affairs Realignment Commission

Finally, the administration, in consultation with Congress, should appoint a commission to undertake a sorely needed overhaul of our foreign affairs agencies and operations based on the very successful model of the Defense Base Realignment and Closure Commission, or BRAC.

Rather than focus on physical installations, as BRAC did, an International Affairs Realignment Commission would have the writ to not only look at the physical presence of U.S. embassies, consulates, and USAID missions around the globe

but more importantly recommend regulations that could be eliminated, programs and projects that are no longer necessary, or even institutional consolidation or streamlining. In essence, the commission would help shepherd a long-overdue rewrite of the Foreign Assistance Act of 1961, the antiquated legislation guiding the authorities, use, and allocation of U.S. foreign assistance.

The president would appoint commissioners in consultation with Congress, and the commissioners would base their recommendations on the broad strategic guidance established in the Quadrennial Diplomacy and Development Review and through subsequent consultations. The president could accept or reject the commission's recommendations in their entirety. If rejected, the commission would have a set period to amend and resubmit. The commission's final report would have the force of law if Congress did not reject it.



# Trends shaping America's approach to the world

In looking at how best to reshape America's international engagement, it is useful to underscore trends that will affect how we conduct foreign affairs in the years to come. These trends will shape the resources we will have available for foreign affairs while guiding the areas where the United States should focus its diplomatic and development efforts.

Four in particular stand out.

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## Funding

This report is driven by an understanding that federal spending on international affairs will be under considerable pressure for a number of years and that there continues to be an unusually high degree of uncertainty in foreign affairs agencies' budgets. The international affairs baseline budget fell by more than 14 percent between 2010 and 2012, though this decline is even lower when funds from the Overseas Contingency Operations account for Afghanistan, Pakistan, and Iran are included.

While the president's 2013 budget shows a slight increase from 2012 levels, foreign affairs spending will continue to be under a high degree of scrutiny going forward and will often be pitted against cuts in domestic programs. As noted earlier, the House-passed 2013 budget would decimate funding for the foreign affairs agencies. While it is not supported by either the Senate or the administration, it is equally unlikely that any sitting Republican president would support such deep cuts to our foreign affairs architecture.

The Joint Select Committee on Deficit Reduction's inability to reach an agreement to reduce budget deficits over 10 years will require sequestration—or automatic cuts—of funds beginning in 2013 unless Congress and the administration can reach a deal before then. The Congressional Budget Office estimates that if sequestration goes into force, the resulting across-the-board reduction in discretionary

programs such as international affairs would be about 8 percent in 2013. Those cuts would cause significant disruptions in our international programs and would best be avoided by a sensible bipartisan 10-year agreement to reduce the deficit that included both cuts and revenues.<sup>4</sup>

Securing a deal to avoid sequestration will be highly challenging given the starkly different approaches of the House and Senate. Further, even if an agreement is reached, cuts in international affairs are very possible as part of such a deficit reduction package, even if not on the same scale as those contained within sequestration.

The reality is that after 10 years of relatively strong growth in international affairs spending following September 11, considerable belt-tightening is ahead and indeed has already begun.

We can take lessons from the decline in resources that also occurred in the 1990s as policymakers sought a peace dividend from the end of the Cold War. There was a high-profile debate about eliminating USAID as an agency and folding its surviving functions into the State Department. The effort to eliminate USAID was ultimately rebuffed, but from 1990 to 1997, aid funding fell by one-third.

In hindsight, funding decreases were not well managed, with cuts to USAID's operating expenses far outpacing program decreases. As a result of these funding cuts, both in operating expenses and to the foreign affairs accounts generally, staffing and expertise, especially at USAID, declined precipitously. USAID began to look more like a contracting agency than a hub of expertise on development. Domestic government agencies filled in some gaps, but this also served to further fragment America's approach to development as more and more federal actors played a role in promoting development without a coherent overarching framework and strategy for their efforts. The State Department also took on a greater role in development decisions.

As aid programs began to increase in the 2000s—foreign assistance increased some 38 percent between 2001 and 2007—USAID found itself short on staff and expertise, making it more reliant on using large contracts requiring less hands-on management and oversight. USAID's lack of resources meant that new programs—PEPFAR and the Millennium Challenge Account—would not be part of its portfolio, further muddying leadership on aid issues. The Department of Defense took on greater roles in civilian programs in many conflict and postconflict environments, though its personnel had almost zero training in designing and



implementing such programs, leading to repeated and expensive mistakes on the ground in places like Iraq and Afghanistan.

If the United States is to avoid compounding the problems of an already suboptimal aid architecture, a far more selective approach to aid makes eminent sense no matter what the budget battle outcome is.

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## Continued globalization

The fact that the world is increasingly interconnected and interdependent at almost every level is not news. Yet, and somewhat ironically, U.S. foreign affairs agencies are not always the quickest to come to terms with this. Two points are particularly important here.

First, the recent global financial crisis highlighted the need for strong and accountable government institutions when dealing with economic shocks that spread rapidly from one country to the next. But strengthening government institutions has never been a strong suit of the United States or most other donors for that matter. This remains something of a blind spot and too many U.S. assistance programs continue to focus on micro-level conditions while ignoring the broader conditions for development and stability.

The second part of globalization worth noting is that virtually every community across the United States now has an unprecedented web of links, ties, and concerns with other parts of the world. But our foreign affairs institutions are slow to embrace and harness the depth of these connections at a time when we desperately need an effective constituency supporting sensible international engagement.

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## The rise of private philanthropy

Official government economic assistance is a smaller and smaller portion of the overall development engagement the United States provides. U.S. private economic engagement with developing countries—a combination of U.S. private philanthropic giving and U.S. private capital flows—was \$106.7 billion in 2009, \$77.9 billion more than total U.S. official development assistance that year.<sup>5</sup> A new generation of philanthropists, such as Bill Gates and Warren Buffett, willing to put billions of dollars into development has fundamentally altered the landscape.

By and large this is an incredibly positive development, and it should allow the U.S. government to better focus on areas where its strengths are the greatest. That said, it also poses new challenges in coordination, strategy, and approach, and both private donors and government officials have much to learn from each other. In general, government assistance programs need to be shifted to better dovetail with the increasingly important role of private philanthropy and private capital.

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### We should avoid fighting the past war

The United States dramatically altered many of its diplomatic and development practices as a result of massive investments over the last decade in Iraq, Afghanistan, and Pakistan.<sup>6</sup> All are deeply troubled engagements and historical anomalies, and the United States is unlikely to be engaged in such massive state-building exercises on a regular basis. This is why it would be a mistake to overly focus our diplomacy and development on preparing for the last war—not the next one. The International Affairs account needs to be reoriented with an eye toward the future, with more of an emphasis on crisis prevention than state rebuilding.

# Key budget areas deserving protection

It is vital that we not only identify areas where we can achieve reform and savings but also define core interests that deserve absolute protection—and perhaps even greater funding—in the budget.

This paper reflects the views of its two authors, but the working group endorsed many core areas. All members agreed that robust diplomatic and development capacity are in the national interest and represent tools that the next president, whatever his party, will find indispensable. All working group members felt strongly that even as specific cuts are identified, it is essential to maintain or strengthen a number of priority areas even during a period of budget stress.

Key areas deserving protection are discussed below.

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## Universal diplomatic presence

The United States has long tried to maintain diplomatic presence in every country around the globe. The few exceptions to this rule are the most conflict-torn or despot-ridden states where the United States is forced to manage its diplomatic relations from afar for a relatively short period of time. But maintaining embassies, even when they are small offices, entails considerable expense both in keeping up and securing the physical embassy or consulate and in related staffing costs and benefits.

It would be easy to hand-pick a list of countries where it is less than compelling for the United States to maintain an embassy. Yet the working group agreed that the United States benefits tremendously from universal representation, which underscores our willingness and ability to engage with friends, allies, and even foes around the world. Ending universal representation would make it far harder to advance America's interests at a time when the interconnection of states is deeper than ever. In addition, universal representation is also crucial in looking out for Americans' interests and safety as they work and travel in every corner of the world.

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## Supporting development, democracy, and stability

The strategy behind economic and security assistance programs is compelling: The greater the number of stable, free-market democracies around the world, the more secure, prosperous, and dynamic our nation becomes. Directly promoting sustainable economic development, democratic values, professional civilian-controlled militaries, and well-functioning civil societies is therefore vital for the United States even when foreign affairs spending will be cut.

There is a robust debate about which assistance programs best achieve these goals. But there is broad recognition that lasting development only works when the recipient country is genuinely committed to change and growth. The United States needs to keep supporting such long-term development efforts, but it needs to do a far better job focusing such assistance in those states where it will help spur lasting change, as is argued elsewhere in this report.

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## Operating expenses

It is impossible to carry out effective diplomatic and development programs without commensurate operating expenses. That may sound self-evident, but in previous bouts of budget cutting, Congress showed a tendency to protect funds for programs while slashing funds for people who design, oversee, and implement such programs. Figure 1 makes clear there is a sharp disconnect between operating expenses and program funds at USAID.

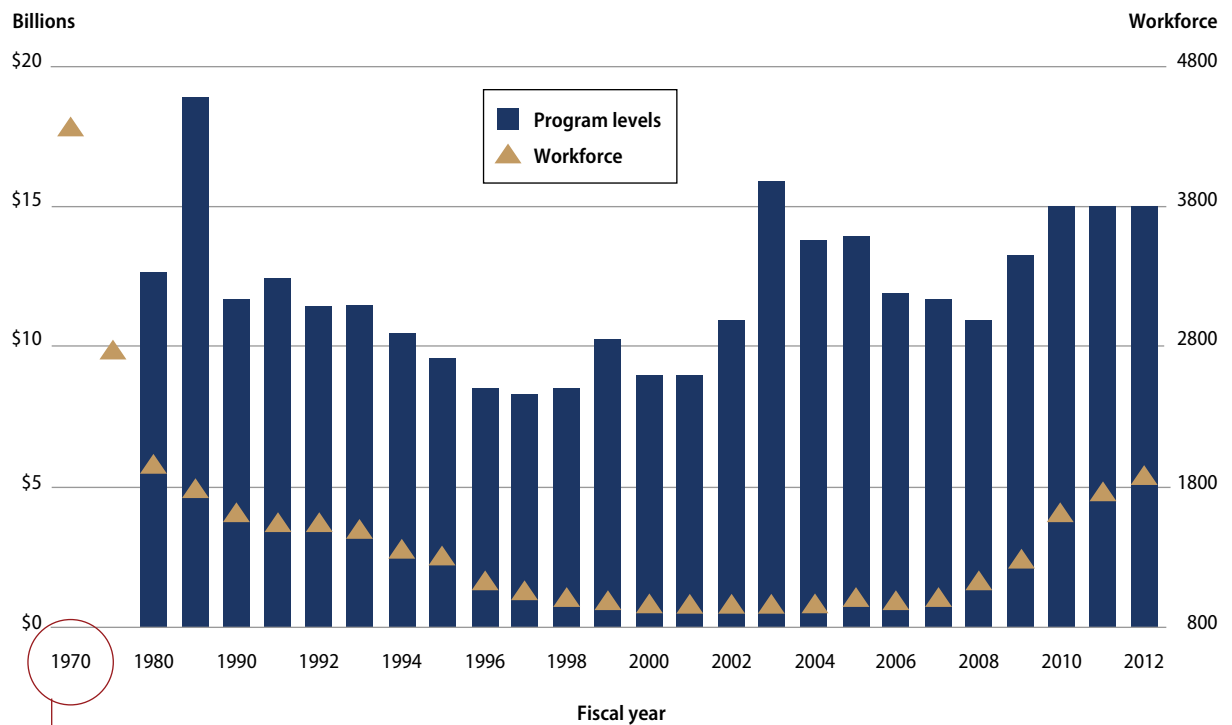
The result of keeping operating expenses tightly constrained—even when program expenses are expanding—is to leave USAID as little more than a contracting agency with less and less expertise and knowledge about how development programs should be designed and where they could best be conducted to advance the national interest.

The compulsion to cut operating expenses while protecting program funds is understandable. It is easier for policymakers to cut budgets for staff than to cut programs that combat malaria, promote economic growth, or deliver humanitarian assistance. But the last decade clearly taught us that development works best when it is conducted with good partners committed to reform and their own people. Funding programs without the expertise to manage them is a recipe for wasted money, a lack of accountability, and programs increasingly divorced from

FIGURE 1

## Cutting the workforce but not the programs

USAID foreign service permanent workforce and USAID managed program dollars, 1970-2012  
(inflation adjusted 2008 dollars)



USAID's permanent Foreign Service workforce declined 58% from 1970.

Source: United States Agency for International Development

practical reality. This report spells out areas where a more selective approach to investments could also achieve considerable operating expense savings.

## Crisis prevention

Recent institutional reviews such as the Quadrennial Diplomacy and Development Review focused on improving the United States' capacity to prevent crises before they erupt. But foreign affairs agencies need to do more.

Getting the agencies more adroit at crisis prevention will require significant investments in continued and new training for personnel and a reshaping of the institutional ethos at the foreign affairs agencies, which are risk averse. Preventing crises

requires sensible funding, strong field-driven analysis, a willingness to intervene at key moments, and a broad understanding of the institutional levers, pressures, and incentives that can be brought to bear on a potential crisis situation.

It is welcome that crisis prevention is a key goal for our foreign policy establishment on a rhetorical level. Translating that rhetoric into reality, however, will require dynamic leadership and sustained investments at a time when even traditional program areas are coming under the knife.

We now move to our recommendations for reform.

# Reform 1: Make bilateral economic and security assistance more selective

Presidential candidates throughout U.S. history have often been quick to criticize U.S. economic and security assistance abroad. Yet every single president since World War II, once in office, defended assistance programs for one simple reason: They are an essential tool of U.S. foreign policy. Equally, no president advocated reducing the U.S. diplomatic presence. As long as the United States remains a global leader, its president will rely on diplomacy and development to help promote a world in which U.S. interests and ideals can thrive.

Whoever occupies the Oval Office in 2013 will have to employ both diplomatic and development tools for the United States to maintain its global leadership. But both tools need sharpening regardless of budget dynamics.

This approach for reforming economic and security assistance is based on several principles:

- **Our assistance programs should be structured to reward and strengthen countries that are reform-minded, good allies, open to business, and willing to make hard choices to advance their own people.** We should look at all of our economic and security assistance programs as investments in creating the next generation of donors and trade partners.
- **Working in fewer countries will allow us to increase investments in those making promising reforms so that our aid makes a difference and helps cement lasting change.** And our considerable investment in multilateral institutions lessens the need for our bilateral assistance programs to be active in such a large number of countries.<sup>7</sup>
- **Aid programs that are inefficient, ineffective, outdated, or better carried out by other partners should be ended.** Poorly performing countries—those unwilling to implement economic growth reforms or that reject principles of good governance and human rights—are not good investments for economic assistance and should only receive security assistance when there is a compelling reason.

- **Assistance programs should focus on sectors in which the U.S. has a comparative advantage over other donors.** It is important to recognize what the U.S. does well, is more capable of doing than others, and should continue doing. We believe these areas of comparative advantage are humanitarian assistance, global health, and food security. Cost savings that we identify in this report could equally be used to focus on these areas, or to contribute to reducing budget deficits.
- **The United States can only maintain its leadership position and stabilize its budget by more effectively and selectively using diplomacy and development.** It cannot, nor should it, rely primarily on the Defense Department to project U.S. influence and power.

While we believe in a universal diplomatic presence, we do not endorse universal economic and security assistance. U.S. foreign assistance programs are too disbursed across countries and sectors to be truly effective. Aid allocations are often made in ways that result in doing a little bit here and there in an effort to curry small measures of diplomatic favor. Sector choices are often allocated not by what we do well, but as an effort to placate key actors in Congress and the aid community.

As of fiscal year 2012 the United States provides economic assistance to 146 countries, with 103 of these receiving economic assistance and 134 receiving security assistance. This means every country on earth has roughly a 75 percent chance of receiving U.S. economic or security assistance, which only underscores the undisciplined nature of the aid portfolio.

Of total economic assistance allocated in fiscal year 2012, one country, Afghanistan, consumes roughly 15 percent of U.S. economic assistance. The top 10 recipients represent about 50 percent of total bilateral aid. The remaining 50 percent is allocated among 93 countries, some receiving as little as \$492,000.

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## Selective economic assistance

Principles to guide more focused and selective U.S. economic assistance

Squaring two compelling needs—achieving cost savings and maintaining effective U.S. global engagement—may seem at odds, but as long as we concentrate our resources where they are likely to be most effective and reduce them where they are not, we can achieve both.



The President's Policy Directive on Global Development, which studied the role of U.S. economic assistance, called for greater focus and selectivity in delivering economic assistance, which we define here as the following 150 bilateral accounts: Development Assistance; Global Health Programs; Economic Support Fund; Assistance for Europe, Eurasia, and Central Asia; and the nonemergency portions of the Food for Peace account. The administration advocates a more selective approach for these programs, but progress—as reflected in the 2012 and 2013 budgets—is limited. Aid programs were eliminated in only five countries in 2012, but none are zeroed out in 2013.

## Congress as policy activist or micro-manager?

Congress and the White House often differ on foreign policy and spending priorities, and these differences are regularly reflected in the annual appropriations bill for the State Department, Foreign Operations, and Related Agencies. As Congress increasingly has been unable to pass foreign policy authorizing legislation, it has come to rely almost exclusively on its critical role in the appropriations process to assert congressional preferences and to influence policy.

A casual review of any recent State-Foreign Operations bill shows that the bills now include more policy directives than spending. A 2011 study calculated that Congress included specific country and sector directives for 66.5 percent of total bilateral economic assistance in the 2010 bill. Just 3 percent of the Economic Support Fund was left to the discretion of the secretary of state.

When Congress includes directives at the country and sector level, it makes it more difficult for any administration to respond flexibly and to adjust its approach to changes in conditions on the ground. The Arab Spring is only one recent example where increased flexibility could have improved the U.S. response. USAID missions are often forced to engage in extended contortions to make their country programs match up with congressional directives dictated from thousands of miles away. And sector earmarks—whether for programs in water, agriculture, micro-finance, or other issues—run counter to the concept of designing development approaches in shared partnership with the host country and holding the host country accountable for results.

Congress moved in 2011 to reduce the number of earmarks and change requirements to recommendations, using “soft” earmarks rather than “hard” ones. Soft earmarks are statements of preferred policy and approaches rather than directives. Yet some appropriators quickly expressed frustration that the administration did not treat all of their requests as directives.

In short, Congress still needs to move further away from micro-managing the foreign assistance accounts. At the same time, administrations need to do a better job of communicating with the Hill and engaging Congress in a genuine dialogue on policy approaches.

Managing international programs in the face of anticipated deep budget cuts can be approached in two ways: a reduction in all programs and country allocations or a major reorientation of approach and focus. The former would spread the pain evenly but most certainly dilute effectiveness. Good programs and priority countries would face the same cuts as bad programs and partners of lesser importance. And such an approach certainly would not accomplish high-impact development while perpetuating a major weakness of the U.S. approach: trying to do too much in too many places with limited effect.

The alternative—a major reorientation—is politically challenging. But making our aid programs more selective and focused would make them far more effective and better-positioned to achieve the changes that best serve our national interests. We should concentrate on effectiveness while maintaining the U.S. commitment to be a world leader.

It should be noted that achieving greater selectivity where aid is provided and greater focus on programmatic comparative advantage will be impossible if Congress continues to heavily earmark funds at the country and sector level. Earmarks, with their associated requirements to notify Congress in order to reprogram funds, greatly reduce flexibility and responsiveness and ultimately undermine aid effectiveness.

The following are recommendations to better guide budgeting around selectivity and focus.

Be clear on why aid is provided and when it will end

**Incorporate benchmarks into development strategies.** The United States does not have exit strategies for its economic and security assistance programs. It is indeed difficult to end aid allocations to longtime recipients even when countries are clearly ready to transition off aid. Perversely, many in government feel that ending assistance sends a negative message about the bilateral relationship rather than signaling the enormous progress made on the ground.

Having a plan with clear benchmarks and goals would allow both Washington and assistance recipients to focus on what needs to be accomplished rather than simply judging the U.S. commitment by aid funding levels. When the country meets its goals, the withdrawal of aid demonstrates that the aid was successful

and U.S. engagement should evolve into other areas like trade and commerce. The benchmarks should be clearly identifiable and measurable, and comport with the principle of country ownership, developed jointly with the recipient country.

**Delineate development and diplomacy.** Development and diplomacy are powerful tools of U.S. global engagement. They should be complementary but distinct. As they have become conflated, it is more difficult to end programs that are underperforming or are no longer necessary.

The Quadrennial Diplomacy and Development Review’s use of the term “development diplomacy” is a case in point. This turn of phrase—which conveys the view that development is a tool of diplomacy rather than a tool of U.S. foreign policy—makes it much harder to be selective about where we direct both economic and security assistance. Almost every diplomat wants to maintain an aid program in the country where they are posted, feeling that it will buy good will. But we need a far more strategic approach where leadership in Washington, in consultation with State and USAID officers in the field, directs aid to those select locales where it will really make a difference.

USAID shows a greater, albeit still limited, willingness to end aid programs and close missions than State. American diplomats need to be sufficiently talented that they can represent our national interests in a foreign capital—even if that country no longer seems like a wise place to put increasingly scarce aid dollars.

At the same time, diplomacy can be used to advance development, especially when development hinges on changes in government policies—which is often the case. These are opportunities to amplify forms of U.S. engagement and should become hallmarks of the relationship between development and diplomacy.

**Create a State Department strategic fund.** In some countries assistance for purely diplomatic reasons is justified, such as in a country that is a poor development partner but plays a key role in combating terrorism. In these cases the State Department should have a separate aid account. The current Economic Support Fund, or ESF, is co-managed by State and USAID and, while its funds can support development activities, its primary purpose is not development. ESF was created to support strategically important countries that might not otherwise qualify for aid. This distinction has been lost as ESF has become a general pot of funds given regardless of whether a country receives other economic assistance. Over time many countries have received both ESF and development assistance.

The ESF fund should be eliminated and replaced with a State Department account for strategic countries. Current ESF funds used for development activities should be transferred to the Development Assistance account with the remaining funds constituting the new State fund.<sup>8</sup> The new fund should be allocated by country to cover increased amounts for the current Ambassador Funds, with ambassadors making the key recommendations on how best to use those funds to accomplish U.S. objectives.<sup>9</sup>

Focus on U.S. comparative advantage: Health, food security, and humanitarian assistance

Almost every observer of U.S. aid programs believes they lack focus, and there is nary an activity in which the United States does not have a program. This is why the administration and Congress must jointly provide leadership focusing bilateral programs where there is a comparative advantage. Cost savings identified in this report could be used to further strengthen U.S. programs.

## The Millennium Challenge Corporation

The Millennium Challenge Corporation is a leader in partnering with countries around the principle of country ownership. It has also taken on work in key sectors, such as infrastructure, that other U.S. agencies have largely abandoned. Initially designed to work with countries poised to make significant gains in economic growth, it has selected a range of aid partners along the income spectrum with some compact countries decades away from aid graduation.

The MCC model is a good complement to a redesigned U.S. aid system and should continue. But it should rethink its compact partners and focus on helping countries graduate completely from U.S. economic assistance.

Further, if the president's 2013 budget request is approved, MCC funding will have remained at \$898 million for three straight years—quite a distance from the \$5 billion President George W. Bush promised. At this level the MCC will need to be even more selective about compact partners.

We identify health, food security, and humanitarian assistance as areas in which the United States has considerable resources, experience, and expertise. They should form the foundation of sector programs. Further, U.S. aid programs should work in no more than three sectors in each country to more effectively focus resources. We do not believe this approach devalues the principle of country ownership but instead puts U.S. resources where they will have the greatest impact.

Health is a global public good from which all nations benefit, and the United States is a long-standing leader in health including disease research, technology, pharmaceuticals, and general medical sciences. It has increased health aid in the international affairs budget nearly six-fold, from \$1.38 billion in 2001 to \$7.85 billion in 2011. In some recipient countries it dwarfs the assistance other donors provide. The Global Health Initiative, an Obama effort to integrate PEPFAR and other health programs under a more holistic umbrella,

has enjoyed bipartisan support. In addition, U.S. private philanthropy is deeply involved in the health sector and both U.S. public- and private-sector involvement is sensible, and allows for greater cumulative impact in the long run.

Promoting global food security is also a U.S. priority consistent with its historical leadership in this field. A growing global population projected to reach around 9 billion in 2050,<sup>10</sup> changing diets that require increased agricultural inputs, volatility in fuel prices, and the uncertainty of climate change all contribute to the need to increase production, stabilize prices, and do so in a sustainable fashion. The United States enjoys an elaborate network of agricultural universities, research institutions, and private-sector entities that bring a wide range of expertise to bear on hunger and promoting lasting economic growth through food security.

Equally, the United States excels in responding to humanitarian disasters whether natural or manmade. Humanitarian assistance should remain at the forefront of aid efforts given the U.S. military's reach and capacity, the generosity of the American people, and the potential for building goodwill. The United States is generous in providing such assistance and is also exceptionally good at it—in no small part because emergency assistance programs are largely spared the thicket of bureaucratic regulations that often bog down development programs. The American public deeply supports such humanitarian programs, and they reflect our faith and belief that we can assist the least fortunate in their moment of need.

And while we see health, food security, and humanitarian relief as our greatest comparative advantages, this does not mean that none of these areas should be improved, as is discussed later with regard to food aid programs and PEPFAR.

Economic growth has been and should remain a U.S. priority. If the ranks of the impoverished are to be significantly reduced, it will come through growth. But economic growth continues to be an elusive goal for many countries with

## What about other sectors?

Suggesting that our greatest comparative advantage for bilateral assistance is in health, food security, and humanitarian assistance needs to be taken in context. We are saying that these three areas should be the greatest focus for bilateral economic assistance funding. The environment, education, microenterprise, democracy activities, or a host of other activities are not unimportant.

We remain committed and influential in these sectors through our bilateral aid and also by contributions to multilateral agencies such as the Global Environmental Facility and the Global Partnership for Education. And as the United States consolidates its foreign assistance portfolio, it should consider channeling more funds through multilateral organizations to maintain these commitments and to do so more effectively.<sup>11</sup>

**Bottom line:** We are urging fewer activities in fewer countries, with much sharper lines drawn between what we are trying to achieve through bilateral assistance, multilateral institutions, and work that could be better supported by other donors or institutions.

disagreements among donors and partner countries on the assortment of interventions that will enable it.

We are not challenging the goal of economic growth in identifying health, food security, and humanitarian assistance as areas of U.S. comparative advantage. Rather we find these three areas are fields where the United States has the resources, experience, and expertise to contribute to economic growth.

## The factors we weighed

In our country-by-country analysis of where we should direct economic and security assistance, we weighed a series of data and factors on the recipient country's political climate, business environment, need, willingness to tackle corruption, and amount of aid and investment received from other sources.

We considered the following indicators against a country's current assistance level: gross national income per capita 2010; Freedom in the World freedom status 2011; Human Development Index 2011 rank; Transparency International Corruption Perceptions Index 2011; Doing Business Index 2012; population living on less than \$2 per day; Worldwide Governance Indicators Rule of Law percentile rank 2010; WGI Government Effectiveness percentile rank 2010; net official development assistance per capita; net foreign direct investment; and military expenditure as a percent of GDP.<sup>15</sup>

In addition, we included a broad range of more subjective considerations, including short- and long-term strategic interests, political support, and the traditional strength of the bilateral relationship.

No one indicator, piece of data, or piece of political intelligence is sufficient for a wide-angle view, but these indicators provide enough insight on need and capacity to make informed decisions through a process that is data-informed without being mechanistic. The outcome is a categorization of countries that sheds light on where aid should be focused because it has a greater probability for success and impact, where aid is likely necessary but may yield limited results, and where aid is probably not a wise investment.

## Use data to make decisions about aid

The link between aid allocation and a recipient country's need and capacity is often weak because political dynamics and budget process inertia influence aid decisions. Like an old ship with too many barnacles, aid budgets are not thoroughly scrubbed from year to year or even decade to decade. New programs are started even as outdated ones linger on past their purpose. Country allocations are adjusted up or down based on last year's level. Unless a major event is occurring, such as the Arab Spring, adjustments are often largely perfunctory.

Clearly the list of countries receiving U.S. economic assistance needs a much more effective scrub than it has been given to date, and that review needs to be data-informed while still recognizing political and security imperatives.

Recent administration attempts to be more selective are uneven. The 2012 budget eliminated development assistance to five countries and closed three missions. The 2013 request reduces funding to a number of countries, mostly in PEPFAR bilateral funds, but there is little evidence that those cuts reflect a systematic assessment of country need or capacity.<sup>12</sup> And no USAID mission closures were proposed as part of the 2013 budget request.

In general, funding was reduced, sometimes dramatically, in a number of countries to allow for the creation of a fund to meet the needs of the Arab Spring and to allow for debt reduction for Sudan. But these cuts were often across the board and not focused.

Many international donors are also reexamining their programs during this period of budget austerity and greater concern for effective aid. Several donors scaled back aid recipients and sectors. Still others decided to pull out of or greatly reduce their presence in middle-income countries.<sup>13</sup>

Doing so presents a moral dilemma. While these countries may be growing, some still have sizeable impoverished populations.<sup>14</sup> Instead of rewarding them for implementing good policies and making their own commitment to development, some donors are cutting off assistance that could be counterproductive. At the same time it is myopic to continue aid without recognizing these countries' growing ability to take on more responsibility for their own development. Rather, a country's income should guide the type and focus of aid, putting some on a steeper path to transition from aid and a reoriented relationship outside of an aid framework.

What follows is our selection of countries into two broad categories: continued or expanded assistance, and curtailed assistance. There is room for healthy debate on our selections, and they were often debated at length as we put the report together. We offer this as an illustrative approach in the hope that it leads to a more informed discussion of resource allocation and a sharper debate about where our aid dollars work.

#### *Continued or expanded economic assistance*

Selectivity and focus, as called for in the President's Policy Directive on Global Development, means scaling back the number of recipients and refocusing resources for greater impact. As a result, even as aid to some countries is reduced or phased out, there may be good reasons to expand aid elsewhere in a more focused manner. A number of countries in the continued or expanded assistance category could graduate from U.S. assistance within 5 to 10 years.

Within this category we identify priority investment countries and those for which we have limited expectations.

Priority investment countries are the highest priority for economic assistance because they exhibit both need and a capacity and commitment to development. Some are also included because of their strategic importance to the United States, but they still demonstrate a reasonable capacity to benefit from assistance.



In some cases we argue for investments based on immediate conflict prevention efforts or to ensure a country that enjoyed significant previous postconflict investments does not slide backward.

The 32 priority investment countries by region include:

Priority investment countries	
<b>Africa</b>	Benin; Burkina Faso; Cote d'Ivoire; Ghana; Kenya; Lesotho; Liberia; Mali*; Mozambique; Senegal; Sierra Leone; South Sudan; Tanzania; Zambia
<b>East Asia and the Pacific</b>	Burma; Indonesia; Mongolia; Philippines
<b>Europe and Eurasia</b>	Georgia; Macedonia; Moldova
<b>Near East</b>	Lebanon; Tunisia; West Bank and Gaza
<b>South and Central Asia</b>	Bangladesh; Kyrgyz Republic; Nepal
<b>Western Hemisphere</b>	Dominican Republic; El Salvador; Guatemala; Honduras; Peru

\*We made this categorization prior to an attempted coup and military seizure of power in Mali. The lack of a democratically elected leader would affect our categorization of Mali and its associated funding levels.

Countries for which we have limited expectations will likely continue to receive significant assistance largely based on short-term imperatives including security and other geopolitical concerns but where there are red flags with the bilateral relationship or the behavior of the recipient country’s government. This assistance will probably not drive development, given the poor supporting environment on the ground, and we do not recommend increased assistance to these countries until conditions change. Rather development assistance could be replaced by a new State Department strategic fund, as we suggested earlier.

### More about our methodology

In this section we propose countries that should be given expanded assistance, those whose assistance should be kept level, and those whose assistance can be constrained. Importantly, these judgments are based on their current and requested levels of funding. So by saying that Benin is a priority investment country and that we have limited expectations for the Democratic Republic of the Congo, we are not saying that Benin is more important than the Democratic Republic of the Congo or should receive more funding than the Democratic Republic of the Congo. We are arguing that based on current funding trends, conditions on the ground, and the likelihood of assistance being effective, Benin’s relatively small allocation could be larger while Nigeria’s considerable funding deserves to be kept flat.



The 21 limited expectation countries by region include:

Limited expectation countries	
<b>Africa</b>	Burundi; Democratic Republic of Congo; Ethiopia; Guinea; Malawi; Niger; Rwanda; Uganda; Zimbabwe
<b>East Asia and the Pacific</b>	None
<b>Europe and Eurasia</b>	Kosovo; Ukraine
<b>Near East</b>	Egypt; Iraq; Jordan; Yemen
<b>South and Central Asia</b>	Kazakhstan
<b>Western Hemisphere</b>	Bolivia; Cuba; Ecuador; Haiti; Mexico

### *Curtailed assistance*

Within this category we identify countries that can be put on a one- to five-year aid graduation trajectory, countries with small or expensive-to-operate programs, and poor performing countries.

The graduate in one to five years category includes countries that are well positioned to graduate from U.S. assistance in the near to medium term based on declining need and growing capacity. In some cases this would be a more expeditious cessation of aid while in others it would be more gradual. In either case the relationship should transition from one largely based on aid to that of trade and other areas of cooperation. For emerging donors this may mean exploring some trilateral cooperation activities.

The 18 countries we rank as graduating in one to five years by region include:

Graduate in one to five years countries	
<b>Africa</b>	Botswana; Namibia; Nigeria; South Africa
<b>East Asia and the Pacific</b>	China; Thailand
<b>Europe and Eurasia</b>	Albania; Armenia; Cyprus; Ireland (International Fund); Montenegro; Poland; Russia
<b>Near East</b>	None
<b>South and Central Asia</b>	India; Sri Lanka
<b>Western Hemisphere</b>	Barbados and Eastern Caribbean; Brazil; Colombia

In a number of countries, aid programs are too small to have much effect, conducted in nations where our interests are largely peripheral, or too expensive to operate given their size (see the next section on eliminating small and outdated programs and closing and consolidating missions for a discussion on mission closure). Some countries in this category should have their aid reduced while others should see it managed from a regional mission with a *de minimus* country presence. Inclusion in this category is not a commentary on a country's general willingness to reform but speaks more directly to making focused investments that will affect a large number of people.

The 11 countries in the small, expensive-to-operate, or peripheral-interest country programs by region include:

Small, expensive-to-operate, or peripheral-interest country programs	
<b>Africa</b>	None
<b>East Asia and the Pacific</b>	Laos; Marshall Islands; Micronesia; Papua New Guinea; Timor-Leste
<b>Europe and Eurasia</b>	Bosnia and Herzegovina; Serbia
<b>Near East</b>	Morocco
<b>South and Central Asia</b>	None
<b>Western Hemisphere</b>	Guyana; Jamaica; Paraguay

Poor performing countries do not strike us as good development partners, because of poor governance, corruption, or an absence of a commitment to development. In this period of limited resources, U.S. aid dollars could be better spent elsewhere. Generally humanitarian aid and assistance to democratic and civil society groups are more appropriate in these countries. PEPFAR funding should also be continued. In some cases, the private sector could take over economic aid until the government shows a greater willingness to partner with the United States in a development relationship. Other countries could benefit from State's strategic fund. Pakistan and Afghanistan, both special cases with high strategic interest but numerous governance issues, should see reductions until relations get on more solid footing.

The following are the 21 countries we rank as poor performing countries by region:

Poor performing countries	
<b>Africa</b>	Angola; Cameroon; Chad; Djibouti; Madagascar; Mauritania; Somalia; Sudan; Swaziland
<b>East Asia and the Pacific</b>	Cambodia; Vietnam
<b>Europe and Eurasia</b>	Azerbaijan; Belarus
<b>Near East</b>	None, with caveats
<b>South and Central Asia</b>	Afghanistan; Maldives; Pakistan; Tajikistan; Turkmenistan; Uzbekistan
<b>Western Hemisphere</b>	Nicaragua; Venezuela

Eliminate small and outdated programs and close and consolidate missions

**End outdated programs.** Some programs have outlived their purpose. An example: The Assistance to Europe, Eurasia, and Central Asia, or AEECA, account encompassed two earlier post-Cold War aid accounts for Eastern Europe and former Soviet republics. As of 2012 it includes funding of \$627 million for 22 countries, many of which have attained middle-income status.

The president's 2013 request would eliminate AEECA, but it does not produce considerable savings. Instead AEECA's funding is reduced by just 18 percent and the remaining funds are transferred to other accounts such as the Economic Support Fund, the International Narcotics Control and Law Enforcement account, and the Nonproliferation, Anti-terrorism, Demining, and Related Programs account. As noted in the previous section, many AEECA countries could have their assistance ended in the near to medium term. Some countries of strategic interest can have programs funded through State's strategic fund.

Other small and outdated programs, including the International Fund for Ireland and Assistance to Schools and Hospitals Abroad, are largely conducted in countries that are very well off, and should be eliminated.

**Close and consolidate missions.** Eliminating small programs goes hand in hand with closing and consolidating missions. According to the FY 2013 request, 19 USAID missions had administrative costs exceeding 15 percent of the value of aid provided.<sup>16</sup> Countries with missions above this threshold warrant further scrutiny to ensure cost effectiveness. USAID program funding in these countries should either be increased in the case of priority countries or the mission

should be closed or consolidated in the case of graduate and peripheral interest countries. In some regions such as Eastern Europe and Latin America, aid dollars have declined but staffing levels appear to not have followed suit. A number of aid missions in these regions can be closed and if necessary consolidated into a regional office. In many cases it may be worthwhile to replace full aid missions with a development attaché or counselor.

Closing missions has immediate costs including ending leases and terminating the employment of Foreign Service nationals. These costs are temporary and extraordinary. As such they should be included in a separate account for this specific purpose.

Under our review the following 11 missions could be considered for closure over the next five years: Albania, Angola, Brazil, Djibouti, Jamaica, Morocco, Nicaragua, Paraguay, Serbia, Sri Lanka, and Timor-Leste.

#### Develop trilateral cooperation with emerging donors

Several middle-income aid recipients have started assistance programs of their own in south-to-south cooperation. Notable examples include India, South Africa, and to a lesser extent Brazil, all of whom receive U.S. economic assistance but are also donor nations themselves. As discussed elsewhere in this report, these countries are in a position to take over more of the programs the United States currently funds. At the same time it would be wise for the United States to stay engaged with them as emerging donors.

One way to do this is through trilateral cooperation, in which a donor country, an emerging donor, and a developing country work together. This offers many opportunities to improve effectiveness and reduce costs. It can be used to leverage funding from emerging donors, capitalize on existing partnerships, and take advantage of regional expertise. It can also help emerging donors develop aid approaches that conform to best practices and Paris/Accra/Busan principles, especially country ownership, transparency, and local capacity building.<sup>17</sup>

Economic assistance to India, South Africa, and Brazil through the development assistance account totals \$156.1 million. PEPFAR funding, which all three receive, is discussed in another section of this report. As aid funding is reduced, missions in each could be scaled back accordingly, or closed and replaced with a development attaché, a USAID official attached to the U.S. embassy or embedded in the host country's aid agency.

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## Selective security assistance

U.S. security assistance, like economic aid, should be better focused around clear objectives and directed toward countries where it can make a lasting difference. For the purposes of this report, we define security assistance as Foreign Military Financing; International Military Education and Training; Nonproliferation, Anti-terrorism, Demining, and Related Programs; International Narcotics Control and Law Enforcement; Peacekeeping Operations; and Pakistan Counterinsurgency Capability Fund accounts as provided in the State and Foreign Operations appropriations bill. The State Department oversees this assistance, though the Defense Department carries out the actual provision of some of this aid and training. This report does not include military assistance budgeted purely through the Pentagon because it is not a component of the 150 account.

The United States provides security assistance for a variety of purposes and in different political environments: training security forces, financing military equipment, working with law enforcement on the illegal narcotics trade, and cooperating on nonproliferation issues. In a large number of cases, aid is provided to improve military-to-military contacts.

Yet too often we provide security assistance without a sensible discussion of its merits. This occurs for two reasons.

First, the State Department, though formally in charge of overseeing this portfolio, does not invest in the human capital and training to ensure it has the expertise to do this job properly. As a result, State Department approval and authorization of security assistance through these accounts is often pro forma. This, combined with a general congressional tendency to ignore scrutiny of anything broadly defined as defense, means that our security assistance programs and their respective goals, accomplishments, and shortcomings receive very little oversight.

Second, foreign militaries and the security assistance to those militaries are not examined with the country's governance in mind. Far too often governance is treated as an afterthought in providing security aid. Also, hard questions about whether such assistance will really help improve governance are too often not considered except perfunctorily.

Yes, having military-to-military contacts that are enhanced by U.S. military training is often useful and can build important relations and some measures

of lasting trust. But it is equally true that the U.S. taxpayer should not be underwriting security assistance to a country whose leadership is openly despotic or to nations of little or no strategic significance. Security assistance will be money poorly spent if a recipient country is wildly corrupt, undemocratic, or unwilling to embrace even the most basic reforms toward free markets and free government.

In short, security assistance should not escape scrutiny given the push for greater budget austerity. And, similar to economic assistance, we argue that security assistance is spread too thinly across too many countries. It would be far more effective if concentrated in high-performing countries and key strategic concerns while reduced

in more peripheral nations that have proven themselves poor partners. Selectivity has not been the byword of the U.S. government approach to date: In 2012, 134 countries received security assistance through the 150 account.

We applied a similar selectivity process to security assistance as to economic aid, identifying where aid should be maintained or expanded and where it may be limited or outdated. Some countries represent greater security challenges and significance to U.S. national interests than others. And in times of budget austerity, it is important to focus on where assistance will have the greatest impact.

In many cases, but certainly not all, countries that are good partners on the development front are also places where we should be strengthening the host country's military capacity and professionalization. This also makes it more likely that countries will graduate completely from the need for security and economic aid over time.

The two sides of the aid ledger are often related. Development rarely works amid instability and conflict, and assistance that professionalizes security forces can contribute to better governance. Better governments, supported by economic assistance, are also far more likely to be dependable and stable security partners over time.

What follows is our selection of countries into two broad categories: continued or expanded assistance,

## All over the map: International Military Education and Training

One hundred and twenty-six countries received International Military Education and Training, or IMET, in fiscal year 2012. The program seeks to professionalize foreign militaries and to strengthen military-to-military ties.

While the 2013 budget request shows a \$3 million decline, only one nation—Guinea-Bissau—is zeroed out. What's more, wealthier nations such as Argentina, Bahrain, Brazil, Poland, Portugal, Saudi Arabia, and Turkey also receive IMET grants even though they are quite capable of covering the training costs of their military personnel.

Countries remain on the IMET list for a simple reason: It makes them eligible for reduced rates on education and training associated with the Foreign Military Sales and IMET programs. (The Foreign Military Sales program is the United States' government-to-government method for selling U.S. defense equipment, services, and training.) IMET's goal is to improve the professionalism of foreign militaries. It is not, nor should it be, to provide discount rates to countries that can easily afford these services. We recommend that IMET be provided to only those countries with the greatest need and that the link between IMET and the purchase of training at discounted rates be severed.

and curtailed assistance. As with economic assistance there is room for debate on our selections. We offer this illustrative approach in the hope that it leads to a more informed discussion of resource allocation.

Continued or expanded assistance

Within this category we identify priority investment countries and those for which we have limited expectations.

Priority investment countries should be given a higher priority for security assistance than their current budget allocations because of their strategic importance, their need for such aid, and their capacity to achieve lasting stability. Decisions on security assistance need to be taken within a broader framework of effective governance and the probability that such assistance will contribute to stability and enhanced partnerships on security issues.

As noted with economic assistance, priority is determined in relation to current funding levels. So while Albania is ranked as a priority country and Egypt a limited expectations country, this is not to say Albania is more important than Egypt—simply that funding for Albania deserves a slight increase while Egypt should probably remain flat.

The 45 priority investment countries by region include:

Priority investment countries	
<b>Africa</b>	Benin; Botswana; Burkina Faso; Ghana; Kenya; Liberia; Mali*; Nigeria; Senegal; South Africa; South Sudan; Tanzania; Uganda; Zambia
<b>East Asia and the Pacific</b>	Indonesia; Mongolia; Philippines; Thailand; Timor-Leste
<b>Europe and Eurasia</b>	Albania; Armenia; Bosnia and Herzegovina; Bulgaria; Georgia; Macedonia; Moldova; Russia; Turkey
<b>Near East</b>	Israel; Lebanon; Libya; Morocco; Tunisia; West Bank and Gaza
<b>South and Central Asia</b>	Bangladesh; Kyrgyz Republic; Nepal
<b>Western Hemisphere</b>	Colombia; Dominican Republic; El Salvador; Guatemala; Honduras; Mexico; Panama; Peru

\*We made this categorization prior to an attempted coup and military seizure of power in Mali. The lack of a democratically elected leader would affect our categorization of Mali and its associated funding levels.

Countries for which we have limited expectations will likely continue to receive significant assistance largely based on short-term imperatives, including security and other geopolitical concerns. But there are a number of red flags with the performance of some of these governments.

The 27 limited expectation countries by region include:

Limited expectation countries	
<b>Africa</b>	Burundi; Democratic Republic of Congo; Djibouti; Ethiopia; Gabon; Guinea; Mauritania; Mozambique; Rwanda; Sierra Leone; Somalia
<b>East Asia and the Pacific</b>	Vietnam
<b>Europe and Eurasia</b>	Azerbaijan; Kosovo; Ukraine
<b>Near East</b>	Algeria; Egypt; Iraq; Jordan; Yemen
<b>South and Central Asia</b>	Kazakhstan; Tajikistan
<b>Western Hemisphere</b>	Bolivia; Ecuador; Haiti; Jamaica; Paraguay

## Curtailed assistance

Within this category we identify countries that should be graduated from assistance in the near term, those peripheral to U.S. security interests, and poor performing countries.

Countries that should graduate in one to five years are those doing well enough to no longer rely on U.S. assistance. Inclusion in this category does not mean that other types of military-to-military or security cooperation should be neglected.

The 30 countries that could graduate in one to five years include by region:

Graduate in one to five years countries	
<b>Africa</b>	Mauritius; Namibia
<b>East Asia and the Pacific</b>	China; Malaysia; Singapore; Taiwan
<b>Europe and Eurasia</b>	Croatia; Czech Republic; Estonia; Greece; Hungary; Latvia; Lithuania; Malta; Montenegro; Poland; Portugal; Romania; Serbia; Slovakia; Slovenia
<b>Near East</b>	Oman
<b>South and Central Asia</b>	India
<b>Western Hemisphere</b>	Argentina; The Bahamas; Barbados and Eastern Caribbean; Brazil; Chile; Costa Rica; Uruguay



Countries peripheral to U.S. security interests often have small programs that call into question whether the level of funding will produce major results. Inclusion in this category is not a commentary on the country's general willingness to cooperate on security issues.

The 15 countries in the peripheral category by region include:

Small, expensive to operate, or peripheral-interest country programs	
<b>Africa</b>	Cape Verde; Central African Republic; Comoros; The Gambia; Lesotho; Malawi; Sao Tome and Principe; Seychelles; Togo
<b>East Asia and the Pacific</b>	Marshall Islands; Samoa
<b>Europe and Eurasia</b>	None
<b>Near East</b>	None
<b>South and Central Asia</b>	None
<b>Western Hemisphere</b>	Belize; Guyana; Suriname; Trinidad and Tobago

Poor performing countries show little regard for governance and human rights. In many cases security assistance is merited for strategic considerations, but policymakers should be aware of the perverse effect of reinforcing undemocratic entrenched elites. Inclusion on this list does not mean all security aid should be cut but that there is room to reduce or revamp for better results.

The 17 poor performing countries by region include:

Poor performing countries	
<b>Africa</b>	Angola; Cameroon; Chad; Guinea-Bissau; Republic of Congo; Sudan; Swaziland
<b>East Asia and the Pacific</b>	Cambodia; Laos
<b>Europe and Eurasia</b>	None
<b>Near East</b>	Bahrain
<b>South and Central Asia</b>	Afghanistan; Maldives; Pakistan; Sri Lanka; Turkmenistan; Uzbekistan
<b>Western Hemisphere</b>	Nicaragua



# Reform 2: Transition PEPFAR to country ownership

The President's Emergency Plan for AIDS Relief, or PEPFAR, is the largest commitment by any nation in history to combat a single disease, and U.S. government spending still constitutes a majority of global donor funding to combat HIV/AIDS. Most PEPFAR funds are dedicated to treatment, testing, and building up local health systems.

PEPFAR is the elephant in the room when it comes to U.S. international assistance priorities because even though the fiscal year 2013 budget request for global health falls 3.8 percent below current levels, this remains the largest foreign aid account at \$7.85 billion. The fiscal year 2013 request redirects some of the funding traditionally directed toward PEPFAR to the Global Fund to Fight AIDS, Tuberculosis and Malaria. The Global Fund, in contrast to PEPFAR, is a multilateral institution supported by a range of governments and private donors.

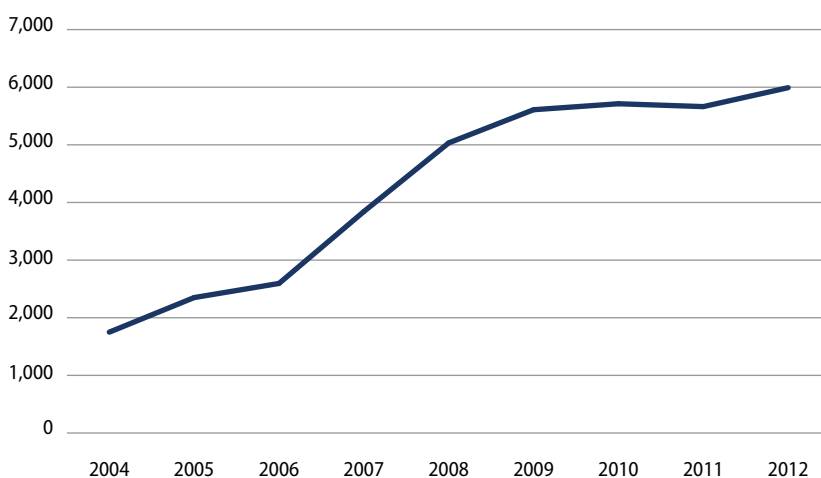
Between fiscal years 2004 and 2012, the United States spent more than \$38.6 billion on bilateral HIV/AIDS programs, dwarfing commitments in many other areas including funds dedicated to economic growth, agriculture, and the environment.

But it is equally clear that the need remains vast. More than 30 million people continue to live with the virus, the majority in sub-Saharan

**FIGURE 2**  
**Funding the fight against AIDS**

U.S. funding for bilateral global HIV/AIDS programs in constant dollars, FY2004-FY2012

U.S. PEPFAR funding (in millions)



Source: Authors' calculations.

Africa where health systems are poor.<sup>18</sup> PEPFAR has made an enormous difference, and the administration recently highlighted some important achievements:<sup>19</sup>

- The United States directly supported life-saving antiretroviral treatment for more than 3.2 million men, women, and children worldwide as of September 30, 2010, up from less than 2.5 million in 2009. The Obama administration has further pledged to put 6 million people on treatment globally by 2013.
- PEPFAR directly supported antiretroviral prophylaxis to prevent mother-to-child HIV transmission for more than 600,000 HIV-positive pregnant women in fiscal year 2010, resulting in more than 114,000 infants born HIV free.
- Through its partnerships with more than 30 countries, PEPFAR directly supported 11 million people with care, including nearly 3.8 million orphans and vulnerable children, in fiscal year 2010.
- PEPFAR directly supported HIV counseling and testing for nearly 33 million people in fiscal year 2010.

Debates about PEPFAR are often contentious and politically charged. Suggesting changes or alterations in the program is challenging because no one wants to appear less than fully committed to an effort that so clearly saves lives. Case in point: The administration's proposal, as embodied in the 2013 budget request, to increase resources to the Global Fund to Fight AIDS, Tuberculosis and Malaria while reducing direct funding to some PEPFAR countries received a mixed welcome.

At the same time, PEPFAR may be unintentionally skewing broader development by focusing on a single disease. U.S. assistance dominates the health sector in the countries that receive the most PEPFAR funding, and it has proven challenging to figure out how best to secure lasting and sustainable development in key PEPFAR recipient countries while simultaneously combating HIV/AIDS.<sup>20</sup>

The question for PEPFAR is how and at what speed the program can be converted from what is essentially an emergency humanitarian program—even though it was not always labeled as such—to a long-term and genuinely sustainable approach to health that fits within a broader development model.

It was with this in mind that President Barack Obama announced the Global Health Initiative in 2009 with an emphasis on taking a more comprehensive

approach to health issues writ large. Middle-income countries would seem the logical place to start for sharing the financial load, but the administration did not specifically emphasize that approach.

The 2008 reauthorization of PEPFAR also stressed the need to build more sustainable health outcomes and systems. This included plans to initiate Partnership Frameworks with PEPFAR partner countries to strengthen country capacity, ownership, and leadership of HIV/AIDS programs. These mutual nonbinding agreements outline the expected arc of U.S. government support and how host-country investments and policy changes can position governments to assume primary responsibility for HIV/AIDS in the future.<sup>21</sup>

Partnership Frameworks provide a five-year joint strategic outline for cooperation between the U.S. government, the partner government, and other partners on service delivery, policy reform, and coordinated financial commitments. Within this timeframe, host countries will be better situated to control the management, strategic direction, performance monitoring, decision making, coordination, and, where possible, financial support and service delivery of their own HIV/AIDS programs.

Frameworks are intended to be transparent, accountable, and open to participation from the civil society, the private sector, and international organizations that will help strengthen the capacity of governments to plan, oversee, manage, and ultimately finance national HIV/AIDS strategies.<sup>22</sup>

To date, PEPFAR's Partnership Framework discussions with South Africa are the most advanced and offer a model and lessons learned for how country ownership and financial responsibility could be expanded in middle-income countries. (U.S. government investments in South Africa represent the largest single bilateral health account in the world, with the United States spending more than \$3.1 billion on health issues in South Africa since 2004.)<sup>23</sup>

In preparation for an inevitable drawdown in U.S. funding, both governments are in the midst of negotiations to design a complex blueprint for a multiyear hand-off that will see the South African government assume more of the financial and managerial burden of HIV/AIDS programs.

It is also important to note that funding is not the only barometer of progress in addressing HIV/AIDS, and these partnerships can also look at how medical

advances, lower drug costs, public-private partnerships, less dependence on international organizations, and other efficiencies can bring down overall costs.

PEPFAR operations will be aligned with South Africa's national health system as the government gradually assumes the decision-making, planning, and financing responsibilities for its HIV/AIDS-related services. The forthcoming arrangement should see the United States drawdown the direct provision of treatment and move toward more technical assistance while the South African government works increasingly with a range of partners, including the U.S. government, through new service delivery arrangements.

Over the next several years, the United States is expected to scale down its PEPFAR assistance to South Africa from its FY 2011 level of \$535.3 million.<sup>24</sup> Encouragingly, the Zuma administration openly committed itself to delivering better health outcomes and made strides in scaling up health interventions such as male medical circumcision, HIV testing and counseling, and prevention of mother-to-child transmissions.<sup>25</sup>

A recent Center for Strategic and International Studies, or CSIS, report suggests a drawdown to around \$100 million to \$200 million per year in U.S. support to South Africa at the conclusion of a multiyear transition to be feasible.<sup>26</sup> PEPFAR bilateral funding for South Africa already edged down slightly since the framework was outlined in fiscal year 2010.

The very useful CSIS study of the PEPFAR transition in South Africa noted that one of the key obstacles in the dialogue is the unwillingness or inability of U.S. negotiators to “lay down visible concrete milestones” in order to “align expectations, eliminate uncertainty, and minimize speculation and misunderstandings.”<sup>27</sup> The authors argue that the sooner clear budget and policy targets are spelled out for the five-year transition period the better. Unfortunately most partnership frameworks signed in 2009-10 did not include any detailed budgetary information.

We agree with the CSIS study and would like to see a more rigorous budget approach for other middle-income PEPFAR Partnership Framework countries. Much of the difficulty in the current approach stems from limited information on PEPFAR's actual service delivery costs and the inability of the administration to make multiyear commitments under PEPFAR, thus inadvertently making burden sharing more difficult and uncertainty high.

The upcoming PEPFAR reauthorization could include clearer reporting on costs as well as multiyear transition funding that would benefit both the United States and PEPFAR recipients, and PEPFAR Partnership Frameworks could be converted to something closer to a binding cash-on-delivery approach for countries performing at a good standard of quality.<sup>28</sup>

To date, PEPFAR has developed Partnership Frameworks with at least 21 countries or regions. Of those, the World Bank classifies six as upper middle income: Botswana, Caribbean Regional, Central America Regional, Dominican Republic, Namibia, and South Africa. Eight Partnership Framework countries are classified as lower middle income: Angola, Ghana, Lesotho, Nigeria, Swaziland, Ukraine, Vietnam, and Zambia.

Beginning with the upper-middle-income countries, the administration should update all frameworks to include clear annual budget and policy targets to allow for an orderly drawdown and eventual elimination of PEPFAR funding. These targets should be consistent with reasonable assumptions on available fiscal space, progress towards coverage goals, and capacity to retain current PEPFAR-funded service provision staff at local salaries.

U.S. support to combat HIV/AIDS will remain invaluable, but ensuring support is sustainable will require recipient governments take on the bulk of direct service delivery costs, particularly with regard to treatment, testing, and maintaining local health systems, over time. And the recipient country's ministries of finance—and perhaps parliamentary bodies—will need to anticipate and agree to planned programmatic and expenditure trajectories.

In terms of funding targets for upper-middle-income countries, host countries should assume 60 percent to 80 percent of current PEPFAR service delivery obligations and associated budget requirements by the fifth year of an agreement.<sup>29</sup>

We recommend, however, that Partnership Frameworks carry out their own rigorous assessment of prospects for greater country co-financing of HIV/AIDS programs, taking into account possible efficiency reforms, co-financing criteria recently established by the Global Fund for AIDS, Tuberculosis and Malaria, and other donor plans going forward, as well as tradeoffs such as country governments reallocating funding for HIV/AIDS and away from other health areas or other spending.

Given the difficulties associated with a rapid shift in funding to HIV/AIDS, there are other strategies the administration could consider for low-income countries that may make an eventual transition to national funding more realistic over time, including a review of the non-service-delivery costs involved in PEPFAR, the degree to which the PEPFAR model relies on U.S. contractors, and the development of active purchasing tools.



# Reform 3: Overhaul U.S. food assistance

The U.S. food aid program needs to be overhauled to improve responsiveness and effectiveness while holding down costs. Many of the laws and regulations that govern food aid are relics from the past—when U.S. farmers needed an outlet for surpluses—or are influenced by domestic interests in determining how U.S. commodities can be used or shipped. The fact that U.S. food assistance programs are badly flawed has long been an open secret, and the current drive for budget austerity presents an ideal time to finally fix these clear dysfunctions.

A web of laws and regulations—cargo preference, limitations on local and regional purchase, and monetization—increase costs and reduce responsiveness. As a result, the Government Accountability Office estimates it takes an average of four to six months after the onset of a crisis for U.S. food aid to reach its final destination and that unnecessary transaction costs make food aid inefficient.<sup>30</sup>

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## Drop cargo preference requirements

Since 1954 a cargo preference law has mandated that 75 percent of all U.S. food aid commodities be shipped aboard U.S. flagged vessels, or ships registered in the United States. The law was originally justified as a means to ensure available ships and crews during war, but it has since become an entitlement for U.S. shippers with little or no military value. Indeed, many of these U.S. flagged vessels are actually foreign owned.<sup>31</sup>

The truth is that cargo preference serves no purpose other than to raise the cost of food aid and slow its timely delivery. The GAO estimates the law adds \$200 million annually in shipping costs, and a recent academic study concluded that cargo preference cost American taxpayers \$140 million in unnecessary transportation costs in 2006. Further, the logistical cost of U.S. food aid shipments is 60 percent higher than our European counterparts, primarily because of cargo preference.<sup>32</sup>

Cargo preference requirements also delay a timely U.S. response to food emergencies. The need to align commodities with nearby ports that have willing and able U.S. ships can add unnecessary time when a quick response is essential. Instead contracts should be awarded to the lowest and most capable bidder. We recommend that food aid be exempt from cargo preference requirements.

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### Expand local and regional purchase of food

The United States provides about half of all global food aid annually. An inefficient U.S. system means that people suffer and the United States loses an opportunity to build goodwill. U.S. food aid funding increased by 53 percent from 2006 to 2008, but the tonnage of food delivered actually fell by 5 percent.<sup>33</sup> While a portion of the tonnage decline was due to increased commodity costs, USAID also estimated that in 2006 nearly half of its food aid resources were allocated for transportation costs rather than actual food.<sup>34</sup>

A logical conclusion is to purchase food closer to the emergency. A GAO report in 2009 concluded that local and regional purchase would reduce costs by 25 percent and reduce delivery time from an average of 147 days to 41 days.<sup>35</sup>

Buying more food closer to where it is needed is not a new idea. President George W. Bush proposed in four successive budgets to use up to 25 percent of P.L. 480, the main U.S. food program, for local and regional purchase as did his proposed 2008 Farm Bill. But U.S. commodity groups, allied with shippers, pushed back and instead a minuscule pilot program with a required study was included that delayed any meaningful reform. With a growing number of lawmakers, aid organizations, and think tanks speaking out for food aid reform, however, real reform is now possible. We recommend that half of P.L. 480 be designated for local and regional purchase where appropriate for local conditions.

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### Eliminate monetization

Each year a portion of P.L. 480 funding is designated as “nonemergency,” which means private organizations can use those funds for agricultural development projects. Since 2001 nonemergency food aid totals roughly \$400 million.

The problem is that the aid is still governed by cargo preference and “buy American” requirements. So the funds must be used to purchase U.S. commodities, which are then shipped on U.S.-flagged vessels and sold on local and regional markets. The proceeds can then be used to finance development projects or to help pay for the costs of distributing other food aid.

Development experts view monetization as counterproductive because when international NGOs sell agricultural products in local markets, it can depress prices for local farmers. It also increases NGO costs because they must retain procurement specialists who can manage bureaucratic transportation regulations and who can navigate local and regional markets.

And a study chaired by former Secretary of Agriculture Dan Glickman and former head of the World Food Program Catherine Bertini reported that “monetized U.S. food aid typically generates only fifty to seventy cents of revenue on each taxpayer dollar spent.”<sup>36</sup> So the sale of \$400 million in food aid generates only between \$200 million to \$280 million for private development groups.

The transaction costs are so great and the development impact so limited that the well-respected international aid group CARE International announced in 2007 that it would no longer monetize aid because it was expensive to manage and did little for development. CARE noted: “Purchasing food in the U.S., shipping it overseas, and then selling it to generate funds for food security programs is far less cost effective than the logical alternative—simply providing cash to food security programs.”<sup>37</sup>

At a minimum, we recommend that nonemergency food aid be exempt from both cargo preference and “buy American” requirements. Cost savings from these reforms would vary from year to year depending on fluctuations in food assistance. We estimate, however, that efficiency gains would range from \$488 million to \$628 million annually.<sup>38</sup> Half of the saving from these reforms should be transferred to the Development Assistance account for agriculture-related grants to NGOs who formerly monetized.<sup>39</sup>



## Reform 4: Create an international affairs realignment commission

Every major review of America's foreign assistance programs over the last two decades—conducted by the widest range of actors imaginable—agrees on one fundamental point: The Foreign Assistance Act of 1961, which established USAID and set many of the rules of the road for how we deliver foreign assistance, is badly outdated and needs to be rewritten.<sup>40</sup> Its multiple problems are obvious to even casual observers and continue to considerably undermine America's international engagement.

The act was passed in 1961, and since then it has been repeatedly amended, leaving the legislation guiding assistance efforts convoluted, often self-contradictory, and badly out of sync with the demands of the modern world. Year after year the legislation has added new restrictions, earmarks, guidelines, prohibitions, programs, and directives with the net effect of creating an almost incoherent maze. Consequently, assistance efforts lack a sound framework. Almost all commentators agree that the national interest would be far better served by a more concise, cogent, and modern piece of controlling legislation.

This brings us to the second point of broad agreement on the Foreign Assistance Act: No one can figure out how to rewrite it. Indeed, rewriting the Foreign Assistance Act is the white whale of the foreign policy and development community. Everyone thinks it should be done, but it is repeatedly dismissed as an impossible goal. Major efforts to rewrite the legislation were undertaken consistently since a major revision in the early 1970s, but were largely stillborn. The 2000s saw the creation of PEPFAR and the Millennium Challenge Corporation, which were important milestones, but still not a coherent effort to reset assistance efforts.

Washington's rancorous environment only further hardens opinion that a Foreign Assistance Act rewrite would be impossible to achieve, as would broader restructuring of the foreign affairs agencies. Certainly it is very difficult to envision a clean piece of authorizing legislation on restructuring the foreign affairs agencies emerging from the White House and Congress, with Congress divided, a Tea

Party faction within Republican ranks that objects to assistance efforts as a rule, rampant special interest lobbying, and sharp divides about foreign policy.

Sadly, the repeated failures of Foreign Assistance Act rewrites largely convinced administrations regardless of their party that they can only institute reforms that avoid the need for new underlying legislation. So the first-ever Quadrennial Diplomacy and Development Review the Obama administration released in December 2010, for example, spelled out an ambitious series of reforms at both State and USAID, yet very consciously shied away from tackling issues that would require major pieces of new legislation. This approach leaves the United States merely tinkering around the edges of the problem without getting to its heart.

The current authorization process's limits were further underscored when President Obama announced in January 2012 that he was seeking expedited authority from Congress to streamline existing government bureaucracy. In this specific case, President Obama is hoping to merge the Commerce Department's core business and trade functions, the Small Business Administration, the Office of the U.S. Trade Representative, the Export-Import Bank, the Overseas Private Investment Corporation, and the Trade and Development Agency into a single new department whose mission is "helping American businesses succeed." The president suggested that such streamlining would save \$3 billion over 10 years but he did not detail the specific cost savings.<sup>41</sup>

The president, in announcing his plans and asking for expedited authority to streamline agencies, noted that the executive branch enjoyed such authority from a period that began in the middle of the Great Depression and ended during President Ronald Reagan's term in 1984. Under this authority the president could streamline and consolidate executive branch functions and institutions by putting such proposals to Congress in a straight up-or-down vote.

The president's proposal on merging the trade entities has merit. While the six entities involved in this streamlining proposal have both trade and development functions, merging them together would be a step toward greater coherence and coordination in this arena. Congress's initial response to the president's request for greater streamlining authority was measured and could enjoy bipartisan support given the need for cost savings.

Beyond the president's proposal for expedited authority to streamline agencies, however, there is another much more far-reaching alternative to move beyond the

long history of repeated impasse. It will create much more effective assistance programs, modernize the entire U.S. foreign policy structure, and allow cuts across the 150 account to be managed much more effectively during the next administration.

Our recommendation is that the administration and Congress embrace an approach modeled on the Defense Base Closure and Realignment Commission, or BRAC. BRAC was created to deal with an equally difficult political challenge: The Department of Defense knew it needed to close and realign bases to bring the presence of its facilities in line with its strategic goals. Yet the decision to close individual bases was wrenching and sparked very intense localized opposition.

By creating an outside commission, the Pentagon was able to bundle closures together, make clear these determinations were made on the basis of real strategic need and not lobbying, and present the list of closures for a clear up-or-down vote.

BRAC rounds were in 1988, 1991, 1993, 1995, and 2005, and the BRAC commission was incredibly effective in turning what was one of the hottest lightning-rod issues in Washington into a fairly routine process.

Rather than focus on physical installations, as BRAC did, an international affairs realignment commission would have the writ to not only look at the physical presence of U.S. embassies, consulates, and USAID missions but more importantly identify regulations, programs, and projects that could be eliminated, or even recommend institutional consolidation or streamlining.

Setting the exact mandate for the commission's first round would be essential, and one of the reasons BRAC succeeded was because it had the ability to identify major issues to be addressed without overloading the system and having it try to overhaul all base structure issues in one fell swoop.

In its first round, for example, an International Affairs Realignment Commission might review USAID mission's presence around the globe, the relationship between America's trade promotion efforts, or how the responsibilities for complex emergencies and humanitarian relief are divided between State and USAID. But bringing America's foreign affairs agencies into the modern era will clearly require several rounds by such a commission, and advocates of more effective diplomacy and development efforts need to recognize that we will only be able to improve diplomacy and development to a limited degree unless we are willing to tackle the broader question of the system under which they operate.

Like the BRAC process, international affairs realignment commissioners would be appointed by the president in consultation with Congress. The commissioners would base their recommendations on the broad strategic guidance established through the QDDR (which spells out the key policy and organizational challenges facing the foreign affairs agencies), and through subsequent discussions with commissioners. Also like BRAC, key stakeholders could give input. Finally, the commission process would allow for major parts of the Foreign Assistance Act to be updated and rewritten in a streamlined process that respected the prerogatives of both Congress and the executive branch.

The president could accept or reject the commission's recommendations in their entirety. If rejected, the commission would have a set period to amend and resubmit. Congress would have the opportunity to reject the report or else it becomes law. The benefits of such a process would be manifold:

- Move forward with important restructuring efforts in foreign affairs, abolish numerous regulations and constraints that accumulated over the years, and achieve significant cost savings without employing the traditional authorization process that has very clearly broken down
- Substantially reduce or eliminate outdated spending mandates and earmarks
- Significantly modernize the U.S. foreign policy architecture—something that will well serve the national interest and presidents regardless of party
- Package reforms together as a coherent bipartisan whole for an up-or-down vote with a high likelihood of making it through Congress
- Assure that both Congress and the president can reject the commission's recommendations if they don't agree

It would cost money to establish such a commission, but its operations would more than pay for themselves in the long run and should ultimately produce significant cost savings.



# Conclusion

Periods of austerity bring hard choices. The federal budget crunch we face over the next decade is no exception. By almost any sane measure, we need to reduce the deficit while still ensuring that we protect and advance our core national interests. This is as true in foreign affairs as it is in domestic.

The stakes in properly managing this endeavor are enormous and will speak to our credibility as a leader in the community of nations and as a country that remains committed to its founding principles and vision.

The reforms suggested in this report—embracing selectivity with our economic and security assistance, more rapidly transitioning PEPFAR to country ownership in middle-income countries, overhauling food aid programs, and establishing an international affairs realignment commission—all require breaking from the status quo. But all would yield considerable savings while making our international engagement more effective.

Some of these ideas will be labeled controversial or adamantly opposed in certain quarters. To those who disagree, we offer a simple challenge: Put a better plan on the table. If the only suggestion is to keep business as usual, to pretend that real budget cuts can be avoided in perpetuity, or to claim that compromise or consensus are simply too difficult to achieve, then that is surely a premature admission of defeat.

The United States has an important window of opportunity to reform how it organizes and conducts its affairs abroad. It should not be missed.



# Glossary

**Assistance for Europe, Eurasia, and Central Asia:** The Assistance for Europe, Eurasia, and Central Asia, or AEECA, account in the international affairs budget supports U.S. efforts to stabilize and transition Southeastern Europe and the independent states of the former Soviet Union to stable, pluralistic, and prosperous countries. AEECA is proposed for elimination in the fiscal year 2013 budget request in recognition of a number of countries' progress toward Euro-Atlantic integration and the need to support other foreign assistance priorities globally.

**Defense Base Realignment and Closure Commission:** The Base Realignment and Closure Commission, or BRAC, was established to deal with the politically contentious issue of closing military bases to achieve efficiencies and savings in line with congressional and Department of Defense objectives. The president appoints the independent nine-member panel, which submits its recommendations to Congress for approval. BRAC rounds took place in 1988, 1991, 1993, 1995, and 2005, and new rounds are still possible. Over five rounds the BRAC successfully closed 350 military installations.

**Development assistance:** The development assistance account in the international affairs budget refers to specific economic assistance USAID provides for long-term development activities. Development assistance supports multi-sector programs related to food security, education, economic growth, climate change, and governance, among others, with a focus on achieving the United Nations' Millennium Development goals.

**Discretionary programs:** These programs have their funding determined every year through the federal appropriations process. This spending is optional in contrast to entitlement programs, which are mandatory. Discretionary programs include development assistance.

**Doing Business Index 2012:** A co-publication of the World Bank and the International Finance Corporation, the Doing Business rankings provide objective

measures of business regulations and their enforcement across 183 economies. Economies are ranked on their ease of doing business, from 1 to 183. A lower ranking on the ease of doing business index means the regulatory environment is more conducive to the starting and operation of a local firm. This index averages the country's percentile rankings on 10 topics made up of a variety of indicators, giving equal weight to each topic. The rankings for all economies are benchmarked to June 2011.

**Economic assistance:** For the purposes of this report, economic assistance is defined as the following Function 150 bilateral accounts the U.S. government allocates: Development Assistance; Global Health Programs; Economic Support Fund; Assistance for Europe, Eurasia, and Central Asia; and the nonemergency portions of Food for Peace.

**Economic Support Fund:** Congress established the Economic Support Fund account in the international affairs budget to promote economic and political stability in regions where the United States has special security interests. The Department of State and USAID co-manage the Economic Support Fund and while its funds can support development activities its primary purpose is to support strategically important countries that might not otherwise qualify for aid.

**Food for Peace:** The Food for Peace account in the international affairs budget authorizes the provision of U.S. food assistance in response to emergencies and disasters around the world, and also funds nonemergency, development-oriented resources to help address the underlying causes of food insecurity. Funds are appropriated to the U.S. Department of Agriculture and administered by USAID.

**Food monetization:** Under food-aid regulation, USAID is allowed to have private voluntary organizations sell a portion of the food aid they receive from the United States on local markets in or near needy countries, and then use the proceeds of these sales to finance development projects or help pay for the costs of distributing other food aid. Some organizations have come to rely on this sale of food aid as a significant source of revenue.

**Foreign Assistance Act of 1961:** The Foreign Assistance Act of 1961 is the main legislative framework for U.S. foreign assistance and the cornerstone of all U.S. aid policies and programs. Congress has regularly updated the Foreign Assistance Act through reauthorizations since 1961, but the latest revision occurred in 1985. Written, passed, and signed into law at what some consider the height of the Cold

War, the act is seen by many today as outdated and unreflective of the current U.S. foreign assistance structure. Attempts have been made to revise the act, but moving foreign aid legislation through both the House and Senate has become increasingly problematic.

**Foreign Military Financing:** The Foreign Military Financing account in the international affairs budget provides grants for the acquisition of U.S. defense equipment, services, and training. It is intended to promote U.S. national security by contributing to regional and global stability, strengthening military support for democratically elected governments, and containing transnational threats including terrorism and trafficking in narcotics, weapons, and persons.

**Freedom in the World Freedom Status 2011:** Freedom in the World is a comparative assessment of global political rights and civil liberties published annually since 1972 by Freedom House, a nonprofit supporting democratic change and advocating for democracy and human rights worldwide. The survey rates and reports on 195 countries and 14 related and disputed territories to monitor trends in democracy and track improvements and setbacks in freedom worldwide.

**Function 150 account:** The majority of U.S. foreign assistance is contained in the international affairs budget requested and allocated through the State, Foreign Operations, and Related Agencies appropriations bill. This is also referred to as Function 150 or the “150 account” and contains spending on global economic, diplomatic, and humanitarian programs by the State Department, USAID, and the Millennium Challenge Corporation, among others.

**Global Environmental Facility:** The Global Environment Facility, or GEF, unites 182 member governments to address global environmental issues. The GEF provides grants to developing countries and countries with economies in transition for projects related to biodiversity, climate change, international waters, land degradation, the ozone layer, and persistent organic pollutants. Established in 1991, the GEF is today the largest funder of projects to improve the global environment.

**Global Health Programs:** The Global Health Programs, formerly known as the Global Health and Child Survival account in the international affairs budget, was first appropriated in FY 2008 to merge the funds formerly appropriated under the Child Survival Health fund account and the Global HIV/AIDS Initiative account. Child Survival Health funded child survival, maternal health, HIV/AIDS, vulnerable children, family planning, and infectious diseases activities. The Global HIV/

AIDS Initiative was a separate appropriation used to fund the primary activities in the 15 focus countries under the President's Emergency Plan for AIDS Relief as well as provide funds for central programs and limited funding for nonfocus programs.

**Global Health Initiative:** The Global Health Initiative, or GHI, is an integrated approach to global health that leverages U.S. investments to improve health worldwide. GHI strengthens health systems with a focus on healthier women and families, innovation, partnerships, and country ownership. GHI aims to maximize the sustainable health impact the United States achieves for every dollar invested including through PEPFAR, the President's Malaria Initiative, and maternal and child health investments. Additionally, the Obama administration identified eight countries as GHI "Plus" countries, entitling them to additional technical and management assistance to accelerate the transition to GHI principles.

**Global Partnership for Education:** Established in 2002 the Global Partnership for Education is comprised of 46 developing countries, and over 30 bilateral, regional, and international agencies, development banks, the private sector, teachers, and local and global civil society groups. The Global Partnership for Education aims to provide its developing country partners the incentives, resources, and technical support to build and implement sound education plans. Partnership members mobilize and coordinate resources to support the achievement of these plans' targets.

**Gross national income per capita:** Gross national income, or GNI, per capita is a country's gross national income converted to U.S. dollars using the World Bank Atlas method, divided by the midyear population. To smooth fluctuations in prices and exchange rates, the World Bank uses a special Atlas method of conversion. We use the World Bank's World Development Indicators as the source for GNI.

**Human Development Index 2011:** Developed through the United Nations Development Programme, the Human Development Index is a single statistic that combines life expectancy, educational attainment, and income into a composite index. The index serves as a frame of reference for both social and economic development within a given country.

**International Military and Education Training:** The International Military and Education Training account in the international affairs budget is an instrument of U.S. national security and foreign policy that provides training on a grant basis to students from allied and friendly nations.

**International Narcotics Control and Law Enforcement:** The International Narcotics Control and Law Enforcement, or INCLE, account in the international affairs budget supports country and global programs critical to combating transnational crime and illicit threats—including efforts against terrorist and other criminal networks involved in the illegal drug trade—as well as other illicit enterprises. INCLE programs seek to close the gaps between law enforcement jurisdictions and to strengthen weak or corrupt law enforcement institutions.

**Military expenditure as a percent of GDP:** This indicator reveals the relative amount of funding each country spends on security. Military expenditures include all current and capital expenditures on the armed forces; defense ministries and other government agencies engaged in defense projects; paramilitary forces, if these are judged to be trained and equipped for military operations; and military space activities. We use the World Bank’s World Development Indicators as the source for this indicator.

**Millennium Challenge Corporation:** The Millennium Challenge Corporation, or MCC, is an independent U.S. foreign aid agency seeking to reduce poverty through economic growth in a select number of poor, well-governed countries. The MCC provides grants known as “compacts” to well-governed countries. Compacts span five years and range in the hundreds of millions of dollars. The MCC also has a threshold program that provides smaller, shorter grants to countries on the cusp of compact eligibility. The MCC model is distinctive for its competitive country selection, commitment to country ownership, and focus on results and impact.

**Net foreign direct investment:** Foreign direct investment is the net inflow of investment to acquire a lasting management interest in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments. This indicator shows net inflows (new investment inflows less disinvestment) in the reporting economy from foreign investors in current U.S. dollars and we use the World Bank’s World Development Indicators as the source.

**Net official development assistance per capita:** Net official development assistance per capita consists of disbursements of loans made on concessional terms and grants by members of the Development Assistance Committee, or DAC, of the Organisation for Economic Co-operation and Development multilateral institutions, and non-DAC countries to promote economic development. It is calculated by dividing net official development assistance by

the midyear population estimate. Data are in current U.S. dollars and we use the World Bank's World Development Indicators as the source for this number.

**Nonproliferation, Anti-terrorism, Demining, and related programs:** The Nonproliferation, Anti-terrorism, Demining, and related programs account in the international affairs budget supports U.S. efforts in four areas: nonproliferation, antiterrorism, regional stability, and humanitarian assistance. These programs are meant to reduce transnational threats to America's security, as well as to mitigate local threats that cause regional instabilities and humanitarian tragedies.

**Operating expenses:** In this report operating expenses or operational expenses are the ongoing cost of running the normal operations of USAID, such as budgeting for employee salaries.

**Peacekeeping Operations:** The Peacekeeping Operations account in the international affairs budget supports multilateral peacekeeping and regional stability operations not funded through the United Nations. Funds also address key gaps to enable countries and regional organizations to participate in peacekeeping, humanitarian operations, counterterrorism operations, and reform security forces in the aftermath of conflict.

**Presidential Emergency Plan For AIDS Relief:** President George W. Bush launched the Presidential Emergency Plan for AIDS Relief in 2003 to help provide prevention, treatment, and care services to countries suffering high HIV/AIDS infections. The initiative represents the largest health commitment by one country to combat a single disease internationally.

**President's Policy Directive on Global Development:** Signed on September 22, 2010 the President's Policy Directive on Global Development is the first presidential directive to focus on development and recognize it as vital to U.S. national security and a strategic, economic, and moral imperative for the United States. After nearly a year of study involving all U.S. government agencies engaged in some type of foreign assistance or development work, the directive outlined a number of principles to guide U.S. global development.

**Quadrennial Diplomacy and Development Review:** Released on December 15, 2010 the Quadrennial Diplomacy and Development Review, or QDDR, set out the blueprint for U.S. international assistance and diplomacy with the goal of making both development and diplomacy more effective, efficient,



and accountable. The QDDR seeks to strengthen the use of civilian power—diplomacy and development—to advance national interests.

**Security assistance:** For the purposes of this report, we define security assistance as Foreign Military Financing; International Military Education and Training; Nonproliferation, Anti-terrorism, Demining, and Related Programs; International Narcotics Control and Law Enforcement; Peacekeeping Operations; and Pakistan Counterinsurgency Capability Fund accounts in the State and Foreign Operations appropriations bill. The State Department oversees this assistance, though the Defense Department carries out the actual provision of some of this assistance and training. This report does not include military assistance budgeted purely through the Pentagon because it is not a component of the 150 account.

**The Joint Select Committee on Deficit Reduction:** The Budget Control Act established the Joint Select Committee on Deficit Reduction (the “super committee”), which was charged with recommending ways to reduce the deficit by up to \$1.2 trillion over 10 years. According to the Budget Control Act, if the committee or Congress fails to pass a law that reduces deficits by at least \$1.2 trillion, then a sequestration—or across-the-board spending cuts—will be triggered in January 2013 and continue for nine years.

**Transparency International Corruption Perceptions Index 2011:** The Corruption Perceptions Index ranks almost 200 countries based on how corrupt their public sector is perceived to be. A country’s score indicates the perceived level of public-sector corruption on a scale of 0 to 10, where 0 means a country is perceived as highly corrupt and 10 means a country is perceived as very clean. A country’s rank indicates its position relative to the other countries included in the index.

**Trilateral assistance:** The concept of trilateral cooperation—understood in its basic form as a partnership among a traditional donor, an emerging donor, and a low-income country—is a relatively new form of foreign assistance engagement. Although the idea has been around since 2005 and already represents a growing share of south-to-south cooperation, it has not gained much currency in U.S. aid programs until recently where some types of trilateralism are being tried in South Africa and Latin America.

**Universal diplomatic representation:** The commitment to preserve U.S. diplomatic ties with all or near all countries in the world by maintaining in-country embassies and diplomats in every country.

**Worldwide Governance Indicators:** The Worldwide Governance Indicators project reports aggregate and individual governance indicators for 213 economies for six dimensions of governance: voice and accountability; political stability and absence of violence; government effectiveness; regulatory quality; rule of law; and control of corruption. The aggregate indicators combine the views of a large number of enterprise, citizen, and expert survey respondents in industrial and developing countries. The individual data sources underlying the aggregate indicators are drawn from a diverse variety of survey institutes, think tanks, nongovernmental organizations, and international organizations. This report uses the government effectiveness and rule of law indicators.

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## About the authors

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## Endnotes

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- 8 A similar transfer occurred in fiscal year 2008 when the newly created State Department's Office of the Director of Foreign Assistance moved roughly 30 percent of DA funds to ESF because those funds were deemed to fit better with the strategic objectives that were supposed to be primarily funded from ESF.
- 9 Ambassador Funds are intended to provide ambassadors with readily available, flexible funding to respond to urgent needs and opportunities in foreign countries. These general pots of money are used in a variety of forms including on small development projects to improve basic economic and social conditions and for small-scale humanitarian emergencies. Nevertheless, they are designed to serve the short- and long-term diplomatic interests of ambassadors and are not focused specifically on achieving development outcomes.
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- 12 Some observers have noted in private discussions that certain reductions in PEPFAR allocations may be due to pipeline issues, signaling a capacity problem. If this is the case, then more information is needed on whether higher flows will resume later, or whether an assessment on capacity means that lower levels will hold for the foreseeable future. The issues begs for greater transparency.
- 13 We, as do most donors, use the World Bank definition for middle-income countries. The United Kingdom's Department for International Development, the Netherlands, Finland, and the European Commission have all completed bilateral aid reviews to focus their foreign assistance.
- 14 Amanda Glassman, Denizhan Duran, and Andy Sumner, "Global Health and the New Bottom Billion: What Do Shifts in Global Poverty and the Global Disease Burden Mean for GAVI and the Global Fund?" Working Paper 270 (Center for Global Development, 2011).
- 15 Data sources: 1) gross national income per capita: World Development Indicators, World Bank (Atlas method), 2010; 2) freedom status: Freedom House, 2011; 3) Corruption Perceptions Index: Transparency International, 2011; 4) Human Development Index: UNDP 2011; 5) Doing Business Index: Doing Business Report 2012, International Finance Corporation/World Bank; 6) population living on less than \$2 per day: population and poverty headcount data from PovcalNet, World Bank, 2010 or latest available data; 7) rule of law percentile rank: Worldwide Governance Indicators, Daniel Kaufmann, Aart Kraay, Massimo Mastruzzi, 2010; 8) government effectiveness percentile rank: Worldwide Governance Indicators, Daniel Kaufmann, Aart Kraay, Massimo Mastruzzi, 2010; 9) net ODA received per capita: World Development Indicators, World Bank, current 2009 USD; 10) foreign direct investment (net inflows): World Development Indicators, World Bank, current USD in millions, 2007-2011; 11) military expenditure (percent of GDP): World Development Indicators, World Bank, current USD, 2010.
- 16 The countries with USAID administrative costs exceeding 15 percent of program costs are: Albania, Angola, Bolivia, Brazil, Djibouti, Dominican Republic, Guinea & Sierra Leone, Iraq, Jamaica, Macedonia, Mongolia, Morocco, Nicaragua, Paraguay, Peru, Senegal, Serbia (80 percent of a joint mission), Sri Lanka, and Timor-Leste.
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- 23 Suzanne C. Brundage, "Terra Nova: How to Achieve a Successful PEPFAR Transition in South Africa" (Washington: CSIS Global Health Policy Center, 2011).
- 24 Indeed, this is happening with the fiscal year 2012 estimate of PEPFAR funding to South Africa at \$470 million and the fiscal year 2013 request at \$459.4 million.
- 25 South African Medical Research Council, "SA PMTCT Evaluation shows that virtual elimination of pediatric HIV is possible with intensified effort," Press release, June 9, 2011, available at <http://www.mrc.ac.za/pressreleases/2011/10press2011.htm>.
- 26 Brundage, "Terra Nova."

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- 28 Nancy Birdsall and William D. Savedoff, "Cash on Delivery: A New Approach to Foreign Aid" (Washington: Center for Global Development, 2010), available at <http://www.cgdev.org/content/publications/detail/1423949/>.
- 29 We estimate a transition of PEPFAR to greater country ownership in in upper-middle-income PEPFAR countries will save an estimated \$971 million to \$1.3 billion. Robert Hecht and others provide an alternative model for co-financing PEPFAR: "Middle-income countries with expected low prevalence in 2030 (less than 1 percent of adults), will have to devote less than 0.2 percent of GDP to their national AIDS programs. These countries (including Brazil, China, India, Mexico, Russia, Thailand, Ukraine, and Vietnam) have strong chances of paying fully for their AIDS response, without recourse to external financing. High-prevalence middle-income countries in southern Africa (South Africa, Namibia, Botswana, and Swaziland), where 15–20 percent of adults will still be infected with HIV in 2031, [will require] high AIDS spending (US\$50–\$70 per capita annually). However, in these countries, economic growth will be strong enough to keep AIDS spending at around 1 percent of GDP. These countries can make a large contribution to their AIDS spending, although perhaps they will be unable to meet their full financial needs without external support. This may be especially true over the next decade, when AIDS expenditures will peak at up to 2 percent of GDP as treatment and prevention efforts expand rapidly." Robert Hecht and others, "Critical Choices in Financing the Response to the Global HIV/AIDS Pandemic," *Health Affairs* 28 (6) (2009), available at <http://siteresources.worldbank.org/INTLAC/Resources/FinancingAids.pdf>.
- 30 Government Accountability Office, "International Food Assistance: Key Issues for Congressional Oversight," GAO-09-977SP, Report to Congressional Committees, September 2009, available at <http://www.gao.gov/new.items/d09977sp.pdf>.
- 31 Elizabeth R. Bageant, Christopher B. Barrett, and Erin C. Lentz, "Food Aid and Agricultural Cargo Preference," *Applied Economic Perspectives and Policy* 34(1) (2010).
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- 39 A more ambitious reform would be to authorize a transfer of nonemergency P.L. 480 funds to USAID for agricultural productivity programs. The remaining P.L. 480 funds would be used solely for emergency food aid.
- 40 Created by an act of Congress in 2004, the HELP Commission engaged in a thorough review of U.S. foreign assistance efforts and made bold recommendations for mechanisms, structures and incentives to empower recipients and meet U.S. national security and foreign policy goals and objectives. The bipartisan commission achieved consensus on many areas of reform, including the need to rewrite the Foreign Assistance Act of 1961 to establish a new compact on foreign assistance. See: HELP Commission, "Beyond Assistance: The HELP Commission Report on Foreign Assistance Reform" (2007), available at <http://www.helpcommission.info/Beyond%20Assistance%20-%20HELP%20Commission%20Report%20FINAL.pdf>.
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