



# **A Defining Moment: Transforming America's Development Assistance System**

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## Executive Summary

As America transitions leadership, now is the time to examine the broken foreign aid system. Currently, American development assistance is uncoordinated and ineffective. The Bush administration inherited a weak system, and though it reached for greater effectiveness with new organizations like the Millennium Challenge Corporation and the President's Emergency Plan for AIDS Relief, in the end it only deepened the confusion and lack of coordination within an already convoluted bureaucracy. Further, its doctrine of "transformative diplomacy," cemented the troubling trend of using development assistance to reinforce America's foreign policy goals. To that end, the State Department has extended its reach over foreign aid and the Department of Defense has begun implementing a growing proportion of American development assistance.

Yet, voices from academics, activists, development professionals, and government employees have begun to join together in protest of a system that is wasteful and ineffective. As Secretary of Defense Robert Gates explained in an October speech, even he is taking on development functions somewhat reluctantly as a stand-in for weakened civilian institutions; "until our government decides to plus up our civilian agencies like the Agency for International Development, Army soldiers can expect to be tasked with reviving public services, rebuilding infrastructure, and promoting good governance."

The next administration will have a historic opportunity to transform America's development assistance system and achieve greater results in reducing poverty around the world. While Senators Hillary Clinton, Barack Obama, and John McCain, all offer their own ideas about foreign aid, none of them go far enough in advocating the widespread organizational transformation necessary to attain the greatest possible global impact.

In order for American development assistance to become truly effective, the next administration must create a Cabinet-level Department of Global Development. A new Department of Global Development would unite America's fractured foreign aid system, bringing together all development goals, which are currently spread across 20 federal agencies. The Secretary of Global Development would have authority over all government money budgeted for development, and the responsibility to see that it is allocated to the most important and impactful projects. Part of this role would be to ensure that development spending achieves the highest standards of cost-effectiveness, by ending wasteful practices like tied aid.

Moreover, a unified Department would be charged with ensuring that the United States contributes its fair share to achieving international goals and lives up to its commitments abroad. A single, empowered leader could more effectively create global partnerships and support effective international institutions than the current morass of agencies, departments, and leaders can. Finally, a Cabinet-level development advocate would promote development as a presidential priority in its own right, independent of short-term foreign policy goals.

## **A Defining Moment: Transforming America's Development Assistance System**

Currently America is faced with a defining choice: to transform the way it implements development assistance in the world's poorest nations or to shirk its role as a global leader. Foreign assistance must become more effective, not only because it is the moral response to a world where over a billion people live on less than one dollar per day, but also because it is in the interest of the United States. Security in today's world should not only rest on military action. In fact, the true war against global insecurity must fight poverty, hunger, weak educational systems, and disease around the world. By creating a Cabinet-level Department of Global Development that unites the existing development bureaucracy, increases the impact of American aid, supports the effective use of multilateral organizations, and leverages presidential power, the next president can seize this unique opportunity to transform the development assistance system and participate in the creation of a more secure and hopeful global future.

Forward-thinking, long-term development must be the cornerstone of any foreign policy, yet currently America's development assistance system is in shambles, lacking focus, priorities, and unity. Money and goals stem from 18 separate accounts in the State Department and USAID, in addition to approximately 20 other federal agencies. This convoluted bureaucracy leads to high overhead costs, vast inefficiency, and a complete lack of accountability for results. Though President Bush has increased development funding exponentially, the development assistance system remains fractured and ineffective. Important goals easily become lost within a web of strategic objectives, conflicting reporting standards, and different agency contacts. Beyond the inefficiency, development assistance has become dangerously beholden to America's short-term security interests, negating the possibility of far-reaching, poverty-focused development.

Yet this historical moment, as the United States chooses a new leader, is uniquely suited for bold change. Only with the leadership of the 44th President can the United States reform the foreign assistance system and live up to its identity as a global leader. In order to unite the government's efforts and revisit its development priorities, an independent, poverty-focused department must be established at the Cabinet-level. This department would create a cohesive development assistance plan, reallocate resources to the most effective organizations and initiatives, and use its autonomy to free development assistance from the heavy-handed influence of the State Department and military establishment. Finally, to solidify the transition that development assistance is undergoing, Congress must rewrite the Foreign Assistance Act and promulgate a new Global Development Act.

### ***Recognizing the Need for Reform: Experimentation and Short-term Priorities in the Bush Years***

When President Bush was inaugurated, he inherited a development system that was weak and deeply flawed. The United States Agency for International Development (USAID), the institution created by the Foreign Assistance Act of 1961 to coordinate all non-military assistance, had fallen into disrepair. USAID had greatly downsized its workforce and the Foreign Assistance Act had been amended with over 200 directives. Instead of implementing reforms to make sense of the broken development bureaucracy, President Bush chose to work around the system, creating new organizations for his personal initiatives,

implementing more and more aid through the Department of Defense, and subjugating the existing development assistance framework to the State Department's control.

For President Bush, development is both a moral necessity for a compassionate nation and a strategic imperative in failed states, which can serve as havens for terrorists. He has increased non-military foreign affairs funding accordingly, from \$22.3 billion in 2001 to \$34.3 billion for FY2008. Of that funding, the money that was designated for the core humanitarian and international development accounts increased from \$3.5 billion in 2001 to \$5.3 billion in 2008. Though funding for these important development accounts has increased, money is only one part of effective development. Only if that money is spent on the most high-impact projects, in the neediest places, and in the most efficient way possible, can the United States fulfill its role as a world leader.

Instead the increased funding supports Secretary of State Condoleezza Rice's theory of transformational diplomacy. Transformational Diplomacy seeks to overhaul foreign policy, bringing all foreign policy tools available together in united action, including both the military and development assistance. Rather than focusing on aid for the poorest of the poor, development assistance is overtly politicized as a reward to friendly states. One-third of development assistance is directed at achieving political priorities within strategic nations, especially in the Middle East, instead of to the lowest income countries. The biggest aid recipients are Egypt, Pakistan, Jordan, Algeria, Bahrain, Kuwait, and Libya, a list that is remarkable neither for its extreme poverty nor its good governance. The tradition of using foreign assistance as a political tool is as old as foreign assistance itself, but it is unacceptable if American aid is to achieve true effectiveness.

When Condoleezza Rice assumed her role as Secretary of State, she acknowledged that the foreign assistance system was fractured and mired in bureaucracy. In response, she initiated what she labeled the "F" process, which brought the weakened USAID into State Department control, under the direction of the newly created Director of Foreign Assistance. Together, the two agencies account for 75-80% of all foreign assistance funding. It also gave the Secretary of State increased "ability to evaluate the effectiveness of our foreign assistance and make strategic decisions to advance transformational diplomacy," according to a State Department publication.

Though Secretary Rice claimed the "F" process streamlined foreign assistance, in reality it has accomplished little more than exerting State Department influence over development and further weakening USAID. The increased State Department control over development planning subjugates long-term development goals to short-term security objectives. The merger has also led to an increased focus on governance and spreading democracy, which detracts from the commitment to fighting disease and poverty. In fact, the "F" bureau's *Foreign Assistance Framework* focused mainly on governance issues and did not use the word "poverty" once.

The process leaves USAID significantly weakened and unequipped to lead a new, forward thinking and united development effort. In the absence of a strong, empowered development agency, the administration has turned to an unlikely source to fill the gap in effective aid implementation—the Department of Defense (DOD). According to the 2007 Lugar Report to the Senate Committee on Foreign

Relations, the DOD implemented about 7% of the United States' development assistance in 2001. In 2007, the department was responsible for 21% of all development assistance.

Part of this shift is due to President Bush's interest in development in failed, fragile, and transitional states where traditional development practitioners may not be capable of working. Because it has adequate funding, staff, and high-level support, the military may be uniquely equipped with the capacity to implement some development projects. However, the solution is not to charge the military with implementing development; the solution is to create and support a development institution capable of taking on new global challenges. Secretary of Defense Robert Gates expressed his frustration with using the military to replace a broken development assistance system in an October speech; "Until our government decides to plus up our civilian agencies like the Agency for International Development, Army soldiers can expect to be tasked with reviving public services, rebuilding infrastructure, and promoting good governance."

Like Gates, President Bush himself does not trust the capacity of the existing foreign assistance system. For his most important development-related initiatives, President Bush has instead created entirely new structures: the President's Emergency Plan for AIDS Relief (PEPFAR), the President's Malaria Initiative (PMI), and the Millennium Challenge Corporation (MCC). To be effective, these new organizations had to be independent from the existing bureaucratic morass. Unfortunately their creation added an extra level of complexity to an already convoluted web of departments and agencies.

The merger of USAID and the State Department, the shift of development objectives to the Department of Defense, and the proliferation of new initiatives and organizational structures has further damaged an already weak development assistance system. The next President must learn from the Bush administration's experiences in order to find the most effective way to change the system.

Recently, as the Bush administration comes to a close, Congress was provided with a powerful reminder of the need for reform. The HELP Commission on Foreign Assistance Reform produced a report detailing the failings of the current foreign assistance system and suggesting possible solutions. The Commission pointed out that in their many interviews, they encountered many different viewpoints and suggestions, but not a single person defended the status quo. The report does not try to soften the conclusion of their research, stating, "Our foreign assistance system is broken. We ignore this reality at our peril."

### ***Development Assistance in the Next Administration***

Achieving large scale bureaucratic change is not a simple process. It cannot occur without high-level advocates in Congress and in the White House. Because presidential leadership will be critical in developing the political will necessary to make drastic change, it is important to understand the presidential candidates' development assistance proposals.

At present, the presumptive Republican nominee, John McCain, has not yet released a global development plan, but he has made public statements that reflect his priorities within this issue. At the

core of McCain's development agenda is what he calls a "League of Democracies." In a May 2007 speech at the Hoover Institution, McCain described the League as "the one organization where the world's democracies could come together to discuss problems and solutions on the basis of shared principles and a common vision of the future." He envisions a body that would act in situations where the United Nations cannot find consensus and could magnify the impact of a single nation in addressing global concerns.

To this end, McCain encouraged increased international cooperation in a major foreign policy speech delivered on March 26, 2008. He promised that if elected he would continue the fight against the global AIDS epidemic, especially in Africa, and set forth the goal of eradicating malaria. He explained these development priorities as achieving two purposes; "In addition to saving millions of lives in the world's poorest regions, such a campaign would do much to add luster to America's image in the world." Outside of this brief statement on AIDS and malaria, McCain's speech neglected any specifics surrounding development assistance.

McCain's plan aims to unite global efforts, but it fails to address the shortcomings of the United States' own system, leaving it fractured and ineffective. How can America ask other countries to join with it in united action if it cannot even unite its own development assistance departments, offices, and initiatives? This plan is admirable in its recognition that something must change for development assistance to be effectively implemented; however, it falls short of achieving the structural transformation that is necessary for strategic unity and coordination between existing departments.

The Democratic candidates Senators Hillary Clinton and Barack Obama have each released a global development plan, which advocates for increased aid and a reformed foreign assistance system. Hillary Clinton's *Plan to Combat Disease and Poverty Around the World* offers an ambitious list of policy goals, including achieving basic education for all, continuing the fight against AIDS and malaria, and expanding women's opportunities. In a February foreign policy speech at George Washington University, Senator Clinton made the case for development, saying, "We enhance our international reputation and strengthen our security if the world sees the human face of American democracy in the good deeds we do for people seeking freedom from poverty, hunger, disease, illiteracy, and oppression." Senator Clinton also acknowledges that the current system is in need of reform in order to accomplish her objectives.

Though she does not offer a concrete proposal for how to change the system, her plan does promise that she will "engage in a comprehensive review of U.S. assistance efforts, in consultation with experts and those carrying out programs at the country level." Senator Clinton also signed the Presidential Pledge for Leadership on Global AIDS and Poverty, issued by the Global AIDS Alliance Fund. In the pledge, she says she would consider creating an independent, poverty-focused, Cabinet agency. Though she promises to increase development assistance and make "significant progress" toward spending an additional 1% of the budget on foreign assistance, she remains non-committal regarding funding levels. Clinton's personal commitment to development goals is admirable, but her current plan does not offer assurance that the current system will change in the ways that it must to be effective.

In his plan, *Strengthening Our Common Security by Investing in Our Common Humanity*, Barack Obama clearly identifies the problems of bureaucracy and disjointed priorities under the current system. He also gives voice to the importance of improving foreign assistance, both to affirm the inherent worth of people around the globe, and to find non-military solutions to security issues like terrorism. In an April speech to the Chicago Council on Global Affairs, Obama said, “America will lead again [by investing] in our common humanity - to ensure that those who live in fear and want today can live with dignity and opportunity tomorrow.” In order to achieve this goal, Obama recognizes that the system must change.

Though Senator Obama also signed the Presidential Pledge promising to consider creating a Cabinet-level, poverty-focused agency, he instead advocates for a reformed and empowered USAID. He plans to consolidate other development activities and agencies, such as the President’s Emergency Plan for AIDS Relief and the Millennium Challenge Corporation into the new USAID. Though USAID is currently too weak to support this kind of influence, Obama promises to increase its funding, recruit new staff, and attract the highest caliber leadership.

This plan is predicated on the idea that USAID can be fixed, a questionable assumption at best. After years of cutting USAID’s funding, loading the bureaucracy down with short-sighted directives, and creating parallel organizations that disempower USAID, it is no longer feasible or practical to reform the organization. At this point, the only solution is to begin again with a new department that can be built from the ground up to meet today’s unique global challenges.

Further, Obama has pledged to double annual foreign assistance to \$50 billion per year by 2012. Though \$50 billion dollars is a staggering figure, it is still unclear exactly what this funding will cover. If the budget merely redefines existing spending as foreign assistance, and does not create new poverty-focused initiatives, it will not achieve the reform necessary for effectiveness. Though an Obama administration would clearly hold development as a high priority, important questions about the feasibility and effectiveness of his plan remain.

The conversations happening on the campaign trail are encouraging because they recognize the importance of transforming the current system. Still, each candidate has significant shortcomings in his or her proposal, which must be addressed if foreign assistance is to be worthy of taxpayer money.

### ***Department of Global Development***

The current development assistance system is ineffective, uncoordinated, and misused. The Commission on Weak States and US National Security and the HELP Commission’s minority report both advocate for a Cabinet-level development department, while the CSIS Commission on Smart Power recognizes the need for increased unity and raises a development department as an important possibility. The next administration must heed the widespread calls for change and establish a Cabinet-level Department of Global Development. To be effective, the new department should unite the government’s development efforts, increase U.S. aid impact, support the use of effective multilaterals, and leverage presidential power.

### **Unite Development Efforts**

The Department of Global Development would be charged with uniting all American development assistance and removing the overlapping responsibilities currently spread across dozens of government agencies as disparate as the Department of Agriculture, Department of Treasury, and the Office of National Drug Control Policy. It would control all development assistance funding, and have the capability to reallocate resources among goals and projects, allowing greater creativity and flexibility than the current system permits. In this way, the department would be able to identify redundant programs as well as gaps in development assistance that American assistance is not meeting.

This kind of unity is especially critical in ensuring that the United States starts to follow through with the commitments it makes at UN and G8 conferences. Under the current system, it is hoped that disjointed programs and initiatives can make progress towards achieving international goals, but there is no way of uniting US efforts and no one to hold accountable. Under a new Department of Global Development, the Secretary can agree to international goals and then follow through with government-wide planning to be sure America contributes its fair share to achieving international benchmarks, like the Millennium Development Goals.

A Secretary of Global Development empowered to plan on a macro-level would help the government to recognize its own contradictions, and work to remove them. For example, even in the administration's most favored countries, those which have passed rigorous standards to qualify for huge aid packages from the Millennium Challenge Corporation, the United States takes more money in the form of tariffs and import taxes than it offers in aid. Development assistance could be exponentially more effective if all parts of the American government, from UN voting to trade policy, were in line with the same goals. A Cabinet-level representative would have the influence to unite all areas of government policy towards the developing world.

### **Increase US Government Impact**

Strong, empowered leadership would provide the new department with the ability to make important reforms that simply were unfeasible when development assistance was spread across dozens of agencies and departments with no clear leader. For the first time, the United States could consider ending the inefficiency of tied aid, a change the development community has known for years is necessary to magnify the impact of American assistance.

Tied aid is money that is required to be spent in the US to pay for consultants or for American products. Currently the United Nations estimates that tied aid devalues aid to recipient countries by 25-40%, by forcing implementing agencies to buy uncompetitive goods and hire people from the United States. Though the US no longer reports what percentage of its aid is tied, in 1999 USAID estimated that 71.6% of all bilateral aid was tied to the purchase of American goods and American contractors, despite the higher costs. This approach mandates ineffectiveness, as many of the goods and services needed could be purchased at a much lower price in the host country. Additionally, tied aid misses the opportunity to

build up developing nation capacity, by requiring the hiring of Americans instead of locals. The global imperative for change mandates that this kind of ineffectiveness cannot continue. Issues like this one, which are politically charged and deeply entrenched in the current bureaucracy, require high-level leadership to end.

### **Support Effective Multilaterals**

As the next administration guides the foreign assistance system through a period of reform, leaders must recognize the important ways in which the world has changed since the Foreign Assistance Act and USAID were created in the 1960s. The President's new initiatives, PEPFAR, MCC, and PMI, while well-funded, offer bilateral aid from the United States to specific, hand-picked countries. To continue to offer funding for American priorities to countries that meet American conditions and use American reporting standards is ignoring the more effective option of working within a coalition of international actors.

In order to more effectively attack the most difficult problems our world is facing, all available resources must be mobilized in unified action. For this reason, new international collaborations like the Global Fund to Fight AIDS, Tuberculosis, and Malaria and the Education for All—Fast Track Initiative must be enthusiastically supported. International targets like the Millennium Development Goals already exist, but lack the international support necessary to achieve results. The urgent global imperative to combat climate change will likely spark the creation of a new multilateral institution that the US should ensure succeeds. The international community would do well to invest in this new generation of international efforts.

A Department of Global Development would provide a united face in collaborations with other donor governments. Countries like the United Kingdom, Norway, and Canada have all created Departments of Development to better coordinate their foreign aid, and the United States should join them in their step toward increased effectiveness. In an increasingly global world, international efforts are the best hope of affecting change.

### **Leverage Presidential Power**

Perhaps most importantly, a Cabinet-level department would give development the strength and support it needs to be equal with the other two pillars of the 2006 National Security Strategy, diplomacy and defense. While diplomacy and defense are well-funded and have large departments to back them, development lacks Cabinet-level representation and adequate funding.

Yet some argue that a new Cabinet-level department is unnecessary and that a similar agency should become part of the State Department and report to the Secretary of State. Certainly the State Department and the new Department of Global Development will contribute much to one another's work, but to subjugate the new department to the State Department is to ensure that development will be overlooked in favor of short-term geopolitical concerns instead of long-term development goals. This approach has been proven ineffective over the last several decades. Instead, the United States should affirm the relationship between these goals, but elevate development so that it can negotiate with the Departments of State and Defense as equals, across the Cabinet table.

## **Conclusion**

Changing the development assistance system will not be easy. For the transition to succeed, the next president must make effective development a top priority from the beginning of her or his administration. Within the first 100 days, he or she should urge Congress to pass a new Global Development Act and immediately begin establishing the Department of Global Development. Establishment of the Department should be completed well before the midterm elections in 2010. As the candidates develop their budgets, it is critical that the budgets reflect these goals as priorities. Changing the development assistance system is necessary, but it will not happen without presidential leadership.

American aid must improve. This historical moment, one that comes at the close of a period of experimentation in development assistance and in the midst of the process of choosing a new leader, offers America a unique opportunity to completely overhaul the foreign aid system. Institutional transformation is a strategic imperative if the culture of American aid is to truly change. The world is now too dangerous a place for self-interested, limited unilateral action and too desperate a place for anything but the most effective, high-impact assistance.

The Global AIDS Alliance Fund is a Washington, D.C.-based 501(c)(4) nonprofit organization that seeks to accelerate action to end the global HIV/AIDS pandemic and global poverty.

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