

**U.S. FOREIGN ASSISTANCE AFTER SEPTEMBER
11TH: MAJOR CHANGES, COMPETING PURPOSES
AND DIFFERENT STANDARDS—IS THERE AN
OVERALL STRATEGY?**

HEARING
BEFORE THE
COMMITTEE ON
INTERNATIONAL RELATIONS
HOUSE OF REPRESENTATIVES
ONE HUNDRED EIGHTH CONGRESS

SECOND SESSION

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THURSDAY, FEBRUARY 26, 2004

HOUSE OF REPRESENTATIVES,
COMMITTEE ON INTERNATIONAL RELATIONS,
Washington, DC.

The Committee met, pursuant to call, at 11:04 a.m. in Room 2172, Rayburn House Office Building, Hon. Henry Hyde presiding.

Chairman HYDE. The Committee will come to order. Good morning, and welcome to today's hearing of the Committee on International Relations.

Over the coming weeks the Committee will hold a series of oversight hearings on important foreign assistance topics, including the new global strategy required by the HIV/AIDS Act of 2003, the implementation of the Millennium Challenge Act, and progress on reconstruction in Afghanistan.

Today to kick off the series we shall examine overall trends in foreign assistance since 2001.

The terrorist attacks of September 11 resulted in an unprecedented and massive shift in how foreign aid is employed as an element of national security strategy. The amounts, recipients, and purposes of foreign aid have changed dramatically between fiscal 2001 and fiscal 2004.

For example, since September 11, more than 50 percent of all foreign operations appropriations funding has supported the war on terrorism, or has gone for Afghanistan or Iraq war-related purposes.

In September, 2002, the President issued a new national security strategy that declares:

“The United States will use this moment of opportunity to extend the benefits of freedom across the globe. We will actively work to bring the hope of democracy, development, free markets, and free trade to every corner of the world.”

The national security strategy further declares that the terrorist attacks taught us that weak states, like Afghanistan, can pose as great a danger to our national interest as strong states. Poverty does not make poor people into terrorists and murderers; yet poverty, weak institutions, and corruption can make weak states vulnerable to terrorist networks and drug cartels within their borders.

Congress has been supportive of the President's foreign aid priorities, enacting new legislation and appropriating approximately \$17.9 billion in fiscal 2002 and fiscal 2003 foreign operations funding, to assist the front-line states, implementing anti-terrorism training programs, and addressing the needs of post-conflict Iraq and other countries.

And taking into account a new baseline for foreign assistance in 2004, as well as a new administration foreign aid initiatives, U.S. foreign aid spending is expected to increase from \$15 billion in fiscal 2001 to \$25.5 billion by 2008 fiscal year.

Strategy is defined as "the science and art of using all the forces of a nation to execute approved plans as effectively as possible during peace or war."

The United States has a clear national security strategy, as articulated by the President. But the United States does not have a strategy for how it employs the resources available for foreign assistance. Some foreign aid, like that to be provided by the New Millennium Challenge Corporation, is performance-based, and requires a positive track record on the part of the government of the recipient country. Other aid, like humanitarian assistance, food aid, or HIV/AIDS assistance, is provided to developing countries on the basis of need to alleviate suffering, or to achieve development objectives without necessarily the expectation of improved performance or policy reforms.

And yet other assistance still is provided by the State Department without development objectives at all. It is not intended to benefit a country's people directly, nor to address specific development problems, and usually is provided without the real expectation of policy reform.

At times it does seem that U.S. foreign aid is incoherent and fragmented. There are increasing numbers of agencies and players involved in the provision of foreign assistance, such as the Departments of Education, Labor, and Health and Human Services.

There are an increasing number of appropriations and authorizing Committees getting involved in foreign aid, as well. And there is an ever-expanding list of presidential foreign aid initiatives, more than 20 at the last count.

Today we will hear from a distinguished panel of experts who will examine these developments in general, and I hope will address the following questions.

What are, or should be, the current objectives of U.S. foreign assistance?

Should all U.S. foreign assistance work in support of the U.S. national security strategy?

Is there an overall strategy that directs U.S. foreign aid programs?

Should there be a national foreign assistance strategy?

Is the United States using foreign aid resources effectively in fiscal 2004?

Are we able to measure the results of our efforts?

Why are there standards and requirements for some recipients, but not for others?

Does any overall strategy guide the myriad of presidential foreign assistance initiatives announced since 2001?

And finally, should foreign aid be provided on the basis of need, performance, or cooperation?

I certainly look forward to hearing the testimony of our witnesses today. I also look forward to the implementation of the HELP, Help Commission Act, authored by our colleague Frank Wolf, which was included in Consolidated Appropriations Act of 2004. The HELP Commission Act creates a commission to examine some of the same questions we are addressing today. The act also includes language from HR 4877, from the 107th Congress, the Foreign Aid Impact Assessment Act, which requires an analysis of the impact of the United States' economic assistance on economic development of recipient countries, with a discussion of U.S. interests that were served by the assistance.

And now I am pleased to yield to my distinguished colleague and friend, Representative Payne, for any opening remarks he may wish to make.

[The prepared statement of Mr. Hyde follows:]

PREPARED STATEMENT OF THE HONORABLE HENRY J. HYDE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS, AND CHAIRMAN, COMMITTEE ON INTERNATIONAL RELATIONS

Good morning, and welcome to today's hearing of the Committee on International Relations. Over the coming weeks, the Committee will hold a series of oversight hearings on important foreign assistance topics, including the new global strategy required by the HIV/AIDS Act of 2003, the implementation of the Millennium Challenge Act, and progress on reconstruction in Afghanistan. Today, to kick off the series, we shall examine overall trends in foreign assistance since 2001.

The terrorist attacks of September 11, 2001, resulted in an unprecedented and massive shift in how foreign aid is employed as an element of national security strategy. The amounts, recipients, and purposes of foreign aid have changed dramatically between FY2001 and FY2004. For example, since September 11th, more than 50 percent of all Foreign Operations appropriations funding has supported the war on terrorism or has gone for Afghanistan or Iraq war-related purposes.

In September 2002, the President issued a new national security strategy that declares "the United States will use this moment of opportunity to extend the benefits of freedom across the globe. We will actively work to bring the hope of democracy, development, free markets, and free trade to every corner of the world." The national security strategy further declares that the terrorist attacks "taught us that weak states, like Afghanistan, can pose as great a danger to our national interests as strong states. Poverty does not make poor people into terrorists and murderers. Yet poverty, weak institutions, and corruption can make weak states vulnerable to terrorist networks and drug cartels within their borders."

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rectly, nor to address specific development problems, and is usually provided without the real expectation of policy reform.

At times, it does seem that U.S. foreign aid is incoherent and fragmented. There are an increasing number of agencies and players involved in the provision of foreign assistance, such as the Departments of Education, Labor, and Health and Human Services. There are an increasing number of appropriations and authorizing committees getting involved in foreign aid as well. And there is an ever-expanding list of Presidential foreign aid initiatives—more than twenty at last count.

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- What are, or should be, the current objectives of U.S. foreign assistance?
- Should all U.S. foreign assistance work in support of the U.S. national security strategy?
- Is there an overall strategy that directs U.S. foreign aid programs?
- Should there be a National Foreign Assistance Strategy?
- Is the United States using foreign aid resources effectively in FY2004?
- Are we able to measure the results of our efforts?
- Why are there standards and requirements for some recipients, but not for others?
- Does any overall strategy guide the myriad of Presidential foreign assistance initiatives announced since 2001? And finally,
- Should foreign aid be provided on the basis of need, performance, or cooperation?

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Mr. PAYNE. Thank you very much, Mr. Chairman, for calling this very important and timely meeting. And I have been asked by Mr. Lantos to sit in for him, and I certainly appreciate his confidence in me.

Mr. Chairman, last May this Committee’s tireless efforts paid off. When the President signed the HIV and AIDS bill, solidifying the United States’s commitment to halt and reverse the spread of HIV and AIDS. It sent a great message around the world, and it was a very positive time for the United States in the world community for this great initiative.

While the President has demonstrated his commitment to fully fund the U.S. bilateral HIV and AIDS Assistance Program, the commitment does not transcend to the Global Fund for HIV and AIDS, Malaria, and Tuberculosis, in which he only requested \$200 million for both FY ’04 and FY ’05, compared to the \$1 billion authorized by this Committee. In order to help stem the spread of this vicious disease, the Administration must demonstrate its commitment to all HIV and AIDS assistance programs, including the Global Fund.

Mr. Chairman, surveys in this country regularly show the public thinks that about 20 percent of Federal spending goes for foreign aid. However, the actual figure is less than 1 percent. Our chronically low level of foreign aid spending is a national disgrace, in my opinion. The United States spends less than $\frac{1}{10}$ of 1 percent of our GDP on foreign development assistance, less than $\frac{1}{10}$ of 1 percent of the gross domestic product.

However, although much lower the GDP is, of course, our friends, for example in Denmark, and in Norway, and in the Netherlands, spend proportionately 10 times as much in their countries. In Denmark, as a matter of fact, each person spends equivalently to \$309 on development assistance to poor countries, while in the United States each person would equate to \$34, which is about a 10-to-1 ratio.

So although we are doing more when we look at it in its true sense, it does appear that we could do better. This trend must be reversed if the United States is to be successful in its foreign policy goals.

Mr. Chairman, this trend can only be reversed by providing more key funding to U.S. development priorities. Education, where we have done very little, and we have seen Islamic extremist groups funding education in developing countries, and having their people then spew the hatred toward the United States because we have not funded education in decades.

Health care, family planning, rule of law programs, which are all woefully under-funded.

While it is essential to provide adequate funding for the war on terrorism and defense, and I think that there is no one in the Congress who disputes that—we are all for promoting the common defense and making sure that we defeat the evil terror and terrorists there—it is just as important, in my opinion, to properly fund core development accounts, such as health, education, and food assistance. While fully funding the President's new initiatives—HIV and AIDS, Millennium challenge accounts—it is essential that we must not let key development programs suffer at their expense. It is not good to rob from Peter to pay Paul, because they are usually brothers, and so they are going to get hurt one way or another.

And so the Bush Administration should remain just as committed to core development assistance as it is to the new programs, which we certainly welcome.

Mr. Chairman, as you know, last month Congress passed FY '04 Omnibus Appropriations legislation, which authorized the Millennium Challenge Account. Much of the authorizing language in the Omnibus legislation was conceived of and fought for by this Committee. We can now see whether the MCA will meet its potential of revolutionizing the way the United States promotes democracy and development abroad.

It has been and remains a staunch supporter, and I have been and I remain a staunch supporter of the MCA. I think it is a new approach, I think it is a good approach.

While I applaud the Administration's support for this initiative, I remain concerned that the Administration will leave core development programs behind, and focus solely on the MCA, thereby jeopardizing these vital programs. We should leave no program behind.

Mr. Chairman, as the Committee has oversight jurisdiction over the MCA and other foreign assistance programs, it is our duty to ensure that there is effective coordination between the various agencies charged with implementing foreign assistance programs. The only chance for these programs to be successful is for there to be effective coordination between the implementers of foreign aid programs. And one problem with the President's foreign aid pro-

posal is that they lead to fragmentation, and not coherence, as you have indicated even in your remarks.

This country has a long-standing reputation for delivering much-needed foreign assistance. A good example of our withdrawal of foreign assistance, and probably one of the reasons that we have so many empty chairs right here, is because, as we speak, at the same time a briefing by the Intelligence Agencies on Haiti is being conducted at another hearing room. And as you know, Haiti is on the agenda, on the radar screen for sure, and I'm sure many of our Members are there.

But one of the results of our pulling back of assistance, in my opinion, is now the crisis that we see in Haiti. And sometimes, if we were able to synchronize our assistance programs, we could really aid in preventing destabilization of a country like that which is the poorest country in the hemisphere, and should really be one of our priorities. If we have to limit priorities, one certainly should be our hemisphere.

We said that we don't want boat people, and they said we will interdict any ship on the high seas. But yet, there is a boat now in Miami's harbor, just about. So once they start coming out, there is absolutely no way you are going to be able to prevent people on the high seas, the seas that their border is pretty wide and pretty broad. And there certainly will be problems.

And those who are even prevented from coming to the United States are going to end up in island nations, who are struggling themselves. And they don't have the Coast Guard to turn them around. So what will happen in Jamaica and in Dominica, where the banana program has been undercut? How will they even attempt to help these people, when they are struggling themselves?

So foreign policy implicates a very important—I look forward to hearing from our witnesses.

Thank you, Mr. Chairman.

Chairman HYDE. Thank you, sir.

Mr. Rohrbacher.

Mr. ROHRBACHER. Thank you very much, Mr. Chairman.

Just a few thoughts with respectful disagreement to Mr. Payne's statement.

I don't believe that the United States has anything to apologize about in terms of our national assistance to other countries. It certainly is not a national disgrace.

What quite often happens, when analyzing how much assistance the United States is providing other countries, the people making the calculations do not add in private contributions, and the contributions from our private sector, which are considerable. And I might add, often much more effective than the government-run operations of other countries.

Having visited several countries and seen how the foreign aid is distributed by some of those other governments that were being applauded, the fact is a lot of that foreign aid goes into buying palaces for their bureaucrats to live in in these countries, in these third-world countries. And a lot of that money is not effective at all in aiding those societies.

Where the private charity and the American NGOs that we support quite often are very effective. And quite often they are based

on a religious conviction, which is a wonderful motive to helping other people, because you believe God wants you to help other people, rather than just being taxed and letting the bureaucratic establishment take care of that benevolence.

Let me also note that I would like to see the statistics on Haiti. It is my memory that Haiti was a priority recipient of United States foreign aid by the last Administration.

And what the trouble is, Mr. Chairman, is that quite often we have disassociated the struggle for democracy with the idea of providing assistance. And in Haiti right now, if there is this chaos that we see, it probably is traced to a lack of demand for democratic reform, while pursuing an aid program.

So I would suggest that in the future, that we would look at the strings that we need to put on our money when going overseas should be based on democratic reform in these third-world countries.

Finally, Mr. Chairman, I would suggest this. And we are talking about priorities or criteria, or what prerequisites we have in terms of providing American assistance, financial assistance, or direct foreign aid. I believe we have to take into consideration America's interest, as well as the interest of Americans.

I was very pleased that OPIC, for example—and I mentioned this earlier, when the Secretary was here—has decided to cut off its program in Ethiopia, because there is an American family, which happens to reside in my Congressional district—they are a very respected American family—who came here penniless from Ethiopia years ago. And because their property, all of their property, had been confiscated, and the Ethiopian government, the same Marxist dictatorship that killed Haile Selassie, had confiscated their property.

Now, the new Ethiopian government, which claims to want to return stolen property, refuses to deal with these American citizens. OPIC has decided to side with this family. And I would hope that when we are providing assistance to foreign governments, that we take into consideration how they treat the claims of Americans. And if there are rightful claims, property claims, that a government is not recognizing, that we use this as pressure to obtain the rights of our citizens. And the Brahimi family in Orange County is a good example of that.

So I'm looking forward to hearing the testimony, and what some of the thoughts and prerequisites are of the people who are running our program today.

Thank you, Mr. Chairman.

Chairman HYDE. Ms. Napolitano, do you have an opening statement?

Ms. NAPOLITANO. Thank you, Mr. Chairman. I really did not prepare a statement. But in listening to my colleagues' remarks about the amount of money that we provide for financial assistance and Federal aid, and to mention that Denmark has a very generous and healthy amount, I just happen to have an intern from Denmark. And she was just elated to hear that Denmark is a good supporter of financial aid to those countries.

And in listening to my colleague, Mr. Rohrbacher, it just indicated to me my role when I visit foreign countries. And I look at

what is happening to financial aid from countries such as the United States. And whether or not we are really paying attention to where that money is going to. Because in certain areas that I have been, it certainly does not look as if the money filters down to where it is really needed.

So what is our role? It will be a very interesting aspect to know what money we provide to what countries, and what they use it for.

Unfortunately, I have another hearing. There is all kinds of different things going on. And I will look forward to seeing the testimony in writing, because it is a very critical issue for those of us who represent minority districts that feel that if we are going to make our money work in those countries, we need to understand where that money is going to, and that it is used for democratic purposes, rather than for insurgencies and other things that happen.

Thank you.

Mr. ROHRBACHER. Would the gentlelady yield for 30 seconds, probably 15 seconds? I just want to mention to my colleague that there are also voluntary organizations. As a matter of fact, the Dutch, the Danish aid group, which is all private money, actually almost does as much as the government. And in Sweden and in the Netherlands, people contribute, also.

So I just don't want you to go around the world saying America is the only one where people are philanthropic.

And secondly, for your information, aid was cut off to Haiti, aids and loans, in the year 2000. So they have not gotten any assistance for 4 years.

Thank you.

Chairman HYDE. Mr. Nick Smith.

Mr. SMITH. Thank you, Mr. Chairman. Very briefly. Whether it is the Millennium Challenge Account, or whether it is HIV/AIDS, or whether it is the role of the United States Government being a police force for the world against tyrant dictators. Whether it is our efforts in South America and Colombia fighting the drug lords, that maybe someone could say well, that is justified because drugs are coming to the United States.

But those countries that are dominated in an environment of drug lords, are very much oppressed. Our efforts in Afghanistan, Iraq, around the world is a huge contribution. In fact, the taxpayers from my district are concerned about the amounts of money that are being contributed to foreign aid efforts at a time when some of that help is so desperately needed at home.

You know, year after year it falls on the United States to lead the effort to shed light on the egregious human rights violations of oppressive regimes, and we are doing that.

So contrary to the suggestion that we are not doing our share, I suggest that the United States has made a great deal of effort to try to make this a better world and a better place to live for all people.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Smith follows:]

PREPARED STATEMENT OF THE HONORABLE NICK SMITH, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF MICHIGAN

I want to thank Chairman Hyde for holding this hearing on our changing foreign aid policy. I would also like to thank our distinguished witnesses for sharing their expertise with us.

September 11th taught us the dangers of our unfocused foreign policy since the end of the Cold War. Those terrible attacks demonstrated that terrorism is a great threat to our country, our way of life, and the international system. And when terrorists combine their intentions with the destructive capacities of weapons of mass destruction, it is clear that no greater threat exists in today's world.

Our policy responses to this new threat have been swift. The 2002 National Security Strategy was our first comprehensive public recognition of the threats that had emerged since the fall of the Berlin Wall. The Patriot Act updated our domestic laws to allow us to respond to threats at home. President Bush and Secretary Rumsfeld have, from day one, pursued a transformation of the military so that we can fight the wars of tomorrow. We are beginning to understand how our intelligence apparatus needs to change. We have worked with the UN and our allies to update the international financial system to fight terrorism. We are even seeing the stirrings of reform at the UN itself, which in many ways dates in structure and concept from the end of World War II. In these and other areas, the President has shown extraordinary leadership.

However, the changes in our diplomatic and foreign aid programs have been primarily reactive. As our attention shifted towards the geographic sources of terrorist activity, USAID shifted its operations to the Middle East and Central Asia, substantially scaling down its capacities in Eastern Europe. The highest priority missions at USAID are now our reconstruction efforts in both Iraq and Afghanistan. These are clearly the correct decisions, but it is less clear how our new aid initiatives relate to them. What do the Millennium Challenge Account and the Global HIV/AIDS Initiative have to do with fighting terrorism?

Simply put, the problem is that we are still operating under the Foreign Assistance Act of 1961, over 40 years ago! The mission of foreign assistance was to make—and sometimes buy—friends to fight the spread of International Communism. It may have made sense to prop up corrupt dictators because they were our dictators. But does it today?

We need a comprehensive review of our foreign aid programs taking Secretary Rumsfeld's transformation of the military as a model. Our programs must focus on the mission of fighting terrorism, and they must increase their effectiveness. Buying the friendship of dictators usually buys the enmity of their populations. How does that contribute to the mission? World Bank aid effectiveness studies have found repeatedly that aid works only when the target country's institutions are up to the task. They also show that those countries usually do not need aid to grow their economies because of the quality of their institutions. How do our programs measure up on effectiveness?

Again, I would like to thank the Chairman for holding this series of hearings on this topic. We owe it to the American people to get this right. Especially with the deficit, every dollar that leaves the Treasury must be well spent. And every dollar spent protecting the American people must be spent giving them the best possible protection.

Chairman HYDE. Thank you. Mr. Smith, do you have an opening statement?

I would like to welcome Steven Radelet to the Committee today. He is a Senior Fellow at the Center for Global Development, and served as Deputy Assistant Secretary of the U.S. Treasury for Africa, the Middle East, and Asia, as a Fellow at Harvard's Institute for International Development, and as Director of Harvard's Macroeconomics program.

Mr. Radelet holds a Ph.D. and an MPP from Harvard University. Welcome.

Helle Dale is currently the Director of Foreign Policy and Defense Studies at the Heritage Foundation. She holds the position of Foreign Affairs columnist for *The Washington Times*. And prior to these positions, she served as Editorial Page Editor of *The Wash-*

ington Times. She holds an M.A. and B.A. Degrees from the University of Copenhagen. Welcome, Ms. Dale.

Mary McClymont is the President and Chief Executive Officer of InterAction. She previously served at The Ford Foundation as Senior Director of the Peace and Social Justice Program, as well as Director of the Rights and Social Program. She has an L.L.M. in International Legal Studies from the American University, Washington College of Law, and a J.D. from Georgetown University Law Center. Welcome, Ms. McClymont.

Lael Brainard presently holds the New Century Chair in International Economics at the Brookings Institution. And prior to this, she served as Deputy Assistant to the President and Chair of the Deputy Secretary's Committee on International Economics during the Clinton Administration. She holds a Master's and Doctoral degrees in Economics from Harvard. Welcome, Ms. Brainard.

And Patrick Cronin currently serves as Senior Vice President and Director of Studies at the Center for Strategic and International Studies, previously serving as Assistant Administrator for Policy and Program Coordination at the U.S. Agency for International Development, and as the Director of Research and Studies at the U.S. Institute for Peace. Mr. Cronin has earned both Master's and Doctoral Degrees in International Relations from Oxford University. Welcome, Mr. Cronin.

We are honored to have you all up here before the Committee today. Please proceed with a 5-minute, give or take, summary of your statement. Your full statement will appear in the record. And so let us start with Mr. Radelet.

STATEMENT OF STEVEN RADELET, SENIOR FELLOW, CENTER FOR GLOBAL DEVELOPMENT

Mr. RADELET. Thank you, Mr. Chairman and other Members of the Committee. I am honored to be invited to meet with you here today.

In this testimony I would like to make three key points. First, the United States needs to develop a strategic vision for foreign assistance that clearly articulates our motivations and objectives, relates those to our foreign policy goals, and develops a range of strategies for engaging with different countries around the world. Right now that strategic vision does not exist.

Number two. While some of our programs have been successful, overall our current approach to foreign assistance is not adequate to meet our foreign policy goals, either in how we deliver it, or in the quantity of aid that we deliver. We need to improve both the quality and the quantity of foreign aid.

And number three. The U.S. can take several specific actions that would make our foreign assistance programs much more effective in achieving our foreign policy goals.

Our current foreign assistance programs date back to the early days of the cold war. The Foreign Assistance Act was written in 1961 by the Kennedy Administration, for a different time and a different set of foreign policy priorities. It has grown into a cumbersome and unwieldy document that is nearly 2,000 pages long, with 33 different stated goals and 75 different priority areas. It no

longer provides a foundation for a strong foreign assistance program.

In addition, as was mentioned earlier, our foreign assistance programs are administered by 16 different agencies around the Executive Branch, with little communication and coordination.

Many of our specific programs remain effective, but as a whole they are far less effective than they can be or should be. In my view, it is now time, 15 years after the fall of the Berlin Wall and more than 2 years after September 11, that we rethink and reorganize our foreign assistance programs.

The Bush Administration has put foreign assistance back on the agenda, and they should be commended for it. The two major programs, the Millennium Challenge Account and the HIV/AIDS initiative, are very promising, and they deserve our strong support. But these fall well short of a coherent and consistent foreign assistance strategy.

Our overall goals and objectives are not clear. We have very narrow country coverage in the two new programs. Each of them will reach only about 15 countries. There is no strategy for failed and failing states, as we are seeing this week in Haiti, we have seen in Liberia, and the absence of strategies in similar countries around the world.

There is no strategy for consolidating political change in emerging and fragile democracies, and there is no vision for coordinating and communicating across programs. Indeed, some of the new initiatives could just add to the fragmentation.

A strong foreign assistance strategy would have four key components. First, it would identify clear goals and objectives, and relate those to our foreign policy goals.

Second, it would establish some operational plans for assistance programs in different kinds of recipient countries.

Third, it should ensure coordination across our foreign assistance programs, and integrate these programs with other foreign policy tools.

And fourth, it should summarize the budgetary requirements necessary to achieve those goals.

Let me touch on each of these very briefly. First, why do we need a foreign policy program, a strong foreign assistance program?

National security, number one. Whether it is rebuilding in Iraq or Afghanistan or working in fragile states, such as Haiti or Liberia or Sudan, or to meet our other foreign policy goals, such as fighting narcotics trafficking in Colombia.

Second, we need a strong assistance program to promote American values. We share a shared vision for open, more prosperous, and democratic societies, a vision that is shared by most people around the world. But unfortunately, that vision is under threat. The gap between the poorest and the richest countries of the world is significantly widening in the last 20 years, breeding resentment among people who believe, rightly or wrongly, that the rich have rigged the rules against the poor.

At the same time, a growing number of groups around the world promote radical ideologies that suggest that the United States and its values are the source of the problem, not the solution. We need poor countries to believe in the vision and the values that we

champion, and to believe that they can climb out of poverty and achieve prosperity. But they need our help to do it.

Our third basic reason is humanitarian values. For most Americans, helping the poorest people around the world who live on one dollar a day is simply the right thing to do. That is why we need a program.

What, precisely, do we want to achieve? I think all of our foreign assistance programs should be geared to meeting at least one of four different objectives. They should either enhance our national security, they should be promoting economic growth and poverty reduction, they should be helping to consolidate political change and democracies around the world, or they should be providing humanitarian assistance in crisis programs. All of them should be geared to meet at least one of those.

Now, those goals conflict, and they should be measured differently. We need different approaches to meet those different goals, and we need to recognize that sometimes achieving one goal means that we are not achieving the others. Programs that are aimed at consolidating political change should not be measured in terms of their contribution to economic growth. We need to be able to measure their effectiveness in different ways.

A good strategy would lay out operational plans for working in different kinds of countries. The Millennium Challenge Account is the first step in this direction. It targets countries with good governance that have made a commitment to development. And our approach there is going to be to give them much more flexibility in how they use the funds, give them more money, and hold them accountable for results. It makes a lot of sense in countries with good governance, but it is not the right approach for other countries.

In countries that nearly miss qualifying, you ought to have a slightly different approach. Augmenting our standard programs with smaller, focused approaches that begin to get them ready for the Millennium Challenge Account. And give them a little bit of say in how they use the money, but not quite as much in the Millennium Challenge Account.

A third approach is useful in weaker states: Zambia, Kenya, countries like that, that aren't going to qualify for the Millennium Challenge Account any time soon. There we need focused approaches that don't try to do 10 or 12 things, but try to do two or three things, and do them well. We look for opportunities where we can be successful, where governments have shown some commitment. We hold them accountable for results, but we are much more narrow and give those countries less flexibility.

Quite a different approach is necessary in failed states. These are the most complicated cases, and we need to deal with these on a case-by-case basis. In some cases all we can do is provide humanitarian assistance; in other cases, we can look for opportunities to help build fledgling institutions.

The Center for Global Development is actually putting together a Commission on Weak States and National Security that will submit its report in May, that will look at the very difficult issues around weak and failed states.

But a good strategy should also spell out the budgetary requirements needed to achieve our goals. We have already had some discussion here about the amounts that the United States provides. We provide more foreign assistance than anyone else. As a share of our national income it is the lowest. And even including private charitable donations we rate among the lowest in terms of share of GDP.

But this is not a beauty contest. The important point is that I don't think that our foreign assistance programs are large enough to meet our foreign policy goals.

First and foremost, we haven't yet turned the tide on the war on terrorism, and it is going to take big commitments in the years going forward.

We also are not winning the war for hearts and minds, for a vision of an open, prosperous, and democratic world. We are also not winning the war on poverty. We are not winning the war on HIV/AIDS. Despite the President's commitment to this, 8,000 Africans die every day; that is one every 10 seconds. This is a war that we know the technology, we know how to win it, and we are not winning it.

And Congressman Payne is correct that we need to augment our efforts bilaterally with a stronger commitment to the Global Fund.

So what specific actions can be taken? Let me suggest six things, going from very broad to very narrow, that could make our foreign assistance programs more effective.

Mr. ROHRBACHER [presiding]. Excuse me. The Chair will permit you to go forward, even though your time is up.

Mr. RADELET. If my time is up, I will be very brief.

Mr. ROHRBACHER. No, no. Just be very brief, but I would like to hear those points.

Mr. RADELET. That is fine. I will be very brief with six specific things that we could do.

Number one, we could consolidate our foreign programs under one roof, and create a new department for international development. This would be a long-term idea, but it would add to coordination and communications, and I think save taxpayer dollars. The United Kingdom did this a few years ago, and it has been very successful.

Second, we need to rewrite the Foreign Assistance Act. It is over 40 years old, it is outdated, and it needs to be severely changed to give a better foundation. As part of that, it needs to clarify our objectives, it needs to significantly reduce earmarking and tied aid, and otherwise clarify the legislation.

The third thing that we should do is, I believe that Congress should insist that each administration put forward a national foreign assistance strategy once each term. Not every year, but once each term, in tandem with our national foreign policy strategies and national security strategies, that would clarify the roles of foreign aid.

Fourth, we should clarify the budget. Right now the budget for foreign assistance is scattered all over the place, and it is impossible to figure out what we are doing. If we are going to have a clear strategy, we need a clear budget.

Fifth, we need to improve monitoring evaluation and manage for results. Most of our programs do not manage for performance and results, and we need to do that.

Sixth and finally, we need to refocus and reorient USAID. The agency is under a lot of stress because of the implementation of the Millennium Challenge Account, and because of the pressures on it for rebuilding in Afghanistan and Iraq. We need to make some changes in terms of how they are managed, and how Congress works with them, in terms of earmarking and tied aid, to make their management job a little bit easier. But we need to work hard, and not just let the agency fester.

I think taking these challenges on will not be easy, but I believe that there is an important moment now with bipartisan support for making our foreign assistance programs more important. And we ought to seize that moment moving forward. Thank you very much.

[The prepared statement of Mr. Radelet follows:]

PREPARED STATEMENT OF STEVEN RADELET, SENIOR FELLOW, CENTER FOR GLOBAL DEVELOPMENT

Thank you, Chairman Hyde, and other Members of the House Committee on International Relations. I commend you for addressing this set of very difficult and important issues concerning the role of foreign assistance in U.S. foreign policy. I am honored that you have invited me to offer some perspectives on these issues.

The world has changed dramatically since the end of the Cold War and the dissolution of the Soviet Union. Some traditional challenges have faded, but others have risen to take their place. September 11th made us all aware of the very real security threats from weak and failings states that can serve as breeding grounds for terrorism. Diseases such as HIV/AIDS claim millions of lives each year, exacerbate destabilizing tensions, weaken fragile economies, and threaten our interests and those of our friends and allies. The process of globalization has created tremendous opportunities, but at the same time poses significant challenges, particularly to those who start from a position of disadvantage. Partly because of these changes, new tensions have sprung up between rich and poor countries around the world.

To address these challenges, the United States requires an integrated foreign policy that promotes our values, enhances our security, and strengthens the global economic system. There are several interlocking components to such a policy, including diplomacy, defense, trade, investment, intelligence, and—the subject of our discussion today—a strong and effective foreign assistance strategy.

Unfortunately, U.S. foreign assistance is a hodge-podge of uncoordinated initiatives from multiple institutions without a coherent guiding strategy. There are too many actors, with little clarity on overall objectives and purposes. Many of the structures and guiding principles of current programs have their roots in the Cold War, and have not evolved in tandem with recent changes in the global environment. Although some of our aid programs are effective—more effective than they are often given credit for—it is critically important that we strengthen and refocus our overall foreign assistance programs to better match today's major foreign policy goals. A strong foreign assistance policy would clearly identify the motivations for and purposes of foreign aid, and would develop the institutional tools necessary to deliver aid more effectively. It would more fully integrate foreign assistance into a broader foreign policy that recognizes and more strategically links the full array of policies at our disposal—including trade, migration, investment, environmental stewardship and peacekeeping policies—into a powerful arsenal for engaging with countries around the world.

In this testimony I would like to make three key points:

1. The United States needs to develop a strategic vision for foreign assistance that clearly articulates our motivations and objectives and their relationship to our foreign policy goals, and includes a range of strategies for engaging with different kinds of countries around the world.
2. While some of our programs have been successful, our current approach to foreign assistance is not adequate to meet our strategic, economic, political, and humanitarian foreign policy objectives, either in terms of the amount of funding we provide or, importantly, in how we provide it.

3. The U.S. can take several specific actions that would improve the quality of our aid administration and would make our foreign assistance much more effective in achieving our goals.

I. MOTIVATIONS: WHY FOREIGN ASSISTANCE MATTERS

To begin with, let me suggest three basic motivations for why we need a strong and effective foreign assistance program:

1. **National Security.** Foreign assistance is a vital tool for strengthening our national security. It has played a crucial role in the war on terrorism by supporting both frontline states and weak states where terrorism might breed. In the last two years aid has helped support key allies such as Pakistan and Jordan as well as in rebuilding Afghanistan and Iraq. Foreign assistance has also been an important instrument, when used judiciously, as part of our approach in failed states that have no functional governments (such as Liberia), failing states that seem dangerously headed for collapse (such as Zimbabwe), and key fragile states that could easily implode with potentially serious regional spillover effects (such as Nigeria or Indonesia). Foreign assistance has been central to achieving a range of other security goals, such as supporting the Camp David Peace accords that brought an end to armed conflict between Egypt and Israel, and in strengthening the states of the former Soviet Union.

2. **Promotion of American Values of Openness, Prosperity, Freedom, and Democracy.** Foreign assistance is a key tool for the United States to lead the world in promoting its vision for a more prosperous and democratic world—a vision shared by most people around the world. Unfortunately, many people in low-income countries see economic opportunity, escape from poverty and political freedom only as distant dreams. The gap between the richest and poorest countries in the world has widened considerably during the last 20 years, breeding resentment and anger among people who believe—rightly or wrongly—that the rich have rigged the international system in their favor. In addition, an increasing number of groups around the world promote radical ideologies that blame the United States and the values we and others espouse as the problem, not the solution. The United States needs poor countries as well as rich countries to support the values we champion, and to believe that they, too, can climb out of poverty and achieve economic and political freedom. It is directly in our national interest to help low-income countries achieve rapid economic growth, both in terms of expanding markets for our products and to enhance global economic and political stability. Ultimately, of course, the key to poverty reduction is economic growth, which depends far more on a country's own policies and on world trade and financial systems than on foreign aid. Nevertheless, appropriately designed and effectively delivered foreign assistance can be a key tool to help countries escape poverty, promote democratic reforms, and build vibrant private sectors to participate in the global economy.

3. **Humanitarian Values.** For most Americans, helping the poorest people of the world is simply the right thing to do. Relieving human suffering; providing economic and educational opportunities; supporting human rights; and promoting a better and safer world are all goals that have all been at the core of American foreign policy since the founding of the Republic. Putting aside national security, many Americans believe that the growing gap between the rich and poor is morally unacceptable. These views are behind the protests against the World Trade Organization, the IMF, and the World Bank and the drive for greater debt relief for poor countries. They are also a key reason for the strong support behind the United States' new Global AIDS Initiative. There is growing support from conservatives and liberals, Republicans and Democrats, faith-based groups and others that we must do more to fight the ravages of global poverty.

II. OBJECTIVES: WHAT DO WE WANT TO ACHIEVE?

These three motivations are at the heart of *why* we want to have an effective foreign aid program. But *what*, specifically, do we want to achieve? I believe the U.S. has four key objectives, each of which is closely related to the motivations I have just described.

1. **Enhance our National Security.** A key goal should be to help to win the war on terrorism, strengthen our security, and make the world a safer place. Foreign assistance programs should also support important allies and help achieve our other key foreign policy objectives, such as supporting Middle East peace.

2. **Promote Economic Development and Poverty Reduction.** We should aim to help countries build roads, schools, and clinics; improve the delivery of social services; strengthen the private sector; build key institutions for good governance; and develop sustainable environmental policies. Ultimately our assistance programs

should be designed to help countries reduce poverty, increase literacy, improve basic health, and accelerate economic growth.

3. Promote Political Stability and Political Development. Some of our assistance programs should be directed at conflict prevention; others should be used to build peace in post-conflict situations. In addition, we should continue to strive to help build strong democracies around the world, including helping to strengthen fragile democracies.

4. Respond Effectively to Humanitarian Crises. The U.S. needs the capacity to respond to humanitarian crises around the world, whether resulting from natural disasters, political crises, or other causes. We need to be able to respond quickly and effectively in concert with other governments and international organizations.

Although each of these objectives is central to our foreign policy goals, it is important to note that they differ and at times conflict with one another. This implies that we need to formulate different approaches for foreign assistance in different circumstances. It also suggests we need to take great care in assessing the effectiveness of foreign aid—some programs that may have failed to spur economic growth may have been very successful in averting humanitarian crises or promoting peace.

III. NEW INITIATIVES BY THE BUSH ADMINISTRATION

The Bush administration has taken important steps towards elevating the importance of developing countries in our foreign policy dialogue by initiating some dramatic new programs aimed at improving the effectiveness of U.S. foreign aid.

- First, the administration's National Security Strategy of September 2002 gives rare prominence to development alongside defense and diplomacy. It proclaims that "We will actively work to bring the hope of democracy, development, free markets, and free trade to every corner of the world." The administration clearly understands that the economic development of low-income countries is directly in our national interest, and that we should help support development and poverty reduction around the world, not just in a few countries.
- Second, it introduced the Millennium Challenge Account (MCA) as a way to provide significant support to a small number of low-income countries with good governance and a commitment to strong development policies.
- Third, it introduced the Emergency Plan for AIDS Relief last year to focus resources on 15 countries ravaged by this killer disease.

The MCA and the Emergency Plan for AIDS Relief both have great potential. Together they represent an important increase in resources and an attempt to improve the way in which foreign aid is delivered. The MCA, in particular, will not only provide more funds, but promises to deliver them in innovative ways that give recipients more responsibility, reduce administrative costs, and focus on achieving results. In addition, the administration has proposed something on the order of 15–20 other smaller foreign aid initiatives. Some of these are notable and are being implemented, such as the push for the World Bank to provide more of its funds as grants and the bilateral program focusing on mother-to-child transmission of HIV. Many, however, have simply been promises announced during meetings with various heads of state or at international meetings with little or no follow-up.

IV. FALLING SHORT OF A COHERENT STRATEGY

Although the new programs are welcome, they do not add up to a coherent and comprehensive strategy for foreign assistance designed to meet our major foreign policy goals in the post-September 11th world. The new programs will reach only a relatively small number of countries, and there remain some gaping holes in our foreign assistance program. Shortcomings of the current approach include:

1. Incomplete Country Coverage. The MCA will provide funds to perhaps 15–20 low-income countries in its early years, and the administration has yet to develop any real plans for working with the countries that do not qualify. Surely our national interests expand beyond the limited number of countries that will qualify for this important program. On several occasions President Bush has committed the administration to fighting poverty around the world, not just in a few countries. But so far the administration has not translated this commitment into a complete set of programs sufficient to achieve that goal.

Similarly, the Emergency Plan for AIDS Relief will focus on 15 countries that have some of the highest HIV/AIDS prevalence rates in the world. But it leaves out several countries with high prevalence rates (such as Malawi, Swaziland, and Lesotho) and does not increase assistance for the many countries in the world that are struggling to contain the epidemic, such as Senegal, India, Russia, Bangladesh, and

Ukraine. Some of these countries are of great strategic interest to the United States, and we should be working much harder with them to keep the epidemic under control. In addition, the program maintains, but does not increase, support for research into new treatments and a vaccine, even though the latter ultimately is the only way to stop this disease.

2. Lack of Attention to Consolidating Political Change. Moreover, there is no strategy to help consolidate democracy and political stability in key states around the world, and many are at risk. The lack of strategic thinking has become apparent on several occasions. For example, when President Gonzalo Sanchez de Lozada of Bolivia visited the White House in November 2002, he requested \$150 million to support social programs to fight poverty. He feared that without such support, major political unrest was inevitable. Despite Bolivia's solid record of good governance and strong friendship with the US, he was rebuffed, and received just \$10 million. As he feared, he was forced out of office 11 months later. The ousting of Sanchez, the fourth elected Latin American president to be driven out of office by opposition protests in only four years, represents a dramatic setback to U.S. regional objectives and is a force for destabilization throughout the Andean region. There are many fragile democracies like Bolivia around the world, and the U.S. does not have a clear, focused strategy to support them.

3. No Strategy for Failed and Failing States. Perhaps most strikingly, the administration has yet to develop a strategy for working in failed and failing states. Some of these countries present an immediate threat to U.S. security since they can become havens for terrorist activity, as evidenced by Sudan, Somalia, and Afghanistan. Others are a less immediate threat, yet are vulnerable to the spread of illicit criminal networks, as with the growing flow of narcotics through the Caribbean, the trade in conflict diamonds in West Africa, and the explosion of small arms trafficking in Central Asia.

There are many complex issues involved in working in failed states. Effective crisis diplomacy is our most important tool; a strong, flexible, and capable military response should be the option of last resort. Foreign assistance has an important role to play in these environments in mitigating impending conflicts, bringing warring parties to the table, and in securing a stable peace and transition. The U.S. government must take seriously the tasks of preparing to engage in these environments where appropriate, more effectively linking our military and civilian capacities, and identifying the technical skills and expertise needed to prevent already fragile situations from getting worse.

4. Lack of Coordination Across Programs. U.S. foreign assistance programs are scattered across several departments and agencies with little coordination and communication. There are at least sixteen U.S. agencies involved in the delivery of foreign assistance, including USAID, the State Department, Treasury, HHS, Defense, Agriculture, Peace Corps and several others. The new Millennium Challenge Corporation has now been added to the mix, and there is a significant risk that adding the new corporation will further fragment our foreign aid programs and make coordination more difficult. It takes a great effort, even for administration insiders, to determine all our assistance programs in any given country. There is little coordination or communication across activities, resulting in a lack of clarity of purpose, some duplication of efforts, and administrative waste.

V. TOWARD A MORE COMPREHENSIVE FOREIGN ASSISTANCE STRATEGY

Many of our foreign assistance programs have been successful, either in supporting economic growth, improving health and education, and reducing poverty; or in achieving other goals of averting conflict, securing peace, and responding to humanitarian crises. But many others have been ineffective, and there is substantial room for improvement. Developing a comprehensive foreign assistance strategy should be at the heart of improving our programs. Four basic pieces are required:

- First, the strategy should lay out clearly the motivations and objectives for foreign assistance and their relationship to our foreign policy goals.
- Second, it should establish a set of operational plans for assistance programs in different kinds of recipient countries.
- Third, it should ensure coordination across our foreign assistance programs and integrate these programs with our other policy tools for working with low-income countries (e.g., trade, immigration, investment, etc.), as well as for better harmonizing our efforts with those of other donors.
- Fourth, it should summarize the budgetary requirements necessary to achieve those goals.

I have already outlined some of our key motivations and objectives. Let me now turn to the importance of establishing a set of operational plans for delivering aid effectively in recipient countries.

Expanding the Toolkit: Different Approaches in Different Countries

The different objectives we have for foreign assistance, coupled with the reality of very diverse circumstances on the ground across recipient countries, call for a set of distinct but coordinated operational plans. Our current programs are too close to a “one-size-fits all” approach which treats all low-income countries as if they were similar in their quality of governance and ability to use aid effectively. We need to develop a set of foreign assistance strategies that differ across countries depending on their level of poverty, development priorities, quality of governance, vulnerability to political uncertainty, and their strategic interests to the United States. A recent “White Paper” by USAID is perhaps a first step in this direction with some promising ideas, but it is a discussion paper rather than a policy statement, and only deals with programs run by USAID.¹

Let me suggest five different approaches for delivering our assistance more effectively in different kinds of countries.

1. **MCA Countries.** These countries have shown the best governance and the strongest commitment to development, and it makes sense to have both high standards for this program and a different way of delivering aid to those that qualify. These countries should be given larger amounts of funding and more responsibility for setting priorities and choosing the best ways to spend foreign assistance dollars. We should be willing to provide funds to these countries to support broad programs or directly to their budget. We should expect that they spell out the specific goals they are hoping to achieve, many of which should be consistent with the Millennium Development Goals, and that they are held accountable for achieving results. Most MCA funds should go through the national government, but regional government, local governments, NGOs, and certain private entities should be eligible to receive funding for promising programs as well.

2. **“Tier-II” Countries.** These countries just miss qualifying for the MCA and could qualify within two or three years. The MCA authorization allocated 10% of MCA funding for these countries, but the administration has yet to lay out a strategy for working with them. These countries should receive more funding than under our standard programs, but substantially less than they would under the MCA. But we should not simply allocate more money and deliver it in the old standard way. This portion of our funding should operate like the MCA: let the governments write a proposal for how they would use the funds (but for a much more limited set of activities than under the MCA), expect that they describe precise benchmarks for monitoring progress, and hold them accountable for achieving results. In other words, we should be getting these countries ready for the MCA in a broader sense than just making the indicators: they should be designing some of their own programs, be given more flexibility with how they use part of the funds, and be expected to show results.

3. **Countries with Weaker Governance.** These countries have a poorer record on economic policy and governance and a weaker commitment to poverty reduction, but are not failed or failing states. These countries should receive fewer funds than countries in the first two groups, and activities should be focused narrowly in areas where the government shows strong commitment. For example, if the Ministry of Health has a good record of results with aid-funded projects, resources should be focused there. Activities in these countries should be directed more toward projects than broader programs, and they should be monitored carefully. As in other countries, specific benchmarks for progress should be identified, and countries should be held accountable for achieving results. A greater share of resources in these countries should be directed to NGOs and private groups that may be able to deliver services more effectively to the poor.

4. **Failed and Failing States.** This is the most difficult category. Because of the complexities and risks involved, these countries must be dealt with on a case-by-case basis. We should develop strategies for each country, detailing our strategic interests, the range of tools we have to work with them (diplomatic, military, financial, debt relief, market access, etc), and a plan for using these tools together to achieve our specific goals. Financial aid should be tightly focused on humanitarian relief and providing basic services to the poor. In some countries, no aid should be provided at all; where it is, much of it should go through NGOs. Where we can identify key government leaders committed to change, we should be prepared to assist

¹U.S. Foreign Aid: Meeting the Challenges of the Twenty-First Century. <http://www.dec.org/pdf—docs/PDABZ322.pdf>

in the most basic tasks of state-building: the regeneration of government institutions, support for transparent and accountable police and military services, and technical assistance to develop sound economic policies. States emerging from violent conflict face a significant risk of collapse, and it is at that transitional juncture that U.S. foreign assistance can play a catalytic role. Programs in failed states require very careful monitoring, regular re-appraisal, flexible responses as initiatives begin to work or fail, and a higher tolerance for failure than when working in other countries. The complex issues of U.S. policy in weak and failing states are currently being examined by a senior bi-partisan Commission at the Center for Global Development.²

5. Humanitarian Relief. We should strengthen our ability to respond effectively to humanitarian crises around the world, whether emanating from natural disasters or political upheaval. Humanitarian assistance should be provided in addition to, not as a substitute for, the development programs described above. Although our core relief programs are laudable, we do not invest sufficiently in prevention of humanitarian crises. For example, our food relief efforts in Ethiopia in recent years have been substantially larger than our investments in agricultural development. We do not make sufficient links between our emergency programs and longer-term development. One reason is that the different offices involved in humanitarian relief have different procedures and processes both from each other and from those used in other long-term development programs.

Coordination and Integration Across Programs and Policies

A strong strategy should include a vision for how our many different foreign assistance programs should work together, and how they integrate with other policy tools for working with low-income countries. The administration has taken a step in this process by forming a coordinator's office within the State Department for HIV/AIDS programs and in establishing a Joint Policy Group between USAID and State. Whether these changes ultimately streamline our programs or simply add new layers on top of existing efforts remains to be seen. In addition, deeper consideration is needed of the possibility of eliminating programs in some agencies and merging the efforts of others. Although these kinds of bureaucratic changes are difficult, they could significantly improve the effectiveness of our programs.

In addition to thinking about various bilateral strategies, we must consider when to provide funding through multilateral organizations rather than bilaterally. While working through our own programs allows us to maintain full control, multilateral approaches can leverage funds from many sources, provide efficiency gains in administration and oversight, and ease the burden on recipient countries as they deal with fewer donors. However, the quality of multilateral agencies varies widely, and there are no hard and fast rules about how to allocate funds in bilateral versus multilateral agencies. In addition to providing funding to the multilateral agencies, we need to find ways to better integrate our foreign assistance programs with those of other donors. Aid recipients are often swamped by the sheer number of different aid donors, each with their own requirements for project design, procurement, monitoring and reporting. U.S. foreign assistance programs have the reputation of always insisting on doing things their own way, even if appropriate alternatives are available. The U.S. should *seriously* engage with other donors to find harmonized systems that will uphold donor standards while easing the burden on capacity-constrained recipients.

In developing these approaches, it is important to remember that foreign assistance is only one of the many policy tools that the U.S. has to promote economic, social, and political development. Foreign assistance should compliment policies in trade, peace-keeping, investment, migration, and environmental stewardship. Our foreign assistance will be more effective if it is aligned with these other policy areas, and if it is part of a broader global engagement strategy that ensures that the U.S. is not giving development assistance with one hand and taking away economic opportunity with the other—such as by subsidizing agricultural or restricting imports of textile products from poor countries.

The Quantity of U.S. Foreign Aid

The United States provides more foreign assistance than any other country. U.S. non-military aid for economic development in the poorest countries of the world—called “Official Development Assistance” by the Development Assistance Committee of the OECD—reached \$13 billion in 2002. Aid to richer countries such as Israel

²The report of the Commission on Weak States and National Security, co-chaired by John Porter and Stuart Eizenstat, is due to be released in May 2004.

pushes the figure higher.³ However, the U.S. provides much less than any other donor as a share of our national income. Official Development Assistance from the U.S. is the equivalent of 0.13 percent of U.S. GNP—just slightly more than one-eighth of one percent of our total income. The next lowest country on the list—Italy—provides almost 50% more as a share of its income, about two-tenths of one percent. Even if the MCA and Emergency Plan for AIDS Relief are fully funded, the U.S. will remain 22nd out of 22 OECD donors in official foreign aid as a share of national income. Aid as a share of our national income will still remain far smaller than it was between 1975 and the end of the Cold War in 1990, when aid averaged over 0.20% of U.S. GNP, about 50% more than the 2002 level. Even adding in upper range estimates of private contributions through foundations and charitable organizations, total U.S. foreign aid—public and private—is the equivalent of only about 0.30 percent of U.S. income, which would move the U.S. up to about 16th place of the 22 donors in terms of total foreign aid.

The total quantity of U.S. foreign aid, of course, is not really the point, nor is where we rank relative to other countries. This is not a beauty contest. *The real problem that these figures highlight is that the current quantities of U.S. foreign aid are too small for us to meet our key foreign policy objectives.* Consider the following examples:

- (1) While important progress has been made in the war on terrorism, we have not yet fully turned the tide. The Bush administration has provided significant funding for frontline and weak states, but these amounts will have to continue and likely increase. For example, Afghanistan is only receiving 1/20th of the funding that Iraq receives, despite its similar size and much greater development needs, and its future prospects remain murky. Pakistan, Indonesia, Turkey and other countries will require significant support going forward.
- (2) Increasingly, and unfortunately, people around the world look to the U.S. with resentment and distrust, rather than as a beacon of hope for prosperity and peace. All indications suggest that the tide of global opinion has turned against the U.S. in the last two years. Simultaneously, in many countries public opinion is also turning against more open trade and globalization. Regardless of whether these views are justified or not, the key point is that in many developing countries we are not winning the war for hearts and minds to believe in our vision for the world.
- (3) The gap between the “haves” and the “have-nots” in the world economy has widened substantially during the last 20 years. As many people enjoy greater prosperity, 1.2 billion people are left behind to live on \$1 a day or less. Approximately 113 million primary-school age children are not in school, a fact that does not bode well for future generations. We are not winning the fight to reduce global poverty and build a more inclusive world in which poor countries can prosper.
- (4) HIV/AIDS, tuberculosis, malaria, and diarrheal diseases continue to ravage poor countries, and threaten to expand to create major social and economic disintegration in key countries such as South Africa, Nigeria, Ethiopia, India, China, and Russia. Public health spending in sub-Saharan Africa (outside of South Africa) averages just \$6 per person per year, and with incomes averaging less than \$350 per year, they simply do not have the resources to fight these diseases on their own. Even with the Emergency Plan for AIDS Relief, we are losing a war that we possess the technology to prevent, and history and humanity will judge us severely as a result.

In my opinion, and in the opinion of many others, the United States needs to significantly expand the size of its foreign assistance programs beyond the MCA and the Emergency Plan for AIDS Relief if we are serious about trying to achieve our main foreign policy goals. But not only must we increase the size of the programs, we must significantly improve the way we organize and deliver our aid if it is to become more effective.

VI. SOME STEPS FORWARD

Several actions could be taken to improve coordination, clarify objectives, and create a more coherent, effective, and strategic foreign aid program.

³Note that these figures are lower than the total amounts in the foreign operations budget, since some of those funds do not count as “official development assistance” by the standard international definitions.

1. **A New Department?** At the broadest level, one possibility would be to create a new Department for International Development that would bring under the direction of one Cabinet official all U.S. foreign aid programs. This would not entail an expansion in the size of the U.S. bureaucracy, but rather a re-organization across existing agencies. This new department (or agency) would incorporate all of USAID and the foreign aid programs currently run by State (e.g., the Economic Support Fund), Treasury (including U.S. government relationships with the IMF and multilateral development banks), HHS, Agriculture, Defense, and others. This step would ensure greater coordination, and would designate one person, reporting to the President, to be responsible for all aid programs. The United Kingdom took this step several years ago, and its foreign aid programs are now considered among the very best of the bilateral donors.

2. **Rewrite the Foreign Assistance Act.** The Foreign Assistance Act (FAA) of 1961, which governs most U.S. foreign aid activities, is badly out of date and needs to be rewritten. The current amended version of the Act is nearly 2,000 pages long and includes a complex web of rules, regulations, and directives. The FAA contains a remarkable 33 objectives and 75 priorities for USAID. A new FAA is central to clarifying the central objectives and methods of foreign assistance to meet U.S. foreign policy goals in the 21st century. Re-writing the FAA would allow a fundamental redesign of the morass of personnel and procurement regulations and other rules that undermine USAID's effectiveness. In particular, and among other issues, a new FAA should aim to:

- *Reduce Earmarking.* The current foreign aid budget is subject to an astonishing amount of earmarking. Although many earmarks are well intentioned, as a whole they severely cripple the ability of the USG to effectively allocate funds to the highest priority areas. The result is a misallocation of funds, with too much money forced into some areas, and leaving too little for others where stronger results are possible.
- *Eliminate Tied Aid.* "Tied aid" mandates that goods and services can be procured only from the U.S. or the recipient country. Tied aid decreases the effectiveness of foreign aid by forcing the recipient to purchase goods and services that may not be the most cost effective available. By some estimates, tying aid increases its costs by 15–30%. Our aid programs should aim to support innovative development projects and programs using the best expertise available, not to support U.S. contractors. When we add regulations that require that funds be directed to particular contractors, we undermine the goal of reducing poverty in recipient countries. The U.S. ties more of its aid than most other donors, which significantly weakens the effectiveness of our aid programs. The U.S. has made numerous pledges in recent years to reduce tied aid, but little has actually been accomplished.

3. **Develop a National Foreign Assistance Strategy.** Each administration should be expected to prepare, early in its tenure, a national foreign assistance strategy. This document would lay out its main objectives and priorities, describe the main programs it will use to meet these objectives, and explain its strategies for coordinating and communicating across agencies. It would not be necessary to prepare such a strategy every year. Each administration should be expected to complete it by the end of its first year in office, and perhaps to revise it during the third year if necessary.

4. **Clarify the Budget.** The budget should be at the center of designing clear priorities and tradeoffs. However, foreign assistance activities are scattered throughout several accounts in the budget. Even within the 150 Account, where most assistance activities are located, it is difficult to clearly understand the amounts being allocated to different purposes and priorities. It is very difficult to look through the budget and determine where and how we are spending our assistance dollars. As a policy and planning document, the foreign assistance budget needs to be significantly strengthened.

5. **Strengthen Monitoring and Evaluation.** With only a few exceptions, monitoring and evaluation of U.S. foreign aid programs focuses on ensuring that funds are spent according to plan, rather than on their contribution to development. We need to orient our programs much more toward achieving results. We need strong monitoring and evaluation processes aimed at keeping funded programs on track to meet their goals, guiding the allocation of resources towards successful activities and away from failures; and ensuring that the lessons learned—from both successes and failures—inform the design of new programs. Monitoring and evaluation should be incorporated into projects from the outset, not added on as an afterthought halfway through the process.

6. Refocus USAID. The administration and Congress should develop a new strategic vision for USAID. The agency's report "Foreign Aid in the National Interest" contains some useful ideas, but falls far short of proposing a new strategy and vision. The recent "White Paper" goes further, but is a discussion document rather than a policy paper. The Agency should define more clearly the different approaches it will make in "Tier-II" countries, weaker countries, and failed and failing states to achieve results, recognizing the greater risks inherent in these circumstances. It should narrow the scope of substantive activities that it funds. USAID now takes on too wide a range of activities in many countries, making it more difficult to achieve strong results in any. Setting priorities means making clear decisions about the range of activities that the agency will not undertake, and will leave to other agencies (some outside the U.S. government) that have greater expertise. In addition, it should work to streamline its contracting and procurement procedures and otherwise simplify bureaucratic processes. Finally, Congress needs to do its part by reducing the amount of earmarked funds and tied aid that severely limit the agency's flexibility and effectiveness.

Taking on these challenges will not be easy. But today there is backing for a renewed focus on foreign assistance in the administration and among lawmakers on both sides of the aisles, with a growing consensus around objectives, methods, and strategies. It is time to take advantage of this rare opportunity to make U.S. foreign assistance more effective in combating poverty, widening the circle of development and prosperity, fighting terrorism, and furthering other U.S. strategic interests abroad.

Mr. ROHRBACHER. Thank you very much. That was very thought-provoking, and I am sure we will have some questions for you afterwards. I like your thoroughness very much.

Ms. Dale?

STATEMENT OF HELLE DALE, DEPUTY DIRECTOR, DAVIS INSTITUTE FOR INTERNATIONAL STUDIES, THE HERITAGE FOUNDATION (APPEARING ON BEHALF OF MARC MILES, PH.D., DIRECTOR, CENTER FOR INTERNATIONAL TRADE AND ECONOMICS, THE HERITAGE FOUNDATION)

Ms. DALE. Thank you. First of all let me just say that somebody who was born in Denmark is delighted to hear all the honorary mentions of the country of my birth. If I could just remark briefly that while it is a record to be very proud of, Denmark does not have anywhere near the international commitments of the United States, which helps keep peace and prosperity in lots of areas of the world. It is but a small country; big of heart, but only 5 million people, so that is a big part of their foreign policy.

And now on to my testimony. Mr. Chairman and distinguished Members of the Committee, thank you for inviting me to share my views on U.S. foreign policy assistance in a post-September 11 environment.

In doing so, I would like to acknowledge the important work done by my colleague, Marc Miles, Director of the Center for International Trade and Economics at the Heritage Foundation. Dr. Miles was originally scheduled to appear before the Committee when the hearing was postponed, but he is traveling and could not be here himself today.

I would like to commend the efforts of Chairman Hyde, ranking Member Lantos, all the Members and their staffs, for working to make U.S. foreign aid more effective. And of course, the Bush Administration, as well, for embracing this important and admirable goal.

In terms of an overall strategy for U.S. foreign aid, the single most important point I would like to leave you with today is that foreign aid is only as effective as the government that receives it.

The record of foreign aid in the 20th Century was a deplorable failure because, like welfare programs, foreign aid too often kept the people they were meant to help from achieving prosperity.

Between 1980 and 2002, the United States gave \$140 billion in official development aid to just over 100 countries. And that, of course, does not include aid from other countries or international institutions. The result was average economic growth in recipient countries of 0.81 percent. That is not exactly a record to write home about.

The record of the World Bank and the International Monetary Fund is no more encouraging. Their lending practices tend to remove incentives for governments to pursue reform. It creates more hazard, and it helps shore up corruption and harmful practices. Just look at Argentina.

To make foreign aid effective, it needs to undergo the equivalent of welfare reform. The goal should be to encourage good governance among recipient countries. More than anything, that will empower these countries and help them rise to self-sufficiency.

The Millennium Challenge Account represents a good step toward the right direction. It was a historic day when this Committee, on June 12, 2003, passed the Millennium Challenge Act by landslide vote of 31 to 4. I entirely agree with Chairman Hyde's comment in *The New York Times* that for too long, U.S. foreign assistance programs had been adrift without an overall strategy, and without reasonable standards of accountability.

We need to reward and encourage good behavior. This is not about helping countries that are already doing well. None of the 63 countries identified by the Millennium Challenge Corporation are doing well. But about helping those of them who are willing to try proven ways of helping themselves.

It is important that grants be tied to the achievement of specific goals. Today, MCA represents a vision and a strategy that ought to set a course for other foreign aid programs.

I am pleased to see that one of the key questions the Committee seeks to answer today is whether we have the ability to measure the effectiveness of foreign aid. The answer is yes.

Each year, for the past 10 years, the Heritage Foundation has published the *Index of Economic Freedom*, which measures the movement of some 160 countries toward and away from economic self-reliance. Each of you have copies of the CD-ROM version of this document.

Forty-nine of the nations that have recently been designated by the Millennium Challenge Corporation as potential recipients of MCA grants are listed in the Index of Economic Freedom, where their relative scores serve as an indication of future success rates.

I would like to refer you to a Heritage paper, published yesterday and also distributed here, that established the rankings. The index can also be found on the Heritage Foundation's Web site, Heritage.org.

That said, there is clearly still a need for foreign aid related to U.S. national security, and humanitarian aid may also be subject

to a different set of standards. Indeed, both in Afghanistan and in Iraq, post-conflict resolution assistance is based on both United States national security and humanitarian needs. Yet in both cases, this aid ought also to be used to bolster national self-reliance.

Foreign aid is only as effective as the government that receives it. After 50 years of foreign aid as international welfare, it is now widely accepted that this is not the way to pull anyone out of poverty, individuals or countries. Economic freedom is, as it leads to trade and direct foreign investment.

And as for the American taxpayer, who among us would invest in a company if they knew that the money would be spirited away to foreign bank accounts, used on lavish birthday parties or \$5,000 shower curtains? No one would. We can do better than that.

Once again, I want to thank Chairman Hyde, ranking Member Lantos, and Members of the Committee for the opportunity to testify here today. I look forward to replying to any questions you may have.

[The prepared statement of Mr. Miles follows:]

PREPARED STATEMENT OF MARC A. MILES, PH.D., DIRECTOR, CENTER FOR
INTERNATIONAL TRADE AND ECONOMICS, THE HERITAGE FOUNDATION

Mr. Chairman and distinguished members of the Committee, thank you for inviting me to address the issue of U.S. foreign assistance strategy in a post-9/11 environment.

Since the attacks on September 11, 2001, there have been drastic changes in the Bush Administration's foreign aid policies and a shift in the appropriation of foreign aid funds. While these changes and many new initiatives have raised concerns about the lack of an overall foreign aid strategy, the 2002 National Security Strategy clearly states that "the United States will use this moment of opportunity to extend the benefits of freedom across the globe. We will actively work to bring the hope of democracy, development, free markets, and free trade to every corner of the world."¹

The question is how to accomplish these admirable goals at a time of concern for national security, and with a minimum of expense. With that in mind, permit me to summarize briefly the points I would like to make and answer some of the questions you posed in your background letter:

- Twentieth century approaches to foreign aid, on which current legislation is based, have proven a failure.
- Like the welfare programs of the 20th century, these programs too often have hurt those they were designed to benefit: in this case, by keeping the very people they are supposed to help from reaching prosperity.
- Foreign aid should undergo the equivalent of welfare reform. Aid should be used primarily to encourage and achieve self-sufficiency in developing countries.
- Annual distribution of aid should depend on evidence of a country's quantifiable progress towards self-sufficiency.
- The Millennium Challenge Account (MCA) is an important first step in the efficient and effective use of foreign aid. But it is only a small first step.
- It is important that the MCA be administered strictly on a basis of countries' accomplishments of specified goals.
- Under current legislation, the MCA is an addition to traditional aid programs, leaving room for other aid criteria.
- Ultimately, however, the focus of foreign aid must evolve to encourage economic freedom in domestic and international markets for countries so that they may attain economic self-reliance. The success of such an aid program can be readily measured. Each year The Heritage Foundation publishes the *Index of Economic Freedom*, which quantitatively and qualitatively measures

¹See <http://www.whitehouse.gov/nsc/nss.pdf>.

the movement of about 160 countries along the road to economic self-reliance. Long-term, with such a positive, empowering approach to country assistance, the overall level of prosperity throughout the world would rise, and with that rise the need for foreign aid would decline and eventually disappear.

- There are legitimate reasons for using foreign aid for national security purposes.
- Humanitarian concerns may even lead to aid for enemies of the United States.
- However, national security and humanitarian aid are stopgap measures and should be viewed as precursors to encouraging countries to move farther along the road to economic self-reliance.

WHY TRADITIONAL FOREIGN AID IS A FAILED SYSTEM

Experience has demonstrated that development assistance (i.e., government-to-government assistance intended to catalyze development in poor nations) is not a key factor in increasing economic growth in underdeveloped countries. On the contrary, development assistance has often proved to be counterproductive. Whether it is skimmed off by corruption, kept beyond the reach of poorer inhabitants due to regulations, or access is denied due to a lack of property rights or rigid credit markets, traditional aid usually fails to reach those below the top rungs. The lack of lasting impact is a demonstrable fact.

Throughout the past 50 years, the United States has given more than \$500 billion in foreign assistance to less-developed countries.² Yet the people in many of these countries are no better off today in terms of per capita gross domestic product (GDP) than they were decades ago; some, in fact, are actually poorer. Zambia, for example, has received U.S. foreign aid for four decades;³ despite more than \$800 million (constant dollars) in U.S. bilateral economic aid in just the past two decades,⁴ however, Zambia's real GDP per capita has fallen by almost 50 percent, from \$664 in 1965 to \$410 in 2002.⁵

Kenya's lot is even worse. Despite receiving almost \$1.5 billion in constant-dollar bilateral aid from the United States since 1980, Kenya's real GDP per capita is merely \$325. The aid was squandered by former President Daniel arap Moi. According to media reports, the Kenyan "government believes between \$1bn and \$4bn was stolen from the country under Mr. Moi's 24-year rule."⁶ According to a 2002 op-ed by Johnnie Carson, the former U.S. Ambassador to Kenya, corruption ranges from bribing policemen to "the submission of false invoices by politically-connected Government contractors. . . ."⁷ Ambassador Carson also noted the connection between corruption and international terrorism:

Immigration officials who steal and sell Kenyan passports to foreign nationals and who take bribes to issue illegal visas could open the door to persons such as the men who perpetrated the heinous attack on Paradise Hotel on November 28, 2002, the destruction of the American embassy on August 7, 1998, and the bombing of the Norfolk Hotel on December 31, 1980.

Kenya has not flourished from economic assistance and has not been held accountable for the assistance; instead, it has squandered the money in ways that stifle the free market and possibly advance acts of terror.

Despite a change in the presidency, Kenya continues to struggle. According to the Office of the U.S. Trade Representative (USTR), "Kenya continues to experience reduced foreign investment as a result of corruption, poor infrastructure, high power costs and other factors."⁸ The USTR notes that Kenya is taking advantage of the opportunities given by the Africa Growth and Opportunity Act (AGOA), yet "Kenya

²Denise H. Froning, "U.S. Foreign Aid Program," in Stuart M. Butler and Kim R. Holmes, eds., *Issues 2000: The Candidate's Briefing Book* (Washington, D.C.: The Heritage Foundation, 2000), p. 800.

³*Ibid.*, pp. 803–804.

⁴Organisation for Economic Co-operation and Development (OECD), *Corporate Data Environment Database: Development Assistance Committee*, available at <http://www1.oecd.org/scripts/cde/>.

⁵World Bank, *World Development Indicators Online*, available at www.worldbank.org/data.

⁶John Githongo, "No Moi Witch-Hunt in Kenya," BBC News, December 22, 2003.

⁷The Honorable Johnnie Carson, "Fighting Graft Should Be Kenya's Priority," *East African Standard*, December 27, 2002.

⁸Office of the U.S. Trade Representative, *Foreign Trade Barriers*, 2003, pp. 234–238, at <http://www.ustr.gov/reports/nre/2003/kenya.pdf>.

continues . . . to rely on tariffs as the primary instrument of trade policy.”⁹ Kenya’s score in the *Index of Economic Freedom* is little changed from 10 years ago. It remains “mostly unfree,” with a protectionist trade policy, high cost of government, high regulation, and high level of corruption.¹⁰ Aid is not the root of Kenya’s poverty problem; a serious lack of economic freedom is.

The failure of U.S. Official Direct Aid is illustrated in Appendix Table 1, which lists aid to countries between 1980 and 2002. The first two numerical columns indicate the total aid over that period in current and constant 2001 dollars. The next two columns compare the per capita GDP of the countries over the 22 years. Notice how per capita GDP growth averages at least 2 percent per annum in only about a quarter of the countries. In 70 percent of the countries, there is little change or a decline. The average per capita growth rate between 1980 and 2002 for all assisted countries with GDP data is a meager 0.81 percent per year. Not a stellar outcome.

The dismal failure of development assistance to catalyze economic growth is not confined to acts of Congress. Multilateral lending institutions have had similar results. For instance, in sub-Saharan Africa, 16 countries experienced a decline in real per capita GDP between 1970 and 2002 despite receiving well over \$100 billion in World Bank assistance.¹¹

Achieving prosperity in developing countries, like success for individuals, requires the acceptance of personal responsibility. The responsibility for economic growth in underdeveloped countries lies largely with the government of each country, since the primary determinant of economic growth is a country’s own institutions and policies. Countries with institutions and policies that promote economic freedom tend to have higher per capita incomes, on average, than countries that do not embrace economic freedom. A 1997 World Bank analysis of foreign aid underscored this premise, finding that assistance “has positive impact on growth in countries with good fiscal, monetary, and trade policies.”¹² Conversely, countries with poor economic policies did not experience sustained economic growth, regardless of the amount of assistance they received.¹³

IMF AND WORLD BANK ARE PART OF THE PROBLEM

This failure of the 20th century redistribution approach is not confined to the United States. Shifting the allocation of foreign aid from U.S. agencies to international institutions would not improve the chances for development. The track record of the IMF and World Bank in developing countries reveals that, far from being the solution to global economic instability and poverty, these two international institutions are a major problem. For one thing, their lending practices deter growth because the money they loan removes the pressure or incentives for governments to advance economic freedom. Shielded from change, corruption and harmful existing practices can flourish. For these reasons, the vast majority of recipient countries have been unable to develop despite huge handouts from these institutions for over 40 years.

Appendix Tables 2 and 3 illustrate the point. Appendix Table 2 lists the top 10 recipients of World Bank aid, and Appendix Table 3 lists the top recipients of IMF aid. The tables list for each country the total amount of loans received, the GDP per capita in the first year aid was received, and the GDP per capita in 2002. The results are very clear: In all but one of these countries, per capita GDP grew only slightly or declined, despite massive aid for about 40 years. The far right column lists the country’s score in the *2004 Index of Economic Freedom*. No wonder the repeated aid packages failed, for the overwhelming majority of countries remain “mostly unfree.”

The sign over the entrance of the World Bank building in Washington, D.C., may read, “Our dream is a world without poverty,” but its actions have not had the desired effect. Not that no one has benefited, however: To fulfill that dream, the World Bank employs over 10,000 people in more than 100 offices around the world with an annual budget of \$1.5 billion.

The IMF has committed ever-greater resources to combat growing financial crises around the world over the past 15 years. However, in many cases the recipients of

⁹ *Ibid.*

¹⁰ See Marc A. Miles, Edwin J. Feulner, and Mary Anastasia O’Grady, *2004 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc.), p. 249.

¹¹ World Bank, *World Development Indicators Online*, available at www.worldbank.org/data.

¹² Craig Burnside and David Dollar, “Aid Policies, and Growth,” World Bank, Policy Research Department, Macroeconomic and Growth Division, June 1997, cover.

¹³ David Dollar and Lant Pritchett, *Assessing Aid: What Works, What Doesn’t and Why*, World Bank Policy Research Report, 1998, p. 2.

IMF loans are worse off today (e.g., Argentina) than before the IMF loans began to flow. The reason is simple. Financial crises are the result of poor policymaking and corruption, not of some inexplicable evil design.

The Fund's goal is "to promote international monetary cooperation [and] exchange stability . . . to foster economic growth and high levels of employment; and to provide temporary financial assistance to countries to help ease the balance of payments adjustment."¹⁴ However, if the IMF were to bail out a country from an impending crisis, it would not allow the country's leaders to face the consequences of poor policymaking and corruption. Hence, the leaders would have no incentive to change the poor way in which they run the country.

At the same time, the country's government bonds would be sold in the market at a very high yield-reflecting the high risk of default from poor policymaking. But because the IMF continuously bails out the country, regardless of continued corruption and poor policy, buying the bonds would become a unique investment: a high-yield bond bearing no risk.

Far from achieving the IMF's stated goal, in other words, bailout loan packages reduce the political risks associated with faulty economic decisions, and recipient countries consequently end up with greater debt, lower standards of living, higher unemployment, and less savings. Rather than promoting economic self-sufficiency, the actions of both the IMF and World Bank have created client states for the international financial institutions.

The debate on the effectiveness of international financial institutions in promoting reform peaked about five years ago, when the U.S. Congress created the International Financial Institutions Advisory Commission (IFIAC), chaired by Professor Allan Meltzer. The IFIAC assessed the role and effectiveness of the World Bank, the International Monetary Fund, the regional development banks, the Bank of International Settlements, and the World Trade Organization.

Regarding the IMF and the World Bank, the IFIAC concluded that the work of these institutions left much to be desired. Specifically:

The IMF has given too little attention to improving financial structures in developing countries and too much to expensive rescue operations. Its system of short-term crisis management is too costly, its responses too slow, its advice often incorrect, and its efforts to influence policy and practice too intrusive.

High cost and low effectiveness characterize many development bank operations as well. The World Bank's evaluation of its own performance in Africa found a 73% failure rate. . . . In reducing poverty and promoting the creation and development of markets and institutional structures that facilitate development, the record of the World Bank and the regional development banks leaves much room for improvement.¹⁵

The ineffectiveness of the World Bank and the IMF is caused by the disincentives they create in the countries they are trying to help. Sending money to countries with misdirected policies and weak rule of law increases the recipients' debt without visible economic growth. Nevertheless, no significant reform of these international institutions has taken place.

THE MCA: A STEP IN THE RIGHT DIRECTION

The President's Millennium Challenge Account (MCA) is a step in the right direction for reforming foreign aid. The MCA differs from previous aid programs because recipients earn eligibility by surpassing minimum criteria based on simple, transparent, and publicly available performance indicators. These indicators have been selected based on evidence that they contribute or are complimentary to long-term growth and prosperity rather than on subjective, political motivations unrelated to development.

The Administration's approach to aid reform is similar to the welfare reform that took place in 1996 when the Personal Responsibility and Work Opportunity Reconciliation Act (P.L. 104-193) replaced the failed Aid to Families with Dependent Children (AFDC) program with a new program called Temporary Assistance to Needy Families (TANF). The key to the success of welfare reform is self-reliance requirements. Under the reform act, a certain portion of TANF recipients were required to undertake constructive activities aimed at self-sufficiency: supervised job search, training, and community service work. When TANF recipients were required

¹⁴International Monetary Fund, *About the IMF*, at www.imf.org/external/about.htm.

¹⁵The full International Financial Institutions Advisory Commission (IFIAC) report is available in English at www.house.gov/jec/img/meltzer.htm and in Spanish at www.heritage.org/library/efp/efp00-04.html.

to undertake constructive activities as a condition of getting aid, the number of new applications for welfare fell precipitately, the length of stay on welfare dropped dramatically, and measures of childhood poverty fell dramatically, especially among African-American children.

Similarly, the MCA will link development assistance with economic reforms and good governance to move poor economies toward self-dependency.

The MCA will not replace existing development assistance programs or subtract from their budgets. In fact, the Omnibus Appropriations bill included a separate \$650 million to fund the MCA. As a separate and distinct entity, the MCA is essentially an experimental program that attempts to learn from past mistakes and explore new strategies to improve the effectiveness of future development aid programs.

The President's three broad criteria that recipients must meet to qualify for MCA assistance—good governance, investment in health and education, and sound economic policies—are consistent with the findings of numerous studies that show that good policies, not aid, are the primary drivers of development. At best, foreign development assistance will accelerate the economic growth that results from sound policies and good governance.

The basic framework for the Millennium Challenge Account as presented by the Administration is sound, but Congress can improve its implementation and prevent the recurrence of past failures in development assistance. Here are a few steps that I urge Congress to consider taking as we move forward.

First, it is critical that Congress conducts active and ongoing oversight of the Millennium Challenge Account program to ensure that the true intent of this promising groundbreaking legislation is upheld. I believe that a key component of this new approach is that Congress did not intend for the MCA to be a business-as-usual international aid program, and it should not be allowed to become one.

Second, Congress must ensure that the core MCA principle—which is that we will help countries that are doing the right things to help their people help themselves—is not diluted in the regulatory writing and implementation of the MCA. The purpose is to teach impoverished nations how to fish, rather than annually appropriating fish to hand out.

Third, Congress should ensure that eligibility for the MCA is determined solely according to a country's performance in the 16 indicators identified by the Administration. Many of the civil servants who will be tasked with writing and implementing the MCA undoubtedly have a lot of experience running traditional international aid programs and, as a result, are more familiar and comfortable with that kind of approach. Accordingly, there is a very real prospect that without active and ongoing Congressional oversight, the MCA could become another business-as-usual program.

Fourth, if it becomes apparent that the MCA is not being implemented as Congress intended, I encourage Congress to consider amending the underlying law to allow the MCA to be run by an independent public corporation as was envisioned in the original version of the MCA.

But the MCA is likely to be only a small step toward more extensive alteration to a 21st century approach to foreign aid. If run correctly, the MCA approach should prove successful. In that case, the Administration and Congress should consider shifting a greater share of foreign aid funds to the alternative 21st century approach.

THE ALTERNATIVE: THE "INDEX OF ECONOMIC FREEDOM" AS ROAD MAP TO PROSPERITY

Economic freedom is the most consistent and reliable determinant of economic growth. The 10 editions of the *Index of Economic Freedom* conclude that countries with the most economic freedom are more prosperous than are those with less economic freedom. This difference occurs because open markets promote healthy competition, which requires the institutionalization of transparency and the rule of law and also results in the most efficient allocation of resources. Contrary to popular myth, economic growth benefits the poor directly. In the words of a World Bank working paper on the effects of economic growth on the poor, "As overall income increases, on average [the] incomes of the poor increase exactly the same amount."¹⁶ The study concludes that economic growth does not worsen inequality.

Policies that promote economic freedom often coincide with or directly result in good governance and permanent improvements in health and education standards. For example, an environment conducive to commercial enterprise requires fair and

¹⁶David Dollar and Aart Kraay, "Growth Is Good for the Poor," World Bank Development Research Group, March 2000, p. 2.

equitable dispute settlement in the form of an independent judiciary, which is also essential for good governance. Free-market policies that encourage open competition and minimal government intervention render corruption unprofitable or remove opportunities for corruption, creating a natural incentive for good governance. In contrast, excessive tariffs, taxation or regulation, or tightly controlled credit allocation or government procurement create opportunities and incentives for corruption to flourish.

Economic freedom, in addition to advancing growth rates, also has implications for U.S. national security, such as in the war on terrorism. There is ample evidence that the poverty caused by a lack of economic freedom fuels the resentment, desperation, and hopelessness that terrorist organizations utilize to recruit new members and muster support for their activities. A key component of any long-term solution to terrorism, therefore, must be creating circumstances under which people become stakeholders in their countries. Promotion of economic freedom offers the opportunity to reduce susceptibility to the enticement of terrorists around the world.

The concept of economic freedom therefore holds out the possibility of a very attractive road map to prosperity throughout the world. While concepts are useful, the acid test of any concept is whether it bears close empirical resemblance to the way the world works. Now that we have 10 years of data, at The Heritage Foundation we have been subjecting our *Index of Economic Freedom* to such empirical questioning. The answer the data have been giving us about the realism of our concept is a resounding “yes!”

The findings of this study are straightforward: The countries where economic freedom increases most boast higher rates of economic growth.

The Heritage *Index of Economic Freedom* evaluates about 160 countries based on 10 criteria. Each criterion receives a score between 1 (economically free or good) and 5 (economically repressed or bad). A simple (equal weight) average of the scores for a country’s 10 factors yields the overall score for the country. The 10 factors or criteria are:¹⁷

- Trade policy
- Fiscal burden of government
- Government intervention in the economy
- Monetary policy
- Capital flows and foreign investment
- Banking and finance
- Wages and prices
- Property rights
- Regulation
- Informal market activities

An immediate question is whether it is appropriate to equally weight the factors. Perhaps some factors are more important than others. There is nothing that says equal weighting is appropriate. Then, again, there is nothing that says it is inappropriate either.

To sort out this issue we asked Professor Richard Roll of the Anderson School of Business at UCLA to use the best statistical techniques available to evaluate this question. His conclusion: Equally weighting the factors is as good as the most optimal statistical weighting approach.

In other words, the empirical tests show that each of the 10 criteria is equally important. The 10 criteria are like the parts of a car. What is the most important component of the car: the powerful engine, the transmission, the seats, the steering wheel, the brakes, or the tires? The question defies the answer, because without any of these components, the car is unlikely to go very far or very fast, much less reach the desired destination.

In similar fashion, countries that try to achieve economic freedom in only three or four of the criteria are putting together a car that is missing valuable parts. Those countries are unlikely to grow very fast or very long, and therefore are unlikely to achieve their goal of economic prosperity.

In contrast, those countries that are putting together complete (10 criteria) cars are likely to grow fast and long, catching up to the more developed world economies. That is why we often refer to the 10 factors of the *Index* as a “10-step plan to end aid dependency.” The 10 factors provide a road map, and only by sticking to the

¹⁷ For details of the 10 factors, see William W. Beach and Marc A. Miles, Chapter 5, “Explaining the Factors of the *Index of Economic Freedom*,” in *2004 Index of Economic Freedom*.

highlighted route can a country achieve economic freedom, prosperity, and self-sufficiency.

A CASE STUDY OF WHAT WORKS

A wonderful example of the power of this 10-step plan is the difference between the neighboring countries of Chile and Bolivia. Between 1980 and 2002 (see Appendix Table 1), Bolivia received almost \$3 billion (constant dollars) of Official Development Aid from the U.S. government. Over that period, its per capita GDP actually fell at an annual rate of 0.3 percent.

On the other hand, Chile received less than \$200 million (constant dollars) of aid. Yet its economy grew at an average annual rate of 3.3 percent, more than doubling over the period. How does one explain such a divergence of experience? The geography is similar, and Bolivia received over 10 times as much aid.

But the two countries' experiences with economic freedom have been very different. Over the past 30 years, Chile has stuck to the economic freedom road map by establishing the rule of law; knocking down tax rates, regulation, and foreign trade barriers; freeing the banking system and capital flows; and reducing the burden and scope of government. It has put together a whole car. In the 10 years of the *Index*, Chile has moved steadily from a rank of 24th out of the 101 countries covered in 1995 to 13th out of the 161 analyzed this year. Over the past 10 years, economic growth has been notably better in Chile than among its neighbors, and Chile has been largely immune from the latest round of South American economic disasters.¹⁸

Bolivia by comparison had the same economic freedom score as Chile in the 1996 *Index*, yet has improved its score little if at all since then. The reason is that the Bolivian economy has weak property rights, high government expenditure, high regulation, and a high level of corruption. At most, Bolivia has resorted to picking a couple of tires, a passenger seat, maybe a steering wheel, and some brakes. No wonder its economy has sputtered.

LESSONS LEARNED

The case of Chile and Bolivia is not isolated. It reflects a pattern throughout the world. For several years, we have published a chart showing that a country's *Index* score is positively related to per capita GDP (Appendix Figure 1). The average per capita income of the "free" countries is twice that of the "mostly free" countries. That average drops precipitously as economic freedom drops to the last two categories. In other words, economically free countries have higher per capita incomes.

But there is another, more important dimension to that relationship: one that involves the evolution of the score and of incomes over time. The next chart (Appendix Figure 2) demonstrates that seven-year average growth rates in countries are positively related to seven-year improvements in the *Index* scores.

The 142 countries with available data were divided into fifths according to how much their *Index* scores had improved over the seven years. The countries with the most improvement are in the first quintile, and those with the least improvement (or most deterioration) are in the fifth quintile. Comparing the average growth rates of these two groups, the countries in the top quintile had almost twice as much growth (4.9 percent) as those in the bottom quintile (2.5 percent). Even for the middle three quintiles, growth rises and falls with changes in the *Index* score.

In other words, countries moving further along the road map to economic freedom have higher growth rates. As long as they keep progressing along the road map, their growth rate tends to be above the average for all countries. The faster they move (the greater the improvement in the score), the higher the growth rate. This faster growth is especially important to those countries that are trying to play "catch-up" to developed countries. Once countries decide to stop by the roadside or to retrace their steps, however, growth plummets.

So the important message to the countries of the world is that they can help themselves just by starting to adopt economic freedom. In the words of the Nike ad, "Just do it." Just start increasing economic freedom somewhere. The more economic freedom they adopt, the faster they grow or the longer they have superior growth. More growth in turn means that the average level of prosperity is increasing. While foreign aid linked to measurable improvement in these indicators might be necessary at the very start of this process, for those countries that stay focused on improving economic freedom, any need for aid will soon disappear.

¹⁸For more details, see Ana I. Eiras, "Chile: Ten Steps for Abandoning Aid Dependency for Prosperity," Heritage Foundation *Backgrounder* No. 1654, May 20, 2003.

And the good news for both the Congress and the administrators of aid is that countries' efforts (or lack of efforts) to work toward these criteria are measured annually in Heritage's *Index of Economic Freedom*. Compilation of this objective, quantitative and qualitative measure of countries' movements along the road to self-reliance takes over six months each year. The *Index* is no cursory glance at countries' progress. Using independent, reliable outside sources, each country is closely examined in terms of the 10 criteria. The *Index* can therefore serve as a guide to which countries deserve more assistance and which deserve less. It also holds out the real hope that countries that follow this road map will eventually graduate from the need for any assistance at all. Those mired as "client states" of international financial institutions suddenly have a path to liberation.

OTHER FORMS OF AID

Additional questions from the Committee's background memo remain, such as whether foreign aid should be used to bolster national security, whether we should give aid to our enemies, and the extreme case of whether aid should ever be given to North Korea. The answer to all these questions is yes.

The United States' foreign aid strategy should support long-term U.S. national security and should be administered in a way that enhances the larger political goal of the United States. However, U.S. foreign aid strategy must still encourage free markets and growth while also addressing humanitarian crises through well-monitored aid assistance programs. The aid should also encourage self-reliance in recipient countries.

Afghanistan and Iraq are examples of where post-war reconstruction assistance both fulfills a humanitarian mission and enhances U.S. national security. U.S. post-war commitments in Iraq and Afghanistan result from U.S. obligation not only to transfer resources, but also to empower these countries to follow the road map of economic freedom and good governance. In those two examples, the United States has used foreign operations funds to set the framework to support development and growth in the recipient countries.

Not all the assistance requires large transfers of money. For example, the Administration has formally called upon the European powers (primarily Russia, Germany, and France) and Arab nations (including the Gulf states and Egypt) to forgive the huge debts owed by the Iraqi government. Forgiving these debts would constitute both an historic contribution to the economic development of post-Saddam Iraq and a major gesture toward permitting the Iraqi people to establish a new economy.

As The Heritage Foundation pointed out last April,¹⁹ the lessons learned from the immediate aftermath of the Versailles Treaty of 1919, when France demanded \$32 billion in reparations from Germany, illustrate the dilemma. This onerous debt burden contributed to the hyperinflation that crippled Germany's economy, Germany's financial collapse in the 1930s, and the end of the Weimar Republic, paving the way for the rise of the Nazi Party.

Estimates of Iraq's indebtedness vary greatly from 60 billion to several hundred billion dollars. The most comprehensive study of Iraqi debts, by the Center for Strategic and International Studies (CSIS), calculates Iraq's overall financial burden to be \$383 billion. Based on these figures, Iraq's financial obligations are 14 times its estimated annual GDP of \$27 billion—a staggering \$16,000 per person.

Establishing fiscal and monetary stability and a stable currency will be virtually impossible if Iraq has no realistic prospect of paying down the debt to manageable levels in the near future. The Iraqi government has made virtually no debt-service payments since 1991. With its huge debt burden, Iraq will have extreme difficulty in attracting substantial foreign direct investment, and this will further limit economic growth.

If it were free of debt and proceeding along the road map to economic prosperity, Iraq could well become an economic powerhouse in the Middle East and an example for others to follow. With the world's second largest oil reserves (112 billion barrels) and vast supplies of natural gas (110 trillion cubic feet), Iraq's economy can be transformed if it adopts sound principles such as keeping tariffs and taxes low, privatizing state monopolies, and upholding the rule of law. These principles will enhance economic freedom and create the conditions for a thriving entrepreneurship. Without substantial debt relief, however, Iraq's economic rejuvenation will be significantly delayed. The efforts of Secretary Baker are therefore a prime example of effective, efficient relief.

¹⁹Nile Gardiner, Ph.D., and Marc Miles, Ph.D., "Forgive the Iraqi Debt," Heritage Foundation *Executive Memorandum* No. 871, April 30, 2003.

U.S. involvement in Africa through the AIDS initiative exemplifies a case where foreign aid has been used for humanitarian reasons while, in the long-term, establishing a U.S. presence in the region. In 2003, the Bush Administration persuaded Congress to authorize \$15 billion over the next five years to fight the AIDS pandemic in Africa and the Caribbean. The U.S. Leadership Against HIV/AIDS, Tuberculosis, and Malaria Act of 2003 is a bold legislative effort.²⁰ About 42 million people worldwide are dying of AIDS or are infected with the HIV virus that causes the disease. Of these individuals, 29 million live in Africa. In addition, Africa is home to a staggering 11 million orphans who have lost their parents to AIDS. These facts carry political as well as moral implications: Failure to confront the pandemic in nations ravaged by AIDS is a recipe for economic decline and social chaos.

But efforts should not stop at aid to contain these deadly diseases. While epidemics can distract internal moves to reform the economy, humanitarian aid can permit countries to refocus on how to attain economic self-reliance. Humanitarian aid is only a stopgap measure. The real test of the effectiveness of U.S. aid is whether it is followed by aid that encourages the countries that receive humanitarian aid to start down the road to economic self-reliance.

In the aftermath of the recent earthquake in Iran, the United States contributed a total value of \$3 million in USAID donations and services and \$2 million in Department of Defense assistance. Assistance included an 81-member USAID/DART team, four airlifts of relief commodities, seven C-130's filled with 68 metric tons of medical supplies, and a 10k forklift to assist in offloading relief commodities.²¹ While the United States does not support the Iranian regime and has labeled the country part of the "axis of evil," cases of such extreme humanitarian crises are exceptions where the United States needs to provide assistance. Through our humanitarian actions, we can build trust and understanding, permitting the idea of economic self-reliance to become part of Iran's public debate.

The Bush Administration has taken a sound stance that it will not use food aid as a negotiating tool in dealing with rogue nations and totalitarian regimes. In North Korea, for example, the United States continues to supply food to help relieve the famine crisis. However, the United States has stopped all monetary assistance to North Korea, where it is unable to monitor North Korea's use of the aid money and when it suspects that the regime might be using aid resources to develop and purchase weapons of mass destruction. Yet, if the North Korean government were to make a commitment to freeing its markets and working toward economic self-reliance, U.S. foreign aid would be justified in the initial stages.

The purpose of U.S. foreign assistance should be to help other countries wean themselves from dependency on foreign aid by encouraging them to establish strong rule of law and policies of economic freedom to foster growth. The traditional foreign aid system that the United States employs does not advance such values.

WHEN FOREIGN AID SHOULD BE USED TO ADVANCE U.S. NATIONAL SECURITY

Based both on evidence that traditional foreign aid has failed to improve the economic conditions of poor countries and on the empirical proof that economic freedom correlates with growth and prosperity, it is safe to say that the traditional foreign aid process will not help advance U.S. national security.

Alternatively, if the Administration were to implement sound aid reforms based on countries' progress toward economic freedom, foreign aid would, in the long term, always benefit U.S. national security because such an approach provides incentives for repressed countries to implement strong rule of law and other economic freedoms that will raise the level of prosperity, reducing the threat of terrorism.

After 9/11, the United States and the global community proposed many new security initiatives to secure legitimate trade and travel from the threats of terrorism. Implementing these security regimes can be costly. Emerging economies have expressed concerns about the recent security regulations that have been imposed on the global trade arena. For example, the International Maritime Organization's International Shipping and Port Security (ISPS) code requires that ports implement specific security measures by July 2004. The consequence of not meeting this deadline is alienation from trade until the country fulfills security demands. While these new security regulations attempt to address serious vulnerabilities of maritime commerce, emerging countries find themselves scrambling for financial resources to sup-

²⁰ Public Law 108-25.

²¹ "Iran-Earthquake," Fact Sheet # 8, Fiscal Year (FY) 2004, U.S. Agency for International Development, Bureau for Democracy, Conflict, and Humanitarian Assistance, Office of U.S. Foreign Disaster Assistance, January 9, 2004, at <http://www.usaid.gov/our-work/humanitarian-assistance/disaster-assistance/countries/iran/fy2004/Iran-ND-FS08-1-09-2004.pdf>.

port security rules, for the consequence of not meeting the deadline could be devastating to a small economy.

The answer, however, is not to lower the security standards. In the interim, foreign aid funds should be used to assist these countries to secure their ships and ports by the July 2004 deadline while concurrently helping these countries build trade capacity and increase efficiency through the use of effective technologies.

CONCLUSION

In sum, in line with the President's 2002 National Security Strategy, foreign aid presents us with an opportunity to extend freedom across the globe by providing incentives for countries to pursue policies that promote rule of law and economic freedom, thereby generating growth and development. While the United States should always provide assistance in times of humanitarian need, a general strategy that moves countries toward self-generated prosperity is the most viable and measurable long-term plan to contribute to strengthening our national security.

APPENDIX

Table 1
Countries Receiving U.S. ODA Between 1980 and 2002
for Which Per Capita GDP Data Are Available

Countries	U.S. ODA 1980 to 2002 (current dollars) (constant 2001 dollars)		GDP Per Capita in 1980	GDP Per Capita in 2002	Compound Growth in Per Capita GDP 1980 to 2002
	in millions		(constant 1995 dollars)	(constant 1995 dollars)	
	\$ 112,578.1 Sum	\$ 140,767.2 Sum	\$ 1,124.5 Median	\$ 1,185.5 Median	0.81 Average
Albania	284.9	301.6	910.0	1,070.5	0.7
Algeria	9.5	10.3	1,681.0	1,656.7	(0.1)
Angola	400.7	447.1	718.7	597.7	(0.8)
Antigua & Barbuda	1.6	1.7	4,057.4	9,204.4	3.8
Argentina	15.7	17.4	7,787.1	6,579.2	(0.8)
Bangladesh	2,862.1	3,834.1	248.5	396.1	2.1
Belize	115.4	144.7	2,035.8	3,226.6	2.1
Benin	244.6	275.6	362.4	434.9	0.8
Bhutan	0.7	0.7	231.7	580.2	4.3
Bolivia	2,325.9	2,805.8	1,016.1	947.4	(0.3)
Botswana	273.4	366.4	1,538.2	4,232.7	4.7
Brazil	159.1	193.7	4,256.5	4,643.6	0.4
Bulgaria	316.7	330.4	1,329.0	1,732.9	1.2
Burkina Faso	454.3	633.6	180.7	257.9	1.6
Burundi	201.5	253.6	176.2	143.1	(0.9)
Cameroon	382.7	503.0	724.1	711.1	(0.1)
Central African Rep.	56.6	72.0	417.0	347.7	(0.8)
Chad	230.7	299.7	176.1	247.6	1.6
Chile	147.3	195.8	2,665.0	5,436.1	3.3
China	62.0	63.6	166.7	941.9	8.2
Colombia	1,310.2	1,371.2	1,867.7	2,273.9	0.9
Comoros	9.2	11.5	499.9	435.6	(0.6)
Congo Dem. Rep.	443.3	567.2	279.9	86.6	(5.2)
Congo, Rep.	42.1	49.3	767.4	802.6	0.2
Costa Rica	1,040.3	1,434.1	3,097.3	3,926.9	1.1
Cote d'Ivoire	168.2	186.0	1,045.3	711.8	(1.7)
Cyprus	266.3	342.2	6,352.2	14,799.6	3.9
Dominica	0.7	0.7	1,684.1	3,157.0	2.9
Dominican Republic	691.1	886.5	1,327.2	2,129.5	2.2
Ecuador	572.4	692.7	9,605.6	17,046.1	2.6
Egypt	21,538.5	26,934.4	731.4	1,249.6	2.5
El Salvador	3,657.3	4,738.8	1,595.0	1,762.9	0.5

Countries	U.S. ODA 1980 to 2002 (current dollars) (constant 2001 dollars) in millions		GDP Per Capita in 1980 (constant 1995 dollars)	GDP Per Capita in 2002 (constant 1995 dollars)	Compound Growth in Per Capita GDP 1980 to 2002
	Estonia	20.4	23.3	4,049.4	5,000.3
Fiji	28.3	40.2	2,311.3	2,909.7	1.1
Gabon	36.4	45.4	5,151.4	4,405.0	(0.7)
Gambia	157.2	208.7	376.5	369.7	(0.1)
Georgia	578.8	611.8	1,378.1	537.5	(4.2)
Ghana	807.9	950.2	394.0	432.0	0.4
Grenada	60.8	90.1	1,711.7	3,515.8	3.3
Guatemala	1,287.5	1,579.3	1,597.6	1,545.4	(0.2)
Guinea-Bissau	99.6	126.3	175.2	192.7	0.4
Guyana	220.6	260.8	927.4	937.7	0.1
Haiti	2,306.6	2,753.8	607.4	344.0	(2.6)
Honduras	2,301.1	2,855.5	733.9	711.4	(0.1)
Hungary	73.6	83.9	4,199.0	5,734.8	1.4
India	2,985.4	3,853.7	228.3	494.0	3.6
Indonesia	1,529.3	1,817.8	503.0	1,059.8	3.4
Iran	0.2	0.2	1,379.8	1,786.8	1.2
Israel	27,571.5	35,761.2	11,592.1	15,759.0	1.4
Jamaica	1,024.1	1,276.9	1,953.8	2,174.5	0.5
Jordan	1,951.6	2,216.4	1,814.6	1,660.8	(0.4)
Kenya	1,164.4	1,478.7	337.4	324.5	(0.2)
Kiribati	3.5	3.6	628.9	574.5	(0.4)
Korea	6.2	10.6	3,910.3	14,279.9	6.1
Latvia	36.1	40.4	2,796.4	3,099.9	0.5
Lesotho	293.4	425.5	360.0	577.5	2.2
Liberia	600.6	839.4	825.7	199.2	(6.3)
Madagascar	483.9	560.0	343.5	216.7	(2.1)
Malawi	595.6	692.2	160.5	162.3	0.1
Malaysia	6.0	8.9	2,297.1	4,811.3	3.4
Mali	691.1	867.6	305.4	312.7	0.1
Mauritania	220.2	322.3	485.3	513.0	0.3
Mauritius	25.9	37.4	1,745.7	4,536.8	4.4
Mexico	658.2	849.3	3,282.1	3,713.1	0.6
Moldova	220.5	227.4	1,483.6	729.2	(3.2)
Morocco	658.9	853.8	1,113.9	1,476.4	1.3
Mozambique	1,307.1	1,504.2	160.2	229.4	1.6
Namibia	130.7	140.7	2,469.3	2,412.1	(0.1)
Nepal	416.4	529.8	148.0	240.6	2.2
Niger	536.9	712.1	326.3	206.8	(2.1)
Nigeria	291.6	322.0	314.2	248.2	(1.1)
Oman	160.2	190.5	3,509.2	6,277.1	2.7
Pakistan	2,434.1	2,930.8	318.1	527.1	2.3
Panama	672.4	844.0	3,042.3	3,838.7	1.1
Papua New Guinea	26.3	31.3	873.6	856.1	(0.1)

Countries	U.S. ODA 1980 to 2002 (current dollars) (constant 2001 dollars) in millions		GDP Per Capita in 1980 (constant 1995 dollars)	GDP Per Capita in 2002 (constant 1995 dollars)	Compound Growth in Per Capita GDP 1980 to 2002
	Paraguay	84.8	100.5	1,878.3	1,702.8
Peru	1,949.4	2,304.0	2,568.6	2,404.0	(0.3)
Philippines	3,002.5	3,869.9	1,172.9	1,195.5	0.1
Russia	5,388.8	5,645.1	3,161.5	2,733.7	(0.7)
Rwanda	680.1	805.5	321.1	294.7	(0.4)
Senegal	845.1	1,121.7	551.9	628.3	0.6
Seychelles	39.4	54.4	4,881.9	5,715.5	0.7
Sierra Leone	244.9	285.6	347.2	164.6	(3.3)
Singapore	15.0	18.5	11,094.0	27,254.2	4.2
Solomon Islands	12.5	15.2	546.8	527.0	(0.2)
South Africa	870.0	927.9	4,620.3	4,182.7	(0.5)
Sri Lanka	509.9	640.2	455.1	891.4	3.1
St. Kitts-Nevis	1.8	2.2	2,556.3	6,124.9	4.1
St. Lucia	0.9	0.9	2,075.5	3,708.9	2.7
St. Vincent & Grenadines	0.5	0.5	1,321.8	2,470.5	2.9
Sudan	1,615.0	2,232.9	227.2	355.6	2.1
Suriname	3.8	3.9	984.6	1,056.5	0.3
Swaziland	181.6	239.5	1,133.5	1,528.0	1.4
Syria	16.0	28.2	719.4	800.8	0.5
Thailand	417.6	543.3	1,116.3	2,986.1	4.6
Togo	157.3	208.1	466.3	324.1	(1.6)
Trinidad & Tobago	4.7	5.4	4,613.5	5,465.8	0.8
Tunisia	185.3	249.6	1,640.9	2,580.0	2.1
Turkey	1,953.7	2,724.9	1,955.7	2,942.4	1.9
Uruguay	48.7	62.7	5,473.8	5,462.7	0.0
Vanuatu	4.0	4.1	1,169.1	1,176.1	0.0
Venezuela	29.0	27.6	3,991.2	2,978.2	(1.3)
Zambia	699.0	839.4	583.9	410.3	(1.6)
Zimbabwe	651.1	862.3	610.4	522.2	(0.7)

Sources: Organisation for Economic Co-operation and Development (OECD), Corporate Data Environment Database; Development Assistance Committee, available at <http://www1.oecd.org/scripts/cde/>; World Bank, *World Development Indicators Online*, available at www.worldbank.org/data.

Table 1 (continues)
Countries Receiving U.S. ODA Between 1980 and 2000
for Which Per Capita GDP Data Are Unavailable

Country	U.S. ODA 1980 to 2002 (current dollars)	U.S. ODA 1980 to 2002 (constant dollars)	Country	U.S. ODA 1980 to 2002 (current dollars)	U.S. ODA 1980 to 2002 (constant dollars)
in millions			in millions		
Total	51,242.1	63,122.0	Maldives	1.1	1.5
Afghanistan	800.8	891.9	Marshall Islands	429.7	455.6
Anguilla	2.0	2.4	Micronesia	820.7	869.6
Armenia	669.2	713.3	Mongolia	108.0	113.1
Aruba	0.1	0.1	Myanmar (Burma)	71.2	99.1
Azerbaijan	164.7	169.5	Netherlands Antilles	26.9	27.0
Bahamas	23.0	23.4	Nicaragua	1,423.2	1,655.6
Barbados	3.9	4.5	Northern Marianas	1,695.0	2,543.7
Belarus	142.8	157.5	Palau	547.4	602.2
Bermuda	0.5	0.5	Palestinian adm. areas	622.8	650.7
Bosnia-Herzegovina	1,118.0	1,175.9	Poland	2,781.0	3,289.6
Cambodia	333.6	363.2	Romania	268.5	283.3
Cape Verde	129.4	173.7	Samoa	16.5	21.0
Croatia	123.7	125.8	Sao Tome & Principe	8.3	10.5
Cuba	9.6	9.5	Serbia & Montenegro	856.8	855.8
Czech Republic	47.2	54.4	Slovak Republic	57.6	62.8
Djibouti	58.4	80.8	Slovenia	4.0	4.3
Equatorial Guinea	14.9	19.4	Somalia	1,742.9	2,162.8
Eritrea	160.2	166.6	Tajikistan	260.0	270.1
Ethiopia	1,550.1	1,850.0	Tanzania	676.6	839.0
FYROM-Macedonia	164.1	166.4	Timor-Leste	33.1	32.8
Guinea	364.0	413.6	Tonga	11.0	14.0
Iraq	689.0	804.2	Turkmenistan	69.5	74.1
Israel	27,571.5	35,761.2	Turks & Caicos Islands	0.1	0.1
Kazakhstan	425.8	445.1	Uganda	734.9	836.1
Korea, Dem. Rep.	279.3	284.5	Ukraine	1,666.1	1,741.1
Kyrgyz Rep.	301.5	323.0	United Arab Emirates	0.4	0.4
Laos	37.5	39.0	Uzbekistan	136.9	139.1
Lebanon	393.7	497.9	Viet Nam	79.5	84.3
Lithuania	38.5	42.6	Yemen	475.9	622.7

Source: Organisation for Economic Co-operation and Development (OECD), Corporate Data Environment Database: Development Assistance Committee, available at <http://www1.oecd.org/scripts/cde/>.

Table 2
The Top 10 Recipients of World Bank Loans

Country	Cumulative IDA Loans Received (\$ billions)	GDP Per Capita When First Receiving Aid	GDP Per Capita in 2002	2004 Index Score
India	\$28.84	\$183 (1961)	\$494	3.53 (Mostly Unfree)
China	\$9.95	\$69 (1961)	\$942	3.64 (Mostly Unfree)
Bangladesh	\$9.91	\$213 (1973)	\$396	3.70 (Mostly Unfree)
Pakistan	\$6.64	\$186 (1961)	\$527	3.40 (Mostly Unfree)
Ghana	\$4.02	\$447 (1962)	\$432	3.40 (Mostly Unfree)
Tanzania	\$3.91	N/A (1963) \$181 (1988)*	\$204	3.29 (Mostly Unfree)
Vietnam	\$3.86	N/A (1978) \$185 (1984)*	\$412	3.93 (Mostly Unfree)
Ethiopia	\$3.78	N/A (1961) \$117 (1981)*	\$124	3.33 (Mostly Unfree)
Uganda	\$3.40	N/A (1963) \$236 (1982)*	\$367	2.70 (Mostly Free)
Kenya	\$3.24	\$205 (1964)	\$325	3.26 (Mostly Unfree)
Zambia	\$2.49	\$689 (1966)	\$410	3.50 (Mostly Unfree)
Sri Lanka	\$2.43	\$289 (1961)	\$891	3.06 (Mostly Unfree)

*Earliest year for which data are available.

Sources: World Bank, *World Development Indicators*, 2003, on CD-ROM; Marc A. Miles, Edwin J. Fculner, and Mary Anastasia O'Grady, *2004 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2004); and World Bank, *The World Bank Annual Report 2002*, at www.worldbank.org/annualreport/2002/pdf/IBRDAppendixes.pdf.

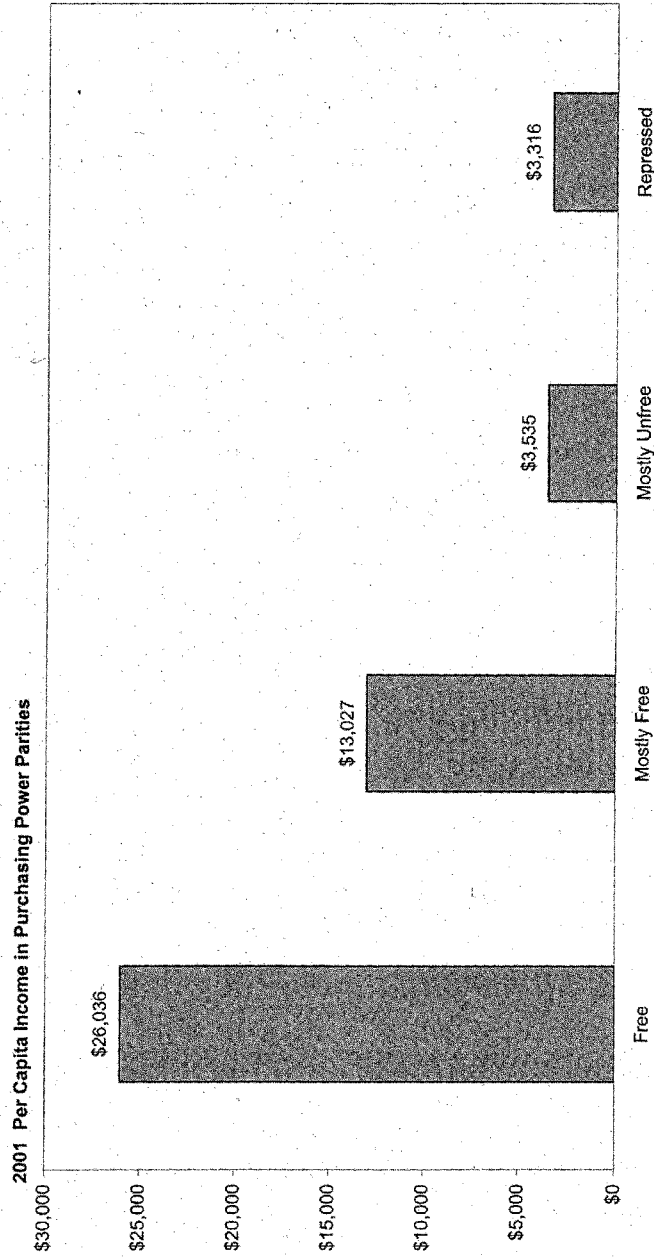
Table 3
The Top 10 Recipients of IMF Loans

Country	Cumulative Amount of IMF Loans Withdrawn (\$ billions)	GDP Per Capita (in the year of the first loan)	GDP Per Capita in 2002	2004 Index Score
Brazil	\$ 53.1	N/A (1958) \$1,742 (1960)*	\$4,644	3.10 (Mostly Unfree)
Turkey	\$ 31.6	N/A (1961) \$1,619 (1968)*	\$2,942	3.39 (Mostly Unfree)
Argentina	\$ 26.5	N/A (1958) \$5,419 (1960)*	\$6,579	3.48 (Mostly Free)
Mexico	\$ 24.8	N/A (1954) \$1,639 (1960)*	\$3,713	2.90 (Mostly Free)
South Korea	\$ 21.01	\$1,547 (1965)	\$14,280	2.69 (Mostly Free)
Russia	\$ 15.64	\$2,967 (1992)	\$2,734	3.46 (Mostly Unfree)
Indonesia	\$ 14.45	\$259 (1961)	\$1,060	3.76 (Mostly Unfree)
India	\$ 8.47	N/A (1957) \$180 (1960)*	\$494	3.53 (Mostly Unfree)
Philippines	\$ 3.80	\$753 (1962)	\$1,195	3.05 (Mostly Free)
Pakistan	\$ 3.62	N/A (1958) \$181 (1960)*	\$527	3.40 (Mostly Unfree)

*Earliest year for which data are available.

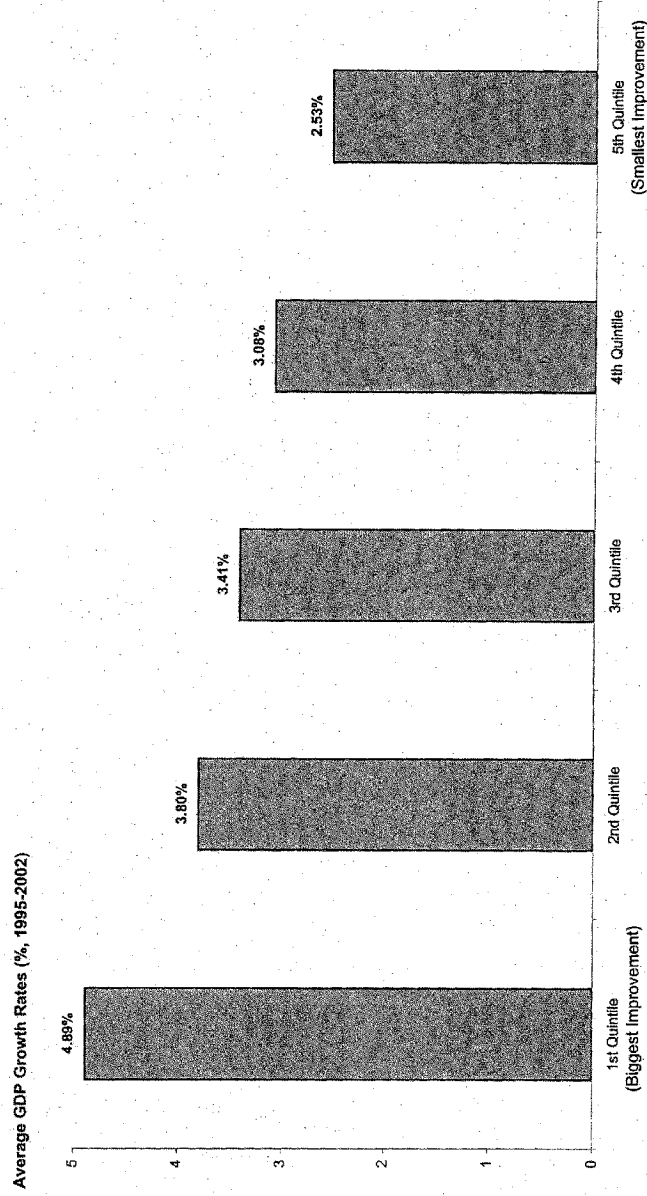
Sources: International Monetary Fund, "IMF Lending Arrangements," at www.imf.org/external/np/tr/tad/xtarr1.cfm; World Bank, *World Development Indicators*, 2003, on CD-ROM; Marc A. Miles, Edwin J. Feulner, and Mary Anastasia O'Grady, *2004 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2004).

Figure 1
Economic Freedom and Per Capita Income



Sources: World Bank, *World Development Indicators online*, available by subscription at www.worldbank.org/data; Central Intelligence Agency, *The World Factbook 2002* for the following countries: Bahamas, Burma, Cuba, Iraq, Israel, North Korea, Libya, Mozambique, Nicaragua, Qatar, Taiwan, Serbia-Montenegro, United Arab Emirates; and Marc A. Miles, Edwin J. Feulner, and Mary Anastasia O'Grady, *2004 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2004), available at www.heritage.org/index.

Figure 2
Improvement in Economic Freedom and Economic Growth



Note: 142 countries were observed.
Sources: World Bank, *World Development Indicators Online*, available by subscription at www.worldbank.org/data; Marc A. Miles, Edwin J. Feulner, and Mary Anastasia O'Grady, *2004 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2004), available at www.heritage.org/index.

Mr. ROHRBACHER. Thank you very much. We have had two very thought-provoking witnesses.

Ms. McClymont.

STATEMENT OF MARY E. McCLYMONT, PRESIDENT AND CHIEF EXECUTIVE OFFICER, INTERACTION

Ms. McCLYMONT. Thank you. Mr. Chairman, thank you for the opportunity to testify before the Committee today. A special thanks to you, Mr. Payne, and others on the Committee who have supported development of humanitarian concerns throughout the years.

InterAction, which I represent, is the largest alliance of American development and relief NGOs. Our 160 member NGOs operate in all developing countries, and reach, through their programs, millions of Americans, as well, who support our foreign assistance programs.

Our policy paper, entitled *Emerging Trends*, analyzes some of the recent major trends in foreign assistance post-9/11. And I would request that that be submitted along with my written testimony for the record. But I will be touching here today on key findings and recommendations actually from that paper, which will focus predominantly on development.

Mr. ROHRBACHER. It will be included in the record. Hearing no objection, they will be included in the record.

Ms. McCLYMONT. Thank you very much, Mr. Chairman.

First, some context. President Bush, as has been noted, identified development to be a central commitment of American foreign policy, both in the Administration's national security strategy, and also in his subsequent major address on the MCA.

He said, and I quote:

"We work for prosperity and opportunity, not only because it is the right thing to do, but because it helps defeat terror, since governments that fail to meet basic needs of their people can become havens for terror."

Indeed, we believe there is a fundamental link between development assistance and our national security and national interest goals, broadly defined.

Indeed, programs which meet basic needs and build self-sufficiency in people lead to more peaceful, prosperous, democratic, and stable nations, which in turn helps ensure greater security for us here at home.

Yet, for development to have the positive impact we all seek, policy must be coherent, programs effective, with clear goals to reduce poverty, and increased resources made available to support them.

Some of the post-9/11 changes have been most welcome, such as the promised increased resources for the President's HIV/AIDS initiative and the new Millennium Challenge Account, which has great potential for transforming some of the selected countries in which it will be operating.

We are concerned, however, that the President has chosen to create, for these and other presidential initiatives, altogether new structures and mechanisms, rather than using existing structures, such as USAID, the focal point of foreign assistance for 40 years.

Moreover, new presidential development initiatives appear to be little more than presidential earmarks. They are not prioritized within, nor apparently connected to, existing programs.

In addition, as has been noted, the growing number of Federal agencies involved in providing assistance overseas further complicates decision-making, and increases the potential for waste and duplication.

Meanwhile, USAID, the only Federal entity with a mandate to look at the big picture, appears to have less authority, and a greatly diminished ability to shape and influence policy, or properly plan and evaluate programs.

In short, without a clear plan and strategy, this approach is leading to increased fragmentation of resources and responsibilities, duplication within the Administration, confusion externally about who is in charge, and a loss of coherence in the field, as multiple Federal agencies pursue similar goals with little coordination.

Equally troubling, these changes have been planned and implemented in a rather ad hoc fashion, with little transparency and consultation.

Finally, although we warmly welcome the overall increases in the foreign operations budget recently, particularly the MCA and the HIV/AIDS initiatives, presidential pledges to maintain funding levels for core development work, and provide substantial incremental funding for the new initiatives, have not been fully met. Including cuts to the core development activities.

Indeed, it is becoming apparent that resources for the MCA and the HIV/AIDS initiatives, although critically important, are coming at the expense of existing development and humanitarian programs.

I will offer up three recommendations of the ones we presented in our paper, and close.

Number one. The Administration, Congress, and the development community should support together a full-scale independent review of U.S. foreign assistance programs, their organizational structures and implementing mechanisms, with the aim of creating a more coherent capability to meet our development in our foreign aid objectives.

Through a transparent and consultative process, an overall enabling policy framework should be developed, with clear goals, and better aligning U.S. foreign aid, trade, and debt programs; clarifying the authorities of relevant Federal agencies, and ensuring close coordination among all. This would surely likely lead to a full review and updating of the Foreign Assistance Act.

Number two. In the interim, absent a formal reorganization, the Administration should strengthen existing foreign assistance structures, particularly USAID, which, despite flaws it may have, is the principal repository of U.S. technical development expertise. Immediate steps should also be taken to address the recent fragmentation.

And finally, number three. We urge that the Administration, working with the Congress, make good on funding pledges, maintaining and enhancing core humanitarian and development assistance levels, in addition to funding new initiatives, such as the

MCA, or as needed, extraordinary contingencies, such as post-conflict reconstruction in Afghanistan and Iraq.

Thank you very much, Mr. Chairman. I would be happy to answer your questions later.

[The prepared statement of Ms. McClymont and material submitted for the record follow:]

PREPARED STATEMENT OF MARY E. MCCLYMONT, PRESIDENT AND CHIEF EXECUTIVE OFFICER, INTERACTION

Thank you, Mr. Chairman, for the opportunity to testify before this Committee on a subject of paramount importance, U.S. Foreign Assistance Policy post September 11. I also want to acknowledge the leadership and support that you, Representative Lantos, and many others on this Committee have provided on issues of concern to us in the humanitarian and development community. I particularly want to note the leadership of the Chairman and Ranking Member in authorizing the Millennium Challenge Account and enacting the *“United States Leadership Against HIV/AIDS, Tuberculosis, and Malaria Act of 2003.”* We were gratified by the bipartisan and collaborative manner in which this committee, and your staff, engaged with InterAction and the broader development community throughout the legislative process.

InterAction is the largest alliance of U.S.-based international development and humanitarian nongovernmental organizations. Our 160 members operate in every developing country and have decades of experience on the ground in working to overcome poverty, exclusion and suffering by advancing social justice and basic dignity for all. While many in our membership have a long and successful history of partnership with U.S. government agencies, collectively, the members receive approximately \$3 billion in annual contributions from private donors, including direct contributions from the American people. Both faith-based and secular, InterAction members are headquartered in 25 states and have branch offices and/or constituencies in every state in the country. Furthermore, when you look at the donors, sponsors, and supporters of our member organizations, InterAction reaches millions of Americans who care about and support in some form our foreign assistance programs.

I come before you to reflect views from this broad-based coalition, with a focus on the development and humanitarian assistance component of our foreign assistance programs.

As the title of this hearing underscores, there have been major changes to our foreign assistance programs in the past three years, particularly following the tragic terrorist attacks of September 11, 2001. Many of these changes have been most welcome, such as the increased resources for combating disease and promoting international development promised in the President’s HIV/AIDS and the MCA initiatives. We have commended the Bush Administration for declaring the advancement of development as a central commitment of American foreign policy.

We are concerned, however, about a number of intended and unintended consequences of the Administration’s goals and methods. The recent changes have brought with them new policies, structures and mechanisms for delivering this assistance. In short, the Administration is dispersing responsibilities and resources so widely that the delivery and impact of foreign aid may well fall far short of expectations, both in countries of strategic interest and on a global basis.

It was this concern that spurred us to issue a policy paper analyzing some of these post-9/11 trends and making a series of recommendations to address our concerns. I ask, Mr. Chairman, that this paper, entitled, *“Foreign Assistance in Focus: Emerging Trends,”* be submitted for the record along with my written testimony, which summarizes our key findings and recommendations.

CONTEXT FOR FOREIGN ASSISTANCE

Recent changes in US foreign assistance appear to have emerged in response to the attacks on the United States of September 11, 2001 and the subsequent creation of a *“National Security Strategy”* uniting diplomacy, defense, and development. In a major March 2002 address, President Bush confirmed that the *“advance of development is a central commitment of American foreign policy”* and that *“we work for prosperity and opportunity because they’re right.”* However, he added, *“we also work for prosperity and opportunity because they help defeat terror . . . persistent poverty and oppression can lead to hopelessness and despair. And when governments*

fail to meet the most basic needs of their people, these failed states can become havens for terror.”

Most of us in the development community have welcomed this heightened emphasis on development as a high priority in this Administration’s foreign policy. We would agree that there is a fundamental link between development assistance and our national security and national interest goals, broadly defined.

However, for development to have the positive impact that the President notes, that is to create prosperity and opportunity, and to help governments meet the most basic needs of their people, development policy has to be coherent, development programs effective with clear goals to reduce poverty and increased resources must be allocated to support them. If development assistance is tied only to short-term narrowly defined national interest objectives, or if it is channeled through ineffective or unaccountable means, certain specific political or foreign policy objectives may be met, but it is not likely to achieve the broader development objectives to which the President alluded in his March 2002 speech.

On the other hand, we know that programs which work to reduce poverty, meet basic needs and build self-sufficiency in people—such as providing basic education, healthcare, work and farming skills, reducing hunger, promoting women and girls—lead to more peaceful, prosperous, democratic and stable nations which in turn leads to greater security for the United States.

A cornerstone of the President Bush’s new vision on foreign assistance is the Millennium Challenge Account (MCA). The President has called for “a new compact for global development” based on the mutual responsibilities of rich nations to provide the tools poor countries need to “seize the opportunities of the global economy,” and of poor countries to “adopt the reforms and policies that make development effective and lasting.” To show U.S. leadership and commitment to these goals, he announced the creation of the MCA, which would increase U.S. development assistance by \$5 billion a year over current levels by FY2006 and reward nations “ruling justly, investing in their people, and encouraging economic freedom.”¹

The Bush Administration has announced this initiative as a step toward greater innovation, focus and accountability in foreign assistance programs. Significantly, the President did not choose to use the existing mechanisms and authorities of the U.S. Agency for International Development, the focal point of U.S. foreign assistance since 1961. Other subsequent Presidential initiatives and major assistance programs in high profile, post-conflict cases like Iraq have also been created with new authorities and structures.

These initiatives have been received with a certain degree of ambivalence in the development community. There is a clear consensus in the NGO community on the need for additional resources for humanitarian and development assistance, and the President’s promise of additional resources for HIV/AIDS and the MCA has been warmly welcomed. Furthermore, most in the development community agree that there is much room for reform in U.S. foreign assistance programs and structures, particularly USAID, and see potential value in testing multiple approaches to the wide range of development challenges and foreign policy objectives we face today.

We are concerned, however, that the creation of new entities alongside a diminished—but otherwise unreformed—USAID is leading to increased fragmentation of resources and responsibilities, duplication within the Administration, confusion externally about who is in charge, and a loss of coherence in the field as multiple federal agencies pursue similar goals with little coordination. In addition, the national security lens through which the Administration is viewing development has increasingly focused on short-term goals, encouraging a preference for foreign aid “quick fixes” over the longer-term approaches that are more likely to bring sustainable change, and indeed ultimately the global prosperity and stability the Administration seeks.

Equally troubling to the NGO community, the Administration’s recent modifications of foreign assistance structures have been planned and implemented in an ad hoc fashion. This process has taken place with little transparency or consultation with stakeholders, or consideration for the lessons learned from America’s long experience in foreign aid.

Indeed, a comprehensive U.S. development strategy should be designed. This strategy should include clear goals, realistic timetables, and sufficient resources for reducing poverty and meeting the Millennium Development Goals through programs of assistance, trade and economic policies, debt relief and private investment flows. This must be accompanied by appropriate organizational mechanisms and structures to assure effective delivery of programs, and make clear the ways to reach not

¹Remarks by President Bush on Global Development, Inter-American Development Bank, Washington, DC, March 14, 2002.

just people in MCA eligible countries but in those not eligible yet in great need of assistance as well.

SOME LESSONS LEARNED

We in the NGO community firmly believe in the importance of lessons learned from past experience and in the need to continue improving mechanisms for quantifying the impact of foreign assistance. The successes and failures of U.S. development experience over many decades can serve as a useful guide as we move forward. This experience has demonstrated, among others, the following lessons:

- In most countries, it takes a patient and steady commitment of resources and expertise over a long period to achieve sustainable development.
- There is no single road map to sustainable development. The process varies from country to country, is rarely linear, and requires addressing multiple interrelated challenges simultaneously.
- There are few effective shortcuts in the development process. Quick fixes born of short-term political and economic calculations are the least likely to produce lasting impact.
- The most effective aid programs are those that are reinforced by the local government's commitment to sound economic policies, human resource development and strengthening of institutions.
- Equally important is the U.S. government's commitment to address a range of issues (including trade and debt issues and equitable growth and development) that might otherwise undercut efforts of developing countries to reduce poverty and spur economic growth. In fact, one could argue that coherence of U.S. policies towards recipient countries is as important to the effectiveness of U.S. assistance as are the kinds and quantity of aid provided.
- Even where developing country governments are committed to promoting policy reforms and poverty reduction, engagement of the nongovernmental sector is critical to achieving broad, sustainable changes and reinforcing democratic participation.
- The impact of foreign aid in specific countries can be magnified by the close coordination with other donors and multilateral development organizations.
- Failure to consider the development priorities of recipient countries and to coordinate with other donors may lead to confusion, duplication, waste and ill will towards the United States.

InterAction is concerned that a number of these basic lessons have been insufficiently considered in the formulation of the current Administration's views on foreign assistance, and particularly in the new structures it has created to address development challenges.

THE MILLENNIUM CHALLENGE ACCOUNT

Indeed, the Millennium Challenge Account is the centerpiece of the Bush Administration's new approach to development aid. We believe that the MCA represents a unique opportunity to revitalize and redefine U.S. foreign assistance policy and to maximize the impact, effectiveness and coherence of our aid programs. However, we are concerned that this experiment will fall far short of its goals without sufficient funding and adequately trained human resources, consensus on implementation and greater clarity about the policy framework in which the MCC will operate.

Although it represents a significant step forward, the MCA is just one tool to stimulate broad-based economic growth and prosperity in developing countries. We are therefore concerned about the broad impact of the MCA on other aspects of U.S. foreign assistance. First, in a resource-constrained environment—and without more robust Administration budget requests and justifications—the MCA threatens to drain funding from USAID and other Presidential initiatives, rather than add to them, as promised.

The MCA initiative is forcing USAID to redefine and redesign its development role in relationship to the MCA. In June of 2003, USAID has declared among its highest priorities helping the next tier of countries prepare themselves for MCA eligibility; providing aid to strategically important states; giving post conflict and humanitarian assistance to failed or failing states; and assisting mid range performers that have a will to reform. However, for the largest group of countries that are poor and home to the bulk of the developing world's population, many of whom live in absolute poverty and lack access to adequate food, education and basic health services, but are considered neither MCA eligible nor failed states, USAID lacks the re-

sources to promote development and growth in any comprehensive or consistent fashion. Yet, these are the very nations that, if left unattended, are vulnerable to becoming failed states, serving as breeding grounds for instability and terrorism.

Second, the implementation of the MCA by a completely separate entity from USAID may produce conflicting country strategies and will complicate the coordination of different kinds of U.S. development assistance, both in Washington and in the field. This fragmentation is also apt to have a negative effect on U.S. relations with recipient countries, other donors, and U.S. foreign assistance contractors and grantees. We were gratified that Congress has mandated some measures for coordination between programs and agencies in the authorizing legislation for the MCA. It remains to be seen, however, how this is implemented between competing bureaucracies.

KEY STRUCTURAL TRENDS AND CONCERNS

Despite more cohesive policy statements on the role of foreign aid in general, the Administration has announced various other initiatives besides the MCA, many of which are narrowly defined and appear to be little more than Presidential earmarks and directives that will tie the hands of USAID in devising appropriate strategies and programs for countries receiving U.S. assistance. The USAID Web site lists *eighteen* Presidential initiatives designed to address problems ranging from global HIV/AIDS and safe drinking water to illegal logging and “digital freedom,” without a clear sense of priority or indication of how these activities will be integrated into on-going development planning in Washington or delivery in the field.

New entities are being created and scattered throughout the government, at times addressing similar problems. Yet, there seems to be inadequate or ineffective institutional coordination among them or incentive for collaboration.

And, with the growing number of federal agencies (such as State, Treasury, Health and Human Services, and Agriculture) involved in providing assistance overseas, the need for consultation and coordination is more important than ever. The increasing role of the Defense Department to plan and implement humanitarian relief and reconstruction in hot spots such as Afghanistan and Iraq undercuts efforts to lay the foundation for longer term development, ignores the experience and expertise of USAID, its NGO grantees and international organizations, and poses operational challenges and security implications for humanitarian groups.

The proliferation of these entities is complicating decision-making and creating a competitive—rather than collaborative—environment in which staff and resources may be wasted on duplicative efforts. In turn, the fragmentation of decision making makes it more difficult for potential U.S. government partners (whether other donors, multilateral organizations, contractors, NGOs, or foreign governments seeking assistance) to know who is in charge and whether there are overarching policies and procedures governing U.S. foreign assistance programs. This is especially so as consultation and coordination with U.S. development partners, other donors and recipient countries remains limited as well.

And, USAID—the only federal entity with a mandate to look at the big picture and coordinate all forms of humanitarian and development assistance around the world and in specific countries—appears to be submerged under new layers of bureaucracy, with less authority, fewer resources and a greatly diminished ability to shape and influence policy. USAID missions are losing their ability to develop comprehensive country strategies with host-country governments and other stakeholders, as well as to monitor and evaluate the effectiveness of the full range of U.S.-funded development activities in country. The reduced USAID role and the fragmentation of planning and delivery of U.S. assistance are also leading inevitably to a much less cohesive targeting of assistance.

FUNDING CONCERNS

Finally, pledges to maintain funding levels for broad development work and provide substantial incremental funding for new initiatives have not been fully honored, resulting in cuts to traditional development activities, slow starts for new initiatives, and overall a diminished ability to demonstrate the effectiveness of all foreign assistance programs.

President Bush’s announcement of two major development initiatives was received with much fanfare and applause from the development community. The President’s promises of \$15 billion over five years to combat the HIV/AIDS pandemic and an *additional* \$5 billion annually in development assistance by 2006 through the MCA initiative were welcomed as the first step in reversing a decade of declining levels of foreign assistance. However, there is increasing concern that resources for these

important initiatives will come at the expense of existing development and humanitarian programs.

For example, the Administration's budget request in FY2004 included an impressive 14% increase in overall foreign assistance spending. When the funding for new initiatives is subtracted, however, there was less than 3% increase for the remainder of the foreign operations budget—not sufficient to keep pace with both inflation and population growth. For example, in the request for the development assistance account, which is the main account through which USAID funds development activities in all the non-MCA countries, \$35 million was actually cut over FY2003 enacted levels. This was further exacerbated when the Administration failed to request additional funding for Afghanistan, earmarking instead \$150 million out of an already diminished DA account. As a result, the President's DA request for Latin America, Africa and Asia were all cut from the previous year. In Child Survival and Health, the President's funding request for non-HIV/AIDS related programs—such as assistance for vulnerable children, maternal and child health, other infectious diseases, and family planning programs—was \$125 million below what Congress appropriated the previous year. We believe this failure to adequately fund the core humanitarian and development accounts is one of the reasons why Congress, in the end, cut funding for the MCA and other new initiatives and increased funding for DA, Child Survival, Refugees and other key programs.

The funding gap was further exacerbated when the Administration unveiled the expected resource requirements for long-term reconstruction and development in Afghanistan and Iraq in the supplemental appropriation packages last year. While it is difficult to attribute a direct causal relationship between last year's \$87 billion supplemental request and the regular budget process, it bears pointing out that the President's request for foreign operations was \$18.8 billion in FY 2004 and the final appropriation was nearly \$1.5 billion below that request. Furthermore, the \$20 billion for Iraq reconstruction contained in the supplemental is larger than the entire foreign assistance budget. From an NGO perspective, the staggering magnitude of these extraordinary expenses makes the short-changing of accounts for global development aid and the President's new initiatives all the more unfortunate.

While the FY2005 budget will not be released for another week, early indications are that a similar situation is likely to unfold this year—significant resources allocated for Administration initiatives, but inadequate resources for ongoing humanitarian and development programs.

RECOMMENDATIONS

Mr. Chairman, we recognize that U.S. foreign assistance is shaped by foreign policy and national security priorities as well as our national interest in promoting a stable and prosperous world in which every country has the means to master its own development process. From our long history of helping others, our country has unequaled expertise to implement effective foreign aid in many different circumstances. However, some new approaches may be required to address the particular challenges and opportunities we face in the 21st Century. We look forward to working with Congress and the Administration to ensure that the United States has a clear and consistent policy framework and appropriate mechanisms and resources to carry out its humanitarian and development programs.

Let me therefore conclude with the following recommendations:

1. *The Administration, Congress and the development community should support a full-scale, independent review of U.S. foreign assistance programs, organizational structures and implementing mechanisms, with the aim of creating a more coherent, cohesive and modern assistance capability that can meet our myriad foreign policy and foreign aid objectives.*

To be truly comprehensive and effective, this review should include the participation of outside experts as well as development practitioners. The scope of the review should take into consideration the interdependence of U.S. policies on aid, trade and debt issues in developing countries. The goal should be to develop, through a transparent and consultative process with all stakeholders, an overall enabling policy framework for U.S. foreign aid/trade/debt programs, clarifying the authorities of relevant federal agencies and ensuring close coordination among all.

We urge the Administration to ensure that the overall policy framework and the mechanisms to plan and deliver U.S. foreign aid are consistent and supportive of each other.

Similarly, it may be time for Congress to review and update the Foreign Assistance Act. As we know from past experience, revision of underlying legislation is a difficult task that risks exacerbating differences rather than unifying views on how the United States should carry out its foreign assistance programs. However, it

could be extremely useful to clear away the layer upon layer of restrictive and often outdated provisions in the FAA and to develop a clear and consistent statement of overall foreign aid goals.

2. In the interim, the Administration, at a minimum, should strengthen existing foreign assistance structures, particularly USAID.

Given the challenges that the United States faces in the 21st Century, it is imperative that our foreign assistance capability be agile, fast, innovative and united in purpose. But to be effective in promoting the global prosperity and stability we all seek, it must also have a single center of gravity and a comprehensive perspective on broad-based and long-term development.

USAID has served as the focal point of U.S. foreign assistance for more than 40 years. Despite flaws, it remains the principal repository of U.S. technical development expertise, it has established ties with the major U.S. development partners at home and abroad, and its credibility and access around the world cannot be duplicated easily by other entities. Absent a formal reorganization, USAID's coordinating and planning roles and resources should be enhanced to provide a smooth interface with recipient countries, development partners, other donors and all federal entities involved in international assistance.

3. The Administration should also take immediate steps to address the recent fragmentation of foreign assistance and its implications both for planning and funding in Washington and for delivery of assistance in the field.

These could include steps to:

- Demonstrate the overall vision and coherency of U.S. foreign assistance policy through regular, consistent statements by the President, the National Security Advisor, the Secretary of State, and the Administrator of USAID.
- Utilize better the existing authority and resources of USAID and its field missions to 1) coordinate the planning, delivery, monitoring and evaluation of humanitarian and development programs across the board, regardless of implementing agency, 2) take the lead in working with recipient governments and other stakeholders to develop comprehensive country strategies that identify broad needs and appropriate resources, and 3) improve coordination with other donors.
- Clarify reporting and coordinating responsibilities of all U.S. government agencies vis-a-vis the U.S. Ambassador and the USAID Mission Director when working in the field on humanitarian relief, post-conflict reconstruction and long-term development.
- Examine the roles, responsibilities and resources of military and non-military entities involved in humanitarian relief and post-conflict reconstruction to ensure respect for the independence and impartiality, as well as the expertise and experience of humanitarian actors.

4. Overall, the Administration and Congress should ensure that expertise and resources for long-term development remain at the core of our foreign aid policies and programs.

While U.S. foreign and security objectives will inevitably change to reflect new Administration priorities in the face of an evolving world, the achievement of long-term development goals will require a steady and patient approach. In turn, ongoing development work will lay the groundwork for more effective short-term interventions. The interdependence of short- and long-term development approaches requires appreciation for their differences and their similarities, as well as space to pursue each and coordinate where they overlap.

InterAction therefore calls on the Administration to:

- Recognize the long-term nature of development goals such as reducing poverty and corruption, promoting good governance and democratic participation and supporting private-sector development.
- Ensure that development projects are designed, managed and evaluated from the perspective of their long-term nature, not just their short-term political impact.
- Build into all grants and contracts adequate provision for capacity-building activities with local government and nongovernmental organizations, recognizing that a commitment to policy reform alone will not lift poor countries out of poverty and poor governance.

- Review the activities, indicators of success, and funding sources of each foreign assistance program to ensure that they adequately reflect the proper mix of short- and long-term objectives.
5. *Finally, President Bush and Congress must make good on pledges to increase U.S. foreign assistance by maintaining and enhancing traditional humanitarian and development assistance levels in addition to funding new initiatives like the MCA. Assistance for extraordinary contingencies such as the post-conflict reconstruction of Iraq and Afghanistan cannot come at the expense of humanitarian and development needs in other regions.*

Thank you, and I would be happy to answer any questions.



Foreign Assistance in Focus

Emerging Trends

An InterAction Policy Paper

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InterAction is the largest alliance of U.S.-based international development and humanitarian nongovernmental organizations operating in every developing country.

November 2003



Foreword

In this paper, InterAction, the nation's largest alliance of international development and humanitarian nongovernmental organizations, analyzes emerging trends in U.S. foreign assistance policy and the way it is carried out. Chief among the recommendations is our call for a full-scale review of U.S. foreign assistance programs and organizational structures. We also recommend immediate steps to strengthen existing delivery mechanisms.

Developed through consultations with our membership of 160 organizations, this is the first in a series of InterAction policy papers focused on improving the effectiveness of U.S. development and humanitarian assistance. The series will undertake an examination of assistance through a lens that takes into account decades of on-the-ground experience of NGOs that work with partners overseas to deliver assistance. This effort is part of InterAction's multi-year campaign, the Global Partnership for Effective Assistance, which seeks to save lives and build self-sufficiency by increasing development and humanitarian assistance, improving aid effectiveness, and building international partnerships.

InterAction looks forward to an open and constructive dialogue with policymakers, the development community, and the broader public on the issues addressed here.

Mary E. McClymont
President & CEO
InterAction

Emerging Trends

Executive Summary

InterAction, which has long rallied the development community in support of resources and legislation necessary for a more effective U.S. foreign aid program, commends the Bush Administration for its new emphasis on the importance of development assistance in advancing U.S. foreign policy goals. In particular, InterAction believes that President Bush's pledges of additional resources for the Millennium Challenge Account and the HIV/AIDS Initiative could provide effective new means of dealing with urgent global problems and promoting the policy reforms necessary for good development in poor countries.

InterAction is concerned, however, about a number of intended and unintended consequences of the Administration's goals and methods, especially the post-September 11, 2001 inclination to view foreign aid primarily through a new national security lens. Despite a commitment to create a more cohesive policy framework for foreign aid as an element of national security strategy, the Administration is dispersing responsibilities and resources so widely that the delivery and impact of foreign aid may well fall far short of expectations, both in countries of strategic interest and on a global basis.

The creation of new entities alongside a diminished – but otherwise unreformed – U.S. Agency for International Development is leading to increased fragmentation of resources and responsibilities, confusion externally about who is in charge, and a loss of coherence in the field as multiple federal agencies pursue similar goals with little coordination. Recent changes in foreign aid structures have been implemented in an ad hoc manner, often with little transparency and consultation with stakeholders, or consideration of lessons learned from the United States' long experience in foreign aid.

Just as importantly, the Administration's failure to meet funding pledges and the escalating costs of "extraordinary" relief and reconstruction activities in Iraq and Afghanistan threaten to undercut new initiatives and reduce, rather than strengthen, support for on-going humanitarian and development programs around the world.

In the interests of more effective foreign assistance, InterAction therefore recommends:

1. A full-scale review of U.S. foreign assistance programs, organizational structures, implementing mechanisms, and interrelated policies on aid, trade and debt in the developing world, conducted with the support of the Administration, Congress and the development community.
2. Interim steps to strengthen existing foreign aid structures, particularly USAID.
3. Immediate steps to address the fragmentation of foreign assistance, with greater policy consistency and clarity and improved coordination both in Washington and the field.
4. A balance in U.S. foreign aid programs between activities aimed at short- and long-term impact, recognizing the importance of long-term development to lasting and sustainable change.
5. Fulfillment of the President's pledges to substantially increase overall foreign assistance levels by maintaining and enhancing traditional humanitarian and development assistance levels *in addition to* funding new initiatives like the MCA.

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Introduction

In this first in a series of policy papers on topics of concern to the nongovernmental organization (NGO) community, InterAction examines some emerging trends in U.S. foreign assistance.

The origins of these trends are complex, and many predate the Bush Administration. This paper, however, focuses primarily on the trends emerging in the last two years that appear to be having the greatest impact on mechanisms for the planning and delivery of U.S. foreign assistance, particularly humanitarian relief and long-term development assistance programs. The paper analyzes recent and anticipated structural changes and reflects the concerns and recommendations of InterAction, many of whose members have been long-standing development partners of the U.S. Agency for International Development, and all of whom are committed to enhancing the effectiveness of U.S. foreign assistance.

The most dramatic trends seem to have emerged in response to the attacks on the United States of September 11, 2001 and the subsequent creation of a "National Security Strategy" uniting diplomacy, defense, and development. In the aftermath of the September 11 terrorist attacks, the Administration has increasingly turned its attention to development assistance as a tool of the war on terrorism.

In a major March 2002 address, President Bush confirmed that the "advance of development is a central commitment of American foreign policy" and that "we work for prosperity and opportunity because they're right." However, he added, "we also work for prosperity and opportunity because they help defeat terror. ... persistent poverty and oppression can lead to hopelessness and despair. And when governments fail to meet the most basic needs of their people, these failed states can become havens for terror."

The President then called for "a new compact for global development" based on the mutual responsibilities of rich nations to provide the tools poor countries need to "seize the opportunities of the global economy," and of poor countries to "adopt the reforms and policies that make development effective and lasting." To show U.S. leadership and commitment to these goals, he announced the creation of a Millennium Challenge Account, which would increase U.S. development assistance by \$5 billion a year by FY 2006 and reward nations "ruling justly, investing in their people, and encouraging economic freedom."¹

Significantly, the President did not choose to use the existing mechanisms and authorities of the U.S. Agency for International Development, the focal point of U.S. foreign assistance since 1961. Other subsequent Presidential initiatives (such as those on HIV/AIDS and the Middle East Partnership) and major assistance programs in high profile, post-conflict cases like Iraq have also been set up with new authorities and structures.

The Bush Administration has announced these initiatives as steps toward greater innovation, focus and accountability in foreign assistance programs. While InterAction welcomes the Administration's strong interest and engagement in foreign assistance programs, the changes that have been proposed portend both welcome benefits and serious problems.

InterAction is pleased that development has become a higher priority in this Ad-

ministration and believes that there is much room for reform in U.S. foreign assistance programs and structures, particularly USAID. There may also be value in testing multiple approaches to the wide range of development challenges and foreign policy objectives we face today.

The creation of new entities alongside a diminished – but otherwise unreformed – USAID, however, is leading to increased fragmentation of resources and responsibilities, duplication within the Administration, confusion externally about who is in charge, and a loss of coherence in the field as multiple federal agencies pursue similar goals with little coordination. In addition, the national security lens through which the Administration is viewing development has increasingly focused on short-term goals, encouraging a preference for foreign aid “quick fixes” over the longer-term approaches that are more likely to bring sustainable change, and indeed ultimately the global prosperity and stability the Administration seeks.

Equally troubling to the NGO community, the Administration’s recent modifications of foreign assistance structures have been planned and implemented in an *ad hoc* fashion. This process has taken place with little transparency or consultation with stakeholders, little consideration for the lessons learned from America’s long experience in foreign aid, or recognition that the Administration may lose significant development tools and approaches in its efforts to reinvent foreign aid as an instrument of national security policy.

Many have argued that the Administration’s creation of new mechanisms reflects frustration and disenchantment with USAID and traditional approaches to development. Indeed, there is growing consensus that our foreign assistance infrastructure and methods have not kept pace with changing demands, and that a comprehensive review is overdue.

In this paper, InterAction does not attempt to analyze the strengths and weakness of USAID and other foreign assistance mechanisms. InterAction proposes the establishment of a collaborative, transparent process supported by the Administration, Congress and the development community to undertake a comprehensive review of U.S. foreign assistance policy and the implementing mechanisms needed to achieve broad, equitable and sustainable development in the 21st Century. InterAction also includes in this paper immediate steps the Administration should take to improve coordination and policy coherence among the proliferation of U.S. entities engaged in international relief and development work, to balance political and long-term development objectives, and to strengthen relations with development partners.

The Context of U.S. Foreign Assistance

Since World War II, the United States has viewed foreign assistance as a tool of foreign policy, an outgrowth of our own successful development, and an essential element of our moral responsibilities as a world citizen. Successive Administrations have placed their own stamp on each of these three elements and modified foreign aid policies and mechanisms accordingly. Efforts to wage “cold” or “hot” wars alike have had a tremendous impact on U.S. foreign aid capabilities and experiences, variously expanding or contracting resources and innovation during and after periods of conflict.

During the four decades following World War II, the Cold War provided a political and theoretical overlay that encouraged consensus in Congress and the Administration on foreign aid policies and structures. One of the major outgrowths of this consensus was President Kennedy’s creation of USAID and passage of its

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authorizing legislation, the Foreign Assistance Act of 1961.

In the fourteen years since the end of the Cold War, the United States has repeatedly tried to remake its foreign aid program to reflect its dominant superpower status and the new realities of an increasingly interconnected world.

More recently, the Bush Administration's view of foreign aid and its relationship to foreign and national security policy has been heavily influenced by the pursuit of an ever-widening war on terrorism. The nation's largest and most visible foreign aid programs are in Afghanistan and Iraq, where the Defense Department has unprecedented influence over humanitarian and development assistance. The initial funding requests and projections on the ultimate cost and duration of our engagement in Iraq alone threaten to dwarf all other assistance programs combined. While the Administration has put forward a few potentially far-reaching development initiatives, the cost, complexity and controversy surrounding the high-visibility programs in Iraq and Afghanistan are diverting attention and support from the myriad challenges to development and growth in Africa, Latin America and other critical regions.

In the coming years, InterAction hopes that the Administration will reflect on the lessons of almost six decades of solid U.S. experience in humanitarian relief, post-conflict reconstruction and long-term development. Looking back systematically, the successes have been extremely impressive, particularly where U.S. assistance has been broad, consistent and steady. In these cases, foreign aid clearly has not been the only factor in the success stories, but it has played important catalytic and supporting roles around the world. In cases with lackluster results, blame cannot be solely placed on ineffective foreign assistance programs. Lack of commitment from the recipient countries has also been a factor in the failure of these initiatives.

The NGO community firmly believes in the importance of lessons learned from past experience and in the need to continue improving mechanisms for quantifying the impact of foreign assistance. The successes and failures of U.S. development experience since World War II have demonstrated, among others, the following lessons:

- In most countries, it takes a patient and steady commitment of resources and expertise over a long period to achieve sustainable development.
- There is no single road map to sustainable development. The process varies from country to country, is rarely linear, and requires addressing multiple interrelated challenges simultaneously.
- There are few effective shortcuts in the development process. Quick fixes born of short-term political and economic calculations are the least likely to produce lasting impact.
- The most effective aid programs are those that are reinforced by the local government's commitment to sound economic policies, human resource development and strengthening of institutions.
- Equally important is the U.S. government's commitment to address a range of issues (including trade and debt issues and equitable growth and development, particularly with respect to gender) that might otherwise undercut efforts of developing countries to reduce poverty and spur economic growth.

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- Even where developing country governments are committed to promoting policy reforms and poverty reduction, engagement of the nongovernmental sector is critical to achieving broad, sustainable changes and reinforcing democratic participation.
- In addition to helping the countries on the verge of lifting themselves out of poverty and stagnation, we cannot afford to ignore failed and failing states, home to the bulk of the developing world's population who live in absolute poverty and lack access to adequate food, education and basic health services. These failed states, if left unattended, can become fertile breeding grounds for instability and terrorism.
- Overall U.S. policy coherence with respect to foreign aid and particular recipient countries is often as important to the effectiveness of U.S. assistance as are the kinds of aid provided.
- The impact of foreign aid in specific countries can be magnified by the close coordination with other donors and multilateral development organizations.
- Failure to consider the development priorities of recipient countries and to coordinate with other donors may lead to confusion, duplication, waste and ill will towards the United States.

InterAction is concerned that many of these basic lessons have been insufficiently considered in the formulation of the current Administration's views on foreign assistance, and particularly in the structures it has created to address development challenges.

Structural Changes and Other Emerging Trends

At the outset of FY 2004, InterAction notes the following significant changes made by the Bush Administration in the way foreign aid will be delivered:

1. New structures and presidential "initiatives" created or proposed to operate outside of traditional foreign assistance mechanisms, such as:
 - An independent entity, the Millennium Challenge Corporation, to administer a new foreign assistance program, the Millennium Challenge Account.
 - A coordinator and office in the State Department to administer a \$15-billion, 5-year plan for HIV/AIDS prevention, treatment and care in 14 severely affected countries in Africa and the Caribbean. (This new office will fund and manage activities above and beyond those of USAID and the U.N. Global Fund on AIDS, Tuberculosis and Malaria and oversee all U.S. government assistance on HIV/AIDS. The Department of Health and Human Services also continues to increase its role in the administration of international HIV/AIDS programs).
 - An independent entity, the Millennium Challenge Corporation, to administer a new foreign assistance program, the Millennium Challenge Account. A new State Department program, the Middle East Partnership Initiative, providing assistance for reforming education systems, promoting open economies, supporting democratic reforms, promoting the rule of law and greater political participation — all activities traditionally supported by USAID.

- A Famine Fund to intervene in food-insecure countries, to be controlled by Office of Management and Budget (OMB) but implemented by USAID. (This Fund will be separate from existing food assistance programs managed by the Department of Agriculture and USAID).
 - A U.S. Emergency Fund for Complex Foreign Crises to provide resources to resolve political crises, to be managed by the National Security Council and OMB.
2. A dramatically expanded role for the Department of Defense in relief and reconstruction in conflict and post-conflict situations (which poses particular operational challenges and security implications for humanitarian groups).
 3. New or increased roles in international development assistance for other federal departments and agencies such as Treasury, Health and Human Services, Labor, Energy, Environmental Protection, etc.
 4. An increased role for OMB in setting development policy.
 5. New mechanisms to coordinate and "align" USAID's development programs with the State Department's foreign policy goals.
 6. A diminished role for USAID in coordinating and delivering disaster and humanitarian relief and traditional long-term development assistance, and a planned further narrowing of focus once the Millennium Challenge Corporation is operational.

Some of the motivations for these changes have roots that predate the Bush Administration and arise as much from Congressional pressures and exhortations as from Administration initiatives. These include efforts to:

- Bring USAID under greater budget and policy control of the State Department.
- Design and manage foreign aid projects to produce narrowly defined short-term results, rather than create institutions and policies that are sustainable in the long term.
- Streamline the administrative costs of foreign assistance by cutting back on USAID staff in Washington and field missions, and by moving to fewer, larger contracts, rather than a broad range of smaller contracts and grants.
- Use budget "earmarks" to protect discrete projects supported by special interests, while failing to generate broad support for – and understanding of – foreign assistance appropriations overall.

The Bush Administration set out early on to distinguish itself from its predecessors by announcing that development would be elevated to a higher profile as one of the three pillars of its post-September 11 "National Security Strategy," along with diplomacy and defense. The President became more visibly involved with development issues in launching a series of initiatives designed to use new approaches to address a wide range of problems with global or regional impact. Some of these initiatives, such as the MCA, are potentially broad reaching in

scope and may well be effective laboratories for testing new approaches to foreign aid, **if properly funded, staffed, and supported throughout the Administration.**

Indeed, the Millennium Challenge Account is the centerpiece of the Bush Administration's new approach to development aid. From InterAction's perspective, the MCA represents a unique opportunity to revitalize and redefine U.S. foreign assistance policy and to maximize the impact, effectiveness and coherence of our aid programs. An InterAction paper issued in May 2002² called the announcement of the MCA "a significant step forward" and a chance to "fundamentally transform U.S. development policy and maximize its impact." That paper, subsequent papers, and testimony from InterAction outline the coalition's views.

Overall, InterAction remains supportive of the MCA concept but concerned that this experiment will fall far short of its goals without sufficient funding and adequately trained human resources, consensus on implementation and greater clarity about the policy framework in which the MCC will operate. As of this writing, the MCC has yet to be authorized, and the Administration's FY 2004 request of \$1.3 billion (considerably below the Administration's initial projections) is apt to be significantly scaled back by Congress. With such a slow start, it is unlikely that the MCC will have the funding to demonstrate desired results or the staff and technical expertise to monitor and evaluate the progress of its grants.

InterAction is also deeply concerned about the broad impact of the MCA on other aspects of U.S. foreign assistance. First, in a resource-constrained environment – and without more robust Administration budget requests and justifications – the MCA threatens to drain funding from USAID and other Presidential initiatives, rather than add to them, as promised.

Second, the MCA initiative has forced USAID to redefine and redesign its development role in relationship to the MCA. USAID has now declared its highest priorities to be helping the next tier of countries prepare themselves for MCA eligibility, providing aid to strategically important states and giving humanitarian assistance to failed or failing states. But the focus may be considerably diminished with respect to development assistance to poor nations that are neither in the MCA range nor in the category of failed states and are not of strategic significance to the United States.

Third, the implementation of the MCA by a completely separate entity from USAID may produce conflicting country strategies and will enormously complicate the coordination of different kinds of U.S. development assistance, both in Washington and in the field. This fragmentation is also apt to have a negative effect on U.S. relations with recipient countries, other donors, and U.S. foreign assistance contractors and grantees. The Administration has yet to propose any mechanisms to ensure coordination between programs and agencies.

Beyond the MCA, the Administration has announced many other initiatives, most of which are narrowly defined and appear to be little more than Presidential earmarks and directives that will tie the hands of USAID in devising appropriate strategies and programs for countries receiving U.S. assistance. The USAID Web site lists *seventeen* Presidential initiatives designed to address problems ranging from global HIV/AIDS and safe drinking water to illegal logging and "digital freedom," without any sense of priority or indication of how these activities will be integrated into on-going development planning in Washington or delivery in the field.

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Nonetheless, InterAction is encouraged by the Administration's stated overarching goals of giving greater prominence to development assistance in U.S. foreign policy and emphasizing the need for accountability and measurable results in foreign aid programs. It agrees that foreign assistance can be used as a catalyst for better performance in economic policy reform, governance, and social investment in poor countries. InterAction endorses efforts to improve U.S. capabilities to provide humanitarian assistance for people who are caught in complex emergencies or who live in failed states. And it applauds the Administration for taking an international leadership role in responding to the global threats of diseases and epidemics such as HIV/AIDS, tuberculosis and malaria.

The Administration's commitments to advance these stated goals, if implemented and adequately funded, will be important steps toward more effective use of taxpayer dollars to promote U.S. values and interests overseas, while improving the lives of millions of people and making the world more prosperous and stable.

At the same time, however, the growing gap between rhetoric and action may undermine the Administration's desire for a more coherent and effective foreign assistance program. Despite more cohesive policy statements on the role of foreign aid in general, there seems to be less coordination among the growing number of federal entities involved in providing assistance overseas, as well as less consultation and coordination with U.S. development partners, other donors and recipient countries. In addition, the emphasis on results, particularly short-term results tied to national security goals, is imposing often unrealistic indicators of success and distorting the long-term development work necessary to produce *sustainable* reform and growth. Finally, pledges to maintain funding levels for broad development work and provide substantial incremental funding for new initiatives have not been fully honored, resulting in cuts to traditional development activities, slow starts for new initiatives, and overall a diminished ability to demonstrate the effectiveness of all foreign assistance programs.

To resolve these gaps between rhetoric and reality, InterAction urges the Administration to acknowledge and address the following concerns:

- The structural and other flaws of USAID have largely been ignored in the rush to create new entities scattered throughout the government.
- Many of these new entities address similar problems (such as HIV/AIDS or response to complex emergencies), yet there seems to be inadequate or ineffective institutional coordination among them or incentive for collaboration.
- In Washington, the proliferation of entities complicates decision-making and creates a competitive – rather than collaborative – environment in which staff and resources may be wasted on duplicative efforts.
- In turn, the fragmentation of decision making makes it difficult for potential U.S. government partners (whether other donors, multilateral organizations, contractors, NGOs, or foreign governments seeking assistance) to know who is in charge and whether there are overarching policies and procedures governing U.S. foreign assistance programs.
- Foreign aid activities in the field are scattershot, as representatives of as many as five separate U.S. agencies may be carrying out activities on

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HIV/AIDS, for instance, often without the knowledge of the U.S. Ambassador, the USAID Mission Director or appropriate local government officials.

- Other than USAID and the proposed MCC, none of the many entities now involved in humanitarian relief and long-term development has foreign assistance as its primary mission, nor adequate staff with the combination of technical skills and international experience to monitor and evaluate activities in a wide range of developing countries. And none has a career path for its employees based primarily on involvement in foreign assistance, creating disincentives to excel in overseas activities and to collaborate with employees of other agencies in the field.
- The increasing role of the Defense Department to plan and implement humanitarian relief and reconstruction in hot spots such as Afghanistan and Iraq, in addition to apparent greater reliance on private sector contractors there, raises overall costs dramatically, undercuts efforts to lay the foundation for longer term development, and ignores the experience and expertise of USAID, its NGO grantees and international organizations.
- U.S. development partners are under greater pressure to align themselves more closely with objectives of the U.S. government, rather than operating as independent agencies pursuing shared goals and values.

Overall, InterAction is concerned that despite a commitment to create a more cohesive policy framework for foreign aid as an element of national security strategy, the Administration is dispersing responsibilities and resources so widely that the delivery and impact of foreign aid may well fall far short of expectations, both in countries of strategic interest and on a global basis.

USAID – the only federal entity with a mandate to look at the big picture and coordinate all forms of humanitarian and development assistance around the world and in specific countries – appears to be submerged under new layers of bureaucracy, with less authority, fewer resources and a greatly diminished ability to shape and influence policy. USAID missions are losing their ability to develop comprehensive country strategies with host-country governments and other stakeholders, as well as to monitor and evaluate the effectiveness of the full range of U.S.-funded development activities in country. The reduced USAID role and the fragmentation of planning and delivery of U.S. assistance are also leading inevitably to a much less cohesive targeting of assistance.

Funding Concerns

President Bush's announcement of two major development initiatives was received with much fanfare and applause from the development community. The President's promises of \$15 billion over five years to combat the HIV/AIDS pandemic and an *additional* \$5 billion annually in development assistance by 2006 through the MCA initiative were welcomed as the first step in reversing a decade of declining levels of foreign assistance. However, there is increasing concern that resources for these important initiatives will come at the expense of existing development and humanitarian programs.

On closer analysis, it appears that the resources in the President's budget request for FY 2004, while significant, are not completely additional to existing spend-

ing levels, as pledged. Altogether, funding requested for presidential initiatives amounts to \$2.1 billion, yet there is only \$1.7 billion in new resources in the foreign operations budget request. Over \$350 million was cut from other accounts to fund these new initiatives and new approaches to development, without factoring in the substantial sums that continue to be diverted for relief and development programs in Afghanistan and Iraq. As Congress further pares back the Administration's funding request, a Hobson's choice has emerged between funding for core development programs versus high-profile new initiatives and emergencies, such as HIV/AIDS, conflict prevention, or post-conflict reconstruction.

The increasingly stark gap between funding rhetoric and reality may have serious repercussions, including: encouraging the transfer of funds from traditional development accounts to pay for new initiatives, at the expense of on-going programs; undermining Presidential initiatives and U.S. leadership on HIV/AIDS and the MCA; giving credence to long-term suspicions among donors and developing countries that the United States is not really committed to following through on its development pledges; and discouraging other donors from living up to their commitments.

The funding gap was dramatically exacerbated when the Administration unveiled the expected resource requirements for long-term reconstruction and development in Afghanistan and Iraq. While the Administration has largely chosen to treat both as extraordinary situations to be funded apart from the ordinary budget process, the impact of the \$87 billion supplemental request for Iraq and Afghanistan has also affected the regular budget process. The \$20 billion for Iraq reconstruction is larger than the entire foreign assistance budget, and there are indications that some of the cost could be borne by cuts in development programs in other parts of the world.

From an NGO perspective, the staggering magnitude of these extraordinary expenses makes the short-changing of accounts for global development aid and the President's new initiatives all the more unfortunate. InterAction urges the Administration and the Congress to recognize that traditional development and humanitarian programs – long-term investments in worldwide stability and prosperity – should not be sacrificed to the conflicts in Iraq and Afghanistan.

Recommendations

InterAction recognizes that U.S. foreign assistance is shaped by foreign and security policies as well as our national interest in promoting a stable and prosperous world in which every country has the means to master its own development process. From our long history of helping others, our country has unequaled expertise to implement effective foreign aid in many different circumstances. However, some new approaches may be required to address the particular challenges and opportunities we face in the 21st Century. InterAction reaffirms its commitment to work with Congress and the Administration to ensure that the United States has a clear and consistent policy framework and appropriate mechanisms and resources to carry out its humanitarian and development programs.

In that spirit, InterAction makes the following recommendations:

1. **The Administration, Congress and the development community should support a full-scale, independent review of U.S. foreign assistance programs, organizational structures and implementing mechanisms, with the aim of creating a more coherent, cohesive and modern assistance capability that can meet our myriad foreign policy and foreign aid objectives.**

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To be truly comprehensive and effective, this review should include the participation of outside experts as well as development practitioners. The scope of the review should take into consideration the interdependence of U.S. policies on aid, trade and debt issues in developing countries. The goal should be to develop, through a transparent and consultative process with all stakeholders, an overall enabling policy framework for U.S. foreign aid/trade/debt programs, clarifying the authorities of relevant federal agencies and ensuring close coordination among all.

In contrast to previous administrations, the Bush Administration has not proposed to address underlying weaknesses and inefficiencies in the planning and delivery of U.S. foreign assistance through either a revision of the principal authorizing legislation, the Foreign Assistance Act of 1961, or through wholesale reorganization of USAID and other related federal entities. Yet the vast array of Presidential initiatives on the table today – many with massive structural, funding and policy implications – constitutes a virtual reorganization with far-reaching consequences for the U.S. development community, Congress, and our development partners overseas. The trend toward fragmentation of the structures for planning and delivering U.S. foreign aid is in direct contrast with the Bush Administration's commitment to reorganize and centralize functions throughout the government relating to Homeland Security in a single new Cabinet-level agency.

This policy paper does not seek to discuss alternative organizational models, which could range from increasing the interagency coordinating role, resources and policy prominence of USAID to the creation of a cabinet agency for development, or the appointment of a cabinet-level development czar to manage and direct all federal international humanitarian and development activities. Regardless, InterAction urges the Administration to ensure that the overall policy framework and the mechanisms to plan and deliver U.S. foreign aid are consistent and supportive of each other.

Similarly, it may be time for Congress to review and update the Foreign Assistance Act. As we know from past experience, revision of underlying legislation is a difficult task that risks exacerbating differences rather than unifying views on how the United States should carry out its foreign assistance programs. However, it could be extremely useful to clear away the layer upon layer of restrictive and often outdated provisions in the FAA and to develop a clear and consistent statement of *overall* foreign aid goals.

2. In the interim, the Administration, at a minimum, should strengthen existing foreign assistance structures, particularly USAID.

Given the challenges that the United States faces in the 21st Century, it is imperative that our foreign assistance capability be agile, fast, innovative and united in purpose. But to be effective in promoting the global prosperity and stability we all seek, it must also have a single center of gravity and a comprehensive perspective on broad-based and long-term development.

USAID has served as the focal point of U.S. foreign assistance for more than 40 years. Despite its clear flaws, it remains the principal repository of U.S. technical development expertise, it has established ties with the major U.S. development partners at home and abroad, and its credibility and access around the world cannot be duplicated easily by other entities. Absent a formal reorganization, USAID's coordinating and planning roles and resources should be enhanced to provide a smooth interface with recipient countries, development partners, other

donors and all federal entities involved in international assistance.

3. The Administration should also take immediate steps to address the recent fragmentation of foreign assistance and its implications both for planning and funding in Washington and for delivery of assistance in the field.

These could include steps to:

- Demonstrate the overall vision and coherency of U.S. foreign assistance policy through regular, consistent statements by the President, the National Security Advisor, the Secretary of State, and the Administrator of USAID.
- Utilize better the existing authority and resources of USAID and its field missions to 1) coordinate the planning, delivery, monitoring and evaluation of humanitarian and development programs across the board, regardless of implementing agency, 2) take the lead in working with recipient governments and other stakeholders to develop comprehensive country strategies that identify broad needs and appropriate resources, and 3) improve coordination with other donors.
- Clarify reporting and coordinating responsibilities of all U.S. government agencies vis-à-vis the U.S. Ambassador and the USAID Mission Director when working in the field on humanitarian relief, post-conflict reconstruction and long-term development.
- Examine the roles, responsibilities and resources of military and non-military entities involved in humanitarian relief and post-conflict reconstruction to ensure respect for the independence and impartiality, as well as the expertise and experience of humanitarian actors.

4. Overall, the Administration and Congress should ensure that expertise and resources for long-term development remain at the core of our foreign aid policies and programs.

InterAction has long worked to rally the development community in support of efforts by the Administration and Congress to assure adequate resources and mechanisms for U.S. humanitarian relief and long-term development assistance. While U.S. foreign and security objectives will inevitably change to reflect new Administration priorities in the face of an evolving world, the achievement of long-term development goals will require a steady and patient approach. In turn, ongoing development work will lay the groundwork for more effective short-term interventions. The interdependence of short- and long-term development approaches requires appreciation for their differences and their similarities, as well as space to pursue each and coordinate where they overlap.

InterAction therefore calls on the Administration to:

- Recognize the long-term nature of development goals such as reducing poverty and corruption, promoting good governance and democratic participation and supporting private-sector development.
- Ensure that development projects are designed, managed and evaluated from the perspective of their long-term nature, not just their short-term political impact.

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- Build into all grants and contracts adequate provision for capacity-building activities with local government and nongovernmental organizations, recognizing that a commitment to policy reform alone will not lift poor countries out of poverty and poor governance.
- Review the activities, indicators of success, and funding sources of each foreign assistance program to ensure that they adequately reflect the proper mix of short- and long-term objectives.

5. President Bush and Congress must make good on pledges to increase U.S. foreign assistance by maintaining and enhancing traditional humanitarian and development assistance levels *in addition to* funding new initiatives like the MCA. Assistance for extraordinary contingencies such as the post-conflict reconstruction of Iraq and Afghanistan cannot come at the expense of humanitarian and development needs in other regions.

Endnotes

¹ Remarks by the President on Global Development, Inter-American Development Bank, Washington, DC, March 14, 2002.

² "The Millennium Challenge Account: A New Vision for Development," InterAction, May 2002.

InterAction Member List

Academy for Educational Development
 ACCION International
 ACCI/VOCA
 Action Against Hunger/USA
 Adventist Development and Relief Agency International (ADRA)
 The Advocacy Institute
 African Medical & Research Foundation
 AME SADA
 Africare
 Aga Khan Foundation USA
 Aid to Artisans
 Air Serv International
 American Friends Service Committee
 American Jewish Joint Distribution Committee
 American Jewish World Service
 American Near East Refugee Aid
 American ORT
 American Red Cross /Int'l
 American Refugee Committee
 AmeriCares
 America's Development Foundation
 Amigos de las Americas
 Ananda Marga Universal Relief Team
 Baptist World Alliance
 B'nai B'rith International
 Bread for the World
 Bread for the World Institute
 Brother's Brother Foundation
 CARE
 Catholic Medical Mission Board
 Catholic Relief Services
 Center for International Health and Cooperation (CIHC)
 Centre for Development and Population Activities (CEDPA)
 Childreach/Plan International
 Children International
 Christian Children's Fund (CCF)
 Christian Reformed World Relief Committee (CRWRC)
 Church World Service
 Citizens Democracy Corps
 Citizens Network for Foreign Affairs
 Communications Consortium Media Center
 Concern America
 CONCERN Worldwide U.S., Inc.
 Congressional Hunger Center
 Counterpart International
 Cross-Cultural Solutions
 Direct Relief International
 Doctors of the World
 Doctors Without Borders (MSF)
 Enersol Associates
 Enterprise Development International
 Episcopal Relief & Development
 Ethiopian Community Development Council
 FINCA
 Floresta
 Food For The Hungry, Inc.
 Freedom From Hunger
 Friends of Liberia
 Gifts In Kind International
 Global Health Council
 Global Links
 GOAL USA Fund
 Health Volunteers Overseas
 Heart to Heart International
 Hebrew Immigrant Aid Society
 Heifer Project International
 Helen Keller Worldwide
 Help the Afghan Children
 Holt International Children's Services
 The Hunger Project
 INMED
 Immigration and Refugee Service of America
 Institute of Cultural Affairs
 Institute for Sustainable Communities
 Institute of International Education
 Interchurch Medical Assistance
 International Aid, Inc.
 International Catholic Migration Commission (ICMC)
 International Center for Research on Women (ICRW)
 International Executive Service Corps
 International Eye Foundation
 International Institute of Rural Reconstruction
 International Medical Corps
 International Orthodox Christian Charities (IOCC)
 International Reading Association
 International Relief & Development
 International Relief Teams
 International Rescue Committee
 International Volunteers in Urology
 International Women's Health Coalition
 International Youth Foundation
 Islamic American Relief Agency USA
 Jesuit Refugee Services/USA
 Katalysis Partnership, Inc.
 Korean American Sharing Movement
 Latter-Day Saint Charities
 Life for Relief and Development
 Lutheran World Relief
 MAP International
 Margaret Sanger Center International
 Medical Care Development
 Mercy Corps
 Mercy-USA for Aid and Development
 Minnesota International Health Volunteers
 Mobility International USA
 Nat'l Council of Negro Women
 National Peace Corps Association
 Near East Foundation
 Northwest Medical Teams
 OIG International
 Operation USA
 Opportunity International
 Oxfam America
 Pact
 Partners for Development
 Partners of the Americas
 Pathfinder International
 Physicians for Human Rights
 Physicians For Peace
 Planning Assistance
 Population Action International
 Population Communication
 Population Connection
 Presbyterian Disaster Assistance and Hunger Program
 Project Concern International
 Project HOPE
 ProLiteracy Worldwide
 Quest for Peace/Quixote Center
 Refugees International
 Relief International
 RESULTS, Inc.
 Salvation Army World Service Office
 Save the Children
 SHARE Foundation
 Solar Cookers International
 Stop Hunger Now
 Support Group for Democracy
 The Synergos Institute
 Trickle Up Program
 Unitarian Universalist Service Committee
 United Jewish Communities
 United Methodist Committee on Relief
 United Way International
 U.S. Association for UNHCR
 U.S. Committee for UNDP
 U.S. Fund for UNICEF
 Volunteers in Technical Assistance (VITA)
 Winrock International
 Women for Women International
 Women's EDGE
 Women's Environment and Development Organization
 World Concern
 World Education
 World Emergency Relief
 World Hope International
 World Learning
 World Rehabilitation Fund
 World Relief
 World Resources Institute (WRI)
 World Vision
 YMCA of the USA

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Mr. ROHRBACHER. Yes, you made some very good points, and we appreciate your testimony.

Ms. Brainard.

STATEMENT OF LAEL BRAINARD, PH.D., SENIOR FELLOW, THE BROOKINGS INSTITUTION

Ms. BRAINARD. Thank you, Mr. Chairman. Thanks also to Mr. Payne and the distinguished Members of this Committee.

It is an honor to be here. And I have to say this could not be a better moment for the set of questions that you are posing.

We are standing at a moment of fundamental reorientation in American strategy and purpose in the world. We are confronting new threats that could prove as sustained as the totalitarian challenge of the last half-century. We also have within our reach new opportunities associated with scientific advance, as well as with America's unrivaled position in the world. The choices we are making today are enormously consequential.

Since September 11 we have seen enormous changes to the three inter-dependent components of national security policy: The military, homeland security, and the softer tools of diplomacy and foreign assistance. Enormous attention has been given to strategies governing defense and homeland security and their organizational underpinnings.

By contrast, although we have seen resources increase in the area of foreign assistance, as well as a big increase in the programmatic expanse, this has taken place in a largely ad hoc manner.

The expansion of resources is taking place through a proliferation of new programs and organizational arrangements, which are layered on top of an already complicated maze of U.S. programs directed at developing countries.

Although these new initiatives bring a greater sense of ownership on the part of the Administration that is proposing them, they largely ignore the hard, and I think critical, work of rationalizing and reforming the existing structures and programs.

In short, U.S. foreign assistance is undergoing a fundamental transformation by default, rather than design.

My colleagues here have already spoken about the proliferation of organizations, 16 to 18 within the U.S. Government alone that administer programs to developing countries. We recently counted 50 stated objectives for foreign assistance, depending on which set of documents you are looking at.

And adding to the morass, recent presidential initiatives and requests entail completely new structures, outside of USAID, for global HIV/AIDS initiative, Millennium Challenge Corporation, the Middle East Partnership, reconstruction in Iraq and Afghanistan, and the list goes on.

In addition, we have no systematic coordination between these foreign assistance programs and the host of other U.S. programs that, in the end, could prove more important to many of these developing countries. I speak here of trade preferences, trade agreements, debt relief, investment, and financial policies.

The proliferation of programs and the confusion of agency roles are costly to the U.S. taxpayer. They are very costly to the morale

and the effectiveness of those administering the programs, and ultimately to the very people we are trying to help.

In addition, despite a lot of evidence suggesting coordination internationally is a critical key factor for success and aid effectiveness, we are currently adding to the problem rather than the solution.

In terms of what we need to do going forward, we need a strategy that identifies defining our strategic priorities. Let me put out six, and putting in place the organizational underpinnings.

All of our foreign assistance serves three clear purposes: To promote national security, to advance the national interest, and to respond to humanitarian imperatives.

For each country we should be able to locate them in a matrix, essentially along the dimensions of where they are relative to American national interests, and where they are internally in terms of their governance capacity, their economic development, their poverty challenges.

If you look at those different parts of the matrix, the first strategic priority is the interest in seeing impoverished nations get onto a sustained trajectory of growth and of good governance. That is going to remain the primary purpose of U.S. foreign assistance for the majority of poor nations, although for a minority of resources.

We have a book out on the Millennium Challenge Account. It is a very important initiative, and it is critically important that we get it right, because the lessons are going to carry over into other assistance programs. It is also going to be critically important in sustaining future public support for this kind of assistance.

We cannot, however, fool ourselves into believing that this is a silver wallet. The largest majority of African population in the poorest countries are unlikely to qualify for the MCA. So we need to continue to work through our traditional accounts if we are to reach many of the poor in Africa.

It is therefore troubling that development assistance in the current budget request would go down 3.5 percent this year, and by an astonishing 22.4 percent in real terms over the next 5 years.

The second basket is HIV/AIDS and humanitarian crises more generally, where it is critically important that we keep faith with developing countries. We must not approach from a single issue perspective, but rather embed it in a larger strategy for these countries.

The third area, which we really haven't talked about, is taking a more strategic approach to the threats that spill across borders.

We never talk in the lore about development, about the massive success story of the green revolution, which is one of those areas where U.S. scientific advance paired with the government and with foundations to make a leap forward for mankind. We focus too little on successes in areas like the campaigns against smallpox, polio, and other killer diseases.

I know that I am running out of time. Let me just mention the last two strategic priorities: The areas of failing states, as well as perhaps the most important area, those countries where we have geostrategic imperatives. We don't really have good ways of meas-

uring whether we are making progress or the effectiveness of aid in these two areas.

Finally, to undergird those strategic goals, we need to be specific about what we are trying to achieve, and measure those results. And to be effective, we need to rationalize the U.S. existing foreign assistance structure. That means looking very carefully at AID, looking at more coordination among and between the various components of development policy, and finally, working more effectively with the international organizations.

Thank you.

[The prepared statement of Ms. Brainard follows:]

PREPARED STATEMENT OF LAEL BRAINARD, DIRECTOR OF GLOBAL POVERTY INITIATIVE AND NEW CENTURY CHAIR, THE BROOKINGS INSTITUTION

SOFT POWER IN AN AGE OF GLOBAL THREATS

We stand at a time of fundamental reorientation in American strategy and purpose in the world. The United States today confronts new threats from radical extremism, killer diseases, uneven globalization, and states that fail their own people, which could prove as sustained as the totalitarian challenges of the previous half-century. We also have within our reach rare opportunities associated with scientific advance and America's unrivalled position on the world stage. The choices America makes today will be tremendously consequential in shaping America's role in the world and its perceived legitimacy for years to come.

Since September 11, we have seen enormous changes to the three interdependent components of national security policy: military force, homeland security, and the "softer" tools of diplomacy and foreign assistance. Enormous attention has been given to the formulation of strategies governing defense and homeland security and the organizational requirements for their execution. By contrast, although there has been an important increase in the amount and programmatic expanse of foreign assistance, it has taken place in a largely ad hoc manner. The deployment of soft power no less than hard has important consequences for American national interests and requires American resources. Consequently, U.S. foreign assistance should be guided by a strategy and built on sound organizational principles—neither of which holds today.

NEW RESOURCES, NEW PROGRAMS

The past few years have seen a breathtaking increase in new programs and resources for foreign aid probably not seen since the Cold War. Between fiscal 2000 and fiscal 2004, foreign affairs budget authority has grown by \$3 billion to \$26.6 billion, an increase of roughly one eighth. While large relative to foreign operations spending in the 1990s, this increase nonetheless pales by comparison with other elements of national security. Over the same period, defense spending has increased by \$64 billion or over one fifth, and homeland security has increased by \$23 billion or 175 percent. When fiscal 2004 supplemental budget authority is included, the expansion is a breathtaking \$24.9 billion for foreign operations and \$128.8 billion for defense.

Several forces have driven this striking expansion. First, the post-September 11 war on terrorism has greatly expanded the strategic calls on foreign aid—directly to reward allies, shore up frontline states, and rebuild Afghanistan and indirectly to address the poverty that weakens states and provides space for terrorist networks to grow. Second, the war on Iraq has created a huge call on U.S. taxpayer resources. Third, there is a consensus across the political spectrum that American resources are critical to combat the HIV/AIDS pandemic. Finally, there are growing concerns that unless the benefits of rapid globalization are better shared, the divide between rich and poor could contribute to civil conflict, extremism, conflict over resources, and environmental degradation in this increasingly connected world.

RISKS

The recent expansion of resources is taking place through a proliferation of new programs and organizational arrangements, which will be layered on top of an already complicated maze of U.S. programs directed at developing countries. The administration has demonstrated a strong proclivity to create its own signature programs and initiatives. But while these new initiatives bring a greater sense of own-

ership on the part of the current administration, they ignore the hard and ultimately critical work of rationalizing and reforming existing structures and programs. However you look at it—relative to the Foreign Assistance Act, relative to the roles of the existing U.S. agencies, or relative to the size of the Foreign Operations Account—US foreign assistance is undergoing a fundamental transformation by default rather than design. While the new initiatives and postconflict reconstruction entail large funding increases, existing programs are getting squeezed, and the administration's future budget projections imply a much more severe squeeze over time.

A recent study with a colleague, Gayle Smith, counted over fifty stated objectives for foreign assistance, between the Foreign Assistance Act of 1961, as amended, the President's National Security Strategy of 2002, and the President's fiscal 2004 budget request.¹ The net result is that U.S. foreign assistance is not guided by a coherent strategic framework but is instead allocated haphazardly to meet successive presidential and congressional imperatives. Improving the effectiveness of U.S. foreign assistance demands a coherent strategy in which assistance instruments are arrayed against policy requirements. Absent the more deliberate allocation of foreign assistance, key priorities will go unmet. Even with over fifty stated objectives, there are still costly gaps. Despite growing recognition in the national security strategy and elsewhere of the threat posed to the United States by failing states, the foreign assistance program lacks the mandate and resources to address this vulnerability proactively. As my colleague at Brookings, Susan Rice, and others have pointed out, "Current development strategies leave little place for significant, non humanitarian expenditures in failing states, much less those that have already gone into the abyss. There are occasional exceptions in high-profile cases where the U.S. military is deployed, as in Afghanistan and Bosnia, but these are rare."²

The daunting multiplicity of foreign aid objectives is further complicated by a maze of U.S. entities involved in the allocation of aid, often with overlapping jurisdictions. Even before the latest initiatives, there were a staggering eighteen separate U.S. official entities involved in foreign assistance,³ and, according to one report, the Agency for International Development (USAID) administered only about half of U.S. net overseas development assistance.⁴

Adding to this morass, recent Presidential initiatives and requests entail new structures outside of USAID for the Global HIV/AIDS initiative, the Millennium Challenge Corporation (MCA), the Middle East Partnership, reconstruction in Iraq and Afghanistan, and proposals for a new Famine Fund and a U.S. Emergency Fund for Complex Foreign Crises. Each new initiative appears to be reinventing the wheel through new mechanisms whose internal logic may be extremely compelling but whose place in the overall structure has been considered little—if at all—in the rush of events.

And the foreign assistance structure does not even include a host of other U.S. programs that are of increasing importance to the growth prospects of developing countries. These include trade preferences and agreements, involving the U.S. Trade Representative, Commerce and Agriculture; debt relief, bilateral investment treaties, and multilateral financial stabilization, where Treasury has the lead; and support for trade and investment provided by Ex-Im, OPIC, and TDA.

Unfortunately, the proliferation of programs and the confusion of agency roles and responsibilities are costly to the U.S. taxpayer, to the morale and effectiveness of those administering the programs, and ultimately to the very people we are trying to help. One of the most enduring lessons from the many recent studies of aid effectiveness is that diverse conditions and reporting requirements by multiple donors can overwhelm the capacity of small, poor countries. According to the World Bank, developing countries contend with an average of thirty aid agencies sending at least

¹Lael Brainard, Carol Graham, Nigel Purvis, Steven Radelet, and Gayle Smith, *The Other War: Global Poverty and the Millennium Challenge Account*, The Brookings Institution Press, 2003.

²Susan Rice, "The New National Security Strategy: Focus on Failed States," Brookings Policy Brief 116, February 2003.

³This includes USAID, the Departments of State, Agriculture, and Treasury, and the Peace Corps, as well as the Departments of Defense, Education, Health and Human Services, Commerce, and Transportation; the U.S. trade representative; the IRS and INS; the Export-Import Bank, OPIC, and TDA; the Small Business Administration; and the Federal Aeronautics Administration.

⁴Development Co-Operation Review: United States Paris: Organization for Economic Cooperation and Development, 2002.

five missions a year each to oversee diverse projects.⁵ A United Nations study documented 1,500 projects in Burkina Faso alone and as many as 850 in Bolivia. Increasingly, the maze of U.S. programs is part of the problem rather than the solution.

CHALLENGES AHEAD

This hearing could not come at a better moment. Before turning attention to the urgent—the press of more spending requests and the possibility of more new initiatives—there is a critically important need to refine strategy. This entails identifying key strategic choices, stating priority goals, aligning existing agency resources and structures against them, and ensuring accountability and overall coherence.

U.S. foreign assistance serves three clear purposes: to promote national security, to advance the national interest, and to respond to humanitarian imperatives in accordance with our values. A logical corollary of deploying foreign assistance by design rather than default is that there should be a deliberate, medium term strategy for targeted foreign countries rather than the episodic humanitarian interventions, strategic quid pro quos, and grab bag of goodies for presidential trips and state visits that characterize current policy. The critical determinants of the types and amounts of assistance deployed in a given country—along with complementary trade, investment, and debt policies—should be its strategic importance, the extent of need, governmental capacity, accountability, and transparency, and the policy environment—both performance and potential.

U.S. interests in seeing impoverished nations get onto a sustained trajectory of poverty reduction and growth will remain the primary purpose of U.S. foreign assistance for the majority of poor nations—although for a minority of U.S. resources. Recent years have seen substantial improvement in understanding the kinds of political and policy environments where poverty reduction and growth are most likely to take hold and where U.S. assistance is likely to be productive. The MCA is an enormously significant opportunity to put those lessons into practice. But it also shoulders an enormous burden as a test case whose success or failure could materially affect public support for development assistance for years to come. It is critical that we get it right the first time.

Several colleagues and I have outlined the major risks and key factors for success in a recent book.⁶ Let me highlight a few here. First, it is critical that the mission of the MCA be narrowly defined around development and protected from geostrategic considerations. Second, there needs to be a much clearer division of labor between USAID and the MCA than the administration has thus far established—especially in the field. USAID's resources, focus, and morale risk being further dissipated by serving as an adjunct to a better funded, more focused, and more flexible MCA—while USAID will retain responsibility for providing foreign assistance to the vast majority of the world's poorest.

Third, the MCA eligibility criteria must be applied in a way that does not exclude ninety percent of the population in the poorest countries in Africa. It is critical to ensure that meritorious African nations are not left behind by median rankings relative to countries in regions with completely different conditions, such as Asia. One way I have suggested doing that is to regionalize the selection process. This could triple the number of low income Sub-Saharan African countries that qualify for the MCA from three to nine and double the population coverage in this group to sixteen percent.⁷

But even under these circumstances, there will be a large number of populous and needy and in some cases promising countries whose performance will not meet the MCA criteria—especially in Africa. Despite administration promises that MCA funding would not come at the expense of existing bilateral assistance, the recent budget request would cut Development Assistance—the primary assistance program for the preponderance of poor African countries that will not meet MCA performance criteria—by 3.5 percent next year alone and by 22.4 percent in real terms over the next 5 years. We need to keep faith with these countries through a consistently applied medium term strategy underpinned by appropriate funding and through greater coherence across the range of U.S. development policies—rather than dealing

⁵James D. Wolfensohn, "Aid Donors Should Get Their Act Together," *International Herald Tribune*, February 24, 2003.

⁶Lael Brainard, Carol Graham, Nigel Purvis, Steven Radelet, and Gayle Smith, *The Other War: Global Poverty and the Millennium Challenge Account*, The Brookings Institution Press, 2003.

⁷Lael Brainard and Allison Driscoll, "Making the Millennium Challenge Account Work for Africa," Brookings Institution Policy Brief 123, September 2003.

with them episodically only when there is a humanitarian crisis or on a particular strategic initiative.

America must also stay the course on combating the HIV/AIDS pandemic, a humanitarian tragedy of epic proportions that threatens to reverse impressive gains on child survival and health, life expectancy, productivity, and literacy in the world's poorest countries. This will require a growing commitment of U.S. resources and much greater coordination between multilateral and bilateral programs. It is also important that U.S. programs to combat HIV/AIDS are integrated into broader poverty strategies for each country to ensure resources are used to maximum effect, recognizing the pandemic leaves its mark on all dimensions of development from education to productivity to demographics.

Beyond this, the U.S. should develop a more strategic approach to threats that spill across borders in this global age. There is great potential for the U.S. government to play a catalytic role in identifying such global challenges and helping channel private sector innovation and resources toward solutions. I am struck that the development lore is littered with broken wells and wasted money, and scarcely mentions the enormous achievement of the Green Revolution or the successful campaigns against small pox, polio, and other killer diseases. Today, for example, collaboration between the Gates Foundation and international and bilateral agencies has potential not only to extend existing vaccines to children in poor countries but also to make it commercially attractive for U.S. companies to invest in developing new vaccines for killer diseases such as malaria. The U.S. has unrivalled capacity for technological advance, and abundant experience of successful collaboration between the U.S. government, private foundations, and the private sector in the fight against global poverty.

Because the war against terrorism and the war in Iraq have defined a new breed of post-cold war allies, the majority of total U.S. aid dollars will continue to go to countries selected on the basis of political and strategic criteria over and above development criteria. For those countries where the U.S. has overriding strategic interests, it has historically proven very difficult to demand performance and to achieve sustained improvements—especially on democratization and governance. Indeed, during the Cold War, U.S. economic assistance for strategic purposes was too often equated with development assistance, contributing greatly to aid's discredit. Foreign aid allocated according to geopolitical criteria is one area that requires some especially hard headed thinking about goals, measuring results, and demanding performance.

Another aspect of national security related assistance that merits immediate attention is that of failing states. Although U.S. involvement in so-called "nation building" was a subject of some controversy during the 2000 election, just three years later the United States has taken on two such exercises of daunting proportions. This follows on four post-conflict reconstruction projects in the past decade alone, initiated under presidents from both parties, making the endeavor fully bipartisan. Like it or not, stabilization and transition in post-conflict societies are likely to remain unavoidable U.S. responsibilities.⁸ Failing to prepare for this reality would be negligent and shortsighted. Recent studies at Brookings and Rand have called for a more deliberate approach to such exigencies. This could include the creation of a standing civilian capacity that could be quickly deployed and ramped up through outside contracting—instead of reinventing the wheel each time with idiosyncratic reporting structures and little institutional memory.⁹ This would also help to reduce the burden on an over-stretched military, which, in Iraq as elsewhere, is often asked to do things that are largely civilian in nature, simply because it is better equipped to respond quickly and to find resources for unanticipated missions.

DELIVERING ON THE PROMISES

Although the administration's many new initiatives have lofty goals, there is a tendency to overpromise and underdeliver. An effective foreign assistance strategy depends on strong organizational underpinnings. This will require rationalizing the multiplicity of U.S. agencies administering assistance and creating clear reporting lines, establishing a coordinating mechanism to bring some coherence across our trade, aid, investment, and financial policies, and putting a much greater emphasis on working with other donors rather than going it alone.

⁸James Dobbins, John G. McGinn, Keith Crane, Seth G. Jones, Rollie Lal, Andrew Rathmell, Rachel Swanger, Anga Timilsina, "America's Role in Nation-Building: from Germany to Iraq," Rand, 2003.

⁹Lael Brainard and Michael O'Hanlon, "National Security," in Alice Rivlin and Isabel Sawhill, eds., *Restoring Fiscal Sanity, Balancing the Budget*, The Brookings Institution Press, 2003.

Since the inception of the Marshall Plan in 1948, six separate agencies have been created to address international development—only one of which exists today. Unlike past efforts, the Millennium Challenge Corporation and the administration's other new initiatives create new structures without either replacing or triggering the reorganization of already existing foreign assistance programs. This has the potential to lead to bureaucratic duplication and misalignment of staff responsibilities and performance evaluation. A number of proposals have been put on the table for rationalizing the unwieldy foreign assistance structure, including by creating a new cabinet department or appointing a czar to oversee coordination or subsuming all the activities under the State Department. It is time to consider this question anew.

At minimum, there is a need for a new policy coordination process to ensure deployment of all the development tools in the U.S. arsenal in a mutually reinforcing way. This should include foreign aid, technical assistance, debt relief, trade preferences or trade agreements, export credits, investment support, and bilateral investment treaties. Our study on the MCA recommended that this could be done by expanding existing coordination mechanisms, as one possible alternative.¹⁰

Finally, in virtually every new program discussed above, coordination with other donors and international agencies is an afterthought at best. It would be a terrible irony if the laudable goals of the new aid programs were perceived as America again going it alone. The risk is real, since the new initiatives bypass international efforts and existing aid agencies in favor of U.S. programs with idiosyncratic criteria and newly invented institutional arrangements. In foreign assistance programs ranging from post conflict reconstruction to combating HIV/AIDS, unilateralism has a price—and the loser is the U.S. taxpayer.¹¹ Surprisingly, the recent budget request proposes a significant cut in voluntary contribution to the UNDP at a time when their work on postconflict reconstruction and democratization is especially vital. Complementarity with international efforts and the amount of international funding leveraged by U.S. dollars should be a key criterion for evaluating every assistance program we fund.

CLOSING THOUGHTS

Paradoxically, it is those who most strongly support expanded U.S. support for development in the poorest countries that should be most worried about the proliferation of programs and confusion of roles. Recent history leaves little ambiguity about the risks. If we are not hard headed about the strategy guiding our assistance programs, ruthless about demanding results, and relentless about organizational efficiency, there will surely be a backlash that guts aid programs indiscriminately rather than on the basis of merit or results.

Mr. ROHRBACHER. Determining that progress in poor countries should be much easier than in Germany and more affluent countries, shouldn't it? Because if there is progress happening in a society, it is much more demonstrable, is it not? But we will get back to that later on.

Thank you very much for your very interesting and poignant testimony.

Mr. Cronin.

STATEMENT OF PATRICK M. CRONIN, PH.D., SENIOR VICE PRESIDENT AND DIRECTOR OF STUDIES, CENTER FOR STRATEGIC INTERNATIONAL STUDIES

Mr. CRONIN. Thank you, Mr. Chairman, and to Mr. Payne and distinguished Members of this Committee.

I feel like I am going to echo a lot of what has already been said, and I don't want to do that. So I want to even reduce my introduction more than I would have by simply saying that there are three points to be made here.

¹⁰ Lael Brainard, Carol Graham, Nigel Purvis, Steven Radelet, and Gayle Smith, *The Other War: Global Poverty and the Millennium Challenge Account*, The Brookings Institution Press, 2003.

¹¹ Lael Brainard and Michael O'Hanlon, "The Heavy Price of Going It Alone," *The Financial Times*, August 6, 2003.

There has been a resurgence in foreign aid in the past few years, since 9/11, in fact. And this is a remarkable time, therefore, to hold this hearing, which hopefully will begin a process that I would liken to the Defense Reorganization Act of 1986, the Goldwater-Nichols Act, where Congress played a pivotal role in trying to streamline and organize various institutions that had grown over time, but no longer were equally aligned to the tasks at hand.

We do face three goals, really, with foreign aid. We can reduce it to three. I think Steve Radelet's four could also be agreed to.

But there is a security goal, first and foremost. I think most Americans would want to know how can our economic tools of policy be integrated to defend our security interests.

And when we speak about foreign aid, we are talking about the developing world. And the developing world is riven with three basic problems. Obviously very weak institutions, often because of conflict, but there is no good government in many cases. It is very weak.

There is now a problem of political extremism, in the form of extreme political Islam in particular that Americans are worried about post-9/11. And foreign aid can do something about that. Not a lot; it is one more instrument. But it needs to be thoroughly integrated into the mix of our policy tools.

And thirdly, there is the bigger problem of proliferation. And again, foreign aid is not the chief answer for that, but it can play a role at the right time.

And when we think about security, we can think, therefore, about what we need to do with foreign aid institutions. We need to deal with the post-conflict situations that we face now, in Iraq, Afghanistan, and Sudan. We need to deal with governance issues and institutions to the extent we can. UNDP Air World reports, the last two reports have indicated that this is a huge deficit. And we can use foreign aid tools to work on this.

And we can also create the leadership at the community, regional, and national level in a lot of these countries that are at risk, to be part of the longer-term solution. Through education programs, for instance.

So security and foreign aid are now related. And that is why this all matters, in part.

But secondly, and just as importantly—Mr. Payne in particular, we have had discussions on the Millennium Challenge Corporation—attacking poverty, economic growth, again, they are inseparable. We have to deal with them across the differentiated levels of countries, just as Steve Radelet and Lael and others have talked about.

And the Millennium Challenge Corporation is not the answer to all development. It is to try to provide a whole new incentive, focused on governance and national economic growth that will allow sustainable development. Because how do you let these countries grow out of poverty in the longer term? That is the big question.

They need ownership. They do not have it now, because we do not give them ownership. They need economic growth. We do not have economic growth, because we are so focused on individual projects and sectors. It is all broken down.

If you went to AID today, and I was there watching all of this, very different from the Kennedy Administration where it was set up. We do not give a mission director \$200 million and say, "Find out what is needed on the ground, and spend it strategically for economic growth." We no longer do it. So it is predetermined, basically, in Washington, and it is some very small pots of money.

And we have got to focus on the issue of governance. And this goes back to, if you do not deal with the policy environment—I mean, the UNDP report that is coming out, this excellent commission on mobilizing the private sector for development, it talks exactly about that. The principle responsibility for development rests with the developing countries. And that principal responsibility is good policies. There has to be political will. And that is what the Millennium Challenge Corporation puts in place, a new incentive.

Then the next tier of countries, as Steve Radelet was saying. Re-tool U.S. agency for international development to help those countries achieve the good governance, and qualify for the Millennium Challenge Account in future years.

And then for the lesser countries that we still can't ignore, let's just stop trying to do everything in those countries, but still achieve an attack on poverty. And that is what the President has started to do, for instance, through a major emergency plan on HIV/AIDS, malaria, and tuberculosis.

So besides the health problem, also the President has reemphasized education. And we can do more than that. We could actually achieve the Millennium Development goal of 2015 of basic primary universal education by focusing even more on education. Not just U.S. dollars, but leveraging our leadership internationally. So that is this tiered approach across the developing world.

And then thirdly, the third goal of development is humanitarian. We are leaders on humanitarian assistance. We should continue to be leaders.

The things that we need to fix is to be more preventive. We can actually prevent famine. We do not have to simply provide the food, we can actually go in and help with governance, agricultural policies, and so on. Administrator Andrew Nazzios, for instance, has spoken eloquently for this and other Committees on some of those ideas.

So those are some of the things that need to happen. Those are the goals. I agree with a lot of the recommendations that have already been said. And let me just say that a commission, an independent commission to try to help bring all of these issues together for post-election, when we can have the Congress next year think about whether we have a new Foreign Assistance Act, or whether we fix major parts of it, that should be on the table. How we reconcile the creation of new institutions like the Millennium Challenge Corporation with USAID and other parts of the government, that needs to be on the table. How we build non-defense institutions to deal with post-conflict environments, that needs to be on the table.

So we have a lot to do in this country. But just as with the Goldwater-Nichols Act, that is all right. It will take time. It will take building a consensus, a bipartisan consensus, that the United States will be able to go forward internationally, as it did in the

sixties, and will be able to lead the international development debate and foreign assistance debate in a way we haven't done for decades.

Thank you very much.

[The prepared statement of Mr. Cronin follows:]

PREPARED STATEMENT OF PATRICK M. CRONIN, SENIOR VICE PRESIDENT AND
DIRECTOR OF STUDIES, CSIS

I. INTRODUCTION

Chairman Hyde, Mr. Lantos, and members of the Committee, thank you for conducting this hearing on how the United States Government can make foreign assistance programs more strategic, coherent, and effective. This Committee has historically played a pivotal role in shaping the debate and providing essential authorization for America's foreign assistance policies and programs. A fundamental review and reshaping of those programs is long overdue. Hopefully, this hearing will launch a larger debate and process to transform our foreign assistance programs so they adequately address our nation's security, economic, and humanitarian objectives.

Let me begin by making three points.

First, in the past couple of years we have seen the resurgence of foreign aid. Indeed, foreign assistance has assumed an importance within U.S. national security that it has not enjoyed since the Marshall Plan more than half a century ago. At the same time, the United States has an extraordinary opening in which to reassert leadership among wealthy countries with respect to aid.

The Bush Administration deserves much credit for reinvigorating foreign assistance in support of U.S. interests and values. In particular, let me commend the administration for three major endeavors. President Bush has begun to attack global poverty by ushering in a new focus on achieving economic growth, education and health in the developing world—chiefly, through the creation of the Millennium Challenge Corporation, renewed attention to education, and the Emergency Plan for AIDS Relief. Next, he is grappling with the problem of weak and failed states, which he highlighted in his 2002 National Security Strategy, by focusing on key problems of political extremism, corrupt governance, and weapons proliferation. Finally, President Bush has at once demonstrated American generosity and compassion by taking the leading role in providing humanitarian aid and preventing famine around the globe. Collectively, these efforts have revitalized foreign assistance, and we have a unique opportunity to build both a bipartisan and international consensus around our leadership.

Second, if we are to realize this opportunity, we are going to have to change the way we do foreign assistance. Paradoxically, at the same time as I praise recent steps taken to resurrect aid, I also tell you unequivocally that our foreign assistance programs are in many ways broken and obsolete. The United States Agency for International Development (USAID), for instance, is far removed from the golden Kennedy Administration era when mission directors were given the resources and the flexibility to focus on a core set of objectives determined in the recipient country. When I was named the third-ranking official within USAID in 2001, I was dumbstruck to learn that the central goals of achieving economic growth and poverty reduction were buried in a sea of more than 300 competing "strategic objectives" spread across nearly 100 countries.

Notwithstanding considerable success at the project or sector level, our foreign assistance programs are unfocused, opaque, and sclerotic. There remains a great deal to reassess and do together if we are to harness economic instruments of policy to the benefit of America's power and purpose; bolster the standing of the United States in the world; restore U.S. leadership in the realm of foreign aid; and provide for innovative and effective governmental aid programs and policy.

Third, the direction in which we need to go is apparent, but leadership and follow-through from both the Executive and Legislative branches of government are the sine qua non of successful transformation. Specifically, some of the measures that need to be considered are as follows:

- Rewriting the whole or significant parts of the 1961 Foreign Assistance Act;
- Requiring a single, integrated U.S. foreign aid strategy every four years;
- Implementing the full measure of the Millennium Challenge Account as a new paradigm for achieving economic growth and hence sustainable development among poor countries hewing to good governance;

- Retooling USAID to focus on helping the next group of countries qualify for Millennium Challenge Account grants;
- Forging stronger institutions for shoring up weak and failing states, and for disarming, securing, and building state institutions in countries recovering from conflict, such as Afghanistan and Iraq;
- Creating greater policy coherence by demarcating the division of labor among governmental aid entities, establishing a unified and common-sense budget in which it is obvious how each account should be spent, and improving the natural synergy between trade and aid;
- Better direction of aid programs to support mid-to-long-term approaches to countering terrorism;
- Improving our capacity for measuring results; and
- Building a new international consensus among wealthy countries on foreign assistance priorities.

These are the major missing elements in the revolution in foreign assistance that is now underway. Myriad actions and proposals have yet to be put into a coherent overall strategy; we lack an effective, integrated architecture for making informed decisions on how to use foreign aid as part of an overarching policy; and when it comes to expecting results from key officials we have a dangerous misalignment between their authority and their responsibility. New authorization, reorganization and reform are essential as we move forward.

This is an ambitious agenda. One thing to remember is that sometimes we can do more by doing less. Although there are multiple uses of foreign assistance, we must find a way to streamline our fundamental objectives so that we can focus our resources and enhance our chances of success. We need a single integrated strategy document that relates the ends of the National Security Strategy to the specific means of our foreign assistance programs and budgets.

The transformation of our foreign assistance programs can be likened to defense transformation. The historic Goldwater-Nichols Defense Reorganization Act of 1986, for instance, took nearly five years of debate—not to mention military debacles such as in Beirut and before that the desert of Iran—to galvanize a consensus and action. Surely the limits of our achievements in the developing world—whether to promote economic growth and democratic governance, or to stem the rise of poverty and disease, or to rebuild state institutions in the wake of war—should serve as an analogous impetus for change and renewal in the realm of foreign assistance. However long this process takes, let us hope that we can all look back at this hearing today, and others like it, as marking the beginning of that effort.

II. FOREIGN AID'S RESURGENCE

Foreign aid has been resurrected like a phoenix from the ashes. Politics aside, the United States' foreign aid budget was on a sharp decline throughout most of the 1990s. While the "hard power" of military might has grown increasingly strong in the past forty years, the "soft power" of foreign aid—in many ways more effective and efficient at winning over the post-Cold War world to American values of freedom and opportunity—has been left to stagnate. Though the 1990s saw significant global progress in development, the reason behind the gains had more to do with the economic growth programs in China and India, the two most populous developing countries, than the effects of foreign aid. USAID assistance, in constant dollars, remained basically flat overall. This budget trend-line masks the fact that USAID had also lost some 1,800 trained Foreign Service officers during this period. By 2000, USAID stood at roughly 1,200 professionals worldwide, and the ranks of specialists in key technical areas such as development economics, agriculture, education and engineering were greatly reduced. Ability to carry out the staggering array of directives stipulated in the unwieldy Foreign Assistance Act sank, as this assistance remained an incoherent mix of earmarks from Congress and initiatives from the White House. In trying to do everything nearly everywhere, American foreign aid had become slave to the conceit that everything was equally important—the classic recipe for losing focus.

The Marshall Plan remains the high watermark of the American experience in foreign aid. Some fifty years later, President George W. Bush and his policy advisors face the dual challenge of returning to successful development practices and increasing the means available to do so more effectively. Much of their policy formulation has been driven by the lessons learned from aid effectiveness literature and the best practices gleaned from the history of aid performance. However, before attempting to benchmark current efforts to those of the past, we need to bear in mind one major trend of the past decade—globalization. In the 1960s and 1970s, about three-fourths

of U.S. assistance to the developing world emanated from the public sector. Today the opposite is true; three-fourths of money flowing to the developing world comes from the private sector, trade and investment, and remittances.

The catastrophic events of September 11, 2001 highlighted the need for intense focus in U.S. foreign aid policies, which far too often had been omnivorous in promises but anorexic in results. Foreign aid was vaulted to a renewed position of prominence in foreign policy. This greater attention has provided policymakers with an opportunity to re-vitalize and re-orient our foreign assistance policies toward best practices. The current Administration's efforts to resurrect foreign aid have given all of us a chance to push for a new, bipartisan consensus on the central goals and implementation of foreign aid. This consensus must tackle, among other things, several key issues. For one thing, we need to come to an agreement between the Legislative and Executive branches on the timeframe we are dealing with. At the same time, we need to be able to work across more budget cycles and even administrations than we currently do if we are to avoid a foreign aid ballet comprising one never-ending pirouette.

The prospect of the United States reverting to a stronger commitment to development and foreign assistance—a role that has steadily declined since the 1960s—has won great support in the international community; while that support has been overshadowed by the high policy over Iraq, there continues to be an opportunity to help consolidate other major donors, both bilateral and multilateral, behind U.S. approaches. For example, the United Nations Commission on Private Sector Development will present a new report next week that is notable both for its congruence with some of the thinking of the Millennium Challenge Account and for the inclusive step of seeking to tap the power that can be come from engaging the private sector in the work of development.

International consensus and cooperation will be critical to success in our development efforts. Most stakeholders would agree that past performance has shown that an increased level of foreign assistance is not enough to ensure positive or sustainable development outcomes. Today's global development agenda is expected to address a wider range of policy concerns than in previous decades (e.g. HIV/AIDS, water scarcity, corruption, human trafficking), and the international development community is also expected to demonstrate tangible results with a newfound sense of urgency. The war on terrorism, from the perspective of the development community, becomes another, urgent and important, priority in this complex agenda. The stark reality is that future success will likely rest on two pillars: pursuing policy innovations with partner governments and applying best practices on the ground. Without these pillars, no resurrection of foreign aid will succeed.

The Bush Administration has launched some 20 new initiatives in the past three years. These initiatives have centered on innovation grounded in best practices and are thus exciting steps toward a revitalized foreign aid system for the United States. However, because of the fragmentation of our foreign assistance programs and agencies, it is not clear whether there is an overarching strategy and, if so, what it is. The new initiatives serve to further fragment the whole. Before we continue in this vein, we will need to identify an overall strategy that stipulates objectives and means for foreign aid.

Permit me to step back a moment to synthesize the three main objectives of foreign assistance; that is, the three realms in which foreign assistance policy can provide critical tools. These are: attacking poverty, grappling with weak and failed states, and leading the world with respect to humanitarian assistance.

Attacking poverty

In a world of increasing prosperity the gulf between the "haves" and the "have nots" is untenable, particularly because we possess the tools to attack global poverty: namely, by ushering in a new focus on achieving broad-based economic growth, backstopped by investments in the health and education of people in the developing world. Programs fundamental to this assault on global poverty have been the creation of the new Millennium Challenge Corporation; stemming the biggest health problems of AIDS, tuberculosis and malaria; and ensuring a primary education for all.

Grappling with weak and failing states

The Bush Administration's 2002 National Security Strategy highlights grappling with the problem of weak and failed states as a key element. The administration has since then focused on a deadly triad of problems: political extremism, corrupt governance, and potential weapons proliferation. Post-conflict institution building in Afghanistan and Iraq is receiving the lion's share of attention. At the same time, the elevation of good governance, in and beyond the greater Middle East, cuts across

economic and security objectives. From the Balkans to Colombia to Angola and Afghanistan, foreign aid is being used to quell violence and produce a foundation of stability and governance that can, in turn, lead to successful development. Promoting good governance as a bulwark against extremism and terrorism by inculcating moderation and stability is a major national security objective for which foreign assistance and economic instruments of policy are particularly well suited, albeit within limits. Achieving good governance is strongest as a crosscutting goal that should be built into the incentives of economic-growth-oriented aid, as well as into humanitarian aid or assistance to civil society around the margins of a corrupt government.

Governance is an issue in what might be considered front-line states in the campaign against international terrorism, from Egypt and Jordan in the Middle East to Pakistan and Indonesia in South and Southeast Asia. Here we have governments that are closely aligned with the United States and are willing to consider sacrifices for the good of the nation provided they can be reconciled with political survival and stability. There is also a group of less scrupulous leaders who would likely not implement economic incentives to broadly help their country at their own personal expense. These include some Middle Eastern countries, perhaps some Central Asian countries, and certainly a country like North Korea. In these countries, it may be useful to subordinate aid to larger purposes, but it is not realistic to expect the “carrots” of foreign aid to tip the balance toward good governance when larger strategic and security interests are in play. In some of these cases, it may be appropriate to tailor more punitive, particular smart sanctions (such as limiting the travel of regime family members, for instance) to gain the attention of these regimes. Another group of countries have considerable political will but institutional ability lags far behind; for these countries, economic incentives may indeed help. National and global security depend on having the flexibility to respond to countries such as Georgia or Kenya where a new government comes into being that is head-and-shoulders above its predecessor; we must reward these countries by providing a timely package of financial and technical assistance for these governments to meet the lofty expectations confronting them. This will shore up regions and give other weak or failing states an example for which to strive.

Providing humanitarian relief

Thirdly, the Administration appears committed to demonstrating American generosity and compassion by taking the leading role in providing humanitarian aid and preventing famines around the globe. We must carry on in this task. There will continue to be a predictable need to manage humanitarian crises, whether of natural causes such as earthquakes or hurricanes, or at least partly man-made such as with some famines. The United States is proud to be the largest bilateral donor of humanitarian assistance, and President Bush has made the argument that it should continue to play this role. Nothing speaks to the character of the American people more eloquently—nor reminds Americans of the need for us to use wealth to help the neediest—than this role. While within our bureaucracy we need to be mindful of our shortcomings and the need to provide for an effective professional corps of people who can respond to foreign disasters, our humanitarian relief in the wake of some natural or man-made disaster can be remarkably effective. This is often achieved in tandem with other organizations. For example, USAID provided funding and support so that the U.N. World Food Program (WFP) in Afghanistan could deliver an unprecedented amount of food in record time; over 9 million men, women and children were fed by wheat, oil and lentils delivered from the United States.

These three roles for foreign aid are not simply a theoretical structure but have a deep and abiding basis in resource debates. And in order for foreign aid to be effective as it is employed toward these three objectives, aid commitments need to correspond not just to promises, but lead to concrete results. We must create development programs that have built in the right incentives to achieve critical reforms in recipient countries, thereby maximizing each dollar’s effectiveness. In recipient countries, our foreign aid can and should contribute to the creation of policies that create open political processes, promote financial transparency and curb corruption, while also making a strong commitment to open economic opportunities, whether that is monitored by the credit rating of a country or measured by the number of days it takes to start a business.

Foreign aid, whether for purposes of economic growth or other foreign policy aims, should be treated as conscious strategic investments. Too often, foreign aid is simply set in motion and kept alive by the inertia of bureaucracies. Policy makers have erred by focusing on singular tasks without facing realistic tradeoffs over how else to spend public money. One lesson I learned from my experience within USAID was

how far the bureaucracy had become Balkanized, satisfied and self-interested in protecting a small program at the expense of the larger objective of country transformation, of helping to work in partnership with people who want to transform the fundamental quality of their lives.

At the same time, many forget that foreign aid is relatively small when compared to other financial flows. Development aid totaled about \$54 billion in 2000; this was only one-third as much as foreign direct investment in developing countries (\$167 billion). The U.S., for example, contributed \$11 billion dollars in official development assistance in 2001. American private capital investment in developing countries averaged roughly \$12 billion a year over the last three years. Given this discrepancy in scale, aid effectiveness has to primarily come through catalyzing institutional development and strategic policy changes that promote economic growth.

There remains, however, a mismatch between the objectives for which the United States hopes to use foreign aid in the future and the current means available for such assistance. Indeed, as a percentage of U.S. GDP, spending for foreign assistance has dropped from 0.5% to 0.1%. The needs of the developing world, and even the Islamic world stretching from North Africa to Central Asia to Indonesia, greatly surpass available donor aid. The Marshall Plan, by contrast, pumped the equivalent of nearly \$100 billion into 17 countries over three or four years, which is significantly more money than even the largest missions, such as Egypt and Indonesia, receive today. The sum was large enough to be used for major investments; there was local ownership of the projects; and the governments committed to broad economic reforms and support for political pluralism. If the U.S. is willing to adapt aid to achieve effective results in pursuit of dampening the sources of terrorism, or at least addressing moderate institutions that can serve as bulwarks against terrorism and its supporters, then it will have to devote the necessary resources while focusing on specific areas and ends and maximizing coordination.

III. REORGANIZING FOREIGN AID

Especially considering the flurry of new initiatives, we are currently operating without a solid consensus with respect to an overarching strategy for foreign aid. The need to clarify roles, responsibilities, the decision-making process, and the interagency and international policy coordination process grows more urgent by the day.

Even while we discuss reorganizing, we face a critical imperative for more follow through with the initiatives underway. The path is clear but there is much that remains to be done in each of the three abovementioned uses for foreign aid.

Successfully combating poverty requires the full implementation of the MCC and embedding its principles as the new paradigm for development. In addition, we must forge free trade areas not just in Southern Africa but also in Central America and complete the Doha Round. We must implement the AIDS, tuberculosis and malaria fund not just in the initial 14 countries but in soon-to-erupt follow-on areas, as well. Finally, we must extend U.S. leadership in education by considering the notion of calling for the G-8 countries to commit to achieving the goal of education for all by 2015.

Strengthening weak or failing states can be achieved through a greater focus on governance in all our foreign aid programs. We will need to devote the time and resources to making significant progress in institution building in Iraq and Afghanistan. Also, we should strategically target greater assistance to countries and areas of countries at risk of extreme forms of political Islam, not just in the Middle East but also in South and Southeast Asia.¹

State failure occurs because governments “no longer deliver positive political goods to their people” and they “lose [their] legitimacy and, in the eyes and hearts of a growing plurality of its citizens, the nation-state itself becomes illegitimate.”² Officials and institutions in these countries have completely failed to deliver political goods such as national security, public safety, economic opportunity, education programs, health services and the rule of law. Afghanistan, Angola, Burundi, the Democratic Republic of Congo, Liberia, Sierra Leone, Somalia and Sudan represent the failed or collapsed states of the last ten years while many more have been on the brink.³ In all these cases, the state failure was man-made; it resulted from pol-

¹ For a longer discussion of this topic, see Patrick Cronin in Audrey Kurth Cronin and James D. Ludes, eds., *Attacking Terrorism: Elements of a Grand Strategy*, Georgetown University Press, (2004).

² Robert I. Rotberg, “The New Nature of Nation-State Failure,” *The Washington Quarterly*, (Summer 2002) p. 85.

³ Rotberg at p.90.

icy decisions and leadership failures rather than natural disasters, geography or pestilence. The resulting vacuums in power and authority attract criminal and terrorist networks that have demonstrated time and again their global reach. Once inside, these groups hide behind the professed sovereignty of the failed states and their extraction becomes both a diplomatic and military challenge. Prevention therefore is clearly better than cure because once military operations commence and then cease the arduous task of state building begins. We cannot, however, expect to strengthen weak states remotely from Washington, DC. We need to recognize that failed states put development professionals at considerable risk, but realistic prevention efforts require people on the ground “focusing on existing conditions and working to rebuild and reconstruct viable institutions.”⁴

For our humanitarian purposes, in addition to providing the food and medical supplies to the national and international mechanisms for rapid response, we need to be better poised for preventive engagement, from better early warning of crises to proactive measures to prevent such problems as famine.

Redirecting aid will require agreeing on the main goals, which will necessarily overlap. In order to ensure that our policies are then tightly bound to those goals, we will need to agree on a new architecture for formulating policy, coordinating among donors, delivering assistance, and monitoring and reporting results.

The status quo is a loose collection of agencies working on some aspect of development. Over time, the effect has been largely to diminish the role of USAID, which actually has the mission in its title. While new initiatives have been coordinated on a case-by-case basis, this has left huge questions about the rest of our development infrastructure and particularly USAID. The result is that aid’s implementation is piecemeal rather than holistic; redundancy and overlapping jurisdictions abound; accountability is often unclear; and new initiatives are not yet understood with respect to their integration into decision-making.

There are two basic bureaucratic models for organizing U.S. foreign assistance programs:

- *Hub-and-spokes model*: This approach would make an existing Cabinet member, namely the Secretary of State, responsible for determining our overall foreign assistance policies that address security, economic, and humanitarian needs, while allowing individual agencies to be primarily in charge of ensuring successful implementation. Under this model, deputy-level heads of USAID, the MCC, and perhaps other institutions would report directly to the Secretary of State. This would be a logical refinement of recent trends, which have been marked by the creation of a new permanent interagency Millennium Challenge Corporation responsible to a board headed by the Secretary of State; a new coordinator for HIV/AIDS within the State Department; and the decision to make the Administrator of USAID report to the Secretary of State.
- *Consolidated model*: This approach would join policymaking and operational control within a new department with Cabinet rank, such as the United Kingdom’s Department for International Development. While it would represent a significant departure from the status quo, a new department would allow for USAID, MCC, the AIDS coordinator and others to be integrated into a single arm of the government that would still have to work closely with the State Department, as well as the Defense Department and other government agencies. There are various tradeoffs in creating a new department, and the issues are sufficiently complex that they deserve rigorous study.

IV. REDIRECTING FOREIGN ASSISTANCE

As President Bush dictated in his National Security Strategy, foreign aid has a critical role to play in the United States’ foreign policy. However, at the same time it is vital not to oversell what aid can accomplish, and, crucially, we must remember that the manner in which we give aid is far more important than the sum total of aid.

Toward that end, we must improve aid’s peripheral view so that it can be more flexible, responsive and accountable. For USAID, this will mean changing the current five-year country planning process to incorporate a broader view beyond the U.S. bilateral stovepipe. The Millennium Challenge Corporation and other international donor organizations are implementing long-needed fresh ideas, and we must require a mechanism for communication and coordination that enables the full

⁴Ray Takeyh and Nikolas Gvosdev, “Do Terrorist Networks Need a Home?” *The Washington Quarterly*, (Summer 2002), p. 105.

measure of U.S. foreign assistance to benefit from the effective and efficient strategies developed. It simply should not be acceptable to the American taxpayer to hear the same old song that programs are “successful,” even when overall results desired are lacking due to a bureaucratic refusal to select the best means of delivering assistance, thereby impeding an opportunity to reduce waste, fraud and abuse.

Improved coordination and communication could be arrived at through requirements such as the following:

- Identification of dollar amounts of Official Development Assistance coming in the last five years from various sources. This would show how the United States Government’s stream is one among several and negate the assertion that the United States can or should operate in isolation from these other sources;
- Discussion of how much foreign aid the United States gives as a percentage of our economy’s GDP. This would create greater political support for increased aid as Americans see how little we actually give;
- Identification of the percentage of the fiscal budget that is financed through external sources;
- Discussion of the differing approaches of various bilateral donors (e.g., supporting the budget of a recipient country versus providing assistance for specific projects). Here, compare European approaches such as the British DFID and USAID;
- Asking for a qualitative assessment of how assistance is coordinated around a national development strategy;
- Comparison of the relative success of the country to generate economic growth and reduce poverty over time; and
- Identification of any broad lessons learned in development practices.

Meanwhile, through measures such as those set out in the beginning of this paper, we need to deal with what might be called the three major weaknesses of our foreign assistance approaches: policy incoherence; the lack of the lack of consensus on aid in the international community, where many feel the U.S. would prefer to “go it alone”; and inadequate responses to weak and conflicted states.

Coherence

The chief problem with foreign assistance is the absence of clear and obtainable goals, not organization. As long as our development dollars are spread around chasing hundreds of so-called strategic objectives rather than more tightly focused on economic growth and good governance, then considerable failure will be fore-ordained. The Bush Administration has revitalized aid not just by nearly doubling development spending but above all by putting forth clear strategic objectives. His initiatives, however, do require a reassessment of how to achieve greater inter-agency coherence. The MCC provides such unprecedented cooperation in microcosm. Public calls for creating a new cabinet-level department contribute to a national debate; meanwhile, we need effective cooperation between our policy-making State Department and our main operational agencies such as USAID and now the MCC. In the longer run, we need a rigorous study of organizational options that might be considered after the election by both the Legislative and Executive branches of government.

Consensus

Critics like to seize upon the highly emotional debates leading up to the Iraq conflict as symbolic of U.S. unilateralism. Such a limited focus does not do justice to the progress some officials have sought to make in widening the consensus on development, from U.N. forums like the Conference on Financing for Development in Monterrey, Mexico in March 2002 and the World Summit on Sustainable Development in Johannesburg, South Africa in August 2002, to G-8 summits. But having dealt with the international donor community for more than two years as Assistant Administrator at USAID, and given my frequent contacts with the international donor community since leaving government, I can tell you we have a much larger divide than we should. Because of Iraq more than any other reason, we have failed to capitalize on innovative approaches and increased spending to bring other major donors on board with some of the ideas, show them how they affect their policies and foreign aid programs, and work through conflicts. The potential for international cooperation is great, but certain steps will have to be taken in order to jump-start the process, starting with greater communication. The MCA and Millennium Development Goals can work in concert; the amount of money we spend to fight AIDS bilaterally should be optimized to fit with the amount we channel

through the Global Fund; and we need to find ways to work closely with the international financial institutions and regional banks. One of the biggest hurdles to greater coordination stems from the fact that many European and Middle Eastern governments are unsure about American intentions for giving foreign aid; even the noblest motives will accomplish little if they are not communicated in a credible dialogue.

Conflict Areas

We may yet need a new office just to deal with weak and failing states, as well as a generous new fund to channel to these countries. But there are some 60 countries in the world that are either failed, failing, or capable of suddenly being perceived as failing. We cannot realistically hope to set aside enough tax money for foreign assistance to make a fundamental difference in all of these countries. Instead, we must make priorities, and the Bush Administration has done this. It must stay the course on helping with reconstruction in Afghanistan and Iraq. It must seize opportunities for cementing peace, as it has done in Angola, Sri Lanka, Sudan and elsewhere. It must bolster our national capacity for stability operations (the Department of Defense) and institution building (State/USAID and others). It must focus on those specific countries and regions where conflict could erupt through terrorism and proliferation. The Bush Administration is doing that with the Middle East Partnership Initiative, which works toward good governance not just in poor countries but also wealthy ones that help finance terrorism. At the same time, the *sine qua non* for a greater consensus on our approaches to governance in the greater Middle East and beyond remains a concerted effort to find peace between Israel and a future democratic Palestinian state.

In conclusion, foreign aid has re-emerged in a critical role in foreign policy and is confronted with a complicated international landscape to address. Because of this, we must not oversell what foreign assistance can accomplish. We do need to devote more resources to assistance, but how we spend our money remains more important than how much we spend. Correspondingly, we need to manage expectations for development efforts because aid is only one instrument and it depends on a range of other factors, such as stability, a hospitable policy environment and political will, for success.

Even given effective implementation, it will take time for aid to achieve the goals we set for it—far more time than we are generally accustomed to in the United States. The systemic development of national institutions and the opening of education and opportunity to all people will necessarily transcend administrations and political tenure, and so we must adjust ourselves to work across parties, budgets, and branches of government to create accountable, lasting efforts. Foreign aid has undergone a resurrection many thought would never arrive. Now, foreign aid needs to attain two more challenges: reorganization and redirection. Though this will be a difficult undertaking, that fact in no way mitigates its importance or predetermines its failure.

Mr. ROHRBACHER. Thank you very much. So is it your position that when we gave someone \$40 million and said go to that country and use your discretion in trying to make it a better place, that was a better approach?

Mr. CRONIN. Sir, the point is simply that there has to be certain core principles. We know this from development. It is not a mystery what works.

If there is a good governing environment, there is political will on the ground and good policy. So in those cases where there was good policy, it worked better than not.

Mr. ROHRBACHER. I think the major point is discretion by people who really control the resources that we put into this.

Mr. CRONIN. Mr. Chairman, it is also the—exactly that, it is the ownership. And what we are not doing now is, we talk about ownership. That is, what does ownership mean? It means this is their country. And if I want to really change my community or my country, what do I want to do? What is needed?

I know what is needed. I know what I have to do. And if I have ownership of it, and you give me the wherewithal that I don't have, then it will happen. It will be more likely—

Mr. ROHRBACHER. It sounds like you are saying that back during the Kennedy Administration, when foreign aid was in its infancy, that we provided much more discretion with those dollars for the American representatives to go in and use that money.

Mr. CRONIN. Yes, sir. We did it twice. We did it during the Marshall Plan, where we gave the 17 chief countries that we gave assistance to over a 3- or 4-year period, we gave a lot of discretion on the ground. Total ownership.

And we did, in the Kennedy Administration, in the first few years of AID we did that, as well. We then started to accrue a whole set of proliferating goals.

Mr. ROHRBACHER. I understand that. So would you think that we should go back toward that direction? Providing more discretion with chunks of money to people on the scene?

Mr. CRONIN. Yes, sir. With the proviso that you need oversight. And that is the strong monitoring and evaluation, the real-time information that we lack right now.

I was desperate for getting information, even within AID. It is opaque and sporadic. You need better information.

Mr. ROHRBACHER. I would hope that that would result in more effective efforts. But sometimes you go to these countries, and you realize that even the money that is already being sent is being used by the people running the show, for limousines, drivers, cooks, household attendants, large homes.

Mr. CRONIN. And one reason for that is because of the cacophony of programs that is ongoing, and the information is not real-time.

If we had a real strategic objective, as the Millennium Challenge compact proposal is set up, or that USAID, working with the second-tier set of countries, streamlines its objectives to a couple of major goals.

Mr. ROHRBACHER. Okay.

Mr. CRONIN. And then you ask, and Congress says, well, what will you achieve with this investment over the next couple of years? We want to see the return on that investment. And that will diminish the amount of waste and abuse that goes on in the foreign assistance.

And that is something that the Millennium Challenge Account sets up a new incentive, and a principle of transference that we don't have.

Mr. ROHRBACHER. Well, if we have more discretion, I am not sure.

I would like to ask—again, I mentioned this family that lives in my district whose property was confiscated by the Ethiopian Government. So this is, they are American citizens now. They came here penniless. And they are a wonderful, very well-respected family. But their property is gone. And the Ethiopian Government won't give it back, even though they have a democratic government now.

When we are trying to make our decision on how to approach Ethiopia and like situations, what role should that play? Should we not consider the interests of American citizens whose property has been taken away? Or should that be part of the decision-making process? Let me just start down the line.

Mr. RADELET. It should definitely be part of the decision-making process. In any country we have many different interests, and this would be one of them.

Others would be to make sure that the country remains politically stable, and does not become a failed state that could raise security interests. And Ethiopia, given the neighborhood, next-door to Somalia and Sudan, there is that risk, as well.

We have other objectives of trying to fight HIV/AIDS and the spread of that. So we have many different objectives. And when we are thinking about our approach, this should be one of the factors on the table, when we consider, in balance, our different objectives, and match that with the tools going forward.

Mr. ROHRBACHER. Ms. Dale, what about countries, should we insist that the countries—we have been talking about good government, governance. And of course, I agree with the point that has been made by most of the panelists here today, that no matter how much money we pump into a dictatorship—and a corrupt dictatorship, at that, because most dictatorships are corrupt by their nature, without a free press and without opposition parties to keep the government honest. That is what happens.

But we have to make sure, at what point does America's interests play in providing which countries that we aid? And not just the interests of specific Americans, but our national interests.

Ms. DALE. Yes. I think we need to be a little bit careful when we tie so closely foreign aid to the concept of national security. Because in some instances, it is correct that there is a congruence of interest between the two. There are countries that are of strategic interest to the United States.

But we may actually have to deal with governments that are less than ideal. But I don't think that is the overall situation. I think, as a matter of principle, we should not be pouring money into corrupt governments, into dictatorships. Which, Mr. Chairman, as you rightly point out, it is more likely to go to somebody's limousine driver, and golden faucets in their bathrooms, than it is to benefit the people that live below the poverty line.

And oftentimes what we are doing, instead of actually helping those countries, is perpetuating a government that is harming its own people.

So I would say that we need to be extremely discriminating. I think where we do give aid, we need to hold people accountable. If we set a set of standards, we should adhere to those standards. We shouldn't simply say well, they were not quite met, maybe they will be met next year. There needs to be a serious oversight function.

But I would also say that, you know, I sort of agree with the idea that countries that have a record of governance that we approve of, let them use the money as they see best, and let us have oversight here and take a look at where that has then brought the country within a period of a year, 2 years, 5 years.

Mr. ROHRBACHER. Well, let me be a little more specific. The first pending grant from the Administration's Millennium Challenge Account has been awarded to Senegal. And I am informed that there have been reports that Senegal's copyright enforcement agency is

being run by someone who is very questionable whether they are corrupt or not.

And here we have a country that may or may not be really serious at all about enforcing copyright, which is an important—again, it is an American property that is being taken away, and people are not being compensated for it.

So how do we intervene, or should we intervene in a situation like that? Maybe Ms. McClymont would like to answer that.

Ms. MCCLYMONT. Thank you, Mr. Rohrbacher. I just wanted to put some other points on the table. And that is that I—

Mr. ROHRBACHER. We can let you put other points on the table, as long as that question gets answered. I will come back to you if you want to put other points on the table.

Ms. MCCLYMONT. Well, no, I am sorry. I meant to say that the point is that we don't always have to give our development assistance directly to a government. And I think that is what is key, that, as you noted earlier, there are NGOs, there is civil society, there are other ways to spend our development dollars. Which we do, which can help build people's lives and capacity, despite a corrupt government.

Mr. ROHRBACHER. I see. So in other words, if you do have a government that maybe is not enforcing our copyright laws, or letting our citizens, as Ethiopia is doing, letting their property remain confiscated, not returned, we can then try to direct our assistance to things that go around the government. That go down to help people directly. Is that what you are saying?

Ms. MCCLYMONT. Even today there are numerous countries where the governments are not as we would wish. But as you know, we are able to give development dollars to NGOs. They can help build reformers in the country. They can help civil society grow, which will put pressure hopefully on a government which may be corrupt.

And so I just think it is important to keep in mind that we have those tools available to us, which help in the longer term.

Mr. ROHRBACHER. All right, thank you very much.

Now, for the record, is the United States the largest donor of foreign aid in the world? Take the amount of money that we have given, that we actually give in foreign aid, are we the largest donor in the world?

All right. From the tongue-lashing that we get every year, one would think that that was not the case. And let me note, having seen some of the foreign aid of some other major donors—I do not want to hurt the feelings of the Japanese at all, but when I went to Cambodia, I remember that the Japanese had promised a couple billion dollars worth of help to Cambodia. And it all came in the form of Toyota vehicles that were like 2 or 3 years, they hadn't sold. And thus, Cambodia ended up in the future having to buy all of those spare parts from Japan.

Now, is our foreign aid that self-serving? And then I will let Mr. Payne have the next question. What about that? Is our foreign aid that self-serving, as well? Or are we a little bit more benevolent than that?

Ms. BRAINARD. Before I answer that, let me just make one point relative to your previous questions.

Mr. ROHRBACHER. All right.

Ms. BRAINARD. I can't speak to the specifics obviously of the Ethiopia case that you raised, but the cases that you raise are actually areas where American interests overlap 100 percent with what we believe are the necessary foundations for growth and poverty reduction in those countries.

In areas such as the rule of law and property rights, we know from lots of research that they are essential to development. Pioneers like Hernando DeSoto are doing amazing things in this area, trying to create better property rights in some of these impoverished countries—

Mr. ROHRBACHER. I would agree with that 100 percent. And that if a government is blatantly disrespecting the property rights of people, especially their former citizens or whatever who own the property legitimately, and there are attentions on it, it certainly means they probably violate the property rights of their own people. Which then undermines any real growth and potential increase in the standard of living of their people.

I had one other point to make, and then I will move on to Mr. Payne. Yes, Ms. Brainard.

Ms. BRAINARD. Regarding the geostrategic cases, I think those are the toughest places for gauging U.S. aid effectiveness because of the trade-off you mentioned earlier.

The Middle East traditionally is a good example, where we have needed certain governments to undertake certain things that we have seen as vital to our national security. And we have often looked the other way when progress on democratization has not been forthcoming.

That is the area of foreign assistance that requires the hardest look right now. We should be measuring results somewhat differently. Obviously what we are trying to achieve there has to do essentially with out national security.

And so I don't think it is right to lump the funding that we give in geostrategic cases, which all the cold war numbers do, to take all the aid that we gave to foreign dictators with whom we were trying to achieve strategic purposes, and say hey, look, we didn't get economic results.

But we don't measure those the right way. And we don't know how to be hard-headed about democratization. And in the end, that could actually undermine the strategic purposes we are trying to achieve.

So I think that is one of the prime areas for hard work.

Mr. ROHRBACHER. I would like to thank all the witnesses for some very thought-provoking testimony today.

Mr. Payne?

Mr. PAYNE. Thank you very much. I would just like to perhaps keep that line of questioning.

You know, during the cold war the United States—and we talked about all those billions of dollars spent. But as you may recall, one of the driving purposes of United States assistance during the cold war was, especially in third world countries and Africa, for example, was, who was on our side, fighting for democracy, and who was on the USSR side. So actually probably both sides wasted a lot of money. But we say well, it was important that we support Mobutu,

who we knew had villas in France, and some of the things that my colleague here was talking about. That was during the cold war period. We have got to kind of come up to where we are today.

So it was clear that we were looking the other way, just as long as that country said we don't like communists, and you get our money.

Now countries like DRC now is still strapped with the Mobutu debt, which we knew was being stolen, money being stolen.

And so I wonder, how do we deal with a country that, because of the cold war, because of our policy, because it was driven that way, these countries now are strapped with having to pay back these debts. Anybody want to take that?

Mr. RADELET. I will take the first stab at that. I think that is a really important point, and I think it is one of the reasons why we need to have different strategies for different countries, depending on our objectives.

There is no question that a lot of our foreign aid money has been wasted, and has gone to corrupt dictatorships. But we have to think about why that money went there, and what the true objectives were.

Let me take a specific example right now. One of our largest aid recipients right now is Pakistan. We have very important national security reasons why we are providing a lot of aid to Pakistan right now. I believe it is the most dangerous country on the planet, and we ought to be engaged there.

They are not a paragon of good governance. They are no democracy. Corruption is a big problem. Is our money going to be spent effectively? I do not know. Is some of it going to disappear? Probably. Are they going to achieve rapid economic growth because of our aid there? I doubt it. Does that mean we should leave? No. We need to engage because we have very high priority national security goals, and our assistance there needs to be judged by how it contributes to those national security goals, not in terms of economic growth.

If there is economic growth on top of it, that is terrific. But that will be icing on the cake.

Other countries, our priority is going to be economic growth. And we need to judge our programs by that standard, whether they reduce poverty, increase literacy, reduce infant mortality or increase economic growth. We have to have different standards depending on what the objective is.

There was some discussion about Senegal before, and I do not know anything about their copyright rules. I do know that they were the first country in West Africa to have democratic elections when an opposition candidate came into office because of those elections with no political chaos. I know that they are the country in West Africa that has kept their HIV/AIDS rate at a very low rate, and that they have been a friend to the United States. And we need to support those objectives.

We have other objectives, like copyright rules, but I think we also need to support countries that really are moving toward democracy and economic growth where those circumstances lie.

So I think the issue is really just to be clear what our purposes are, and judge the results based on those purposes, not judge them by some other standard.

Thank you.

Mr. PAYNE. All right, yes. And I would like to hear anyone else's comment. I guess I am looking for what is the balance, you know. Because as you have mentioned, we have got the, especially during the time when we were shopping around for votes in the U.N. for Iraq, whether we should go in or not, there was a lot of, I guess, priorities put on countries that did support our position, and others that did not, were not looked at favorably.

I mean, even to say that Sudan is making progress because they said they are going to share intelligence with us, and let us have some information about where terrorists are, when we know Osama bin Laden stayed there 6, 7 years, and planned the bombings of the Embassies in Africa.

We simply almost are saying—and if we had some affirmative action at that time, we probably could have apprehended Osama bin Laden and prevented all of this terrorism that we have at 9/11 and all the rest. Because certainly Osama bin Laden and the Al Qaida people that have created all this, you know, I am glad Saddam Hussein is out.

However, we need to concentrate—I think the greatest threat is the Osama bin Laden and the Al Qaida cells that are around the world, and we really need to focus on wiping them out. And that will keep those red alerts and green alerts and pink alerts out, once we can weed out that evil network.

But I just wonder, what is the balance, or how far do you think we should go? And anyone could answer that.

Ms. DALE. If I could just make two points. The first one being that the previous question you asked, Congressman Payne, related to the question of what do you do with countries that are burdened with that from a former dictatorship. And the most important of these, of course, has been Iraq, where reconstruction has been hampered by the huge burden of debt owed, in particular to Russia, France, and Germany, of the Iraqi people.

Now, I think there is a good argument to be made that under certain circumstances, such debts should be forgiven. This would include some American debts, as well. There are countries that need, in order to move forward, to be relieved of the burden they are carrying at this point.

Anybody who would be in debt over their head would need to deal with that situation first, before creating a plan to improve their finances.

Secondarily, it is unfortunate that you have to apply different sets of standards at different times. And the votes in the Security Council was obviously one such instance. I don't believe that will change the fundamental principles on which you base foreign aid, but there are foreign policy considerations that come into play, security considerations at various points. And you can't just say that whatever you vote in the U.N. Security Council doesn't really matter as far as a country's bilateral relations with the United States is concerned. The world is not that compartmentalized, unfortunately.

Ms. MCCLYMONT. Mr. Payne, with respect to when you think about our foreign policy and our foreign operations budget and our foreign aid strategy, we don't necessarily tie together in a thoughtful way how development assistance interacts with debt relief, interacts with trade, interacts with investment.

And so we have got to remember all the tools in our arsenal that can solve these problems. It is not necessarily that you have to go and give a country debt development assistance, but rather debt relief may be another approach. And I think we don't think about the whole set of tools in that toolbox, and that is yet another reason, we believe, for a need to take a stronger look and develop a strategy around this.

The second point I would like to make about when we are talking about what we are measuring, we set a goal. And then what are the criteria we use to measure it. And my colleagues have talked very adequately and eloquently about that. But I would also just like to underscore that it has come to our attention that, for example, at USAID, even though we talk a lot about monitoring and evaluation, resources at that institution for doing evaluation have been cut tremendously over the last decade, as I am sure you know.

And I think this is a fundamental point. How do we really measure anything properly if there aren't resources for it? How do we really look at the broader impact of something if there aren't resources to do that, and an impetus to do that?

We can run around and measure a lot of individual projects. But rather, we need to look at the larger impact.

And I wanted to finally just close by underscoring again the point that there are many ways to do development. And we worry a lot about these corrupt governments and problems with governments. But if we hadn't had all these other mechanisms to give development assistance to countries around the world, it is really giving it to the people around the world. And again, I underscore myriad institutions, civil society, multi-lateral organizations, many mechanisms.

So we have always got to keep that in mind, and not get overly concerned about governments themselves. Quite obviously, if you are going to pour a large, large amount of money into a country, like we would be doing with the MCA, you have got to fundamentally have a government that can manage it.

But it is really the people working with the government that has to happen, as well. We cannot forget the people in the process. And I just wanted to underscore that.

Thank you.

Ms. BRAINARD. First on the debt relief point you raised, which I think is a very important one.

Not only do we, by relieving debt that was incurred by illegitimate governments, make it more possible for new, more democratic governments and systems that have become more transparent to rule more effectively, and to deliver results quickly to their people, which is critical for sustaining that democratic impulse, but we also send the signal to people in countries with illegitimate rulers, that there is a silver lining. That the more they push their government for greater transparency, less corruption,

more legitimacy, the more the international community, and particularly the U.S., is going to stand behind them.

It also sends a signal to private investors. Don't be lending your money in countries with corrupt regimes because it is not sure you are going to be getting it back. So it has a lot of positive ramifications, which is why we started down that track under the Clinton Administration, and why we still need to do more.

With regard to the Iraq situation, we also need to think very hard about the level of needs in countries eligible for debt relief. And we can't suddenly push our entire debt relief agenda with the poorest countries off the table because suddenly we have got a geostrategic priority elsewhere. We have got to be a little steadier in terms of where we are headed on debt relief broadly.

And that gets to your second point. To the extent that we have medium-term strategies for each of the countries that we are dealing with in the developing world, they would not be as easily buffeted by events. It would be harder to suddenly take out the grab-bag of U.S. assistance goodies and say, now that we have a short-term political priority over here; let's go through the list of what we can give you for the next year.

That is the problem with our current system. We don't have a steady-as-she-goes view about where each country fits on that matrix incorporating both our national interests, and also their capabilities and their needs. And that is what we need to be moving towards.

Mr. PAYNE. Thank you very much. I will yield to the Chairman at this time.

Mr. TANCREDO [presiding]. Thank you, Mr. Payne. We have talked a great deal, and you have provided a great deal of testimony about what might be both the appropriate amounts and the appropriate usage of our foreign aid. And if we strictly define foreign aid as the transfer of wealth from one country to another, let me ask you if it would not be appropriate for us to add to our calculations of how much money the United States distributes to other nations, which we call remittances, the amount of money that flows from the United States to countries all over the world.

Ten percent of the GDP, for instance, of El Salvador, Eritrea, Jordan, Nicaragua, Yemen is made up of remittances from nationals, their nationals here in the United States. Far more than that, a much higher percentage of the GDP, flows to Mexico from the folks who are here, Mexican nationals working in the United States.

It is actually a much more direct form of foreign aid than anything we do in terms of transfer of funds from the United States to a government of another country, or even to NGOs. Because, of course, the money is going directly to—we make an assumption, anyway, that 99 percent of it, I would suppose, is going directly to the people of another country.

You wonder, then, that stated, and I am going to ask you to respond, each of you, as to whether or not it is legitimate for us to think about that as a form of foreign aid.

Then if it is legitimate to consider it in that vein, why would we not also think about ways in which we could use that or manipu-

late that process to our ends? To achieve the same goals, whatever they may be, that we use all our other foreign aid dollars for?

The FMLN, for instance, is just—there is a little thing I got just before I came in, the Central American Report, talking about the fact that the FMLN is apparently going to win, or it looks like they may win the election in El Salvador. If they do, considering who and what we know the FMLN to be, should we not think about ways that we could use our influence, both political and economic, to address this kind of a situation, if that actually happens in El Salvador?

I asked the Secretary of State, when he was here, whether we should not use the dollars that we provide to Mexico in foreign aid, to do something about our national security interests that develop as a result of our porous borders. And asking Mexico—certainly asking Canada, but we don't have that same sort of leverage there with them, but we do with Mexico, both in terms of direct foreign aid and remittances—to talk to them about helping us on the border, in securing the border. It is a national security issue. Not just against people coming here illegally, but of course, people bringing in enormous amounts of drugs. We know terrorists come into the country over those borders, both north and south.

So why wouldn't we use whatever we can, whatever you establish as being the appropriate criteria for us to use foreign aid for, why wouldn't we use remittances in the same way?

For instance, what could we do with them, in terms of trying to control far more than we do. Right now we actually approve, the Treasury Department has given the banks an approval to use, for instance, the Matricula Consular to open up accounts so that they can more easily make the transfer of funds.

So there are ways that we could actually begin to control the flow of funds, I think, if we wanted to. So I ask you all to just respond to that.

Mr. RADELET. Thank you. Remittances are extremely important for many low-income countries. They are a very important financial flow, and they are essential to economic growth and poverty reduction in many countries. But they are not foreign aid, for a couple of reasons.

First, it goes two ways. If we count remittances from the United States to other countries as foreign aid, then when United States oil workers work in Angola or Nigeria or other countries around the world and remit money back, we would think that Angola was providing foreign aid to the United States, or Nigeria providing foreign aid to the United States. And I don't think that most people think of it that way.

I spent 4 years working in Indonesia, not financed by foreign aid, and some of the money that I earned there came back to the United States. It was important to me and to my family; it wasn't foreign aid.

Mr. TANCREDO. How about if we just balanced the accounts, then? We will just say—

Mr. RADELET. Here is how much that comes from Angola, and here is how much we are sending; we will take that out.

Mr. TANCREDO [continuing]. The amount of money that is flowing back to the United States from our nationals working in Angola.

Mr. RADELET. And that is important to look at in terms of flows and financial flows. The net financial flows are extremely important. But I don't think it foreign aid, for the reason I just gave, first of all.

But second of all, because—

Mr. TANCREDO. Well, wait a minute, for the reason you just gave. You just said because we get some money back. But I am saying if you take that off, and if the balance is in our favor, why isn't that foreign aid?

Mr. RADELET. Well, because if you count that as foreign aid, you would have to count flows both ways. Unless we are willing to say that what United States oil workers earn in Angola and bring back is foreign aid from Angola to the United States—

Mr. TANCREDO. I would be willing to.

Mr. RADELET. Well, if you would be willing to, that would be consistent.

Mr. TANCREDO. Then it would be foreign aid.

Mr. RADELET. I wouldn't be willing to call it that.

Mr. TANCREDO. I didn't think so. Let's go ahead, because we are running out of time.

Mr. RADELET. But let me actually add another point about why it shouldn't be foreign aid.

Because, although it is extremely important, the financial flows, we cannot use it as a foreign policy tool as effectively as other ways, because we can't influence it as directly as we can with aid. We can't quickly give it to new and emerging democracies, or countries where we have national security, or countries that might qualify for the Millennium Challenge Account. Because what matters is if people in the country happen to live here or not.

As one of our broader set of foreign policy tools, we should be thinking about remittance policies, along with immigration policies, trade, investment, foreign aid, as all of those. So it is definitely part of the policy tools in our arsenal; I just would not define it in the same way as foreign aid as a—

Mr. TANCREDO. Well, then, a policy tool in our arsenal. I am going to ask you to, if we don't mind, because we don't have the time now, but if you could just actually respond to the Committee with written testimony as to exactly what kind of a policy tool you envision remittances might be. I would sincerely appreciate it.

Ms. Dale.

Ms. DALE. Yes. I realize how important remittances are for many countries. And if you look at the United States and its dealings with poor countries around the world, I do think it is a part of that larger picture.

However, we are talking here about private property. We are talking about the private property of the workers who are here, who send their money home. They are not giving it to the U.S. Government, they are giving it to their families.

So I think if we were to look at remittances as a foreign policy tool, and to tweak it in order to produce a certain result, we would, in fact, be undermining what we want to encourage in other countries, which is respect for private property.

Therefore, I would not advocate using that as a pressure tool in foreign policy.

Mr. TANCREDO. Let me ask you if you would hold that same feeling even though, let's say, a certain percentage of the people who are actually providing those remittances are working here illegally themselves, violating our law.

Ms. DALE. Now, that I am not in favor of.

Mr. TANCREDO. Good.

Ms. MCCLYMONT. Yes, sir. As my colleagues have said, remittances are terribly important. The problem with remittances is we don't know what they are being directed for, we don't know how they are being used in the country. Are they really going to help pull people out of poverty? Are they going to really help broad-based economic growth? We don't know.

Mr. TANCREDO. Let me ask you this. If we are sending money to any country, with the hope that that money gets past the government, past the NGO, to the people; and we know that, in fact, remittances go exactly that way. I mean, they are not usually sending them to the government of the country, they are sending them directly to the people who are in need. That is really why most of the folk have come here is to help support families someplace else.

Why isn't that a perfect example of foreign aid?

Ms. MCCLYMONT. Well, they are just not being used in an organized fashion.

Mr. TANCREDO. Well, that is true.

Ms. MCCLYMONT. What people are they actually going to? I think what is really the fundamental point, Mr. Tancredo, is that development really is about investments. Building institutions.

Mr. TANCREDO. Yes.

Ms. MCCLYMONT. Helping civil society, helping people help themselves, really, at the end of the day. Helping their education, helping their health care.

And so I think we have to think about development, and really getting something done in that fashion.

Mr. TANCREDO. Sounds to me like a perfect example of what remittances do.

Ms. Brainard.

Ms. BRAINARD. Remittances are a critical financial flow, conceptually similar to foreign investment, and to trade. And America does fantastically on all three fronts, and we are contributing enormously to the growth of the world and to developing countries through all three types of flows.

We do have policies that affect remittances. We have immigration policy. We have financial policies.

But thinking about remittances as something that the government could directly control makes me think about those of our ancestors who came here voluntarily and sent money home to their kids to get educations and to have brighter economic prospects.

The notion that somehow the government would have confiscated those private earnings and said no, this is in our control to decide who it should go to, I think it would trouble all of us.

And so that gets to the private property point that Ms. Dale raised earlier.

But I do think that you are raising the importance of remittances, which is absolutely right. And we should have a set of con-

scious policies to make sure that remittances contribute as positively as possible to development prospects of these countries.

Mr. TANCREDO. Well, I am not even suggesting, and never, hopefully, did I suggest that we should be confiscating anybody's, you know, the dollars they make here. That certainly was not my point, taking their private property.

Manipulating the flow, controlling the flow, I think, is a little different concept.

But even if we didn't do that, even if we just simply said no, we will allow it to flow as freely as possible, in fact, we will encourage it, why will we not count that as part of what the United States provides in terms of foreign policy? Instead of \$17.4 billion, \$17.5 billion in 2004 appropriations, why couldn't we legitimately say we are contributing, well, closer to double that, certainly?

Yes, go ahead.

Ms. BRAINARD. When you do comparisons across countries, we actually do try to look at private flows. And in the category of private flows we look at trade, we look at investment. We should be looking at remittances.

Foreign aid has been defined internationally in a way that the U.S. actually has greatly influenced, for purposes of comparison, of what the government itself is providing. And so it is an internationally-agreed definition, and it is useful.

The U.S. does a lot in terms of having workers here send remittances home. So do other countries. And so we should be looking at remittances comparatively, but not in the same box as foreign aid.

Mr. TANCREDO. Thank you. One way we, in fact, do have a responsibility, the Federal Government, it seems to me, can claim a role to play here is that as long as our borders remain porous, as long as we approve of the fact that millions of people come here illegally and send money back, that is, in fact, a determination of the Federal Government. And we should add it, I think, to the amount of money.

My time has ended. I want to give a ranking Member another opportunity for questions.

Mr. PAYNE. Thank you very much. I can see how you are accustomed to being in the Chair, because the Chairman's time never runs out. He can take all the time—

Mr. TANCREDO. In that case, let me go back.

Mr. PAYNE. You could stay until 3 o'clock.

However, it is pretty interesting. I have never thought about, you know, the remittance, and how that might be calibrated as U.S. assistance.

I mean, Mr. Radelet mentioned about, you know, the salaries of oil workers, which is interesting. If you really wanted to go whole-hog, you could take a look at perhaps the profit made. I mean, the cost of what we pay for coffee beans, and when they come to the U.S., and all of the process that goes on after those beans. Which is you buy a whole 100-pound bag, we might pay \$100. But then you go to Starbucks and you are paying two dollars for a glass, a little cup of coffee.

If you wanted to start really dealing with stuff, I mean, the profit that we make off of the oil, for example, that comes here as crude,

you know. We just pump it out, we pay the crude, \$35 a barrel. Well, gasoline in California is about \$2.50 a gallon right now. So you look at how many gallons are in a barrel of crude; probably hundreds.

So if you start playing around with that, you can find that third world countries are actually subsidized. I mean, what makes countries rich? Where is the amount of profit being made? Oil, of course, everybody needs it, everybody fights for it. Whatever the price is, we buy it.

Diamonds, for example. You know, diamonds come out of Zaire. People live on a dollar a day. The diamond cutters, the diamond sellers, they are the most wealthy people in the world.

If you look at gold, where does gold come from? Not from under the water somewhere. It comes from developing countries. Those countries do not make the profit when the gold is tinkered with and played with, and sold for wedding bands, you know.

So there are a lot of ways to look at—

Mr. TANCREDO. Will the gentleman yield?

Mr. PAYNE. Sure. That is why I wanted to get into a colloquy, that is because we are the only ones here, But I do not want to hold you up.

Mr. TANCREDO. Yes, exactly. It does make it fun, at least for us. I do not know about anybody else.

But the fact is, of course, we do use—and I think the gentleman would agree that it is important for us to use—investment policy and our control over that as a tool for foreign policy.

You and I have both, in fact more than once, supported restrictions on investment policies from the United States. And often, in fact, even access to our markets to governments who we believed didn't deserve them.

And so, well, anyway. It is an interesting colloquy. I know that Mr. Cronin probably feels badly, because we keep starting over here, and it always gets down to there and we run out of time, and he doesn't get a chance to comment.

Mr. PAYNE. If you would like to comment, Mr. Cronin.

Mr. CRONIN. The official development assistance only measures some of the assistance that indeed flows from the United States. And we have to remember that it is always a minuscule fraction of the private flows around the world, of which remittances are a huge part.

And so we do, and certainly back when I was in policy, we did take account of what we call total resource flows that talked about trade, talked about remittances. And we have to remember that when we are trying to promote economic growth in the developing world, and therefore poverty reduction, we should be trying to use every dollar effectively as a catalyst for how will it promote either the institutions, or the investment in people, or the rule of law that will ultimately allow them to have freer trade, private investments that will gain, and therefore make development sustainable.

And that was the main point that I think needs to be looked at through a commission, and through subsequent debates, as we think about providing greater policy coherence across our foreign policy and economic policy institutions.

This goes back to the debt issue, as well. I mean, Mary McClymont, in her interaction paper, said it perhaps first, and said it very well. She repeated it today. Across treasury and AID and state and other institutions of the government, we need to have better peripheral vision about the interests in what we are trying to get done for the country in question. It really calls into question, as we put together a country strategy in the government, and as Congress provides oversight of country strategies, we need to make sure that we are trying to achieve and work on the same purpose overall in that country.

Often we are working at counter-purposes, as with agricultural subsidy, sometimes, and development policies, as we all know. It happens not just with the United States, but with Europe, with Japan. And we need to try to analyze that, as well, over the next year, as we think about the future of foreign aid.

Mr. PAYNE. That is true. I am glad you mentioned that, because I know, Ms. Dale, in your comments, you did mention that foreign aid alone can't pull countries out of poverty, which I agree.

However, when we look at, as Mr. Cronin just mentioned, there is about a \$300 billion subsidy in EU and United States and Japan, developed countries. And people in the Caribbean say they could buy a Purdue chicken flown in from New York, frozen, cheaper than they could throw some chicken feed out every day and finally cut that chicken up to eat. I mean, that is almost unbelievable, but that is the truth.

So you know, there has to be some, we have to take a look at subsidies of U.S. agriculture, because this \$300 billion that is spent around the world subsidizing these countries, where many of them, 80 percent of the people are farmers, how will they ever be able to survive?

Ms. DALE. Congressman Payne, I could not agree with you more. I think it is a great disgrace the way that the United States and Europe have subsidized certain constituencies at the expense of developing world farmers and producers. Their best possibility of bringing their countries and their families out of poverty is to sell to us as free trade.

We are wealthy, they are not. We can buy their things. And we would if we were not catering, perhaps too much, to domestic pressure groups.

I think the agricultural policies, industrial policies are both in the United States, but even more so I believe in Europe, constitute a detriment to those countries. And the WTO has been trying to construct recently around this very question. Unfortunately, in Cancun last year it sort of ran off the tracks. And I sincerely hope the United States will take some leadership, and look toward our own policies to make our markets open and reduce our subsidies.

Mr. PAYNE. Thank you. Just finally, I guess, I might mention about this new friends, and as the policy is being driven about—well, it has always been. And I think the biggest tragedy is, we take a look at Afghanistan, where we were supporting the Taliban, I guess, to overthrow the Soviet Union, because indirectly that was going to be a good win for us. The Soviets losing, the question sort of equated Afghanistan, and the Soviet Union to the United States

and Vietnam as sort of a stalemate. Nobody really won, no one lost, the big guys went back home.

But now we find that much of that hardware, military and training and intelligence teaching have been now used against us, because Afghanistan then changed into being the ultimate enemy, with people like Osama bin Laden. I mean, a horrible government that we sort of helped, I guess indirectly, get into power. And that is sort of you Pakistan, today's issue.

And I wonder, just in conclusion, how do we—is there, I guess the question is is there any way to prevent or to try to know what we are doing, so that we don't turn around and find that we are getting bitten in the backside again.

Mr. RADELET. I don't think there is any way to know in advance what is going to happen. Dealing particularly in failed and failing weak states is an extremely risky and complex business. And that means because with high risk, that sometimes it is going to succeed, and sometimes it is going to fail.

Now, that doesn't mean that we are cavalier about it and we just go in. We have to be careful. We have to use the best intelligence, the best motivations that we have at the time. But we also have to be very careful with whom we are dealing with, and try to not make a bad situation worse going forward.

But there is no easy answers to those kinds of complex issues. And you are right, we may be facing a similar situation with Pakistan 5 or 10 years from now.

At the moment, I think our judgment is right, that we have got to do our best to try to help that situation now, but it could get much worse.

Mr. TANCREDO. Thank you. Ms. Watson.

Ms. WATSON. Thank you, Mr. Chairman. And if this comment and question has already been addressed, please let me know.

But as I travel the world, I am finding that America's credibility, and the impression people have of America, has really deteriorated greatly. People interpret what is happening in the Middle East from their own background of experiences.

The way we are dealing with countries that we consider terrorist, you know, some are okay. There are partners like Saudi Arabia. But a country like Iraq or Pakistan, who are trying to rebuild after the destruction of war, have we considered the kind of Marshall Plan that we came out of the Second World War with? And along with that, what are we doing diplomatically to improve our image throughout the world?

In the last 6 months, I have been in Italy. We were in Scandinavia. I have been in Cuba, I have been in Haiti. I have been in Canada. And I am going to tell you this. The prestige that we had has dimmed greatly.

I, as an Ambassador, watched many occurrences that were hard for me to explain to the citizens of the country where I was hosted. And since the war on Iraq, our esteem has fallen greatly. Because we don't seem to have a consistent, effective plan for dealing with the program after the war, for foreign aid. And we don't seem to be able to espouse the kinds of programs that would be available to the countries that need assisting.

Can anyone enlighten me or correct my view? Those of you that work with these issues, bring me up to date, please.

Mr. CRONIN. Very big questions, and very important ones. We did speak about them in general terms. Let me just give you three points.

Clearly, the United States Government overall needs a greater capacity to do what we would call winning the peace, rather than just removing regimes. That is not something that is going to be born overnight.

I was privileged to serve in the administration of the U.S. Agency for International Development. We had some outstanding professionals who were in very small, relatively small parts of the organization—something like the Office of Transition Initiatives, or the Office of Foreign Disaster Assistance, which wasn't even as capable as it used to be, was not used to sort of nationwide institution building.

Nor was the Defense Department prepared to do that responsibility.

So where in the government that had some operational capacity, where are we going to get that done? Even within the international community of the United Nations, it didn't have machinery fully in place with the full support of the nations to try to do those tasks.

This is something I hope we learn from Afghanistan and Iraq, and start to address through a study of foreign assistance overall over the next couple of years. Which is how do we build not just our defense capability for stability operations, if you will, but our non-defense civilian capacity, working with other institutions—international, NGOs, and so on—to provide things that build institutions that will endure. And that will make the difference in a place like Afghanistan. We didn't just oust the Soviet Union, but we have to think about the peace and building the institutions there, as well.

I think also with respect to the message and our credibility, clearly we have been going through a couple of major conflicts in terms of Afghanistan, where there was broad international support, I think you would agree, on removing the Taliban. It was when we went to Iraq that around the world, it was much more hotly debated over what was the United States doing, what was the role.

As we hopefully work with an Iraqi government soon, and bring in the international community to help an Iraqi government stand up over time, hopefully that will dissipate.

At the same time, we have the ongoing conflict between the Israelis and the Palestinians. And clearly our credibility is hurt, as you know, ma'am, in the Middle East in particular, but also in Europe, for instance, because we have not been able to make progress overall on the peace plan that has been put on the table. And that becomes the sine quo non of credibility throughout largely the Muslim world, if you will. And hopefully over time again, that will be back on the table and there will be that opportunity.

But as with development, it can't be forced from Washington without some kind of willing interlocutors on the ground, as well. So it is a dynamic, complex issue, as you know.

So it is that combination of building institutions to allow the U.S. Government to go in and win the peace, and to build institutions

over time. It is, yes, providing even money for public diplomacy to get our message out. But thirdly, it is most importantly having a comprehensive set of policies that show America's true intentions and values, which really are geared toward open democracy, economic growth, and peace.

Thank you.

Ms. WATSON. May I just respond?

Mr. TANCREDO. Sure, go ahead.

Ms. WATSON. I am going to interpret what you said as saying that you didn't really, at the moment, plan for this, so you have to do it here from this point ongoing.

I think certainly 9/11 was the wake-up call. Somebody hates us, hates us enough to attack and destroy not only property, but thousands of people, innocent people.

And what I would like to get to the bottom of publicly is, have we thought through a plan from here on as to how to better improve our relationships with countries that we feel are at risk, or countries that we feel harbor terrorism, or countries that are terrorist.

And what I am digging for is some public announcement of what we are doing to better our standing, to be better trusted. Are we being honest and open? Are we massaging what we think might be factual? Are we stretching it? Or just what we are doing. I am not clear, and I am a Member of Congress. I get as much information as they all let us have, and it is not clear to me how we are going to improve, in some kind of coherent and consistent way, our relationships since 9/11, since the Iraqi war, with other countries.

I know that in our attempt to put together a coalition, that we were very demeaning to France, to Russia, and to Germany. Even here in this House, silly, childish kinds of things were done that I thought were not appropriate for this policy-making body of such high esteem. I really thought we reacted without thought.

I am hoping, in the aftermath of 9/11, that we would make a greater attempt—

Mr. TANCREDO. I would ask the gentlelady to please conclude her statement, since we have gone far over time.

Ms. WATSON. Yes, I will. So what I am seeking is that we be informed of what this Administration plans to do to improve our standing in the world, and what diplomatic approaches you might take, to the extent you can do it publicly.

Mr. TANCREDO. And with just a couple of minutes, actually, please. Because I know we have kept you here a long time. We are going to have a vote in just a few minutes, so this will be it.

Go ahead, quickly.

Mr. RADELET. I think that you have raised very important points. I have lived and worked and traveled in developing countries for 25 years, and I have never seen our esteem so low. And I worked for the first year and a half with the Bush Administration, and I do think it is a problem.

I think it gets back to our issues about quality and quantity of foreign aid. We can add in some of the other quantities of remittances and trade and migration and all this other stuff; it won't change the fact that we are not achieving our goals. We are not winning the hearts and minds for openness, democracy, and eco-

conomic opportunity around the world. We are not winning the war on terrorism at the moment. We are not winning the war against HIV/AIDS, we are not winning the war on global poverty.

So however you measure the numbers, we are not achieving our goals. And to do that, I think we need to rethink not just our foreign assistance programs, but the range of foreign policy tools, all of them together, working together in countries that should be and can be our allies, that can share this vision, that can work with us. And have it working in the riskier countries that are failed and failing states.

But it is going to take an approach looking at all of these tools together, and thinking about how we can use them to achieve our foreign policy.

Mr. TANCREDO. Ms. Dale.

Ms. DALE. If I could just comment briefly. I would take some exception to the idea that we are losing the war on terrorism, among the other losses that Mr. Radelet outlined.

I do think that the world is safer for the measures that the Bush Administration has taken. I do think we will win in Iraq. I think we are doing it. And I see that, not having had an attack on American soil since 9/11, as an example of the fact that we are moving ahead in this war.

On the diplomatic front, I would say there are a great many people who are concerned, as you are, Congresswoman, who I travel to. And I hear this all over the world. There are businesspeople who want to help improve America's image. There are lots of groups who are getting together and putting their heads together for creating programs, exchange programs, student programs, journalism programs, ways that people can interact with the United States in a way that will give them a more positive, or a more immediate impression of what this country is all about.

We now have a new Undersecretary of State for diplomatic public diplomacy, and I hope that Secretary Tutweiler will put some effort into this. I would say the Administration has not so far done quite as much as one would have liked to see. I am just hoping that the level of concern is rising now to a point where there will be a focus on this effort.

Mr. TANCREDO. Thank you. Ms. McClymont.

Ms. MCCLYMONT. Yes. Congresswoman Watson, I think you raise a very important point, as well. And it is about our image in the world.

And I think one thing we can absolutely do is continue to, in a very robust way, fund the development and humanitarian assistance programs that help people all over the world.

We can help them build their education and their health care and their skills, and that is something we know the American people believe in. They support programs that build self-sufficiency. They believe that by doing this development and humanitarian assistance it does build good will.

And so what we must not do is, as we deal with all the trouble spots around the world, and there are many, we cannot forget other countries in the world. And that is what we fear. If we diminish our resources, which I alluded to earlier in my testimony is start-

ing to happen, that is going to undercut us in the end, and make it very difficult to maintain our image.

The way we can assure a better image is to show that we are helping people at the ground level, in a very robust way. And I think we need to continue to do that, and not forget about that aspect as we go forward in other aspects of security in the war on terrorism.

Mr. TANCREDO. Ms. Brainard, do you have a comment?

Ms. BRAINARD. Yes. I think the questions are very difficult ones to answer. It is not just in discussions with people, but also if you look at the polling abroad there has been a breathtaking change in the perception of America's legitimacy abroad. It is very clear in the numbers; it is a big divergence from what we have seen before.

This matters not just because Americans want other people to like us. The reality is when America's perceived legitimacy abroad goes down, it costs us. It costs us economically, it costs us in terms of how much we need to be spending on security and on homeland security. So it is actually very centrally related to hard, concrete resource questions. America's perceived legitimacy is one of our greatest intangible assets.

The flip side of that is if you do polling at home, the polls are also very clear. Americans care greatly that they are perceived as legitimate abroad. Americans are also very big-hearted when it comes to tangible foreign challenges.

So we very much need to be engaged in winning hearts and minds, as well as winning the peace in these critical countries that we are reconstructing. I think a lot of decisions that are going to be made by this Committee will centrally impact that, and that is certainly not only in the area of foreign assistance, but it really goes to our broader foreign policy, our broader strategic purpose in the world.

Mr. TANCREDO. Thank you. Mr. Cronin.

Mr. CRONIN. By integrating our economic instruments of policy into our national security and our foreign policies, we can do a better job of showing the world that we have multiple ways of dealing with issues, other than military force. So that is the first issue.

And that is why we need an overhaul and a review of foreign aid, is because really, economic policy does touch so many different important goals that we have been talking about here this morning and this afternoon.

It does help prevent conflict, and even dampen the roots of terrorism. And we can do more on that, including building institutions to win the peace in areas of conflict.

We can attack poverty through an economic growth focus and through good governance, but also through providing health and education programs, for instance. And we can also continue our leadership on humanitarian assistance, including preventing, not just dealing and reacting in a crisis to natural or man-made disaster.

Mr. TANCREDO. Thank you. Your testimony cumulatively has been, I think, both provocative and elucidative. And I sincerely appreciate the time you have spent with us, and the information you have shared with us.

We are adjourned.

[Whereupon, at 1:15 p.m., the Committee meeting was adjourned.]

A P P E N D I X

MATERIAL SUBMITTED FOR THE HEARING RECORD

PREPARED STATEMENT OF KEN HACKETT, PRESIDENT, CATHOLIC RELIEF SERVICES

Mr. Chairman: I am Ken Hackett, President of Catholic Relief Services (CRS). On behalf of CRS and our partners around the world, I would like to thank the House International Relations Committee for the opportunity to testify on “Foreign Assistance after September 11th”. We appreciate your leadership and that of Ranking Member Lantos in addressing this complex issue that deeply affects US national security and the image of America abroad. The Committee’s thoughtful consideration will help ensure a more positive impact of US foreign assistance on the lives of real people—especially many of the world’s 2.8 billion people who live on less than \$2 a day.

In the two plus years since September 11th, the Bush Administration and Congress have committed substantial new resources to foreign assistance. These new resources mark the most significant additions to our foreign assistance program in more than two decades. In announcing the new funding, the Bush Administration and Congress have called for greater effectiveness and more measurable results. With increased funding comes an increased obligation to ensure the most coherent and effective approaches possible.

CRS would like to call your attention to three challenges facing the future of foreign assistance: the fragmentation of assistance programs; the diminishing support for existing programs; and the closer association of humanitarian aims to the expediencies of short-term foreign policy goals. These three trends merit your further consideration, as responding wisely could significantly improve US foreign assistance and enhance the effective delivery of life-saving resources to our hungry, impoverished and imperiled global neighbors.

FRAGMENTATION:

New stand-alone initiatives have accompanied the recent financial additions to the US foreign assistance program, from the Millennium Challenge Account (MCA) to HIV/AIDS, the Middle East Partnership Initiative, and a proposed complex emergency fund. In each case, resources have been directed away from the US Agency for International Development (USAID) and placed under the management of the State Department, made available through Presidential Determination, or, in the case of the MCA, placed under the management of an entirely new entity.

While USAID’s efforts have concentrated on core development and relief programs, a variety of federal agencies have long implemented aid programs along side the agency. These entities fulfill more narrow mandates, and include the US Trade and Development Agency, OPIC, and the African and Inter-American Development Foundations. More recently, however, domestic agencies have begun to increase their foreign programming. Health and Human Services, the Environmental Protection Agency, and the Departments of Energy and Defense, to name just a few, all have active programs in developing countries.

Taken together, the already numerous actors along with the proliferation of new initiatives puts both policy coherence and donor coordination at risk. The potential for overlap, duplication, and contradictory purposes could ultimately undermine results and complicate the role of groups like CRS.

A recent peer review of USAID by the Organization for Economic Cooperation and Development (OECD) has raised policy coherence and donor coordination as significant challenges for the US. Additional programs and agencies may further complicate this challenge. The OECD review also laments the lack of “a unified strategic approach to aid, . . . the end result of which is to deprive the US of a more effective

approach to its aid.”¹ Without a more overarching vision, the US bilateral program becomes little more than a multitude of separate initiatives and differing mandates likely to reduce impact. Recent efforts to build greater ownership over the development agenda by local governments and citizens—key to improving effectiveness—could be eroded by such a piecemeal approach.

DIMINISHED SUPPORT FOR EXISTING PROGRAMS:

Another area of concern is that, in resource allocation, the more visible new initiatives seem to be favored over existing programs, despite promises to the contrary. In FY 2004, congressional action was required to restore the core accounts to '03 levels. For FY 2005, the administration's budget request cuts \$100 million from child survival funds not related to HIV/AIDS, and also eliminates \$56 million from the Development Assistance (D.A.) account. Of remaining D.A. funds, earmarks to Afghanistan and the Sudan have increased, meaning overall cuts will be even more sharply felt by other countries. Migration and refugee programs were also cut by \$40 million, and the US contribution to international efforts to fight HIV/AIDS suffered a drastic \$350 million cut in comparison with last year.

Beyond this, we at Catholic Relief Services are concerned about some of the implications of targeting the MCA and HIV/AIDS programs to a limited number of countries that meet certain criteria. Appropriately targeting funds to enhance impact is indeed important. However, concentrating high levels of resources to a chosen few while cutting already insufficient funding to the majority of countries is an inadequate response to growing needs around the world. For example, estimates are that only 5 or 6 African nations will likely qualify for MCA funding. Likewise, concentrating HIV/AIDS funds in only 14 African and Caribbean nations means that other poor nations in Africa, Asia and Latin America go without. Such disparity in access to resources could increase the income gap among nations and further destabilize populations struggling with severe poverty. Our experience in places such as Ethiopia—which is unlikely to meet MCA criteria—is that investing more resources in development ultimately offers cost savings over chronic emergency response.

Favoring new initiatives and new offices rather than strengthening the existing US development agency misses the opportunity to tackle the deeper problems of US bilateral assistance as a whole. The rationale for creating a new agency to manage the MCA funds was to give the new entity certain advantages over USAID. The administration expects the Millennium Challenge Corporation (MCC) will be more accountable than USAID. It will demand results and cut funds to non-performers. It will be free of the regulatory burdens of USAID and will therefore be more innovative and business—like in its approaches.

However, details on *how* the MCA will be more accountable remain unclear, and precise problems with USAID's accountability have not been set forth for resolution. It also remains vague how the MCC will demand results differently from USAID's rigorous “results framework” of objectives, indicators and benchmarks. With respect to cutting non-performers, the MCC (and USAID) would benefit from a transparent assessment of the reasons behind these difficult decisions—including the political realities in both the US and recipient countries. Lastly, further consideration should be given to the possibility of eliminating burdensome regulations for USAID.

That these questions remain outstanding suggests that decisions related to the MCC's institutional structure—as well as USAID itself—would benefit from a more in-depth analysis of the difficulties facing foreign assistance in general. Without such an analysis, and without a sufficient understanding of the current problems with foreign assistance, the MCA may be poised to repeat many mistakes, and the US bilateral assistance program could be eroded by the piecemeal approach described above.

CLOSER LINK TO SHORT-TERM FOREIGN POLICY GOALS:

An overriding element of US foreign policy is to ensure US security by building greater global stability. The US National Security Strategy states that America will use its strength to “translate this moment of influence into decades of peace, prosperity and liberty.”² Carefully implemented, foreign assistance programs designed to reduce poverty, and to promote democracy and freedom contribute greatly to this overarching goal, and also reflect American values.

¹Draft Development Assistance Committee Peer Review, Part II. Organization for Economic Cooperation and Development. February 7, 2002. pp. 5–9.

²The National Security Strategy of the United States. The White House. Washington, DC. September 2002. P. 1.

Establishing new foreign aid initiatives outside of the US development agency, however, raises questions about how this valuable tool is best used to promote security. Placing funding largely within the State Department (HIV/AIDS, Middle East Partnership, chair of the MCC) and White House (complex emergencies) narrows the space between longer-term development goals and short-term foreign policy goals. Too close an association could mean that humanitarian objectives become subject to more immediately tangible political interests, and lead to different kinds of decisions on where to invest development funds and on what sectors to prioritize. Where communities may call for clean water and education, political interests may demand alternative agriculture or police reform.

Though both may be important, it is ultimately in the interest of the US (and the recipient country) to ensure that more immediate strategic interests are met without diminishing longer-term human development programs. Maintaining a separation of political goals from humanitarian goals will allow a greater clarity of purpose, promote a more coherent approach, and if necessary, allow a better understanding of consequences where difficult decisions must be made.

Lessons from the Cold War demonstrate that strategic investments can have the desired impact on the short-term political interest in question, but may come at the expense of more humanitarian purposes. Where political and development goals are blurred, longer term approaches aimed at sustainable poverty reduction, equitable growth and stability can suffer. However, it is precisely the achievement of *these* goals that will promote greater global stability and national security for the US. The National Security Strategy recognizes that “America is now threatened less by conquering states than we are by failing ones.”³ Given this reality, foreign assistance funds most effectively contribute to national security when invested in long-term, democratic approaches to reduce poverty and build the capacities of governments and civil society to advance their own development.

CRS is also concerned that linking foreign assistance too closely with more politically expedient goals may bring about a diminished role for American Private Voluntary Organizations (PVOs). Some officials have suggested that the use of for-profit contractors is more expeditious in terms of contributing to foreign policy goals as contractors implement the will of the federal government. Similarly, with respect to emergency programs, the US has begun to rely on the military to conduct activities more traditionally the role of USAID and PVOs. This has resulted in logistical challenges arising from a lack of understanding of development principles, including in Afghanistan, where food relief was airdropped in packages the color of cluster bombs. Linking assistance to the military has also generated a certain amount of confusion on the part of local communities. Again in Afghanistan, military personnel engaged in humanitarian assistance while dressed in civilian clothes and carrying weapons. Recipients of aid who may be frightened or who disapprove of the military action may view this as contradictory. Confusion on the part of aid recipients can be destabilizing, and can compromise the ability of PVOs to deliver needed services, as well as our safety.

PVOs have historically maintained a distance from political and military aims to ensure that we are viewed as impartial providers of needed services. We use our local presence to forge relationships with local populations. This has allowed us to more easily gain access to communities than might the military or private contractors. As you consider rebuilding for war-torn Liberia, we hope that PVOs will play a central role. Our understanding of the issues and existing local partnerships can help avoid the problems of confusion and logistics.

Another advantage of PVO programs is that we focus on the long-term institution building of local organizations to develop local capacities in a sustainable manner. We are driven neither by political interests nor by the profit motive. Our strength is derived from the spirit of volunteerism and our desire to achieve a more equitable world. CRS in particular, as an agency that represents a faith community, has a special role and contribution to make.

Our impartial approach to relief and development has helped us earn the support of our American constituencies. Americans want to help those in need and understand that PVO programs directly reach some of the neediest populations in the world. They support PVOs not only with their hard earned dollars, over and above their taxpayer contributions, but also through the actions of global solidarity they undertake in their daily lives, like buying fair trade coffee or contacting their elected officials to support social justice.

³ Ibid.

CONCLUSION:

The trends outlined above—fragmentation of programs and agencies, diminished support for existing programs, and a closer association to short-term foreign policy goals—could have an adverse impact on US foreign assistance. Ultimately, foreign assistance programs *do* influence our national security goals, and can most effectively do so through a longer-term, people-centered approach. Though they represent a cost to the American taxpayer, they are also an investment in our future. The paradox is that, to achieve greater security and stability in the world—and for the United States—humanitarian aims must be pursued in a disinterested way. By defining a comprehensive approach to development that empowers the poor people of *all* nations to raise themselves from the indignities of hunger and poverty, the US can also arrive at a stability gained by achieving greater prosperity for all.

To more thoroughly examine these trends and their implications, we recommend a comprehensive review of US bilateral assistance, and a recommitment to long-term developmental goals. Such a commitment should be built upon a foundation of local ownership—including a vibrant role for civil society, and significant improvements in policy coherence and donor coordination.

Thank you again for your leadership on this issue. We hope to be of assistance as you consider these challenges and possible actions.

