

**Testimony of**

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and Foreign Assistance, Economic Affairs, and International Environmental  
Protection**

**On  
*Foreign Assistance Reform: Successes, Failures, and Next Steps***

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Chairman Menendez, Senator Hagel and other members of the Subcommittee, I welcome the opportunity to testify before this Subcommittee on a topic of major interest to U.S.-based international nongovernmental organizations. I also want to thank you, Chairman Menendez and Ranking Member Hagel, for your interest in foreign assistance reform and how it affects the issues that are most important to our community, including poverty, aid effectiveness, gender, and humanitarian assistance.

U.S. foreign assistance operates in an increasingly complex environment of global development donors and recipients-- national and international NGOs, multilateral institutions, governments, local NGOs, foundations. To ensure the effectiveness of overall foreign assistance in any country, collaboration becomes crucial among these varied actors.

InterAction is the largest coalition of U.S.-based international development and humanitarian nongovernmental organizations (NGOs). With more than 165 member NGOs operating in every developing country, we work to overcome poverty, exclusion and suffering by advancing basic dignity for all. Our members include service delivery and advocacy organizations, focusing on health, hunger, economic development, children, refugee crises, the environment, and humanitarian emergencies. InterAction convenes and coordinates its members, so they can influence policy and debate on issues affecting millions of people. InterAction members collectively leverage more than \$5 billion annually from the American people for a wide range of humanitarian relief and poverty-focused programs overseas. These programs help countries around the world further advance national commitments to reach all of their Millennium Development Goals.

I am here today to tell you about our community's perspective on the role of international development assistance in U.S. foreign policy, how the foreign assistance re-organization and the President's 2008 budget proposal to Congress reflects or contrasts with our perspective, and to make specific recommendations for the future direction of foreign aid reform.

If Undersecretary Fore is confirmed as Administrator for the U.S. Agency for International Development and Director of Foreign Assistance, we hope to work closely

with her to monitor and provide counsel on a process of reform that we hope will bring greater long-term effectiveness and impact to the ways our country promotes transformational development around the world. InterAction members have a long history of partnering with USAID, we look forward to strengthening that partnership.

### Why Foreign Assistance

I'd like to relate at this point, if I may, a short story that captures the essence of the work we do in partnering around the world. Five years ago, as the CEO of Plan USA, an InterAction member organization that raised millions from the U.S. public, I met Michael, a young man who lives near Lake Victoria. He was an orphan at 15 and by 17 had organized a group of orphaned children to provide sewing services for their village. He had lost his father and mother to HIV/AIDS and within a two-year period, without any external assistance, he had organized 103-orphaned children in an activity that provided them with food each day. He came to us, a group of US non-profits, including Save the Children, CARE, World Vision, and Religions for Peace for some resources that would bring access to education to the village's orphaned children. These InterAction members, who had raised \$10s of millions of support, provided help; we also tapped funding from the President's Emergency Plan for AIDS Relief (PEPFAR).

Our community of U.S. NGOs meets the Michaels of this world half way. We partner with local community groups, NGO's, religious institutions, civil society, governments and many other local actors to help them meet their most basic needs and rights—their rights to a gainful livelihood and to participate fully in their societies, their rights to a healthier life, to be free from extreme poverty or abuse based on gender, ethnicity or religion. Any effective U.S. foreign assistance reform must be able to both meet the Michael's of this world halfway as well as partner with the U.S. international NGOs operating on the ground.

We have many decades of field experience, working directly with national governments, local communities and individuals, or partnering with USAID and the Department of State. We know that by focusing on vulnerable populations, promoting the ability of states to govern justly and invest in their people, and providing individuals and societies the means to help themselves, U.S. foreign assistance can help the world's poor while advancing U.S. strategic interests. Saving lives and alleviating poverty reflects Americans' deeply- rooted humanitarian values, thereby furthering a positive U.S. image abroad.

Our experience shows that an effective reform of U.S. foreign assistance must incorporate the following principles:

- In order to encourage self-sufficiency foreign assistance programs must include local ownership of programs and partnerships with stakeholders.

- Sustainable development is long-term and requires commitments that should not be compromised for the sake of short or long-term political goals.
- U.S. foreign assistance programs need to be coherent, not fragmented.
- The goals of the U.S., recipient countries and multilateral institutions like the United Nations must as much as possible be in harmony and reinforce each other. A prominent example are the Millennium Development Goals, endorsed by President Bush and adopted by donor and recipient countries around the world.
- Humanitarian initiatives must be impartial and not be dictated by the strategic or political significance of any nation.
- Gender equality must be placed at the heart of program strategies.

As I noted, foreign assistance can serve a dual purpose. Some foreign assistance has been and will continue to be a tool to further U.S. strategic interests. On the other hand, it is also clear to us that long-term foreign assistance comprises the development component of the administration's "three Ds" strategy (defense, development and diplomacy), as outlined in the 2002 National Security Strategy. We view development as part of this three-legged stool; the development "leg" must be equal to – not subsumed under – the other two legs of the stool. The development component, which is based upon partnerships, should not be dictated by the strategic or political significance of any nation.

### Designing an Effective Development Aid Structure and Process

The goals of U.S. development and humanitarian programs can best be achieved through a more efficient, coherent and accountable foreign aid system. Getting more bang for our buck is best assured when foreign assistance programs operate under one coherent system and can account for not only where monies are being invested and for what purpose, but equally whether and how we have helped improve peoples' lives, e.g., by increasing literacy rates, decreasing infant deaths, sustaining communities' natural resources, etc.

The keys to the success of any reform are:

- Coherence across all civilian U.S. foreign assistance programs;
- A focus on improving the well being of the poor;
- The space for partnership to shape effective and long-term programs;
- Programs that enhance local capacity and work to meet mutually agreed upon results.

Together they point to the need for an important institutional step: the creation of a cabinet-level agency for international relief and development alongside the Secretaries of State and Defense. We recognize that the creation of a new strong foreign assistance agency may unfold over a number of years, that bipartisan congressional support will be

needed, and that it must build on and exceed the current reforms. We also recognize that InterAction's desire to create a Cabinet-level department may place us at odds with efforts to make permanent the recent incorporation of a new foreign assistance structure within the Department of State. In the meantime we believe that the current arrangement – with the Director of Foreign Assistance reporting to the Secretary of State – has significant limitations and can hinder some of the principles of effective foreign assistance stated above. In the meantime, we are committed to work to create more effective U.S. foreign assistance within the current reform process.

Commentary on the Restructuring Process by the Office of Foreign Assistance:

We support a number of steps taken by the Office of U.S. Foreign Assistance (F Bureau) through its reform process:

- At InterAction's urging last year the Office of the Director of the F Bureau added the words "reducing widespread poverty" in the top-line goal of foreign assistance.
- We support building systems for accountability and measurement.
- We support developing an approach to track how U.S. foreign assistance dollars are being spent.
- We welcome the F bureau agreeing in the last year to increase its sharing of information with our community on some of its internal processes and decisions. Previous to that, the F Bureau shared little such information.

We continue, however, to oppose and be concerned about other aspects of the restructuring process. First, the goal of widespread poverty alleviation has yet to be truly integrated into operational practice. For example, we have seen only limited indications that reducing widespread poverty has been integrated into operational practices within the F Bureau. The Department of State has repeatedly referred to reducing widespread poverty only in the context of building democracies and strengthening national security. The preparation of Country Operational Plans and FY08 budget allocations were heavily directed by USAID and the Department of State in the Washington bureaus, and there were insufficient opportunities for mission staff to weigh in before significant decisions had already been made.

Second, we find that the foreign assistance structure is still fragmented. The F Bureau's attempt to streamline and consolidate foreign assistance structures falls substantially short of its goal. Omitted from this "reformed" consolidation are major programs such as PEPFAR and the Millennium Challenge Corporation (MCC). Our urging for consolidation should be viewed in the larger context that the current restructuring undermines in our view the essential principles to effective development assistance. Ultimately U.S. foreign assistance must be organized in an altogether different structure that shields it from dominance by the Department of State.

Third, the establishment of the new Office of the Director of U.S. Foreign Assistance and the current restructuring of foreign assistance are provisional and have no legislative basis, making them subject to the arbitrary changes by current and future administrations. New authorizing legislation would address this concern as well as legally ensure a system that truly consolidates the myriad institutions that administer foreign assistance. We realize this could be a long-term process involving Congress, the administration, our community and other pertinent parties.

Fourth, determining program strategies by using the U.S. Foreign Assistance Framework's 5X6 matrix (6 categories of recipient countries and 5 objectives for foreign assistance) reflects at times a lack of understanding of development realities within a particular country with very different levels of affluence, and a downplaying of the need for local-level authority.

Fifth, certain budget cuts to regional and country programs have undermined the importance of local input and participation. This is counterproductive to ensuring that recipient countries will become self-sufficient.

Finally, consultation with the NGO community on foreign assistance reform continues to be mixed. Despite providing more information and initial senior-level meetings, the F Bureau has yet, prior to the nomination of Acting Director and Acting Administrator Fore, to adequately address our concerns or questions or respond adequately to our appeals for regular two-way consultation. As a result, the relationship is marked by some suspicion and distrust. We look forward to working with the next director of U.S. Foreign Assistance and USAID Administrator to rectify these problems and urge for a more collaborative and transparent communication process.

#### Commentary on the Impact of the Restructuring on the 2008 Budget Proposal

InterAction supports the allocation of the critical resources Congress provides for foreign assistance, which constitutes .9% of the entire federal budget. We are equally concerned with how these monies are being spent, for what priorities, and for what results. The administration's FY 08 budget proposals confirm our overriding concern: that poverty is in the top line goal but funding for basic needs appear to be sacrificed for funding of strategically sensitive countries and regions of the world. Drawing on our member's analyses and our own, I make a number of observations:

The bulk of the foreign assistance is proposed to be allocated to many countries of strategic interests, who do have real needs, rather than those countries who are simply poor or facing a humanitarian crisis: the top nine FY08 U.S. foreign aid recipients are (in descending order of amount) Israel, Egypt, Afghanistan, Pakistan, Sudan, South Africa, Kenya, Nigeria and Jordan. These countries' per capita income range from \$17,000 in Israel to \$230. Need does not appear to be a key factor in this funding distribution.

In the area of Basic Education, the biggest recipients are Egypt, Jordan, Indonesia, Afghanistan, and Pakistan. Egypt, Jordan and Pakistan need major investments in basic education but those investments should not be made at the expense of other very poor countries. Of the 25 countries in Africa with basic education programs, 13 are proposed

for cuts or zeroed out. One program in Madagascar to be zeroed out seeks to strengthen teacher training, to increase local support for elementary schools and planning for teacher professional development. Basic education programs are proposed to be zeroed out in 4 non-African countries—East Timor, India, Mexico, Nepal.

The substantial increase in poverty focused development assistance is primarily due to funding for MCC and PEPFAR. Without funding for these two programs, development assistance to many countries actually diminishes, particularly in African and Latin American countries. PEPFAR and MCC funding appears to be in competition with other core poverty programs, which violates the original understanding that the two programs' funds were to be in addition to core development assistance. In Uganda, PEPFAR funds have been nearly doubled, while Maternal and Child Health funds have been cut by half. This is troubling because it ignores an important lesson that our members have learned in their decades of experience: an integrated, multi-sectoral approach is the only way to successfully tackle the huge global health challenges that we are currently facing. Programs like PEPFAR that provide urgently needed medicine are certainly welcome, but without taking a comprehensive approach that improves nutrition and food security, access to clean water, and the strength of local health systems, we risk compromising the efficacy of our intervention overall. In Latin America, cuts in core poverty programs range from 25-40%, in countries such as El Salvador, Nicaragua, Honduras all of which have an MCC presence.

Under Transformational Diplomacy, the administration's FY 08 budget proposed that much of the funding for traditional development assistance accounts be transferred from Development Assistance (DA) funds to Economic Support Funds (ESF); an account that is statutorily intended to support national security interests. There are no legal safeguards in place to prevent a scenario of arbitrarily putting development assistance activities under the Secretary of State. We are encouraged, however, by the recent decision of the House Foreign Operations Appropriations Subcommittee to reverse the administration's proposed shift of DA funds to the ESF account.

The administration's FY08 budget request for USAID Operating Expenses, is 15% lower than the FY06 actual budget. This would continue a long and disturbing trend in the diminution of technical expertise at that agency. USAID has been put in the unfortunate position of managing more and more foreign assistance dollars with less and less human and financial resources, to the detriment of aid effectiveness. This has led to a second problem, the bundling of large umbrella contracts that shift the management burden to a few large contractors and grantees and away from career professionals. This trend also extends to the area of monitoring and evaluation. As USAID's technical capacity to do M&E declines, the agency is forced to outsource this work to contractors, thus leading to a loss of institutional knowledge about important lessons learned and best practices in the field.

The recent proposed cuts in operating expenses were rumored to have been related to the notional closings of some USAID missions, which means projects could be abruptly terminated. In Namibia, a country whose mission is targeted for closing, a \$3 million successful education program in its final phase will be closed prematurely. The "Living in a Finite Environment" (LIFE) program in Namibia, a highly successful program is also

targeted for early closure. The LIFE program, a multi-year USAID investment, has placed 13% of Namibia's land under 44 community-managed conservancies and engaged some 185,000 community members in natural resource management activities. The benefits to the Namibian economy were an estimated \$21 million.

Given the F Bureau's restructuring process on largely a country-by-country basis, there is concern that natural resource management and biodiversity conservation, which transcend political boundaries, will fall between the cracks. There is also evidence of country-based environmental needs being ignored. The Government of Madagascar, one of the world's biologically richest countries, has identified the environment as a critical sector of the country's social and economic development. Yet USAID has proposed reducing environment funding for Madagascar by 40 %.

### Recommendations to the Administration

If she is confirmed in her new role, we look forward to working with Under Secretary Fore on pursuing a number of issues outlined below. For some of those issues stated above, the F Bureau has made steps in the right direction, and we would encourage further movement:

- Amend the current Transformational Diplomacy restructure of foreign assistance in a manner that substantively implements the top line goal of poverty alleviation. This would include:
  - Developing indicators that track the steps to achieve the goal of poverty alleviation and local involvement
  - Developing country plans whose content is more driven by the technical expertise of missions' professionals on the ground.
- Take further steps to improve the coordination, coherence and accountability of the foreign assistance reform. This would include widening the purview of foreign assistance consolidation to include MCC, PEPFAR and other entities that administer foreign assistance funds.
- Establish more substantial consultation and transparency with the NGO community, including:
  - Establish a meaningful two-way dialogue with the U.S. NGO community
  - Inform and consult the NGO community regarding follow-up implementation plans for the outcome of the F Bureau's After Action Review of the administration's FY08 budget development process.

## Impact of the Current Reforms on Field Operations

We recently received anecdotal information from some of our members on the impact of the foreign assistance restructuring on their field operations. We surveyed some members with substantial USAID grant portfolios, asking whether the restructuring had affected their activities in the field, namely in terms of:

- The availability of new USAID proposals to manage or design on- the-ground activities;
- The time frames for deciding pending awards of proposals and/or funding continuity for ongoing awards.

Of the members surveyed, virtually all noted a significant slowdown in 2007, compared to 2006, in available new USAID proposals. Some also expressed concern for the longer time lapse in which USAID notified the awardees. As a result of these funding delays and/or fewer opportunities to take on new projects, these members reported:

- Difficulty in future planning for ongoing programs;
- Higher risks of closing down the program or cutting back staff;
- Risks of scaling down programs' activities;
- Difficulty leveraging other sources of funding.

Many of these NGO members had been informed directly or indirectly by USAID that following the approval of country operating plans in April 2007, there would be a significant resurgence of available proposed new project activities. To date, some of these members have noted a minor increase, but no substantial changes.

In addition, a few of the affected member organizations observed a definite trend in the funding mechanism for projects: increase use of funding conditions that don't allow for local involvement in design and implementation and decreased use funding parameters that encourage strong local input.

## InterAction's Ongoing Monitoring and Analysis of Transformational Diplomacy

In order to better understand the impact of the restructuring process at country mission level around the world, InterAction has undertaken recently a research project in designated recipient countries. The research will examine the types of future programs to be funded, the allocation of funding, and the nature of Northern and Southern civil society engagement in drafting USAID's Country Operational plans. We look forward to sharing our findings with Congress, Under Secretary Fore, the Secretary of State, and other interested members of the administration.

We also welcome the research program initiated by Committee on Foreign Relations Ranking Member Senator Lugar, which seeks to examine the current impact of the foreign assistance restructuring. We also welcome the important oversight by this subcommittee under the leadership of Chairman Menendez and of ranking member Senator Hagel.



## Conclusion and Recommendations to Congress

We urge a more collaborative process among Congress, the Office of U.S. Foreign Assistance, and our community. Accordingly in the next year and a half, we urge Congress to:

- Urge Under Secretary Fore to ensure a plan that begins restoring the authority of USAID in Washington, and the field-based technical capacity of USAID, including such actions as restoring cuts in operating expenses. USAID was long recognized as a global leader in effective development assistance. The shrinking of the agency's cadre of experience experts has substantially contributed to not only the loss of USAID's stature, but also the loss opportunity of valuable lessons that we can learn today in the future direction of development assistance.
- Restore cuts in funding programs that pursue the poverty alleviation goal;
- Oppose concentration of resources in 10 strategic countries;
- Oppose shifts from DA to ESF accounts (the House Foreign Operations Subcommittee recently rejected this proposed shift of funds);
- Work with Under Secretary Fore to reverse efforts towards complete institutionalization of U.S. foreign assistance within the Department of State;
- Work with Under Secretary Fore and NGOs to develop and pursue political and diplomatic goals that do not compromise but rather encourage the delivery of long-term development programs or the space for effective humanitarian action;
- Oppose efforts that shift the rules for USAID implementation mechanisms traditionally used by the InterAction community away from a partnership and towards contracts. Under contracts, a more time effective delivery of services, there can be substantial loss of local involvement, technical expertise and long-term commitment to program operations.

InterAction offers an expanded vision for the future of U.S development assistance and we hope to promote a new dialogue on the evolution of foreign assistance. We look forward to our vision being properly considered and vetted as part of a fully bipartisan reform of foreign assistance.

I am inspired to quote Bill Gates who spoke at Harvard University's graduation ceremonies last week. He noted that "...reducing inequity is the highest human achievement," and that this goal is one of the major challenges of our time – but a doable one. I could not agree more. Our community looks forward to collaborating with Congress and the administration to successfully take on this challenge.

Thank you and I'd be happy to answer any questions.