



Updating US Foreign Assistance Tools and Development Policy for the Post-Aid World

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Subcommittee on International Development and Foreign Operations, Economic Affairs, International
Environmental Protection, and Peace Corps

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Thank you, Chairman Kaine, Ranking Member Barrasso, and distinguished Members of the Committee.

US foreign assistance should be a critical tool for promoting US foreign policy and meeting other national security, economic, political, and humanitarian goals around the world. It should be a prominent and proud component of projecting America's power and projecting a positive image of what America is all about: the generosity and compassion of our people, the spreading of free market values and economic opportunity, the bedrock belief we hold that hard work can provide a better life for the next generation, the inviolable rights of individuals, the aspiration that all people everywhere should live free from tyranny. Foreign assistance should be able to play a role in supporting all of these goals and core American values. To be clear, foreign assistance can't deliver any of these goals. But it can and should be a useful tool to complement our military and diplomatic and business efforts.

Unfortunately, US foreign assistance has too often not lived up to its potential and instead been a perennial underperformer. An underperformer for American taxpayers, an underperformer in supporting US foreign policy objectives, and an underperformer in meeting global development goals. Yes, there are successes: US support for Liberian reconstruction, US support for the global effort that eradicated river blindness in West Africa, and especially the tremendous success of the US fight against HIV/AIDS through PEPFAR, which is providing life-saving drugs for some 5 million people. These are 5 million lives directly saved by US foreign assistance. But there are also too many examples, even where attention was intense and large funds promised, of abject failure. The US effort in Haiti to "build back better," where some \$3 billion was promised but three years later there are still an estimated 400,000 people living in tents is a national shame. US aid to help fight terrorism and build democracy in Mali also clearly failed. I had the tremendous honor to serve in the Africa Bureau of the State Department in 2007-08 and worked closely on Mali, so I know how badly our efforts there fell short—and it is a failure for which I bear some responsibility.

I believe that this disappointing record of US assistance stems from a structural problem in how the US government works. Recent efforts under the current administration—a first Quadrennial Diplomacy and Development Review (QDDR), a separate White House Presidential Policy Directive (PPD) on Global Development, and a set of business reforms within USAID known as USAID Forward—are all well intentioned and aimed to help fix the problems that everyone recognizes. But these efforts are not working. USAID Forward is too small-ball, while the PPD is bold and in the right direction but not being implemented. The QDDR, in addition to sapping the administration’s energy on development for more than eighteen months, is likely making US policy even more confused.

To be clear, I do not believe that the problems of US foreign assistance can be fixed by more money and more staff. The aid budget may very well be too low, but in many places it is too high. The funding levels, which attract so much attention, are not fundamentally germane to the problems of effectiveness. I also do not believe that the answer lies with additional investigative powers to root out corruption or additional bureaucratic layers to coordinate aid agencies. In fact either of these approaches is likely to make the aid system and US policy even less effective.

I see three fundamental problems with US foreign assistance:

First, there are too many federal agencies with aid programs. Some 24 separate agencies report aid to the OECD’s Development Assistance Committee. In the latest year, just 35 percent of total foreign aid goes through USAID. By contrast, the UK has a single large aid agency, DFID, that not only is tasked to ensure internal coherence, but also provides a development perspective within the cabinet to inform foreign policy goals. I don’t believe that the British model works in the US political system, but I also know that having 24 agencies involved doesn’t work either. The QDDR, which embraces uncritically a whole-of-government approach, is probably making this worse.

Second, foreign aid has too many, often conflicting, objectives. Lael Brainard in the book on foreign aid she published just before becoming US Treasury Undersecretary for International Affairs found that US aid had more than 50 goals.¹ That the US has multiple and often conflicting goals is not surprising—foreign policy is complex and cannot be boiled down to a few simple absolute goals. But when we have too many goals and priorities, then we really have none.

To make matters worse, these objectives are entirely divorced from the appropriations process. Rather than setting goals in a national development strategy and then allocating resources to meet these goals, multiple single issue initiatives are given resources and the strategy becomes the sum of those disparate parts. For example, if we want to support reconstruction in Afghanistan or support budget reform in Kenya, or fight malaria in Mozambique, there is no obvious or clear way to make tradeoffs between these goals or to choose the most efficient mechanism to accomplish them. Sometimes the best way to meet these goals is through the World Bank or the Global Fund rather than USAID. But of course US support to the multilateral development banks is made by the Treasury and Congressional responsibility is with your Committee and the House Financial Services Committee, while appropriations are handled by the State and Foreign Operations Subcommittees. This leads to a particular disconnect on the House side, with little ability to make clear decisions as to whether bilateral or multilateral aid is more effective

¹ Brainard, Lael. 2006. *Security by Other Means: Foreign Assistance, Global Poverty and American Leadership*. Brookings Institution Press, Washington, DC. Brainard’s “Spaghetti Bowl” of US foreign assistance legislation, objectives, and organizations is attached as Annex A.

for particular goals. So the direct tradeoff between the Bank, the Global Fund and USAID is never made. In short, part of the problem is the sprawling federal government and part of the problem is Congress. One way to consider the tradeoffs among the various bilateral and multilateral vehicles would be to formally consider the options against efficiency and alignment with national interests, as the United Kingdom has done with its bilateral and multilateral aid reviews.²

Third, the interagency process is broken. The interagency that should work out the tensions and tradeoffs among various objectives is, as anyone who works in the federal government can attest, dysfunctional. Every initiative is a fire drill and requires intense NSS staff direction and oversight. But NSS too small and overburdened to really do more than a few priority tasks. The result is too often delay of key decisions, frequent duplication of effort, and little accountability. If there are multiple agencies collectively accountable then in reality no one is accountable. And critically, the broken interagency combined with narrow mandates often means that we miss huge opportunities to use non-aid tools to meet our foreign policy objectives. Immigration policy, for instance, is probably a far better and more efficient development tool than our aid program, but we rarely use it as such.³

What steps would make things work better?

First, limit, don't expand, the number of agencies involved. Ideally the budgets and staffs of most international programs should be moved into USAID. If this is too politically difficult, and I suspect it probably is, then agencies should be forced to second staff and pass through their budgets to USAID for those critical projects. While the whole-of-government mantra suggests the more agencies involved the better, the opposite is true. The fewer number of agencies involved—and the fewer offices of the State Department—the better. Whole-of-government may work in small European governments with a handful of agencies and a small number of people who all know each other and can horse-trade to work out problems. This does not—and I believe cannot—work in the US context because of the sheer size and fragmentation of the federal government.

Second, link the budget process to goals and results—and allow experimentation with new models. This would imply Congress granting greater flexibility to the agencies to determine allocations and specific projects, but also could provide a mechanism for holding those agencies accountable by adding measurable indicators. This approach could draw heavily on the MCC's compact model where objectives and indicators are agreed over a 5-year period. Rather than checking every receipt and micromanaging the projects, the compact is judged based on the overall success of the portfolio in meeting the stated objectives. Congress could even provide USAID and other agencies space to experiment with innovative pay-for-performance contracts where US taxpayers would only be picking up the bills for actual achievements. We at the Center for Global Development call this Cash-on-Delivery and see it as an opportunity to make aid—and tax dollars—about outcomes, not inputs or even outputs, while also building local management capacity and innovation and reducing transaction costs.⁴

Third, development finance is an obvious target for efficiency gains. Some consolidation of agencies with overlapping activities is highly desirable, and the lowest-hanging fruit are the various federal

² A version of an American multilateral aid review that I completed is attached as Annex B.

³ Clemens, Michael and Kaci Farrell. 2011. "Beyond Aid: Migration as a Tool for Disaster Recovery." Center for Global Development, Washington, DC.

⁴ Birdsall, Nancy and William Savedoff. 2010. *Cash on Delivery: A New Approach to Foreign Aid*. Center for Global Development, Washington, DC.

activities to promote private sector development. At a time when most low-income countries are growing quickly and receiving windfall gains from resource discoveries, demand for traditional grant aid will be diminishing. US development policy must be careful not to remain stuck in the past. What countries want, and where the United States is really best placed to help, is with other types of development finance: debt, equity, venture, and other kinds of patient capital that can leverage private capital and be deployed for long-term development.

The good news is that many of the tools already exist. The bad news is that they are spread across multiple federal agencies, including the Overseas Private Investment Corporation (OPIC), the Trade and Development Agency (TDA), USAID, Commerce, Labor, Treasury, USDA, USTR, and more. And, like traditional aid, only rarely do they work well together. In the 2012 State of the Union, President Obama noted the absurdity that there are twelve different agencies that deal with exports and pledged to “merge, consolidate, and reorganize the federal government in a way that best serves the goal of a more competitive America.” What applies to export promotion also applies to development finance.

To be clear, I do not support the merger of OPIC into the Commerce Department—indeed that would be a tremendous mistake because the purposes of those agencies are very different. But I do believe a consolidation among the development finance tools would be highly beneficial. A first simple step would be to **bolster OPIC into a full-service US Development Finance Corporation.**⁵ This would imply granting OPIC additional authorities such as multiyear authorization, equity authority, and a modest grant window. It could also bring in complementary tools we already have in other agencies, such as TDA’s feasibility study window, USAID’s Development Credit Authority (DCA), and international programs of agencies like the Small Business Administration.

A US Development Finance Corporation could be built using existing staff and resources and at no additional cost to the US budget by allowing OPIC to simply retain its profits. More importantly, a bilateral development finance corporation could provide a platform for coherence of US policy tools in support of the private sector, allow the US to better compete in new markets, and limit the repeated scrambling within the interagency. An approach like the USDFC would not only be more desirable from an efficiency standpoint, but is likely necessary if the US is going to achieve ambitious goals, such as building market opportunities in the next wave of frontier markets or promoting electrification in Africa. For all the reasons outlined above, our current system simply cannot deliver those goals.

The United States must remain engaged with the world, especially in the fastest growing markets and emerging regions of the globe. US foreign assistance and our other development policy tools must be modernized if we are to succeed, and not be left behind by others who are showing more flexibility and more innovation. Thank you for the opportunity to testify today.

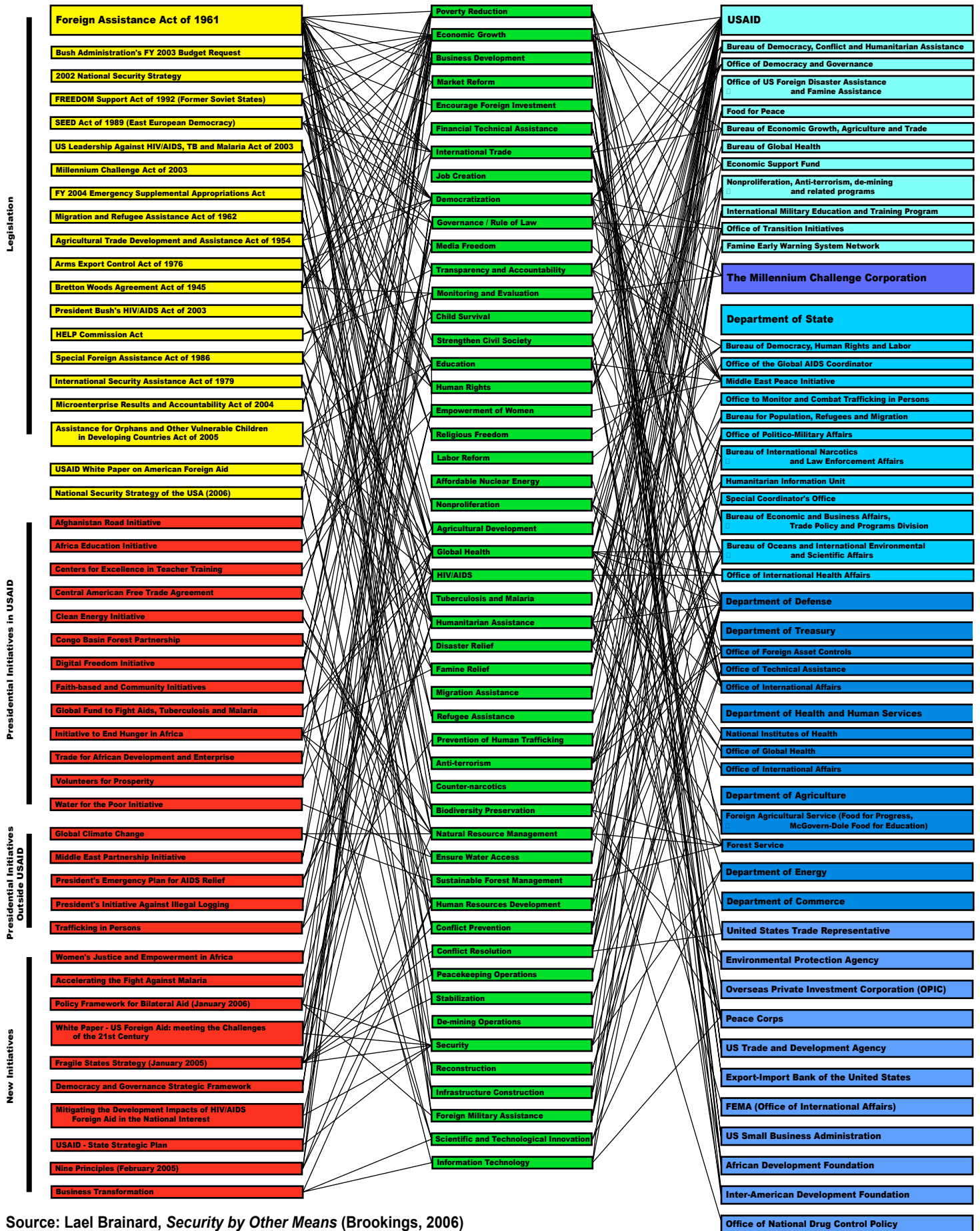
⁵ Forthcoming paper, “US Development Finance Corporation: Strengthening OPIC to Promote Private Sector Development in Emerging Markets,” by Benjamin Leo, Todd Moss, and Beth Schwanke. Center for Global Development, Washington, DC.

US Foreign Assistance Legislation, Objectives and Organizations

Legislation, Presidential Initiatives and Strategy Papers

Foreign Assistance Objectives

US Foreign Assistance Organizations



Source: Lael Brainard, *Security by Other Means* (Brookings, 2006)



Measuring Value for Money in U.S. Contributions to Multilateral Organizations An American Version of the British Multilateral Aid Review

Todd Moss and Stephanie Majerowicz
July 27, 2011

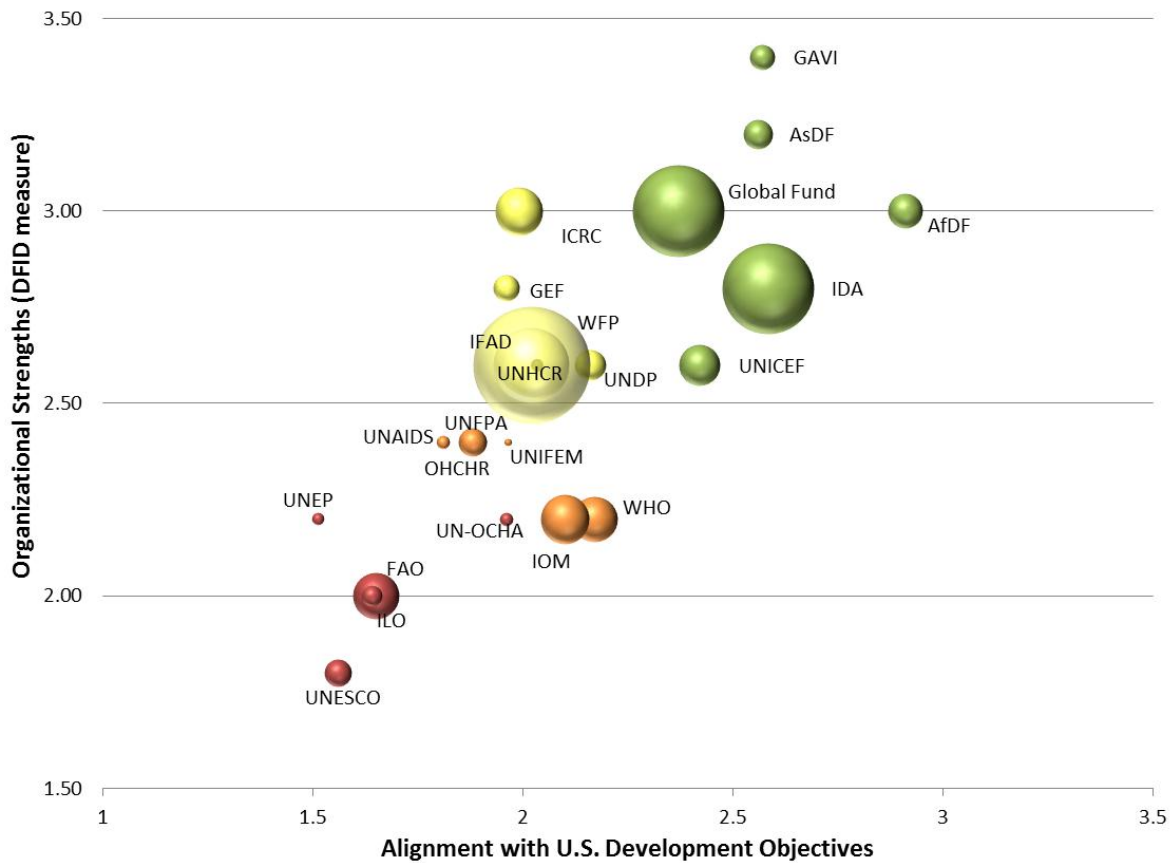


Figure 1

Notes: Bubble sizes represent relative U.S. contributions to each organization in 2009; color-coding represents the quartiles of an overall index multiplying scores on both dimensions.

Background: A U.S. version of the UK’s Multilateral Aid Review

In March 2011 the United Kingdom’s Department for International Development (DFID) released the results of a review of 43 multilateral institutions that receive UK funding. Summarized in Figure 2 below, the Multilateral Aid Review (MAR) assesses each institution in terms of the “value for money” to British taxpayers, based on indices measuring contribution to UK objectives and organizational strengths.¹ Each index draws on a combination of qualitative evidence and expert opinion polling.

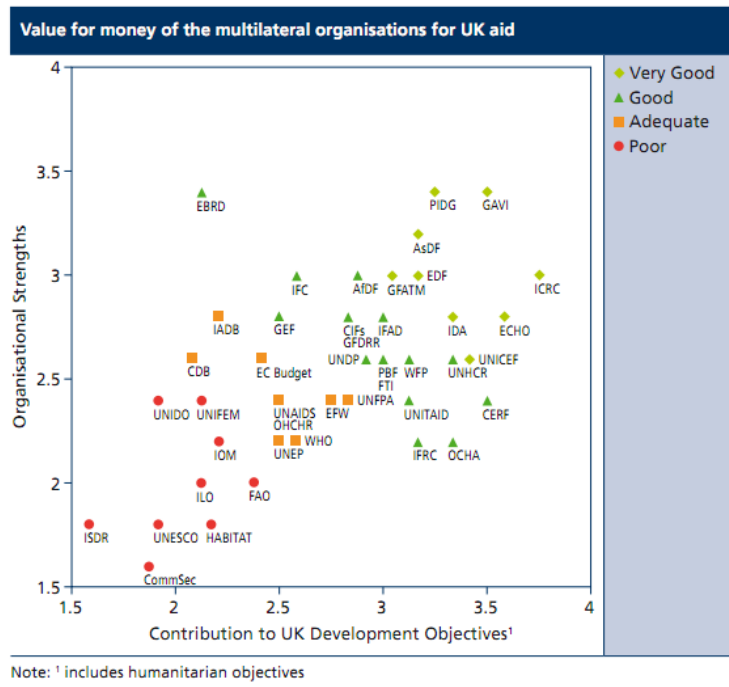


Figure 2

Real-World Impact of the MAR: Importantly, the results impact UK spending allocations. Partly based on the MAR, the UK government has announced funding increases to top performers (IDA, UNICEF, GAVI) while those at the very bottom (UN-HABITAT, ILO, UNIDO, UNISDR) are being zeroed out.²

Methodology for the U.S. MAR: Since no similar exercise exists for the United States, CGD replicated a MAR-like exercise for the 26 multilateral agencies that receive U.S. government funds (minimum \$5 million, FY2009). Following the DFID model, we rank each multilateral agency on “alignment with U.S. development objectives” and “organizational strengths.”

- *Alignment with U.S. objectives.* As a proxy for U.S. development objectives we use the four goals articulated by the 2010 Presidential Policy Directive on Global Development: (1) Foster sustainable, broad-based economic growth; (2) Focus on governance and public-sector capacity

¹ DFID, “Multilateral Aid Review,” March 2011, p. 3.

http://www.dfid.gov.uk/Documents/publications1/mar/multilateral_aid_review.pdf

² FAO, UNESCO, the Commonwealth Secretariat, and the IOM were put on a probationary watch list. See DFID, “Taking Forward the Findings of the UK Multilateral Aid Review,” March 2011.

<http://www.dfid.gov.uk/Documents/publications1/mar/Taking-forward.pdf>

building: (3) Invest in innovative policies and research into new vaccines, interventions and technologies; and (4) Focus on post-conflict and fragile states, including humanitarian post-crisis response. Following the British model (which combined DFID staff judgments with expert views from outside development think tanks), we based this index on a poll of CGD senior staff. The 13 respondents, including specialists with expertise in a broad range of U.S. foreign policy and development issues, scored each organization on their contributions to each of the four objectives from 1 (“very weak”) to 4 (“very strong”). A simple average of the four scores for each of organization was calculated as the measure of “alignment with U.S. development objectives.”³

- *Organizational Strengths.* Two measures of organizational strength were used:
 - UK scores from the MAR. Because this indicator is not U.S. specific, in Figure 1 we apply the DFID measure of organizational strength, compiled from assessments by DFID staff along five criteria.
 - QuODA Scores from CGD. The Quality of Official Development Assistance (QuODA) index assesses aid quality using 30 quantitative indicators in four dimensions.⁴ In Figure 3, we use an average QuODA score, however this only allows a measure for 12 institutions.

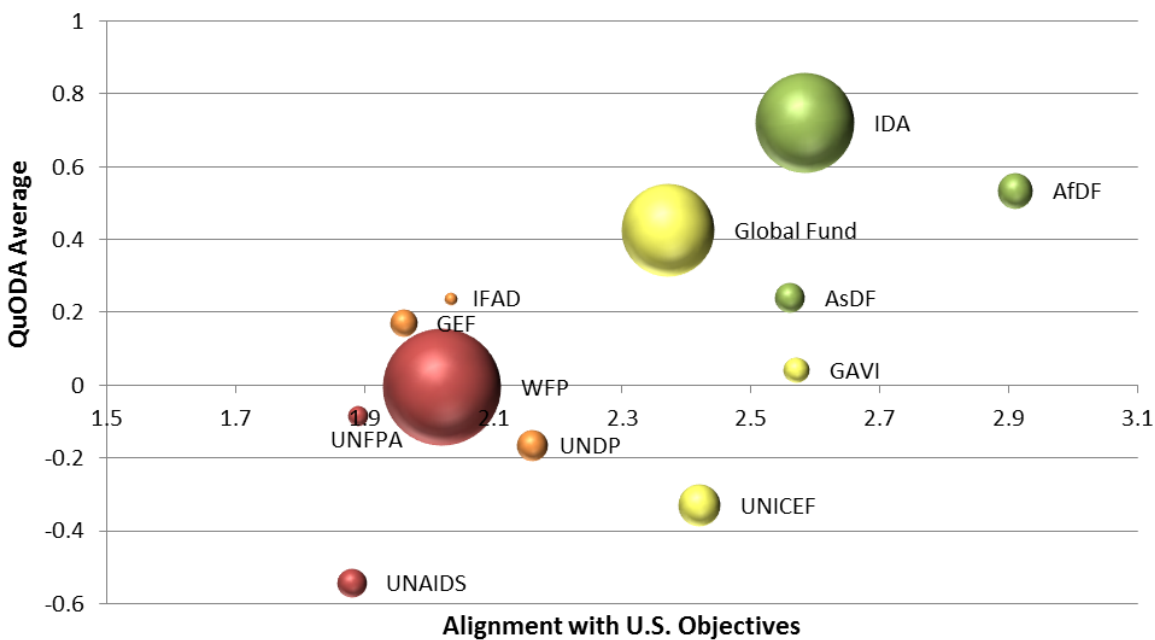


Figure 3

³ The poll included an option of “don’t know” and average scores include only scores of those who responded to at least three out of the four components for any given organization. Likewise, only organizations with a minimum level of responses were included, which led to the exclusion of the CIFs, the Central Emergency Relief Fund, and the IFRC.

⁴ Nancy Birdsall and Homi Kharas, “Quality of Official Development Assistance,” 2010. <http://cgdev.org/quoda>.