



# Foreign Aid Reform: Studies and Recommendations

**Susan B. Epstein**

Specialist in Foreign Policy

**Matthew C. Weed**

Analyst in Foreign Policy Legislation

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## Summary

Both the 111<sup>th</sup> Congress and the Obama Administration have expressed interest in foreign aid reform and are looking at ways to improve and strengthen the U.S. Agency for International Development (USAID), coordination among implementing agencies, and monitoring effectiveness of aid activities.

Since the terrorist attacks of September 11, 2001, the role of foreign assistance as a tool of U.S. foreign policy has come into sharper focus. President George W. Bush elevated global development as a third pillar of national security, with defense and diplomacy, as articulated in the U.S. National Security Strategy of 2002, and reiterated in 2006.

In January 2006, Secretary of State Rice announced the “transformational development” initiative to bring coordination and coherence to U.S. aid programs. She created a new Bureau of Foreign Assistance (F Bureau), led by the Director of Foreign Assistance (DFA), who also serves as Administrator of the U.S. Agency for International Development. F Bureau developed a Strategic Framework for Foreign Assistance (Framework, or F process) to align aid programs with strategic objectives. The Framework became a guiding force in the FY2008 and FY2009 budgets, as well as the FY2010 budget request.

In recent years, numerous studies have addressed various concerns and provided recommendations regarding U.S. foreign aid policy, funding, and structure. Views range from general approval of the F process as a first step toward better coordination of aid programs and the need to build on it, to strong criticism of the creation of the F Bureau, its inadequacy in coordinating or reforming much of what is wrong with foreign aid, and the need to replace it with a cabinet-level department of foreign aid.

While the 14 studies surveyed by the Congressional Research Service (CRS) emphasize different aspects of the importance of U.S. foreign assistance, all agree that foreign assistance must be reformed to improve its effectiveness. Of the 16 recommendation categories CRS identifies, only enhancing civilian agency resources has the support of all of the studies covered in this report. The next two most-often cited recommendations are raising development to equal status with diplomacy and defense, and increasing needs-based foreign aid, while encouraging recipient-government ownership of aid effectiveness. Half of the studies urge a greater congressional role in foreign aid budgeting and policy formulation.

Because these studies were written for the purpose of reforming U.S. foreign aid, it is not surprising that none of them recommends maintaining the status quo. Given the current economic crisis and budget constraints along with other major concerns, such as health care, energy policy, and global warming, however, some Members of Congress may prefer a continuation of the existing foreign aid structure. This report is a review of selected studies written between 2001 and 2008 and will not be updated. For related information on foreign aid and foreign affairs budgets, see CRS Report RL34552, *State, Foreign Operations, and Related Programs: FY2009 Appropriations*, by Susan B. Epstein and Kennon H. Nakamura.

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## **Introduction**

There is continued interest among Members of Congress, the Obama Administration, and Nongovernmental Organizations (NGOs) to reform U.S. foreign aid. This section provides background information concerning the history of modern U.S. foreign aid. It continues with an explanation of the 2006 creation of the State Department's "F Bureau" and the position of Director of Foreign Assistance (DFA), who heads that bureau and serves as administrator of the United States Agency for International Development (USAID). Next, the introduction discusses certain perceived problems with the so-called "F process." Finally, this section provides an overview of Congress's involvement in modern U.S. foreign aid.

## **Brief History of Modern U.S. Foreign Aid**

Modern U.S. foreign assistance programs had their beginnings shortly after World War II when the United States government responded to the potential spread of communism in postwar Europe by providing aid to vulnerable populations and governments for reconstruction and economic development. Beginning in 1947, when Great Britain could no longer afford to support governments in Greece and Turkey, the United States stepped in with economic assistance to stabilize those two governments and prevent communism from taking hold. Soon thereafter, the Marshall Plan, from 1948 to 1951, provided a total of \$13.3 billion for economic recovery support to 16 Western European countries to bolster their governments, stem the spread of communism to those European countries, and strengthen potential trade capabilities.

Over the years since the Marshall Plan, underlying reasons for U.S. foreign assistance have varied in response to world events. After the Marshall Plan ended, U.S. assistance focused on Southeast Asia to counter Soviet and Chinese influence. Under President Kennedy, with the Alliance for Progress program in Latin America and assistance to newly independent states in Africa, foreign aid rose to its highest historic amount (measured as a percentage of national income) since the Marshall Plan. Aid spending leveled off in the 1970s, even with spending for Middle East peace initiatives, and then rose again in the 1980s to address famine in Africa, continuing peace efforts in the Middle East, and the U.S. response to insurgencies in Central America. The 1990s saw U.S. aid fall to its lowest level, averaging approximately 0.14% of national income, partly due to the end of the anti-communism rationale for U.S. foreign assistance with the end of the Cold War.

After the terrorist attacks of September 11, 2001, the Bush Administration elevated the significance of foreign assistance as a foreign policy tool. President George W. Bush elevated global development as a third pillar of national security, with defense and diplomacy, as articulated in the U.S. National Security Strategy of 2002, and reiterated in 2006. In the FY2009 budget request, the Bush Administration reiterated the importance of the Department of State and U.S. Agency for International Development (USAID) by saying that the FY2009 budget "reflects the critical role of the Department of State and the U.S. Agency for International Development in implementing the National Security Strategy..."<sup>1</sup> At the same time that foreign aid is being recognized as playing an important role in U.S. foreign policy and national security, it also is coming under closer scrutiny by Congress, largely in response to a number of presidential initiatives (such as implementing the F process and creating the Millennium Challenge Account,

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<sup>1</sup> Summary and Highlights, International Affairs Function 150, Fiscal Year 2009, Department of State, p. 6.

or “MCA”<sup>2</sup>), and by critics who argue that the U.S. foreign aid infrastructure is cumbersome and fragmented, and without a coherent aid strategy. Furthermore, foreign aid experts and some lawmakers assert that Congress needs to dramatically update or rewrite completely the primary statute for U.S. foreign aid, the Foreign Assistance Act of 1961 (FAA), as amended (P.L. 87-195; 22 U.S.C. 2151 et seq.), which has not been comprehensively amended since 1985 and takes what many view to be a Cold War approach that is outdated for U.S. foreign aid in the 21<sup>st</sup> century.

## **Implementation of the F Bureau**

In January 2006, Secretary of State Rice announced the “transformational development” initiative, or “F process,” to foster greater aid program coordination and to achieve specified objectives. The Secretary created a new State Department Bureau of Foreign Assistance (the F Bureau) headed by the Director of Foreign Assistance (DFA) who also serves concurrently as Administrator of the U.S. Agency for International Development. In 2006 the F Bureau developed a Strategic Framework for Foreign Assistance (FAF) to align U.S. aid programs with American strategic objectives. The FAF is designed as a tool to help policy makers with strategic choices on the distribution of funds and to ensure that U.S. foreign assistance advances the Administration’s foreign policy objectives. The FAF identifies as the ultimate goal “to help build and sustain democratic, well-governed states that respond to the needs of their people, reduce widespread poverty and conduct themselves responsibly in the international system.”<sup>3</sup> Five transformational development objectives organize funding and programs to achieve that goal. The objectives are Peace and Security, Governing Justly and Democratically, Investing in People, Economic Growth, and Humanitarian Assistance. This Framework heavily guided the writing of the FY2008 and FY2009 budgets and the FY2010 budget request.

## **Criticisms of the F Bureau and U.S. Foreign Aid Overall**

While many today say that the F process was an important first step in coordination of U.S. foreign assistance, several criticisms have surfaced. Some say that the F Bureau covers only those aid programs controlled by the Department of State and USAID with no mention of coordinating the other numerous agencies involved with foreign aid. Others claim that Congress was not involved in shaping the F process. Many assert that the process does not incorporate leveraging U.S. assistance to multilateral organizations. Some commentators also criticize the F process for emphasizing Washington decision making over relying on expertise in the field.

Beyond the F process in particular, many foreign aid experts perceive a number of ongoing problems with the overall organization, effectiveness, and management of U.S. foreign aid that, they believe, need to be reformed. Problems most commonly cited include the lack of a national foreign assistance strategy; failure to elevate the importance and funding of foreign aid to be on par with diplomacy and defense as a foreign policy tool; the FAA’s outdated organization and strategic goals of foreign aid programs; a lack of coordination among the large number of cabinet-level departments and agencies involved in foreign aid, as well as fragmented foreign aid

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<sup>2</sup> The Millennium Challenge Account, administered by the Millennium Challenge Corporation, is designed to provide foreign aid to countries that make progress toward democratic and economic reform. President George W. Bush proposed it in 2002 and Congress authorized it in 2004. For more detail, see CRS Report RL32427, *Millennium Challenge Corporation*, by Curt Tarnoff.

<sup>3</sup> Summary and Highlights, International Affairs Function 150, Fiscal Year 2008, Department of State, p. 13.

funding; and a need to better leverage U.S. multilateral aid to influence country or program directions. Furthermore, some express concern that very little monitoring of aid and its effectiveness has been done over the years to determine if goals and objectives have been met and if money has been well spent.

## **History of Modern Legislative Efforts to Reform Foreign Aid<sup>4</sup>**

In general, Congress has the responsibility to authorize, appropriate funds for, and oversee U.S. foreign aid programs and related activities. Most appropriations for foreign aid are located in the provisions of annual foreign operations appropriations acts, which often have been combined with appropriations for related expenditures, such as Department of State diplomatic programs, and export financing. The Department of State, Foreign Operations, and Related Programs Appropriations Act, 2008 (Division J of P.L. 110-161), as extended by the continuing appropriations resolution contained in P.L. 110-329, contains the most recent set of foreign aid appropriations provisions. Although Congress has passed regular legislation appropriating funds for foreign aid, it has not passed annual foreign aid authorization legislation since 1985.<sup>5</sup> Instead of independent authorization legislation, Congress provides its guidance for U.S. foreign aid activities through earmarks and other directives dictating or limiting uses of funds included in the yearly foreign operations appropriations acts.<sup>6</sup> Congress has nonetheless passed a number of acts providing new authorizations for foreign assistance programs since 1985, including the Freedom for Russia and Emerging Eurasian Democracies and Open Markets Support Act of 1992 (FREEDOM Support Act) (P.L. 102-511), the Support for East European Democracy (SEED) Act of 1989 (P.L. 101-179), the Millennium Challenge Act of 2003 (division D of P.L. 108-199), and recent Security Assistance Acts for 2002, 2000, and 1999 (division B of P.L. 107-228; P.L. 106-280; Title XII of H.R. 3427, enacted by reference in P.L. 106-113, respectively).

Congress has undertaken reform of foreign assistance at various points since the authorization of the Marshall Plan through the Economic Cooperation Act in 1948. After the Marshall Plan ended in 1951, Congress passed the Mutual Security Act of 1951, which coordinated military and economic assistance with technical assistance programs. The Mutual Security Act of 1954 and its 1957 revisions contained the concepts of security and development assistance, and instituted authority central to providing loans to developing countries.

These acts, however, did not create a long-term structure for U.S. foreign assistance. The historic passage of the Foreign Assistance Act of 1961 (FAA) provided the legislative vehicle for the core organization of U.S. foreign assistance that remains in effect to this day. The successful reform effort that resulted in passage and implementation of the FAA enjoyed both the ardent advocacy of President Kennedy from the time he came to office, as well as the solid support of Congress;

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<sup>4</sup> Much of the information in this section is located in *Security by Other Means*, Chapter 9, and in USAID, “USAID History,” at [http://www.usaid.gov/about\\_usaid/usaidhist.html](http://www.usaid.gov/about_usaid/usaidhist.html).

<sup>5</sup> Numerous foreign aid authorization bills have been introduced in the intervening years, but have received relatively little attention or have passed in only one chamber of Congress.

<sup>6</sup> Section 15 of the State Department Basic Authorities Act of 1956 (P.L. 84-885) and Section 10 of the Foreign Military Sales Act Amendments, 1971 (P.L. 91-672) prohibit expenditure of funds appropriated for foreign aid without having been duly authorized. To fund foreign aid without authorization, therefore, annual foreign operations appropriations acts contain a provision similar to Section 653 of the 2008 Foreign Operations Appropriations Act, which allows funds appropriated under the Act to be expended notwithstanding these two prohibitions on unauthorized foreign aid appropriations.

Congress passed the legislation in the first year of the Kennedy Administration. This effort represents the most far-reaching and long-lasting reform of U.S. foreign aid, as the FAA originally organized disparate U.S. foreign aid efforts into a coherent whole, and authorized the President to choose an agency to implement the provisions of FAA. In November 1961, President Kennedy created via executive order the Agency for International Development, which later came to be known as USAID.<sup>7</sup>

The most recent successful major overhaul of foreign aid and the FAA occurred in 1973, when Congress passed the Foreign Assistance Act of 1973 (P.L. 93-189). This Act restructured development aid programs, shifting emphasis from a “top-down” approach concentrating on aid to governments to develop infrastructure and fund large development projects, to a “basic human needs” strategy that directly targeted the poorer segments of the population in developing countries. It reorganized foreign assistance into sectors including agriculture, education, and population, and certain development activities such as energy and environment.

Administrations have undertaken numerous other foreign aid reform attempts over the years, receiving various degrees of congressional support. In 1969, President Nixon formed the Task Force on International Development, chaired by Rudolph A. Peterson. The Peterson Commission, which was made up of private individuals, examined U.S. foreign assistance as a whole, and made recommendations in 1970, which were turned into legislation proposed by the Administration. Congress did not support this legislation, however, and instead focused on passage of the 1973 reforms discussed above.

In 1977, Senator Hubert Humphrey pushed legislation to elevate the importance of development in U.S. foreign policy and to coordinate the efforts of the multitude of government agencies involved in foreign assistance. The proposal did not become law, but in 1979 President Carter created an overarching agency for foreign assistance coordination called the International Development Cooperation Agency (IDCA) based on Humphrey’s ideas. The IDCA was under-resourced from the outset, and the Reagan Administration effectively abandoned the IDCA, providing no staff to the organization. The IDCA ultimately failed to effectively coordinate aid authorized under the FAA. The Executive Order that created the entity was not rescinded, however, and the IDCA remained a dormant part of the foreign assistance structure until it was abolished in 1999.<sup>8</sup>

In his first term, President Reagan formed the Commission on Security and Economic Assistance, chaired by Deputy Secretary of Defense Frank Carlucci, to examine the role of security aid in relation to development assistance, the dissatisfaction of both Congress and the executive branch with foreign aid programs, and the distrust concerning foreign aid between the two. Although the Carlucci Commission issued recommendations in 1983, the effort did not lead to legislation.

In 1987 the House Foreign Affairs Committee appointed Representatives Lee Hamilton and Ben Gilman to lead an effort to rewrite foreign assistance law to reflect new international political realities and to define core objectives of U.S. foreign aid. The Hamilton-Gilman Task Force also sought to simplify foreign aid legislation and remove the maze of congressional restrictions on the administration of aid programs. It was hoped that this restructuring would improve

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<sup>7</sup> Administration of Foreign Assistance and Related Functions (Executive Order 10973; 27 F.R. 10469; November 3, 1961).

<sup>8</sup> Sec. 1411(a) of the Foreign Affairs Reform and Restructuring Act of 1998 (division G of P.L. 105-277).

congressional attitudes toward foreign aid programs and congressional-executive relations regarding cooperation on foreign aid. The Committee endorsed the legislation incorporating the Task Force's recommendations, but Representative Gilman and other members disagreed with many of the measures suggested, and the effort did not result in substantive reforms.

President Clinton appointed Deputy Secretary of State Clifford Wharton to head a review of foreign aid that would restructure aid after the Cold War and reform USAID. Wharton resigned before his report was released, but the Clinton Administration introduced legislation based on the report in late 1993. The Peace, Prosperity, and Democracy Act (H.R. 3765, 103<sup>rd</sup> Congress; S. 1856, 103<sup>rd</sup> Congress), however, did not move forward after being introduced in the Senate, and the Administration did not resubmit the bill after the Republicans took control of Congress in 1994.

Later, the Clinton Administration proposed a reorganization of foreign affairs functions that included retaining USAID as an independent agency but placing USAID under the direct authority of the Secretary of State. Congress passed the Foreign Affairs Reform and Restructuring Act of 1998 (division G of P.L. 105-277), which contained the provisions extending the Secretary of State's authority over USAID. The Secretary of State subsequently delegated authority to the administrator of USAID in order for the administrator to carry out the mission of the Agency (State Department Delegation of Authority No. 145, as revised on March 31, 1999).

## **Key Recommendations Included in Selected Foreign Aid Reform Studies**

While U.S. foreign assistance throughout its history often has been of keen interest to the executive branch, Congress, and NGOs, a renewed vigor in the debate on foreign aid policy and structure has surfaced in post-9/11 years regarding foreign aid's role in meeting U.S. foreign policy and national security goals. As a result, several studies have been published since 2001 that have called for reform to improve the foreign aid structure in Washington and aid effectiveness in the field. To this end, these studies have heightened congressional interest in, and encouraged a re-examination of, U.S. foreign assistance policies, programs, funding, and organizational structure. The 14 studies assessed in this report are often referred to in aid reform discussions, and deal primarily with foreign aid reform issues; they include books, Senate committee reports, think-tank studies, NGO reports, and journal articles. Most of the studies considered present comprehensive approaches for foreign aid reform. CRS could not include every study and other publication related to such reform; it believes, however, that these 14 studies contain a representative range of viewpoints and recommendations from the foreign aid community.



### Studies Included in This Report

**Methodological Note:** This CRS report follows from a 2008 congressional request asking CRS to sort through the various recommendations of several studies on U.S. foreign aid reform. The 14 studies included in this report were chosen partly because of that request, because of interest in them expressed by other Members of Congress or committees, and also because of their focus and comprehensive approach to reforming U.S. foreign aid, rather than focusing more heavily on defense and national security issues. The list of studies with CRS's abbreviations in parentheses follows for reference purposes:

- (Adams)** Adams, Gordon, "Don't Reinvent the Foreign Assistance Wheel." *Foreign Service Journal*, vol. 85, no. 3 (March 2008).
- (AMN)** Atwood, J. Brian, M. Peter McPherson, and Andrew Natsios. "Arrested Development, Making Foreign Aid a More Effective Tool." *Foreign Affairs*, vol. 87, no. 6 (November/December 2008).
- (BRK)** Witness statement of Lael Brainard, Brookings Institution. U.S. Congress. House. Committee on Appropriations. Subcommittee on State, Foreign Operations, and Related Programs. *Hearing on Foreign Aid Reform*. 110<sup>th</sup> Congress, 2<sup>nd</sup> session, January 23, 2008.
- (BRK-CSIS)** Brainard, Lael, ed. *Security by Other Means: Foreign Assistance, Global Poverty, and American Leadership*. Washington: Brookings Institution Press and Center for Security and International Studies, 2006.
- (CGD)** Center for Global Development. *Modernizing Foreign Assistance for the 21<sup>st</sup> Century: An Agenda for the Next U.S. President*.
- (CGE)** Center for U.S. Global Engagement. *Smart Power: Building a Better, Safer World—A Policy Framework for Presidential Candidates*. July 2007.
- (CSIS)** Center for Strategic and International Studies. *Integrating 21<sup>st</sup> Century Development and Security Assistance*. January 2008.
- (HELP)** United States Commission on Helping to Enhance the Livelihood of People Around the Globe. *Beyond Assistance: the HELP Commission Report on Foreign Assistance Reform*. December 7, 2007.
- (InterAction)** American Council for Voluntary International Action (InterAction). *Why the U.S. Needs a Cabinet-level Department for Global and Human Development*. InterAction Policy Paper. June 2008.
- (OECD)** Organization for Economic Co-Operation and Development. *Development Assistance Committee Peer Review of the United States*. December 2006.
- (Oxfam)** Oxfam America. *Smart Development, Why U.S. foreign aid demands major reform*. February 2008.
- (SFRC1)** U.S. Congress. Senate. Committee on Foreign Relations. *Embassies as Command Posts in the Anti-terror Campaign*. Committee print. 109<sup>th</sup> Congress, 2<sup>nd</sup> session, December 15, 2006. S.Prt. 109-52. Washington: GPO, 2006.
- (SFRC2)** U.S. Congress. Senate. Committee on Foreign Relations. *Embassies Grapple to Guide Foreign Aid*. Committee print. 110<sup>th</sup> Congress, 1<sup>st</sup> session, November 16, 2007. S.Prt. 110-33. Washington: GPO, 2007.
- (State)** Department of State, *Advisory Committee on Transformational Diplomacy: Final Report of the State Department in the 2025 Working Group*, January 28, 2008.

**Table 1** presents a matrix of foreign aid reform recommendations in the studies and other publications reviewed for this report. The 14 documents, listed in alphabetical order by their respective short forms (identified above and in **Appendix A** and **Appendix B** below) appear along the left side of the matrix from top to bottom. CRS identified 16 key recommendations which appear in more than one of the studies. The recommendations are located at the top of the matrix. They range from a complete replacement of the basic authority of the U.S. government to provide most types of aid, namely, the Foreign Assistance Act of 1961, to various degrees of restructuring the foreign assistance apparatus and organization within the executive branch, to new ideas and methods of funding, allocating, and evaluating the effect of foreign assistance. While recommendations have been divided into discrete categories, CRS notes that each study's

support of any given recommendation may contain slight variations from the same recommendation supported by another study. A general discussion of the 16 key recommendations follows.<sup>9</sup>

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<sup>9</sup> **Appendix A** provides more complete characterization of each of these studies and their recommendations.

**Table I. Key Recommendations for Foreign Aid Reform**

The Studies	Rewrite FAA 1961	Raise Development to Level of Diplomacy and Defense	Establish a Nat'l Strategy for Aid	Create Cabinet-Level Status for Aid	Give DOS Primary Authority for Aid	Build on F Process	Increase Aid Resources to Civilian Agencies (i.e., USAID or State)	Improve Policy and Agency Coordination	Increase Field vs. D.C. Input	Create a Unified Budget	Needs-Driven Aid Funding and/or Local Ownership	Multi-year Funding	Balance Long-Term Aid vs. Short-Term Aid	Increase/Leverage Multilateral Aid	Monitor Aid Impact	Congress Should Play Bigger Role in Foreign Aid
Adams			X			X	X		X			X			X	X
AMN	X	X		X			X	X	X		X		X			X
BRK		X		X			X	X	X						X	X
BRK-CSIS		X		X			X	X			X				X	X
CGD	X	X		X			X				X			X	X	
CGE		X	X				X	X		X	X	X			X	
CSIS			X				X	X							X	X
HELP	X	X	X	X			X	X		X	X		X		X	X
Inter-Action	X	X		X			X	X	X		X		X			
OECD		X				X	X				X	X	X	X	X	
Oxfam	X	X	X	X			X				X	X				
SFRC1					X		X			X						
SFRC2			X		X		X				X					X
State					X		X	X								

## **Rewrite the Foreign Assistance Act of 1961**

The Foreign Assistance Act of 1961 (FAA), as amended (P.L. 87-195), contains a multitude of goals and outdated priorities and directives, many of which have been appended piecemeal to the original Act. In addition, Congress has enacted over 20 other pieces of legislation establishing foreign aid authorities outside the FAA, adding to the diffusion of aid responsibility and initiatives within U.S. foreign policy overall. Several of the studies claim that the FAA needs to be rewritten in order to streamline and add coherence to a piece of legislation that has been amended frequently since its enactment nearly 50 years ago.

Recommendations calling for rewriting the FAA include stripping foreign aid legislation of fragmentary earmarks, aid restrictions, and aid procurement rules; refocusing aid on the core mission of poverty reduction; and restructuring aid legislation to set development goals based not on outdated Cold War-era policy, but instead on the realities facing the United States in a post-9/11 environment. The Oxfam study, *Smart Development, Why U.S. foreign aid demands major reform*, specifically cites the need for effective congressional-executive cooperation to accomplish rewriting the FAA itself. *Modernizing Foreign Assistance for the 21<sup>st</sup> Century: An Agenda for the Next U.S. President*, the study from the Center for Global Development, calls for renewing the congressional-executive relationship in foreign aid policy implementation, by passing foreign aid legislation that provides substantially greater flexibility to the executive branch for aid delivery and development activities, while at the same time beefing up accountability of the executive branch to Congress via enhanced real-time oversight mechanisms. While these studies acknowledge the need for changes to the FAA, however, they also agree that a full rewrite of the Act would be very difficult to accomplish.

## **Elevate Development to the Level of Diplomacy and Defense**

The 2006 *U.S. National Security Strategy* endorses raising the importance of international economic development within overall U.S. foreign policy and national security: “Development reinforces diplomacy and defense, reducing long-term threats to our national security by helping to build stable, prosperous, and peaceful societies.”<sup>10</sup> Many commentators have taken up this newly iterated support for development to create the so-called “3D,” or three pillars, approach to national security, with development elevated to equal partner status with defense and diplomacy. A majority of the studies directly recommend the establishment of co-equal status for development alongside defense and diplomacy in the U.S. national security framework. Certain studies emphasize that the government must reorganize the international affairs functions of the government to prioritize development as a principal instrument of national security, not just as a secondary tool to “reinforce” defense and diplomacy.

## **Establish a National Strategy for U.S. Foreign Aid**

U.S. foreign assistance policy is not currently based on any unified national strategy document. A strategy that encompasses all foreign aid activities and guides the decisions of U.S. policy makers would provide much-needed coherence to the currently fragmented system of foreign assistance

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<sup>10</sup> The White House, *The National Security Strategy of the United States of America*, March 2006, p. 33.

and would help link U.S. foreign assistance with U.S. foreign policy goals, several studies argue. Some of the studies suggest that such a national foreign assistance strategy could explain and integrate foreign aid goals to strengthen U.S. national security by mitigating poverty and desperation that often leads to instability and conflict, and to fulfill a moral obligation to assist those in need by providing humanitarian aid and encouraging long-term overseas development. The CSIS study, *Integrating 21<sup>st</sup> Century Development and Security Assistance*, recommends an overall cross-agency strategy for security assistance in particular, to ensure proper distribution of authorities and responsibilities among defense and civilian actors, and the Oxfam study calls for a national development strategy that would balance short-term political and security goals with long-term development goals.

Some of these studies place importance on national strategies that focus not just on foreign aid coherence but also on utilizing such policy coherence to meet the previously discussed goal of elevating development within overall U.S. foreign policy and national security. The CGE study, *Smart Power: Building a Better, Safer World—A Policy Framework for Presidential Candidates*, for instance, links creation of a coherent foreign assistance strategy with the institution of an overall national security strategy that fully integrates development with diplomacy, economic policy, defense, and intelligence.

## **Create a Cabinet-Level Agency for Foreign Aid**

To address perceived shortfalls in managing foreign aid, most of the documents considered in this report call for better integration of government actors involved in providing foreign assistance. In her testimony before the Subcommittee on State, Foreign Operations, and Related Programs of the House Appropriations Committee, Lael Brainard of the Brookings Institution has asserted, “Instead of the current spread of 50 offices managing aid, we should have one capable operational agency.” Half of the studies call specifically for a new cabinet-level agency to achieve this integration and ensure the importance of foreign assistance in relation to other foreign policy priorities. The joint Brookings-CSIS study, *Security by Other Means: Foreign Assistance, Global Poverty, and American Leadership*, for example, argues that a new cabinet-level department of global development is the only organizational reform that will meet the challenges facing the U.S. foreign assistance structure, including ensuring coherent policy, increasing aid effectiveness, and integrating foreign aid actors across the U.S. government. A cabinet-level department for foreign assistance could also encourage a balance between short-term political and security goals and long-term development objectives, the Oxfam study suggests. It argues that a new department with the requisite stature would not be overrun by State and Defense Department interests.

## **Give Department of State Lead Authority for Foreign Aid**

While the State Department retains primary formal authority over U.S. foreign assistance, concerns have arisen in recent years over the perceived erosion of the Department’s lead foreign aid role, especially as compared to DOD’s expanding role in assistance. The two reports from the Senate Foreign Relations Committee, *Embassies as Command Posts in the Anti-terror Campaign* (SFRC1), and *Embassies Grapple to Guide Foreign Aid* (SFRC2), as well as the Department of State’s *Advisory Committee on Transformational Diplomacy: Final Report of the State Department in the 2025 Working Group* (State), all support a strong leadership role for the State Department for U.S. foreign assistance in general. The Committee reports contain focused recommendations concerning the authority of the State Department in relation to DOD regarding security assistance. Both Committee reports support the State Department’s primary authority for

Function 150 and 050 foreign assistance. These reports also state that authority for the security assistance budget, including security assistance provided under Section 1206 of the National Defense Authorization Act for Fiscal Year 2006 (P.L. 109-163), should remain with the State Department, with the DOD responsible only for implementation of security assistance policy and programs in limited areas. The SFRC2 report explained that State Department security-assistance authority should not be allowed to migrate from the State Department to DOD, and warned against annual State Department budget requests to Congress for security assistance that are inadequate to meet policy implementation goals.<sup>11</sup>

The State working group study recommends that it should have the lead authority regarding foreign aid policy. It calls for the integration of State Department and USAID functions and organizations that currently overlap, with such integration resulting in a concentration of foreign aid decision making being located in the State Department.

## **Build on the F Process**

Secretary Rice's Transformational Development created within the State Department the Office of the Director of Foreign Assistance and the Foreign Assistance Framework (FAF, or F process), which is intended to provide coherence to U.S. foreign assistance policy, provide budget transparency, and allow for monitoring and evaluation of the effectiveness of foreign assistance programs. Three of the studies considered in this report endorse the enhancement and improvement of the Office of the Director of Foreign Assistance (F) within the Department of State. Gordon Adams's article, "Don't Reinvent the Foreign Assistance Wheel" (Adams), discusses several criticisms of the F process, including a fear that the F Bureau concentrates too much power within the State Department and creates a Washington-focused, non-transparent, top-down foreign aid structure. Despite these perceived shortcomings, the article claims that the alternatives to the F process are even less attractive. Among other negative consequences, restoring independent status to USAID would simply reinvigorate past USAID-State Department clashes over foreign assistance; and a new cabinet-level foreign assistance department would weaken foreign assistance overall because it would place foreign assistance in direct policy battles with the State and Defense Departments, both of which would likely remain stronger than the new foreign assistance department.

The Adams article calls for improvement of the F process through increasing the importance of the DFA, which it argues should be elevated to a Second Deputy Secretary of State position; continuing to establish capabilities within USAID and the regional bureaus within the State Department to increase F process effectiveness; and requiring F to link resource needs to strategic goals in the long-term. The three studies generally commend the institution of the F process and call for the process to extend its authority to include all U.S. foreign assistance actors, programs, and policies not currently covered. These changes would promote better coherence for U.S. foreign assistance as a whole, according to these materials. In addition, the State Department should make the F process more transparent concerning both the criteria for aid eligibility and how resources are allocated, one commentator argues, in order to encourage long-term development over short-term political gains, which are more prevalent under the current FAF.

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<sup>11</sup> For further information on DOD's foreign assistance role, see CRS Report RL34639, *The Department of Defense Role in Foreign Assistance: Background, Major Issues, and Options for Congress*, coordinated by Nina M. Serafino.

## **Enhance Resources in Civilian Agencies**

There is widespread consensus, both within the U.S. government and among foreign aid experts, that overall capacity to carry out foreign assistance programs is compromised due to underfunded and understaffed civilian aid agencies. All of the studies called for an increase in resources for civilian agencies involved in foreign assistance, often as a means to effecting other reforms. Some of the studies focus on the steep decline in personnel, expertise, and capabilities of USAID in recent years, and the reliance on outsourcing stabilization and reconstruction program implementation through “megacontracts” with private contractors. They claim that increasing resources in USAID and other civilian agencies will increase expert institutional capability within government to meet foreign assistance challenges. Certain recommendations call for employment of so-called “smart power,” which would make foreign assistance provided through civilian agencies central to national security strategy, requiring greater funding than is currently provided. Others cite the increasing role and authority of the Department of Defense in provision of foreign assistance, and contend that responsibility for such assistance should be returned to civilian agencies with enhanced capabilities. These recommendations focus on increasing capacity and capability in the civilian foreign assistance agencies through funding for personnel increases, training, and expertise attraction and retention; and investing in core foreign assistance competencies including management, resource planning (including one call for a new operations budgeting bureau within State), monitoring and evaluation, human resources, procurement, and emergency response.

## **Improve Policy and Agency Coordination**

A majority of the studies argue that integration and coordination among foreign assistance actors within the U.S. government is essential to improving aid effectiveness. Some recommend policy and agency integration that would surpass the limited coordination of foreign assistance under the F process. Other studies, however, focus on integration between the State Department and USAID, the two primary actors currently participating in the F process. Certain studies recommend in addition that agencies involved in foreign assistance align their policy and programs with foreign trade, investment, technical assistance, debt relief, financial stabilization, and economic sanctions policy to create a seamless web of engagement with foreign countries that prevents U.S. government actors from implementing individual foreign assistance programs in isolation. Specially reserved funding structures requiring interagency cooperation prior to disbursement could incentivize such integration, some of the studies argue.

Other studies focus specifically on foreign assistance related to security. These studies recommend maintaining civilian leadership for foreign assistance in the face of increased DOD involvement in aid delivery through establishing a defined, limited role for DOD foreign assistance activities; increasing State Department capacity for stabilization and reconstruction assistance; and integrating security assistance strategy government-wide.

In addition to recommendations for better coordination of foreign assistance, policies and activities, many studies call for coordination among foreign assistance, trade, foreign investment, debt relief, financial stabilization, and economic sanctions policies in order to stop different agencies implementing strategies that work at cross-purposes, hindering the effectiveness of U.S. international development efforts. Lael Brainard of the Brookings Institution has testified before the Subcommittee on State, Foreign Operations, and Related Programs of the House Appropriations Committee that “[t]he United States could wield greater influence per aid dollar

spent than any other nation simply by deploying its influence in trade, investment, debt, and financial policies in a deliberate manner as a force multiplier.”<sup>12</sup>

## **Increase Input from the Field, Rather than in Washington**

There are concerns in the foreign aid community about the degree of interaction between policymakers in Washington and those implementing foreign aid programs in the field, as well as the level of feedback from the field in forming foreign aid policy. Four of the studies recommend increased input from the field concerning foreign assistance, arguing that policy formulation under the F process is centered too much in Washington. One study calls for creating a systematic, routinized structure of engagement between Washington and foreign assistance actors in the field. This structure would be based in the regional bureaus and country desks within the State Department, which would increase their foreign aid programming and budgeting expertise in order to properly evaluate and set aid priorities from reports and requests from the field.

## **Create a Unified Budget**

Currently, budgeting for foreign assistance primarily resides in the foreign affairs and defense budgets (and possibly in other appropriations), and budget determinations for foreign aid are not unified across the government. Three studies call for changes to budgets the President presents to Congress regarding foreign assistance funding requests. One calls for unifying all foreign assistance spending across government agencies and assistance types, including economic, development, humanitarian, security, and military assistance. A comprehensive foreign assistance budget would disburse funds solely from the current foreign assistance accounts administered by the State Department. Another recommendation suggests creating an overall national security budget to parallel a more comprehensive national security strategy. This national security budget would integrate diplomacy, economic policy, defense, development, and intelligence spending to encourage a smart power approach to U.S. national security.

## **Provide Greater Emphasis on Needs-Driven Aid**

Many observers criticize the current system of aid funding because it is based on restrictive funding categories that limit long-term development programs for developing countries. Instead of providing aid based on short-term political objectives, which results in a disproportionate percentage of aid being allocated to middle-income countries, aid recipient country needs should drive aid allocation, a majority of studies say. Many of these recommendations would place greater reliance on the unique circumstances of each country receiving aid. Assistance, they argue, should be tailored to fit the individual needs of each country, whether they be humanitarian- or development-based, short-term or long-term, in stable situations or in latent- or post-conflict situations. Levels of aid could also depend not only on needs but also on the commitment level to development that the recipient country has shown. In addition, direct aid to recipient governments should be increased when they show their ability to implement transparent, credible development strategies. Certain studies stress the importance of close, consistent

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<sup>12</sup> Witness statement of Lael Brainard, Brookings Institution, U.S. Congress, House Committee on Appropriations, Subcommittee on State, Foreign Operations, and Related Programs, *Hearing on Foreign Aid Reform*, 110<sup>th</sup> Congress, 2<sup>nd</sup> session, January 23, 2008.



coordination with the recipient country to ensure that the United States is providing the most effective combination of assistance to meet recipient country needs and also encourage local ownership of aid plus any ensuing benefits toward recipient country development.

## **Provide Multiyear Aid Funding**

Congress currently approves foreign assistance budgets on a year-to-year basis and, during the George W. Bush Administration, through emergency supplemental appropriations. Four of the studies call for multiyear budgeting for foreign assistance that supports long-range strategic foreign assistance goals. Longer-term budgeting, some argue, would bring several benefits: it would ensure that an administration would define resource requirements for foreign assistance and align them with strategy and policy; it would provide aid predictability to both U.S. foreign assistance agencies and recipient countries; and it would balance long-term aid provided to countries in need of development with aid to countries with immediate humanitarian needs. One study suggests that this long-range budgeting process should be mandated by the President, and executed by the Director of Foreign Assistance at the State Department through the F process, in cooperation with the National Security Council and the Office of Management and Budget. Another calls for such multiyear budgeting to reside within a formal quadrennial foreign assistance review, which would encourage improvement of foreign assistance strategy with long-range budgeting as a key component. In general, these four studies argue that long-range aid budgeting would improve the effective allocation of U.S. foreign assistance and, hence, the likelihood of reaching overall U.S. strategic goals.

## **Balance Long-Term Aid Against Short-Term Aid**

Observers of U.S. foreign assistance have described an overemphasis on short-term assistance goals that detracts from the ability of the U.S. government to undertake and sustain effective long-term development programs. Several of the studies identify balancing short-term and long-term aid as a priority in their calls for U.S. foreign aid reform. They assert that the short-term nature of national security and foreign policy imperatives, the central purviews of the Department of Defense and the Department of State, respectively, overwhelm and subsume the government's long-term development goals. Recent reliance on narrow aid initiatives, such as programs targeting HIV/AIDS, while high-profile and measurable, arguably detract from development objectives designed to bring permanent benefits to foreign societies. To remedy the problem, one study claims, the Economic Support Fund (ESF) account should be used exclusively for funding immediate economic needs, and remain separate from the Development Assistance (DA) account, whose funding for longer-horizon development programs should be isolated and protected. Different studies call for various approaches to balancing short-term and long-term aid. The 2005 OECD report, *Development Assistance Committee Peer Review of the United States*, argues that the U.S. government should increase long-term development aid to stable countries to counterbalance the increase in humanitarian and other short-term assistance to crisis countries. J. Brian Atwood, M. Peter McPherson, and Andrew Natsios, in an article entitled "Arrested Development, Making Foreign Aid a More Effective Tool," call as well for a balance of short-term assistance and development assistance within individual country aid plans, to address immediate needs whilst building the capacity of such countries to sustain themselves.

## **Increase Participation in Multilateral Foreign Assistance Efforts**

A report from the OECD in 2005, *Development Assistance Committee Peer Review of the United States*, explains that the U.S. official development assistance (ODA) to multilateral organizations had fallen significantly as a percentage of total U.S. ODA. Two studies recommend an increase in funding for, and participation in, multilateral institutions that provide foreign assistance, and call for multilateral forms of aid to rise in priority within U.S. foreign assistance strategy. These studies claim the United States is missing a prime opportunity to shape global foreign assistance activities and strategies, as it wields more influence than any other country in multilateral institutions, and encourages greater aid contributions from other countries through its participation in such institutions. They state that the United States can better leverage the effectiveness of its foreign assistance funds by utilizing existing aid delivery and system capacity possessed by multilateral organizations and by pooling funds with other donor nations. One study suggests that increased U.S. participation in multilateral aid organizations would reduce the burden on recipient countries of meeting different aid eligibility requirements by reducing the number of donors.

## **Monitor Aid Impact**

Many foreign aid experts view the U.S. government evaluation of the effectiveness of foreign aid programs to be inadequate. Eight of the reports call for better monitoring and evaluation of U.S. foreign assistance. These authors argue that assessment of foreign assistance should be based not on outputs, but on measurable impact affecting strategic goals and aid recipients. They recommend that any new system of assessment should be comprehensive and unified across foreign assistance programs and agencies to provide a results-based evaluation of the connection between strategic aid goals and aid funding. Two studies suggest adopting international standards evaluating aid, including those of the International Initiative for Impact Evaluation and the Paris Declaration on Aid Effectiveness. Others suggest involving Congress specifically in the evaluation process, by linking benchmarks and metrics measuring programs' recent effectiveness to subsequent budget requests in the case of security assistance, and by requiring biennial strategic planning and annual state-of-affairs reports to Congress concerning humanitarian aid. One report calls for increased assessment training for USAID and State Department personnel.

## **Address Role of Congress in Foreign Aid Policy**

Congress's role in foreign aid is exercised primarily through the power of the purse. Half of the 14 studies recommend increasing the role of Congress in U.S. foreign assistance decision making. In general, these studies call for a more robust role for Congress through a renewed relationship with the executive branch on foreign assistance issues, increased oversight powers in exchange for greater flexibility for the executive branch, and consistent, sustained involvement in guiding foreign assistance strategies and spending. Recommendations include resuming the passage of annual foreign assistance authorization legislation, with new foreign assistance appropriations tied directly to current authorizations, abolishing restrictive agency operating accounts, restoring a presidential foreign aid contingency fund, and improving efficiency and accountability of reprogramming for foreign aid funds. Some studies recommend greater oversight through requiring comprehensive cross-agency foreign assistance budgets to be submitted to Congress, as well as through creating congressional select committees on national security, with membership from all committees involved in foreign assistance, to promote an all-inclusive assessment of

foreign assistance programs. Others call for establishing new permanent funds for humanitarian aid and for aid in response to sudden crises.

## Conclusions

Most development and foreign policy experts view U.S. foreign assistance as a valuable activity that addresses many important policy goals, including alleviating poverty and hunger overseas, acquiring a sense of self-worth by the American people, attaining a favorable image around the world, and promoting broader U.S. foreign policy and national security goals. While the 14 studies surveyed by CRS emphasize different aspects of the importance of U.S. foreign assistance, all agree that foreign assistance must be reformed to improve its effectiveness. Only one of the recommendation categories—enhancing civilian agency resources—has the support of all of the studies covered in this report. The next two most-often cited recommendations are (1) raising development to equal status with diplomacy and defense; and (2) increasing the emphasis of U.S. foreign aid to be more needs-based, with recipient governments taking ownership of both identifying needs and taking responsibility for using aid to meet them. While these 14 studies do not heavily dwell on DOD’s growing role in U.S. foreign assistance, many of them refer to that issue, which some see as an undesirable “militarization of foreign aid.”

The role of Congress in foreign aid should expand, according to half of the studies reviewed. In addition to holding more foreign aid hearings, holding them earlier in the legislative process, and conducting greater oversight to encourage more effective coordination of policy and programming, some say Congress should become involved early in the budget process, negotiating with the executive branch on funding levels before the budget arrives on Capitol Hill early each year. Some of the recommendations can be carried out by the executive branch with little or no congressional involvement, such as establishing a national foreign aid strategy, building on the F process, emphasizing needs-based aid, and monitoring aid impact. Most, however, would require congressional action. For example, rewriting FAA, creating a cabinet-level department for foreign aid, enhancing resources to civilian agencies, creating a unified budget, and increasing multilateral aid, among other options, would all require legislation.

Some of the recommendation costs could become burdensome, such as creating a cabinet-level department for foreign assistance. Others could have minimal costs, such as increasing field versus D.C. input; and some recommendations, such as creating a unified budget and improving agency coordination, could result in savings. Still other recommendations could encourage greater aid effectiveness, such as monitoring aid impact, balancing long-term versus short-term aid, increasing needs-driven aid and local ownership of aid programs, and multiyear funding.

Since these studies were written for the purpose of making recommendations to reform U.S. foreign aid, it is not surprising that none of them recommend maintaining the status quo. The 111<sup>th</sup> Congress is considering the wide array of foreign aid reform possibilities and will decide which path it thinks U.S. foreign aid should take. It should be noted, however, that given the current economic environment and budget constraints along with the numerous other major concerns, such as two wars, health care, energy policy, and global warming, some Members in the 111<sup>th</sup> Congress may prefer a continuation of the existing foreign aid structure with minor modifications and increased or adjusted resources where possible.

## Appendix A. CRS Summaries of Reports<sup>13</sup>

**Adams**—Adams, Gordon, “Don’t Reinvent the Foreign Assistance Wheel,” *Foreign Service Journal*, March 2008.

Mr. Adams, Distinguished Fellow with the Henry L. Stimson Center, writes that establishing the F bureau is good and should be built upon. Adams identifies some concerns about the F process, including that 1) regional desk officers are concerned that aid funding they hope for would go somewhere else; 2) embassies feel left out of the process and demand greater transparency; 3) USAID worries that development funds would migrate to different strategic purposes in the Department of State; 4) everyone feels F bureau’s creation was rushed, the system is too top-down, and transparency is inadequate; and 5) the relevant committees in Congress believe that they were not consulted early on in the creation of the F bureau and have had to figure out how the new structure fit the budget accounts established by legislation.

He critiques some recommendations of others. For example, he states that reviving and beefing up USAID would just take us back to those days when USAID and State bickered on a regular basis. One side doesn’t understand development; the other side doesn’t understand strategic purposes, he writes. In addition, a cabinet-level Department of Development would worsen the problem by elevating disputes about assistance to senior policymakers, with State and Defense likely to carry more weight—the new agency would further disperse the civilian tools of our overseas engagement, as more entities vie to have input on policy direction and control resources; and foreign aid programs that have no or only partial development component, such as Economic Support Funds (ESF), targeted assistance to the Former Soviet Union, counternarcotics programs, counterterrorism, HIV/AIDS prevention and treatment, and peacekeeping training. Furthermore, development assistance does not have the heft and popularity among constituents and U.S. taxpayers. The result of creating a separate department could be the exact opposite of the goal—a dwindling away of development assistance, rather than its growth, according to Adams.

The author asserts that implementing no reform could lead us backward and lead, instead, to enhancing the role of the DOD in delivering foreign assistance. He says there is a need for more integrated, long-term strategic vision for our diplomacy and foreign assistance. His recommendations follow:

- The State Department’s best option is to build on F;
- State and USAID need to focus on making the process work better by assigning personnel who think strategically to the Office of Civil and Foreign Service and giving them training in planning, budgeting, and program management and evaluation;
- There needs to be structured, systematic engagement between Washington and the field with regional bureaus and country desks exercising their skills in programming and budgeting to review requests and set priorities. This could include a pilot project; and
- State and USAID need to work with Congress before submitting budgets.

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<sup>13</sup> Please note that CRS prepared these summaries; they were not provided by the authors.

The State Department needs to take further steps to:

- Make the Director of Foreign Assistance a second Deputy Secretary of State, conferring clout to the position. The authority to implement this already exists in law, Adams says, but the State Department has not acted on it;
- Transfer responsibility for operational budgeting to one who can be a Deputy Secretary of State for Operations. This move would give Congress better oversight and accountability, increasing its confidence and willingness for cooperation. (This responsibility is currently divided between the Under Secretary for Management and the Resource Management Bureau, which lost its assistance budget function when F was created);
- Begin a pilot project in long-range strategic planning and budgeting, looking out over five years or more and defining resource requirements connected to long-term strategic objectives, something the F bureau does not do now. The White House should mandate a foreign assistance strategic planning and budget planning process, based in F and connected to senior officials at the National Security Council (NSC) and the Office of Management and Budget (OMB); and
- Beef up the resource planning capabilities inside the regional bureaus so that each has a robust capability to interact with the F process.

Such steps will help State become a more effective foreign relations department, one in which development, public diplomacy, and humanitarian assistance all have equal standing with political and strategic relations as tools with which to engage the world.

**AMN**—Atwood, J. Brian, M. Peter McPherson, and Andrew Natsios. “Arrested Development, Making Foreign Aid a More Effective Tool.” *Foreign Affairs*, Vol. 87, no. 6 (November/December 2008), pp. 123-132.

This journal article by three former USAID Administrators argues that while U.S. foreign aid has increased from \$10 billion in 2000 to \$22 billion in 2008, the organizational structure and statutes governing U.S. foreign aid policy have become “chaotic and incoherent due to 20 years of neglect.” The article emphasizes the need to either create a cabinet-level agency for U.S. foreign aid or restore USAID’s autonomy. Either measure would afford greater stature to the U.S. foreign assistance structure in order to influence U.S. trade, investment, and environmental policy, and budgetary independence. Woven throughout, the article suggests:

- possibly using the provisions of the Millennium Challenge Act of 2003 as a basis for broader aid eligibility provisions, and rewriting the Foreign Assistance Act of 1961, as it is a “Cold War artifact that has become obsolete”;
- there is value in having development raised to the level of defense and diplomacy, which the Bush Administration did theoretically, but not in practice;
- creating a cabinet-level agency for development or recreating such stature in USAID, via increased authority and resources;
- giving USAID the authority to devise overall strategy on humanitarian and development assistance and coordinate activities of other agencies;
- increasing field office input rather than centralizing aid programs in Washington will improve effectiveness of aid programs;

- customizing aid to the recipient countries to improve potential for success;
- preventing funding of narrow, short-term aid programs at the expense of long-term development aid; and
- increasing Congress's role to include a mandate to establish a new USAID, make the executive branch accountable for results, and provide a new framework for legislators to earmark funds for specific purposes.

**BRK**—Brookings Institution, *Foreign Assistance: Reinventing Aid for the 21<sup>st</sup> Century*, Testimony by Lael Brainard, Senior Fellow and Vice President and Director, Global Economy and Development, before the House Subcommittee on State, Foreign Operations, and Related Programs, January 23, 2008.

Ms. Brainard's testimony states that U.S. foreign aid is a critical tool for not only helping the world's poor, but also promoting U.S. national security, interests, and values. The witness describes the outdated aid infrastructure and how it is based on Cold War thinking. The more than "fifty separate units sharing responsibility for aid planning and delivery in the executive branch, fifty objectives, along with poor communication and coordination," Ms. Brainard argues, produce inefficiencies, overlap, and result in units working at cross-purposes. The witness provides the following recommendations to reform U.S. foreign aid and concludes that conditions are favorable now for fundamental aid reform.

- elevate the development mission;
- invest in civilian capabilities;
- support country ownership;
- achieve coherence across policies (similar to that of U.K.'s cabinet-level Department for International Development);
- reduce the number of agencies involved in foreign aid and clarify the remaining agencies' missions;
- create a cabinet-level voice for development (merging USAID into State would subordinate development to diplomacy).

She also asserts that Congress has an integral role to play in holding hearings, mandating independent analysis of current operations, and seeking expert input on alternative organizational structures.

**BRK-CSIS**—Brookings-CSIS Task Force. *Security by Other Means: Foreign Assistance, Global Poverty, and American Leadership* edited by Lael Brainard, 2007.

*Security by Other Means* contains 11 chapters that together provide an overall review of the current state and the history of U.S. foreign assistance from multiple authors and through several different analytical approaches. Chapter topics include organizing and unifying U.S. foreign assistance efforts, strengthening development assistance, examining humanitarian and HIV/AIDS assistance and the U.S. assistance role, providing assistance in areas of current or potential conflict, analyzing security and strategic assistance, creating a more effective congressional-executive relationship for U.S. foreign assistance, and providing historical analysis of previous U.S. attempts at foreign aid reform, as well as the experience of reform in the United Kingdom. The book closes with a chapter containing conclusions and recommendations. The chapter states

that U.S. hard power assets are currently stretched thin, requiring the use of soft power and foreign assistance to meet the security challenges facing the country. The foreign assistance structure, however, lacks effectiveness due to fragmentation and incoherence, according to the author, despite massive increases in overall foreign assistance funding largely due to the wars and reconstruction in Iraq and Afghanistan.

In this last chapter, the Brookings-CSIS Task Force makes several recommendations to create a unified framework for U.S. foreign assistance and to organize it for effectiveness. It first calls for a unified framework that combines two concepts of foreign assistance across pertinent government actors, policy, and aid delivery: (1) a soft power tool to meet diplomatic and strategic ends, and (2) a development tool allocated according to policy effectiveness and human needs. This framework would integrate different types of assistance—including aid to deal with security threats, development goals, humanitarian needs, and transnational threats such as the global HIV/AIDS epidemic—to ensure that they are not implemented in isolation, but are provided as a coherent whole, tailored to the needs and objectives in each recipient country. Necessary support for repressive regimes in order to combat security threats would be integrated within a comprehensive country assistance package that also addresses economic and political issues. Foreign assistance policy and programs would be carried out through coordinated interagency action, with a fully funded and operational Office of the Coordinator for Stability and Reconstruction, and an engaged National Security Council, leading the multi-agency effort. Under the framework, Congress would integrate its committees that deal with the armed forces and foreign aid through joint hearings and other vehicles to allow for coherent policy and funding. It would also extend oversight over foreign assistance programs in exchange for greater flexibility for State, DOD, and USAID to adapt aid to changing conditions in the field.

The book next provides recommendations for improving effectiveness of U.S. foreign assistance through better governmental organization of foreign assistance agencies and authorities, and an effective executive branch relationship with Congress. The final chapter identifies six central challenges to organizing foreign assistance within the executive branch:

- Proliferation of stand-alone initiatives and foreign aid authority resting with over 50 separate government units requires rationalization of agencies, improved coordination, and mission clarification.
- Restructuring program design must be driven by objectives and needs, not restrictive funding categories.
- The United States must speak with one voice on foreign aid.
- Government must incentivize interagency cooperation and create a seamless web of foreign assistance, trade and investment, technical assistance, debt relief, and financial stabilization for coherence across all policies affecting poor countries.
- The United States must invest in core foreign assistance competencies, including infrastructure and stabilization and reconstruction, rather than relying on megacontracts with private companies that fail to draw on institutional knowledge and experience.
- The United States must truly elevate development alongside defense and diplomacy.

This chapter lays out four possible options for reorganizing U.S. foreign assistance: improving coordination while retaining decentralization, positioning USAID as an implementing arm of the

State Department, merging USAID into State, or creating a new department for global development. This chapter recommends:

- Creating a new department, as it is the only solution that can meet all the challenges identified for aid reform, the Task Force argues.
- Congress pass annual foreign assistance authorization legislation instead of relying on narrow earmarks, and tie detailed, transparent appropriations to authorizations or recommendations from authorizing committees.
- Increasing flexibility for the use of appropriated funds, by abolishing restrictive operating accounts, restoring a small presidential contingency fund, and rationalizing the funds reprogramming process to make it accountable and efficient.

**CGD**—Center for Global Development. *Modernizing Foreign Assistance for the 21<sup>st</sup> Century: An Agenda for the Next U.S. President*. March 2008.

This article by the Center for Global Development, a think-tank established in 2001 with a mission to reduce global poverty and inequality, states that the world has undergone significant changes since the post-World War II era, when modern foreign assistance programs first emerged as a foreign policy tool. It says that while the George W. Bush Administration took several steps toward increasing foreign assistance funding and establishing new programs, such as the President's Emergency Plan for AIDS Relief (PEPFAR) and the Millennium Challenge Account (MCA), these changes are not enough. The author recommends that the next President:

- Develop a national foreign assistance strategy that elevates global development as critical to our national interest and lays out the principal missions and mandates for foreign assistance;
- Reform the organizational structure by merging most foreign assistance programs and related development policy instruments into a new cabinet-level department and strengthen the organization by expanding and deepening the professional staff, revamping delivery mechanisms, and building a serious monitoring and evaluation system;
- Rewrite the Foreign Assistance Act of 1961 to streamline procurement rules, earmarks, and restrictions, and to re-establish a strong partnership between the executive branch and Congress that allows greater flexibility to executive aid agencies provided there is greater accountability and responsiveness to Congress;
- Place a higher priority on multilateral channels of assistance; and
- Increase the quantity and improve the allocation of assistance, because, even with recent increases, U.S. foreign assistance is not great enough or unencumbered enough to meet our foreign policy goals.

The article goes on to assert that U.S. foreign assistance can be strengthened by improving the allocation of funding. The study says that typically 44% of U.S. foreign assistance goes to just six countries, all allies in the war on terror or the war on drugs. The other 56% of U.S. foreign aid goes to nearly 100 other countries, according to the author. "One of the most striking patterns is that the United States provides 40% of its assistance to middle-income countries and just 34% to low-income countries. On average other donors do the reverse.... "



**CGE**—Center for U.S. Global Engagement. *Smart Power: Building a Better, Safer World—A Policy Framework for Presidential Candidates*. July 2007.

This policy framework, intended for presidential candidates, asserts that the United States must work to build a “better, safer world” because U.S. national security, economic growth, and moral leadership are directly tied to conditions in developing countries and countries in crisis. The United States must employ an integrated, “smart power” approach that would include all the tools of statecraft, including diplomacy, development, economic policy, defense, and intelligence capabilities.

CGE explains that the United States first must invest in the smart power approach, which foremost involves increasing diplomacy and foreign assistance capacity and resources. It asserts that current smaller investments in diplomacy and foreign assistance have already yielded important benefits, and that with increased resources and capabilities these benefits would grow. The smart power framework proposes that the United States use an improved diplomatic capacity to develop more highly integrated relationships with other countries and institutions to effectively meet challenges of development and security, while at the same time placing the United States in a strong position of leadership on these issues. Cultural and exchange programs, as well as the Peace Corps, should be expanded, and cooperation with non-governmental organizations (NGOs), universities, and the private sector should be strengthened. CGE recommends that the Administration:

- reorganize national foreign policy that currently is not integrated, and the pieces of which often either act at cross purposes or duplicate work;
- authorize the President to develop a national security strategy that integrates diplomacy, development, economic policy, defense, and intelligence capabilities. An overall national security budget should reflect this new integration in yearly appropriations requests;
- elevate development to the level of defense and diplomacy in policy priority, and create a coherent foreign assistance strategy under the control of a new cabinet-level department, or other unifying innovation;
- create a flexible and agile diplomatic and foreign assistance corps that possesses the language, technical, cultural, and managerial skills needed to implement programs and build alliances effectively in the field;
- restructure the Foreign Service to align and cooperate better with regional military commands;
- increase foreign assistance funding to address stability in latent- and post-conflict states and other concerns, including health, education, and democracy-building;
- streamline the foreign assistance bureaucracy to make it flexible and able to meet challenges and crises as they arise; amendments to the Foreign Assistance Act should be made to implement this goal;
- align trade and agricultural subsidy policies with foreign assistance strategies to avoid conflicts and inefficiencies; and
- institute a quadrennial foreign assistance strategy review to articulate objectives and align them with budgets.

**CSIS**—Center for Strategic and International Studies. *Integrating 21<sup>st</sup> Century Development and Security Assistance*. January 2008.

This final report of the CSIS Task Force on Nontraditional Security Assistance analyzes recent increased Department of Defense involvement in the provision of foreign assistance, specifically nontraditional security assistance including counter-terrorism capacity building, post-conflict reconstruction and stabilization, and humanitarian assistance. The Task Force discusses DOD's authority to provide foreign assistance, and the role of the new United States Africa Command (AFRICOM) in providing an opportunity for a new approach to the military's role in foreign assistance. The report finds primarily that DOD's involvement in nontraditional security assistance has skyrocketed while the Department of State's and USAID's abilities to provide foreign assistance have eroded. The Task Force recommends:

- An overall strategy—that DOD continue to provide assistance for short-term contingency situations, but that an overall cross-agency strategy for security assistance be led by the State Department (namely, a fully-funded Coordinator for Reconstruction and Stabilization in the Office of the Secretary of State (S/CRS)) with the DOD role clearly defined and closely integrated into this overall strategy;
- Increased funding—as part of the overall strategy, State and USAID capabilities would be built up through increased funding to restore a balance among DOD, the State Department, and USAID; and
- Transparent plans and budgeting—providing cross-agency security assistance plans to Congress in order to ensure effective oversight and development of efficient budgeting models for comprehensive assistance funding, as well as benchmarks and metrics for assessment of assistance programs.

**HELP**—The HELP Commission Report on Foreign Assistance Reform, *Beyond Assistance*, December 7, 2007.

This bipartisan, congressionally mandated commission interviewed many of the world's foremost experts on foreign assistance. "Not one person appeared before this Commission to defend the status quo," according to the report. The Commission states that it is in America's best interest to provide foreign aid, but it says the U.S. foreign assistance system is broken. Along with emphasizing long-term development as a valuable objective, the HELP Commission recommends:

- Congress and the White House should work together to rewrite the Foreign Assistance Act of 1961, reflecting new development goals and programs and aligning it with the post-9/11 world;
- More assistance targeted to private sectors in developing countries, because business should be the engine of growth in the developing world;
- A new business model to engage new non-governmental partners—U.S. foreign aid should be conducted in concert with local private or public partners that are committed to development;
- Alignment of America's trade and development policies, which often conflict. For example, countries that are eligible for Millennium Challenge Corporation funding often pay more in tariffs than they receive in aid;

- Strengthened management capacity of U.S. assistance agencies. The United States should improve monitoring and evaluation, human resources, and procurement and contracting capabilities of agencies involved with foreign aid to improve the effectiveness of taxpayer dollars. Also, while the workload of foreign aid agencies has gone up, the staff has been cut, which hurts effectiveness of the programs;
- Reorganization of all U.S. international affairs functions to elevate foreign aid and development to equal status with defense and diplomacy. A new department would include USAID and all other U.S. development agencies, or a newly reorganized Department of State could include USAID; and
- Funding from the bottom up, based on the needs and commitment of developing countries and on the national and security interests of the United States.

To support its key findings, the Commission also urges:

- forging a new executive/legislative branch relationship acknowledging the need for flexibility and accountability;
- bolstering humanitarian efforts and establishing a \$500 million humanitarian fund as a permanent facility;
- creating a permanent \$500 million foreign crisis fund;
- simplifying the funding account structure for more clearly defined responsibility and authority;
- clarifying DOD's role in development assistance;
- using public diplomacy and branding more effectively; and
- emphasizing the importance of local infrastructure and agriculture.

**InterAction**—*Why the U.S. Needs a Cabinet-level Department for Global and Human Development*, InterAction Policy Paper, June 2008.

This policy paper discusses the haphazard evolution of U.S. foreign assistance and asserts that nearly five decades after the beginning of modern U.S. foreign aid, it is badly broken and needs to be repaired. Within the context of its primary recommendation to create a Cabinet-level Department for Global and Human Development that would elevate development to the level of defense and diplomacy, the report weaves other recommendations in, such as:

- emphasis on collaboration and cooperation, both with the recipient country, but also among other U.S. government foreign aid agencies and programs;
- achievement of long-term objectives, which should not be sidetracked for short-term political agendas;
- a rewriting of the Foreign Assistance Act of 1961 to re-emphasize poverty reduction;
- promotion of local self-sufficiency by providing needs-based aid and building local capacity; and
- an increase in recruiting and training human resources to meet shortages, particularly in USAID.

**OECD**—Organization for Economic Co-Operation and Development. *Development Assistance Committee Peer Review of the United States*. December 2006.

This OECD report provides an overview of U.S. foreign assistance, noting new initiatives such as the “3D” concept for U.S. foreign policy, Transformational Diplomacy at the State Department, the new Director of Foreign Assistance (DFA) position and Foreign Assistance Framework (FAF), and the growing role of the Defense Department in providing foreign aid. The report commends U.S. increases in overall official development assistance (ODA) and the U.S. status as the largest donor of official humanitarian assistance. The report notes the increase in ODA, however, has been concentrated in assistance to Iraq and Afghanistan, and does not represent growing predictability in U.S. aid. The OECD Development Assistance Committee (DAC) also finds deficiencies in many areas of the U.S. foreign assistance framework and strategy, including continuing organizational fragmentation and a lack of development policy coherence, as well as underutilization of multilateral avenues for delivery of assistance and coordination of development efforts. A reduction in the prominence of USAID in the provision of ODA, the diminishing importance of funding for economic development, and insufficient reliance upon results-based monitoring also figure among the report’s concerns. With regard to the role of Congress, the report criticizes the current legislative web of earmarks and other directives, such as requiring use of U.S. products and services for aid (so-called “tied aid”), which reduce assistance flexibility and the ability to cooperate with multilateral institutions and international assistance partners.

The DAC recommends several steps to improve U.S. foreign assistance overall:

- raise development to an equal level with diplomacy and defense within U.S. foreign policy;
- broaden the Foreign Assistance Framework and the role of the DFA to oversee all government development actors, and improve public awareness of the importance of development programs;
- improve U.S. aid volume and distribution efforts by creating a long-term plan for ODA creating predictability and strategic allocation; balance aid for crisis countries and countries requiring long-term development assistance;
- play a stronger role in the multilateral assistance sphere;
- adopt a long-term plan for humanitarian assistance, increasing coherence in humanitarian aid policy, reforming food aid, and integrating humanitarian aid with longer-term development activities; and
- adopt a unified, results-based management approach, based on principles of the Paris Declaration on Aid Effectiveness for improved aid effectiveness.

**Oxfam**—Oxfam America, *Smart Development, Why U.S. foreign aid demands major reform*, February 2008.

This report asserts that reform is necessary for two primary reasons. First, as development has become part of U.S. national security strategy, it has been increasingly integrated under military control in order to achieve short-term political and security goals. Short-term policy interests often are at the expense of longer-term development of the recipient country. Second, revamping U.S. foreign aid to strengthen recipient states and empower their citizens to free themselves from poverty and injustice will, in turn, make America safer. “A more prosperous world with effective

states accountable to their citizens is likely to be safer.” The report discusses “the securitization of aid” saying, “The new U.S. Army/Marine Corps Counterinsurgency Field Manual argues for a radical shift in strategy where the primary objective of any counterinsurgency operation ‘is to foster development of effective governance by a legitimate government.’” The report discusses the increasingly military organization of aid, such as AFRICOM, and the heightened emphasis on security assistance in the budget, reflecting the increasing imbalance between short-term security and long-term development goals.

The study recommends the following reform actions:

- prioritize development as a principal, rather than subordinate, element of our national security alongside defense and diplomacy;
- enact a new Foreign Assistance Act;
- create a new Department of Foreign Assistance;
- create a national development strategy;
- rebuild USAID or create a new foreign aid agency;
- increase nonproject aid to developing country governments that have credible and transparent and coherent development strategies;
- allow for multiyear U.S. foreign aid commitments so countries can make plans for future; and
- untie U.S. foreign aid.

**SFRC1**—Senate Foreign Relations Committee, *Embassies as Command Posts in the Anti-terror Campaign*, December 15, 2006.

Points made in this committee report include:

- Among other measures to strengthen U.S. Embassies around the world, this report recommends that Ambassadors should be charged with the decision whether to approve all humanitarian and development assistance, and other related programs, as well as all military-related programs implemented in-country, including assistance provided under the enlarged authority in Section 1206 of the National Defense Authorization Act for Fiscal Year 2006 (P.L. 109-163) for DOD to provide security assistance.
- Some countries receive between a quarter and half of their U.S. assistance in the form of security assistance, and Section 1206 does not address immediate threats to the United States that cannot be included in the normal budget process. Therefore, the Secretary of State should insist that all security assistance, including Section 1206 funding, be included under the Secretary of State’s authority in the new process for rationalizing and prioritizing foreign assistance. Country team meetings organized by the Director of Foreign Assistance should include military representatives in cases where the country is a recipient or potential recipient of military funding in order to get the civilian/military balance.
- Congress should fund the civilian foreign affairs agencies (DOS and USAID, in particular) at a minimum to the level requested by the President. The current 12:1

ratio of military to civilian foreign aid agencies risks the further encroachment of the military into areas where civilian leadership is more experienced.

- The Administration should develop a comprehensive budget for foreign assistance that incorporates economic, development, humanitarian, security and military assistance. All foreign assistance programs should be funded through the foreign assistance accounts, as administered by the Department of State.
- The Secretary of State should retain primary authority over its planning and implementation of both Function 150 and Function 050 assistance.

**SFRC2**—Senate Foreign Relations Committee, *Embassies Grapple to Guide Foreign Aid*, November 16, 2007.

This report finds that the United States has failed as a government to agree on the importance or strategy of U.S. foreign assistance. It claims that overall agreement on foreign assistance between Washington and overseas posts is lacking, and field complaints on the F process center on a lack of transparency, extra paperwork, differing priorities, and inconsistent demands with an underlying problem about money. Despite these concerns, embassy officials believe they are coping well and welcome new programs that bring additional funding to the host country. The report recommends:

- The President should design a national foreign assistance strategy that explains both the national security requirement and the humanitarian imperative that drive the U.S. government's investment in foreign aid;
- The President should task the Secretary of State to work closely with the Administrator of USAID to implement the President's foreign assistance strategy, giving the Secretary of State explicit authority to ensure that all foreign aid is in the foreign policy interest of the United States;
- The Secretary of State, working with the USAID Administrator, should garner the foreign assistance funds necessary to carry out the President's strategy;
- The Secretary of State should provide strategic direction, transparency, and overall accountability to foreign assistance. The report states that her efforts to do so through the "F" process have been flawed in implementation;
- USAID should be recognized for the indispensable role it plays in the effectiveness of U.S. development policy and should be strengthened and given resources to attract the world's best development experts;
- Ambassadors should take responsibility for the implementation of the President's foreign aid strategy, making certain that assistance is balanced and spent effectively in coordination with the host country and other donors;
- The President should continue to request and Congress should continue to provide funding for security assistance in the foreign affairs budget with some implementation by DOD; foreign assistance functions and authorities should not be migrated to DOD due to inadequate budget requests for funding in the proper account; and
- Congress should play an important role in ensuring that foreign aid is well spent.

**State**—Department of State, *Advisory Committee on Transformational Diplomacy: Final Report of the State Department in the 2025 Working Group*, January 28, 2008.

The State 2025 Working Group expects that the world will radically change in the coming years and will require U.S. overseas presence, skilled personnel, knowledge, and policy insights as never before from the Department of State. The scale and complexity of anticipated global challenges and opportunities will demand a Department that is significantly more robust, better resourced, and more strategically focused. Among the ten recommendations in the report, those regarding U.S. foreign aid include:

- The State Department should work with the USAID and other U.S. government agencies, other nations, and multilateral organizations. Specifically, it should integrate planning offices and technology infrastructures of State and USAID, merge overlapping bureaus and functions, and co-locate related offices and personnel in Washington, D.C. to bring strategies and operations into alignment. Further, State should establish a senior-level responsibility and interagency authority for reconstruction and stabilization activities and fully develop State's planning and execution capacities in these areas.
- Both State and USAID should expand U.S. global presence, critical training and rotations, and improve their capacity to deploy integrated teams on short notice for short-term assignments. Specifically, among other things, the report recommends increasing the number of State's Foreign Service and Civil Service staff by 100% over ten years, and increasing USAID's deployable staff resources by 100% in three years.

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## **Author Contact Information**

Susan B. Epstein  
Specialist in Foreign Policy  
sepstein@crs.loc.gov, 7-6678

Matthew C. Weed  
Analyst in Foreign Policy Legislation  
mweed@crs.loc.gov, 7-4589