

## **Reforming US Foreign Assistance for a New Era**

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Senate Foreign Relations Committee  
Hearings on  
The Case for Reform: Foreign Aid and Development in a New Era

July 22, 2009

Mr. Chairman and members of the Committee, thank you for the honor of allowing me to testify today, and for your leadership in addressing the reform and upgrading of US official development assistance (ODA). ODA is an integral part of U.S. foreign policy. Yet it is currently too poorly directed, too small in scale, and too fragmented to play the role that it should. I make several specific recommendations to correct these problems.<sup>1</sup>

### **Direction of Official Development Assistance**

The core purpose of ODA should be to help low-income countries to overcome obstacles to Sustainable Economic Development. Sustainable economic development means the long-term process of economic advancement consistent with environmental and social sustainability. Obstacles to sustainable economic development may include: low levels of agricultural productivity, absence of infrastructure, vulnerability to natural conditions (climate, water, disease), excessive fertility rates and population growth, extreme deprivation of girls, women, or ethnic minorities, and poor public policies.

Development assistance is highly effective when it is focused on these specific objectives. It is much less effective when it is diffuse and lacking in clear and

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<sup>1</sup> Please note that I use the term ODA in the technical sense agreed by the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD). It overlaps closely with the Government 150 account and some other aggregate measures often referred to as “US foreign assistance,” but is limited to grants and low-interest loans with a development objective, as opposed, for example, to military support programs, aid to middle-income countries, and loans at market interest rates.

quantified goals. There are countless development aid successes in recent years, including disease control (malaria, measles, leprosy, guinea worm, and others), improved school enrolment and completion, increased agricultural output, and deployment of community health workers. The key to success is to combine good science, cutting-edge technology, and solid management of aid efforts at country level. The new \$20 billion G8 initiative to promote smallholder agriculture could become another great success story, producing an African Green Revolution with the same significance as Asia's Green Revolution of the 1960s and 1970s.

Part of the job of a good foreign assistance program is to diagnose the obstacles facing countries in achieving sustainable economic development. Diagnoses in the past have been simplistic, ideological, and narrowly focused on market reforms, rather than holistic, evidence based, and focused on environment, infrastructure, disease control, and science and technology, in addition to market reforms.

Priority regions in need of US ODA include:

- Sub-Saharan Africa
- Central Asia
- Haiti
- The Andean Region

A special focus should be given to the Dry Land regions stretching across the Sahel of Africa (Senegal, Mali, Chad, Niger, Sudan, Ethiopia), the Horn of Africa, the Arabian Peninsula, Western Asia (Iran, Iraq), and Central Asia. The Dry Land region suffers multiple assaults of poverty, hunger, drought, and disease that lead to instability, conflict, human suffering, and vulnerability to terrorism. The conflicts in Darfur, the Ogaden desert, Somalia, Yemen, Iraq, Afghanistan, and the Northwest Frontier Provinces of Pakistan, are all examples of dry land crises. The overlap of global crisis and the dry lands is illustrated in Figure 1, taken from my recent book *Common Wealth: Economics for a Crowded Planet*.

In order to maximize effectiveness, global leadership, and leveraging of US taxpayer dollars, the US foreign assistance program should specifically embrace major global development objectives to which the US is a signatory. Most importantly, these include:

- The Millennium Development Goals, adopted in 2000 to be achieved by 2015
- The UN Framework Convention on Climate Change,
- The UN Convention to Combat Desertification
- Various G8 and UN General Assembly commitments on hunger, disease, environmental sustainability, and poverty alleviation

By taking the lead on global goals, especially the Millennium Development Goals and climate change, the US would achieve remarkable leverage in promoting rapid improvements in living standards and environmental sustainability. The world is hungry for that kind of US renewed leadership and engagement.

### **Scale of US Official Development Assistance**

The scale of official development assistance, currently at around 0.20 percent of GDP and around 0.7 percent of US budget spending, is far too low. Doubling ODA by 2015 is a very worthy and politically challenging goal, but is unlikely to be sufficient to meet US foreign policy objectives. A part of the current military outlays, at roughly 5 percent of GNP, should be redirected to ODA, since effectively deployed ODA will give the US much more security than the marginal budget dollar spent on the military.

The US is committed, as a signatory to the Monterrey Consensus (March 2002) to “make concrete efforts towards the international target of 0.7 percent of GNP as official development assistance.” (Paragraph 42). This target is almost unknown in the Congress and the American public, but is deeply embedded in international commitments, at the UN, G8, and other forums. 16 of the 22 donor countries in the OECD have set a timetable to reach 0.7 by 2015. America’s failure to date to acknowledge this international target is a point of continuing weakness of American global leadership.

The 0.7 percent of GNP, which stretches back to 1970, and has been repeatedly confirmed in international gatherings, is not taken out of the air. Several comprehensive studies, including the UN Millennium Project report on *Investing in Development: A Practical Plan to Achieve the Millennium Development Goals*, have shown that 0.7 percent of GNP from all major donors is the magnitude of assistance needed to achieve the Millennium Development Goals and to address global emergencies requiring urgent foreign assistance.

The global need for official development assistance in future years will rise, not fall, as climate shocks, rising population pressures, environmental degradation, and needs to adopt sustainable energy and water systems gain urgency. The US should be preparing now for this inevitable scaling up of needs.

I strongly urge that the US adopt a strategy of meeting the 0.7 target by 2015, along side the European Union, which has set a specific timetable for accomplishing this target.

### **Overcoming Fragmentation of Aid Efforts**

The current ODA efforts are divided among a dozen or so departments and agencies. There is a lack of strategy in directing our funds to foreign governments,

multilateral agencies, and non-governmental organizations. The result is that the US development assistance programs achieve less than the sum of the parts in terms of US leadership, leveraging of taxpayer dollars, and efficacy of development programs.

I recommend the following corrective steps:

First, official development assistance programs should be reconstituted within a single agency, presumably the US Agency for International Development (USAID). The Administrator of USAID should be of cabinet rank, with a direct report to the President, as are at least half of the development ministers in the rest of the DAC donor countries. Of course, the Secretary of State would have final authority on foreign policy on behalf of the President, so that in practical terms the USAID Administrator would be subordinate to the Secretary of State in the implementation of ODA.

Second, the US should recognize that it achieves maximum leverage, leadership, legitimacy, and efficacy when it operates its aid programs through multilateral institutions, as long as the US voice in those institutions is adequate. Great ODA successes in recent years include the Global Fund to Fight AIDS, TB, and Malaria (GFATM) and the Global Alliance for Vaccines and Immunizations (GAVI). Both GFATM and GAVI are donor pools, in which the US plays an important funding, steering, and leadership role. The new G20 initiative on smallholder farming is perfectly suited to such a multilateral approach.

Successful multilateral initiatives, like GFATM and GAVI, have the following characteristics:

- Donors pool their financial resources
- Low-income countries submit National Action Plans (NAPs) for funding
- An Independent Technical Review Panel vets the NAPs for scientific, financial, and managerial coherence
- Cutting-edge and appropriate technologies are deployed (for example, medicines, high-yield seeds, innovative irrigation systems, renewable energy sources)
- Private-sector companies and NGOs are invited as participants in the national action plans
- The NAPs are specific, detailed, quantitative, and subject to review and audit
- All programs are monitored and evaluated

Third, the US should reorganize a considerable amount of its development efforts around a few strategic programs linked to sustainable economic development, including:

- Agricultural productivity in low-income, food-deficit countries
- Primary health care and disease control

- Education for all
- Sustainable energy
- Sustainable water
- Basic infrastructure (roads, power grid, ports, airports, rail, connectivity)
- Integrated rural development
- Promotion of sustainable businesses
- Climate change adaptation

In each of these areas, the US should champion a rigorous, scaled, multilateral effort consistent with achieving the Millennium Development Goals, the Climate Change objectives, and the other globally agreed development objectives.

### **Ten Specific Recommendations**

1. Focus US official development assistance on *sustainable economic development*, and make this goal explicit in US legislation
2. Embrace the globally agreed development goals, including the Millennium Development Goals, the UN Framework Convention on Climate Change, the UN Convention to Combat Desertification, and several UN and G8 commitments on global health
3. Focus development assistance on low-income regions in greatest need, including sub-Saharan Africa, Central Asia, Haiti, and the Andean region.
4. Launch a specific sustainable development initiative for the dry lands stretching across the Sahel, Horn of Africa, Arabian Peninsula, Western Asia, and Central Asia, addressing the intersecting challenges of hunger, disease, livelihoods, energy, and water scarcity.
5. Rebuild the analytical capacity of USAID to diagnose the obstacles to sustainable economic development, including cross-disciplinary expertise in agriculture, climate, hydrology, disease control, ecology, infrastructure, economics and other relevant areas.
6. Reorganize the aid programs to put ODA under one programmatic roof, under the leadership of USAID
7. Place the USAID Administrator at cabinet rank with a direct report to the President
8. Focus aid activities on a few strategic objectives, including sustainable agriculture, health, education, infrastructure, climate change, and business development.

9. Adopt the target of 0.7 percent of GNP in official development assistance by 2015, in line with the timetable adopted by the European Union. Reallocate part of the military budget (currently around 5 percent of GNP) for this purpose.
  
10. Leverage US leadership and finance through the increased use of multilateral institutions to pool donor finances in support of country-led plans of action, bolstered by independent technical review committees, audits, and monitoring and evaluation of programs.

Figure 1. The Dry Lands (shaded regions) and Conflict Zones (triangles)

