

Transforming U.S. Foreign Aid

Author: [Robert McMahon](#), Deputy Editor

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Introduction

U.S. foreign assistance programs played an important part in government policy directly after World War II and through much of the Cold War. Foreign aid levels plunged in the mid-1990s but are now surging, fed by concerns that impoverished and failing societies could offer breeding grounds or havens for terrorists. But the U.S. foreign aid system is seen as increasingly unwieldy. Secretary of State Condoleezza Rice says the current structure "[risks incoherent policies and ineffective programs](#)" and has announced plans to reorganize the way foreign aid programs are coordinated. She is creating a new top State Department post of director of foreign assistance to improve coordination of aid strategy. But some experts say the move, which Rice includes in a broader "transformational diplomacy" effort, does not go far enough to address the vast number of aid programs run by the U.S. government.

What will Secretary Rice's foreign aid transformation involve?

Rice has created the new post of director of foreign assistance at the senior level of deputy secretary of state. This official will also serve concurrently as administrator of the [U.S. Agency for International Development \(USAID\)](#), the government's primary foreign assistance entity. Rice has nominated [Randall Tobias](#), a former executive in the pharmaceuticals industry who has headed the administration's [global HIV/AIDS initiative](#) for the past two and one-half years, as the first director of foreign assistance.

Among other tasks, the director of foreign assistance is to provide more focus on the way issues like democracy and governance are addressed through aid and will have authority over all State and USAID foreign assistance funding and programs, totaling nearly \$20 billion. The director will also be responsible for coordinating U.S.

government foreign assistance strategy and providing "guidance" to other U.S. entities providing foreign aid, such as the new [Millennium Challenge Corporation \(MCC\)](#). Under the new director, the State Department and USAID will continue to be the prime sources of funding to nongovernmental organizations that dispense advice and technical assistance to support the [spread of democracy worldwide](#). USAID will remain an independent organization reporting directly to the Secretary of State.

What is the reason for this restructuring?

Aid experts inside and outside the government had pointed to growing fragmentation in the way foreign assistance is administered. News reports say that within her first year as secretary of state, Rice became aware of a problem in coordinating funding for democracy-related programs.

Rep. James Kolbe (R-AZ), chairman of the House Subcommittee on Foreign Operations, told a [recent briefing at CFR](#) there has been a proliferation of new aid programs in the past several years without an overarching strategy: "You have pieces of foreign assistance that are everywhere now in the government, and there isn't a very coherent direction to it," Kolbe said. "And I think that's the important thing about having a [new deputy] secretary of state that can provide some overall guidance for that."

Will this unify all U.S. foreign assistance under one department?

No. The initiative is solely aimed at aligning the range of aid activities conducted by State and USAID, which account for roughly 75 percent of the foreign assistance budget. That has led a number of outside experts to suggest the move is not sweeping enough and should encompass all U.S. bodies engaged in foreign assistance. [John Sewell](#), a senior scholar at Woodrow Wilson International Center for Scholars, says the plan announced by Rice still lacks a strategic framework to guide foreign assistance activities. Sewell says the plan declines to mention the need to address poverty and its mention of linkages to the defense department raises fear that foreign assistance will be further militarized.

[Stephen Radelet](#), a senior fellow at the Center for Global Development, says there is concern that the realignment brings independent USAID programs more directly under control of the State Department, meaning that political criteria might play an even bigger role in aid distribution. Radelet says increasing aid to countries that are partners in the war on terror, for example, could make it harder to achieve results from aid, such as sustaining economic reforms. "The more we give aid that way the less focused we are on real development results," Radelet says. But Andrew Natsios, director of USAID from 2001 to 2005, dismisses such concerns. "I don't see this at all as AID absorbed into the geostrategic interests of State [Department]," Natsios told the recent briefing at CFR with Kolbe. "What the secretary is saying is we can't have all our friends in the developing world fail. They have to succeed. And we need to use diplomacy to help the development process succeed, because the friends that we've had that have succeeded have frequently done it not just with AID development programs."

What other U.S. government departments disburse foreign aid?

There are many, including the departments of agriculture, commerce, defense, homeland security, justice, labor, treasury, transportation, health and human services, and interior. Separate permanent authorizations exist for foreign aid programs such as the [Peace Corps](#), the [Inter-American Foundation](#), and the [African Development Foundation](#), as well as the [Overseas Private Investment Corporation \(OPIC\)](#).

What are other recommendations for improving foreign assistance?

Natsios suggests the government hold periodic reviews of all development programs in a fashion similar to the Pentagon's Quadrennial Defense Review to try to tie together the aid accounts and programs across the federal government into a tight strategy. Sewell, of the Wilson Center, says the post of director of foreign assistance should have been elevated to the level of the president's special representative for aid issues to ensure greater coordination of all U.S. aid efforts. Other experts say the government must start by replacing the 1961 Foreign Assistance Act, set up to govern all foreign assistance programs, but which has evolved into a system of overlapping mandates and restrictions. Some experts recommend establishing a cabinet-level agency for development, with a single budget for development and incorporating agencies such as USAID, the MCC and the various aid programs run by other government departments.

How much does the U.S. spend on foreign aid?

The annual Foreign Operations appropriations bill, seen as the most reliable way of assessing how much the United States spends on foreign assistance, is \$20.7 billion for fiscal year 2006. President Bush has asked for \$23.7 billion for 2007. If approved, that would mark a near doubling of foreign assistance since 1997. In 2004, official development assistance (ODA) from the United States was 0.16 percent of its GNP. The ODA, which involves grants or loans a government gives to a development country to promote economic development and welfare, excludes military assistance that makes up a major portion of U.S. foreign aid appropriations—from \$3 billion to \$6 billion annually during the past ten years, according to the Congressional Research Service.

How does U.S. aid spending compare with other nations?

Although the latest Organization for Economic Cooperation and Development (OECD) figures, from 2004, show the United States as the leading donor among the world's top twenty-two industrial nations in terms of volume, it was near last in terms of aid as a percentage of gross national income. As part of the Millennium Development Goals set out by the United Nations, many developed states have pledged to commit 0.7 percent of their gross national product (GNP) to official development assistance. The United States has never committed to that figure. Five nations—Norway, Luxembourg, Denmark, Sweden and the Netherlands—exceeded the goal of expending .7 percent of GNP on development aid.

Defenders of U.S. aid levels say the 2004 figures do not fully represent the major new projects under MCC and the HIV/AIDS account. They also stress the high level of U.S. private sector donations not included in ODA and the role of the U.S. military,

which was a critical source of relief supplies after the Indian Ocean tsunami hit at the end of 2004.

Who receives U.S. aid?

More than 100 countries, though a handful of them receive the largest share. Israel and Egypt have traditionally been the single-largest recipients of U.S. aid, dating back to the 1978 Camp David peace accords between the two countries. For the current fiscal year, **Israel will receive \$2.49 billion in aid, of which \$2.25 billion is military assistance. Egypt is to receive \$1.78 billion, of which \$1.28 billion is military assistance. Afghanistan and Iraq, involved in massive U.S.-led nation-building efforts, and Pakistan, an important ally in the war on terrorism, also receive huge amounts of foreign aid.**

Will funding be cut for foreign aid?

Kolbe warns of a donor fatigue factor in Congress because of the expensive military and reconstruction efforts in Iraq and Afghanistan. But he also sees the potential for sustaining aid if it is effectively linked to national security concerns. "A lot of conservatives [are] concerned about national security [and] can get behind assistance programs when they think that they're anti-terrorist programs, or they think that it's directly related to our national security," Kolbe said at CFR. The new MCC program has won praise for its goal of linking reforms in poor developing states to aid projects but Congress has been increasingly critical of the slow pace of the program and has cut the level of funding requested by the Bush administration during the past two years.

What is the criteria for providing foreign aid?

Beginning with the post-war Marshall Plan in 1948, strategic importance has long been attached to U.S. foreign assistance. In 1961, President Kennedy said the collapse of developing countries "[would be disastrous to our national security, harmful to our comparative prosperity, and offensive to our conscience.](#)" Kennedy signed the Foreign Assistance Act, which established USAID. The legislation today instructs the executive branch to pursue dozens of separate goals. Among them are reducing infant mortality, controlling population growth, supporting human rights, and encouraging private investment.

The Bush administration's updated [National Security Strategy](#) released March 16, 2006 says: "Development reinforces diplomacy and defense, reducing long-term threats to our national security by helping to build stable, prosperous, and peaceful societies. Improving the way we use foreign assistance will make it more effective in strengthening responsible governments, responding to suffering and improving people's lives."

A [USAID white paper](#) in 2004 cited five core operational goals of U.S. foreign assistance:

- promoting transformational development, particularly in governance, institutional capacity, and economic restructuring;

- strengthening fragile states;
- providing humanitarian assistance;
- supporting U.S. strategic interests, especially in countries such as Iraq, Afghanistan, and Pakistan;
- mitigating global and international ills, including HIV/AIDS.

Natsios, the former USAID chief, says there is a big debate in Washington at the moment about spending aid money on democracy programs. He says non-democratic states receiving U.S. aid don't like money earmarked for democratic development because they see it as disruptive internally.

What is the role of Congress?

No new legislation will be required to authorize the changes involved in the realignment of State Department aid structures. But experts say Congress needs to be part of any aid realignment strategy, including revisions to the Foreign Assistance Act. Some key lawmakers reacted positively to Rice's announcement in January, including Senator Richard Lugar (R-IN), chairman of the Senate Foreign Relations Committee and Senator Patrick Leahy (D-VT), senior Democrat on the Senate Appropriations Foreign Operations Subcommittee. Leahy said he would support any changes to make aid programs more effective but added: "I want to be sure that USAID's long-term development goals do not take a back seat to a short-term political agenda."

Is foreign aid effective?

The record is mixed. Bilateral aid programs, through which most aid is transferred, and programs through multilateral banks have come under the most criticism. Experts say that during the Cold War, U.S. foreign aid enriched dictators like Mobutu Sese Seko of Zaire and Pakistan's Mohammed Zia ul-Haq to secure their allegiance in battling Communism but development remained stagnant in these states. Others point to the massive aid amounts given to Egypt during the past two decades and the country's minimal commitment to reform. But experts also cite success stories brought about by a combination of foreign aid and domestic reforms, including South Korea, Botswana, Chile, and Poland. Radelet, of the Center for Global Development, says there have been numerous global health successes linked to foreign aid, including eliminating smallpox, the near elimination of polio, and widespread childhood immunizations. Many experts say the greatest foreign aid success was the Green Revolution of the 1960s, in which developed countries transferred technology in agriculture to peasants and farmers in Asia, eliminating the threat of famine in many countries.

There is a growing consensus among experts that development financing cannot work without institutional change. They note that once Eastern European countries had committed to reforms in the 1990s, private investment flows dwarfed official development aid. Kolbe says opening markets in Europe, the United States, and Japan to developing countries would be the most effective way of lifting countries out of poverty. "There's nothing that we can do, in my opinion, that is more important, that can do more to help these countries develop, than to allow them to have an economy

that has access to the U.S. economy," Kolbe says. "I think this is the single-most important thing we can do, rather than simply appropriating more money."