

# U.S. GOVERNMENT SUPPORT FOR DEVELOPMENT OUTCOMES: TOWARD SYSTEMIC REFORM

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## Executive Summary

The U.S. government is struggling to retool and reorient its policy instruments and assistance operations to more effectively support global development. With a fragmented aid infrastructure and an even broader challenge of development policy incoherence, the dialogue on reforming the system has reached a pivotal moment. A rare opportunity is at hand, but the challenges to fundamental reform are daunting. Operational improvements at the agency level are necessary, but fundamental reform also requires an overarching strategy, rational structures and modern statutes. The reflection inherent in such reforms raises critically important questions about the objectives,

organization and international role of the U.S. government.

## Where Do We Stand?

The U.S. foreign assistance system, which has been characterized by a proliferation of distinct bureaucratic structures and core legislation written in a different era, is strikingly nonstrategic. With a swarm of objectives, shifting priorities and incessant organizational turf battles undermining productivity and unity of voice, the overall aid system has suffered from a self-perpetuating downward spiral even as bright spots have emerged. This spiral has been fueled by distrust between Congress and the executive branch,

leading to ineffective methods of resource allocation and accountability. Consequently, while U.S. development assistance has grown considerably in the past decade, it has accomplished only a fraction of what it could and should have done.

### *Aid Structures Are Stovepiped and Diffuse*

Taking bold strides to create innovative channels for development assistance, the George W. Bush administration worked with Congress to launch the President's Emergency Plan for AIDS Relief (PEPFAR) and the Millennium Challenge Corporation (MCC). These programs were intentionally established apart from the U.S. Agency for International Development (USAID), which, despite being significant in its scope, was viewed as a weakened, red-tape-bound contracting agency and repository for earmarked funds.

In 2006, a major effort was launched to address the broader issue of inefficient fragmentation and to coordinate U.S. foreign assistance. This effort was squarely centered at the State Department, with domain over USAID and the MCC. However, the State Department had no coordinating authority over other departments, such as the Treasury Department, with its responsibilities concerning international financial institutions, and the Department of Defense, which was expanding its aid efforts and increasing in its share of official development assistance programs fivefold with the wars in Afghanistan and Iraq. Additionally, with its highly centralized approach to decisionmaking, the new power structure—merging USAID and State Department programs under the director of U.S. foreign assistance—was met with resistance, especially from mission-oriented personnel in the field. Coming late in the Bush administration, this reform effort sought to rapidly consolidate changes

but left little time for the congressional buy-in that is critical to effective development policy and essential to fundamental reform.

From afar, there appears to be a strong sense of continuity in foreign assistance policy between the Bush and Barack Obama administrations:

- PEPFAR remains a strong component of the overall portfolio; relative to other investments, it continues to be very well funded.
- The same is true for aid to “frontline” fragile states where U.S. national security concerns are immediately apparent and stabilization is an overriding objective.
- MCC has survived the transition and has been adopted by the new political team, though it continues to be a relatively smaller institution within the U.S. aid system, having never attained its intended funding level.
- Ongoing efforts to ramp up resources and human capital at USAID and the State Department have been embraced and expanded.

In the Obama administration's first 18 months, no major systemic changes were enacted to address the challenges of fragmentation and coordination. But Obama has begun to put his mark on U.S. development assistance by launching signature initiatives on food security and expanding global health assistance with a greater emphasis on integrated efforts and sustainability. His administration has also pledged to mobilize substantial annual international assistance to address developing countries' climate change needs.

Behind the scenes, the Obama administration has hosted a vibrant policy debate about development, whose outcomes will stem from two major reviews that have been conducted side by side over the past year: a White House-led Presidential Study Directive (PSD), and a review of capacities and requirements for the State Department and USAID called the Quadrennial Diplomacy and Development Review (QDDR). These efforts have plumbed development assistance in particular—its purposes, strengths and weaknesses, relationships with security and diplomacy efforts, as well as the implications of these for program and architectural reforms. As the outcomes of these reviews determine who is in the driver's seat and which direction to drive, key leadership questions hang in the balance, along with the long-term effectiveness of U.S. development policies.

### ***Broader Policy Coherence***

Beyond better coordinating development aid, the U.S. needs a better way to coordinate its full array of policy instruments to leverage synergies and avoid counterproductive efforts in those countries where it is trying to assist in sustainably reducing poverty and promoting economic growth. A range of U.S. policy instruments—including trade, agriculture and finance—have a significant impact on official American support for development outcomes. For example, in 2007 the HELP Commission noted that some low-income countries, like Bangladesh and Cambodia, received U.S. development assistance to promote economic growth, only to turn around and pay the U.S. even greater sums in import duties. This erodes the value of U.S. development investments. In countries like Pakistan, where the U.S. is far more heavily invested, the case is even clearer for expanding trade access to encourage development that resonates with U.S. national interests.

From the perspective of an organizational system, the popular development reform dialogue in the U.S. (to the extent that one exists) has become increasingly sophisticated and ambitious, having passed through several phases during the past decade. At first, advocates and policymakers focused on creating new aid programs to execute new initiatives. Then attention shifted to revitalizing core systems and consolidating or coordinating across aid programs and organizations. Though those issues have yet to be resolved, the current dialogue increasingly reflects a perspective centered on development effectiveness as opposed to narrower aid effectiveness. From this perspective, even discussions that focus on rationalizing and strengthening aid programs at an organizational or operational level should factor in ways for aid to leverage other means of supporting development.

### ***What Needs to Happen? Why Does It Matter?***

In this context, there are two key questions: What needs to happen? And why does it matter? The answers to these questions fall under the categories of aid operations, strategy, structures and statutes.

### ***Aid Operations***

Secretary of State Hillary Clinton has publicly noted that “it is past time to rebuild USAID into the world’s premier development agency.” A number of practical steps at the agency level can strengthen USAID and broader U.S. foreign assistance. Four key steps are already under way.

*The first step is to build policy, learning, strategic planning and budget capacity.* Only several months into his tenure, and not waiting for the conclusions of the PSD and the QDDR, USAID administrator Rajiv

Shah announced that the agency would create a new policy-planning bureau and budget office. The bureau should augment the agency's ability to perform critical policy analysis and planning functions, restoring an in-house brain trust that helps USAID engage in policy deliberations within and beyond the U.S. government. The bureau would also take the lead on research and evaluation, representing a necessary effort to turn USAID into a more innovative learning institution. Creating a budget planning office within USAID also makes sense under the current structure, because the administrator no longer serves as the director of U.S. foreign assistance with oversight of the broader budget office at the State Department. An agency without strategic planning capacity for policies and budgets is without independence, so developing this capacity within USAID is fundamental to revitalizing it.

*The second step is to strengthen capacity to design and manage programs and projects.* Shah also indicated that USAID would soon unveil reforms related to procurement, human resources, monitoring and evaluation. These areas are all related directly to operational impact. Whether through contracts, cooperative agreements, grants to third-party implementers or more direct support, USAID needs the capacity to manage its funding instruments, monitor progress and evaluate results. Yet this capacity has eroded in recent years as assistance levels have increased but the staff has shrunken. In 1990, USAID had a staff of nearly 3,500 administering \$5 billion in assistance annually, but by 2008 it had only 2,200 direct-hire personnel administering more than \$8 billion (American Academy of Diplomacy and Stimson Center 2008). With fewer officers managing larger sums and fewer in-house experts monitoring and evaluating projects, the result has been a greater reliance on contractors, bigger contracts and weaker accountability.

*The third step is to make U.S. aid more transparent.* Another key area of nuts-and-bolts reform is transparency, to which Shah has linked USAID's promised improvements. But transparency's relevance extends to all U.S. foreign aid—it is very much linked to the "grand bargain" that must be forged between the executive branch and Congress so that U.S. foreign assistance can have greater flexibility at the program level in exchange for greater accountability. Better transparency means the consistent, timely public provision of comprehensive and comparable information on how much is really being spent on aid, by which parts of the U.S. government, where and for what purposes. Greater access to such information would improve communication about development efforts with Congress. It could do the same for the broader American public, which consistently overestimates the level of U.S. development assistance and therefore misperceives its value. Transparency can also help the citizens of developing countries hold their governments and aid systems accountable. Aid transparency improvements should align with emerging international transparency standards, and U.S. involvement and leadership in the International Aid Transparency Initiative would suit President Obama's broader agenda for accountable and transparent governance.

*The fourth step is to leverage partnerships more consistently, systemically and strategically.* This is another area primed for rapid improvement with respect to all aspects of U.S. development assistance. With regard to private development actors in the nonprofit and for-profit sectors, U.S. development agencies have already become much more partnership oriented in recent years, often at the project level. These shifts, however, have not been commensurate with the sea change in the broader ecosystem. The key is to strengthen or create business models within the U.S.

system that can take such efforts to a more strategic scale. Related efforts could proceed on many fronts, including:

- Build a culture of early strategic engagement with the largest foundations and international NGOs. Given the significant resources they marshal outside official development assistance, they are more than implementing partners.
- Establish a multistakeholder funding mechanism in developing countries for replicating and scaling successful innovation.
- Embed business, science and technology experience in recruitment and retention so in-house personnel can better understand and leverage the work of corporations, universities and foundations. This must happen well beyond the current limited number of experienced White House fellows, Franklin fellows, and American Association for the Advancement of Science fellows, and it must extend beyond Washington to field-based positions.
- Reinforce partnership-oriented precepts in mainstream position descriptions, and tie such activities more closely to promotion.
- Tune internal processes so that government agencies can consistently respond in a more timely fashion to proposed partnerships from the private sector.

Beyond partnering more methodically with private development actors, the U.S. government could direct greater focus and capabilities toward collaboration with multilateral development organizations. There is ample room for growth in the level of inter-

action between U.S. development agencies and institutions like the World Bank and the United Nations Development Program.

### **Strategy**

The best operational improvements at the agency level will not amount to fundamental reform of the system unless there is an overarching strategy. A real strategy for U.S. development efforts must be geared toward a clear set of limited objectives. It must reflect difficult decisions on how best to apply resources across the broad array of development policy instruments, and it must marshal those instruments to reinforce one another toward measurable progress. The idea of a U.S. global development strategy—to be approved by the president and routinely updated—is a good one that is clearly receiving serious consideration by both the administration and Congress.

The White House recently announced elements of a new U.S. approach to advancing development (White House 2010). This could be a precursor to a comprehensive strategy that retools the U.S. system, and it hints at the tensions that such a strategy for U.S. aid and development policy must navigate, including how to divide labor with other donors and focus U.S. efforts on select countries, regions and sectors.

*Country selectivity.* U.S. official development assistance (ODA) is spread across more than 100 countries, yet it is already geographically focused, with roughly one-third spent on the top five recipient countries (see table 1). The United States' spending in Iraq, Afghanistan and Pakistan alone accounts for approximately one-quarter of its total ODA. However, a more deliberate selection of roughly 40 focus countries for concentrated U.S. bilateral efforts could be a step in the right direction. Organizationally, this could allow U.S. government development institu-

tions to focus their attention and resources for greater sustained impact. Because development is recognized as a moral, strategic and economic imperative by the U.S., the list of bilateral focus countries would presumably include a mix of stabilization and reconstruction contexts, other key weak states and better-performing states. The selection process would factor in the need for assistance as well as the potential for transformational impact within a given country and region. The idea of focus countries enshrined in PEPFAR and the MCC and apparent in the signature Obama administration initiatives could be applied

more broadly and consistently to U.S. aid and wider development efforts. A greater bilateral focus should be balanced with increased leadership and engagement with multilateral development organizations to leverage significant resources supporting development across many more countries.

*Sectoral specialization.* Rather than attempting to cover too many pressing development issue areas, the U.S. could enhance its impact through specialization. Again, the U.S. already does this to a degree. For example, it can and often does play a particularly

**Table 1. U.S. Official Development Assistance**

<b>Net ODA (millions of dollars)</b>	
2007	2008
21,787	26,842
<b>Top Ten Recipients of Gross U.S. ODA (millions of dollars; 2007–8 average)</b>	
Iraq	3,246
Afghanistan	1,816
Sudan	779
Egypt	684
Ethiopia	592
Colombia	520
Pakistan	383
Kenya	383
Palestinian Adm. Areas	351
Uganda	327
<b>Percentage Share of Gross Bilateral U.S. ODA (2007–8 average)</b>	
Top 5 recipients	32
Top 10 recipients	41
Top 20 recipients	52

Source: OECD data, [www.oecd.org/dataoecd/42/30/44285539.gif](http://www.oecd.org/dataoecd/42/30/44285539.gif).

leading donor role in humanitarian crisis responses, security-related development matters and health. As part of an overarching strategy, however, it could focus more deliberately, fully accounting for trade-offs. The decisions made as part of the strategic process would have to be informed by a thorough assessment of U.S. comparative advantages and the roles and commitments of other development actors. The level of focus is also important. At the country level, a coordinated division of labor among partners is easier to achieve. At the macro level, if the U.S. chooses to direct its system in a more specialized manner—as it has with major investments to counter HIV/AIDS—then such a focus will likely confront tensions between resource allocation decisions made in Washington, which can help with the global division of labor among donors, and resource allocation decisions made in developing countries, which can more easily align with country ownership.

Such strategic discussions raise several controversial questions:

- Should the world's largest donor actually seek to specialize? What specific comparative advantages does the U.S. possess in support of global development?
- Should the U.S. primarily organize its efforts by sector or through country programs? What is the right degree of each?
- Among country-based programs, what is the right balance between assistance to poorly governed countries facing large-scale humanitarian and human rights crises on the one hand, and support for emerging markets and high-performing democratic states on the other?

For the U.S. to become more effective in its development efforts, a strong, well-supported strategic process is necessary to avoid the “do everything everywhere” expectations that can result from the inevitable cacophony of interests.

### **Structures**

The architectural modernization of the U.S. development system is another essential key to fundamental reform. Crafting a proper strategy, which outlines authorities and drives resources, requires a sound process. Lessons from the current PSD and QDDR should be woven into a standard process for routinely updating the U.S. global development strategy. Because the strategy should be comprehensive and the White House is best positioned to reach across all government development instruments, it is likely that the PSD experience is most relevant. The process that is designed to revise the U.S. global development strategy every few years should also formally or informally include a consultation mechanism to weigh the perspectives of official and private development partners and gain their buy-in.

Additionally, implementing a comprehensive strategy requires consistent policy coordination and leadership. There are current proposals to expand participation for more comprehensive coordination and to elevate the role of USAID as the lead organization for interagency development policy deliberations. At the field level, this would translate into a more explicit leadership role for USAID mission directors, where they are present. At the highest levels, it would mean an explicit leadership role for the USAID administrator.

Finally, a coherent strategy can be easily undermined by bureaucratic turf battles and dupli-

tion. Specifically, the U.S. must curtail the Defense Department's expansion into assistance programs aimed at conflict prevention. Going beyond non-permissive environments where the U.S. is a party to war, Defense broadened its stability mandate globally. Having homed in on a strategic threat from weak states, Defense has been directing its ample resources to try to fill a capacity gap. However, for the sake of clarity of intent and sustainable outcomes, this gap should ideally be filled by civilian stabilization and development efforts. The necessary transfer of resources and authorities from Defense to civilian agencies will take time as civilian capacity is augmented.

On the civilian side, if USAID is to be revitalized and elevated as the lead development agency, it makes sense to closely integrate other institutions providing U.S. development assistance programs in the near term, most notably PEPFAR and the MCC. On the economic front, new arrangements and closer relationships must also be established with relevant parts of the Treasury Department, the Office of the U.S. Trade Representative, the Overseas Private Investment Corporation, the U.S. Trade and Development Agency and others. An elevated lead development agency should have relevant in-house expertise and a more prominent role concerning multilateral development organizations, including the multilateral development banks and the United Nations humanitarian and development agencies. In the areas of security assistance, stabilization and reconstruction, the State Department and USAID need a particularly close relationship, with clear lines of responsibility.

This vision of structural reorganization is not devoid of controversy. Key concerns loom regarding the authority of the secretary of state and the State Department

as a whole. Politically, an alternate vision of an explicit merger of almost all development aid directly into State is not presently on the negotiating table; nor is an equally bold vision for the independence of development through its own Cabinet-level department. It is easiest for policymakers and lawmakers to execute minor, if any, changes to the architecture. The present ambiguity, however, over who speaks for U.S. development policy internally and externally is widely viewed as a key factor undermining effectiveness. The key questions are: Who's in charge? And if the U.S. needs a lead agency, what does that mean?

### **Statutes**

A slew of congressional hearings and select pieces of proposed legislation over the past three years have signaled increasing legislative interest in reforming and elevating development as a key pillar of U.S. foreign policy and national security. A consistent and significant push with backing from the administration will likely be required to preserve core elements of desired reforms in law. This is particularly important to the predictability and commitment of U.S. development support, because without a basis in statutes, essential improvements to U.S. policy and systems could be more easily reversed by a future administration that placed less importance on development cooperation.

An ambitious effort to replace the Foreign Assistance Act of 1961 is already being led by U.S. Representative Howard Berman, chairman of the House Committee on Foreign Affairs. More modest efforts have been taken up by the leaders of the Senate Foreign Relations Committee to strengthen USAID and improve foreign assistance coordination and accountability. A new set of laws underpinning foreign assistance and development present an opportunity to ensure that U.S. efforts are better aligned with the needs of develop-

ing countries. As embedded in the current draft of the Global Partnership Act, legislation could reorient the associated politics and decisionmaking so that the dominant practice of global sectoral aid earmarking, centered in Washington, is transformed into a consultative process to shape country-level strategies, which actually determine significant resource allocation to support sustainable development.

The core laws currently guiding foreign assistance efforts were developed at a time when official assistance efforts—not private giving and investment—were the dominant source of financial flows from the U.S. to developing countries. But the opposite is true today, and just as the Obama administration is contending with the challenge of new business models that can leverage private actors, so too should reform legislation. This parallel between pressing executive branch concerns and an appropriate role for legislation exists for many reform issues, from transparency to organizational architecture to greater capacity in support of peace building.

## Conclusion

A decade into the 21st century, new challenges and opportunities for development have evolved. The U.S. government's approach must catch up and anticipate future challenges. On one hand, the political space for development policy reform has been created:

- Political leaders throughout the Obama administration and Congress have endorsed the general idea of reforming development policies and operations.
- Effective support for global development is a higher U.S. priority and has a larger constituency than ever before.

- U.S. experiences in Afghanistan and Iraq have exposed greater numbers of policy influencers to the need for an enhanced peace-building capacity and development investments as a tool to prevent conflict and state failure in the first place.
- The highly constrained budget environment places greater emphasis on accountability and having each dollar spent yield greater effects.

On the other hand, alongside predictable bureaucratic tensions, efforts toward fundamental reform are challenged by several factors:

- Efforts to consolidate change are losing a race against the political clock, given the midterm elections, and the 2012 elections will likely limit the maneuvering space for administration reforms and legislative initiatives.
- The present economic recession saps political leaders' attention and challenges efforts to spend on social and economic needs abroad.
- Several high-profile crises and conflict environments dominate U.S. foreign policy concerns related to development, and this situation could have a distorting effect on system-wide reforms.

Although there is clearly an opportunity to make critical changes to the U.S. development system, the window is closing, and the next few months are key. Here, it is useful to envision both positive and negative scenarios. In a positive scenario, the administration could build on Obama's recent announcement of a new approach to development and translate policy review efforts into the first comprehensive global development strategy. This could, in turn, debut in the fall alongside a strong U.S. leadership role at the

Millennium Development Goals summit. Agency roles would be articulated with an explicitly elevated role for USAID. Operational reforms would proceed quickly as appointed leadership positions are finally filled across development agencies. Decisive movement by the Obama administration this fall could still allow for bipartisan legislative action in 2011, if current efforts on Capitol Hill are not stymied by new political dynamics.

In a negative scenario, internal deliberations could continue within the administration without providing any direction for agencies and Congress, as a weak budget undermined efforts such as the food security initiative and operational capacity improvements. Momentum for reform would dwindle, and status quo structures and approaches would by and large remain. The actual unfolding of events may lie in the murky middle between these scenarios, but one reality is clear: The policy dialogue on reforming the system has reached a pivotal point.

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