

CRS Report for Congress

Received through the CRS Web

Restructuring U.S. Foreign Aid: The Role of the Director of Foreign Assistance

Larry Nowels
Specialist in Foreign Affairs
Foreign Affairs, Defense and Trade Division

Connie Veillette
Analyst in Foreign Affairs
Foreign Affairs, Defense and Trade Division

Summary

The creation of a new State Department position — Director of Foreign Assistance — has sparked congressional interest regarding the management and any possible future reform of U.S. foreign aid programs. Charged with coordinating U.S. assistance programs, the Director of Foreign Assistance (DFA) will have authority over most State Department and U.S. Agency for International Development (USAID) programs, and will provide “guidance” to other agencies that manage foreign aid activities. Details of how the restructuring will operate have not been fully articulated. The restructuring is part of Secretary Rice’s “transformational development” initiative, that seeks to use foreign assistance to transform recipient countries’ economic development paths.

While the restructuring initiative requires no legislative action, it raises a number of questions with regard to the management of foreign aid programs, funding levels, and future reform options. Previous Congresses and Administrations have proposed reforms to U.S. foreign aid programs, but those attempts were not successful. The Bush Administration had a more ambitious reform plan under consideration, but many elements were dropped from the announced restructuring. Executive officials say, however, that the current effort is the first step in a more thorough overhaul of U.S. foreign assistance. This report will be updated.

Transformational Development and the DFA

On January 19, 2006, Secretary Rice made an announcement that will affect the management of U.S. foreign assistance programs. She created a new position at the State Department — Director of Foreign Assistance (DFA) — a position that the USAID Administrator will hold concurrently. Initial information from the State Department indicates that the DFA will have authority over foreign assistance programs managed by USAID and the State Department. In addition, the DFA will “provide guidance” for

foreign assistance delivered through other government agencies, such as the Millennium Challenge Corporation (MCC). Randall Tobias, previously the State Department's Global AIDS Coordinator, was confirmed by the Senate on March 29, 2006, as the new USAID Administrator and will also serve as the Director of Foreign Assistance.

The restructuring can be viewed in the context of Secretary Rice's initiatives with regard to "transformational development," that she describes as an essential component of "transformational diplomacy." The latter initiative will reposition diplomats to "critical emerging areas," enhance language and regional skills, and emphasize outreach to foreign populations. In this new environment of seeking transformational change in recipient countries through both development and diplomacy, Secretary Rice has argued for better coordination and policy coherence of U.S. assistance programs, with an emphasis on both short-term, and long-term strategic goals at the country and global level. The concept of transformational development already has been applied by the Millennium Challenge Corporation (MCC) which manages another Bush Administration foreign aid initiative that rewards "best performing" countries through a competitive process measuring achievements in the areas of governance, economic policies, and social programs.

DFA Responsibilities

The DFA has been charged with two missions: to develop a coordinated U.S. foreign assistance strategy; and to direct a transformation of foreign assistance to achieve the President's Transformational Development Goals.¹ As both the USAID Administrator and the DFA, he will serve at the level equivalent to Deputy Secretary, reporting directly to the Secretary of State. USAID is, and remains, an independent agency under the restructuring. While it is considered independent, the USAID Administrator reports to, and serves under, the foreign policy guidance of the Secretary of State.

USAID manages most U.S. economic assistance programs, in some cases directly and in other cases jointly with the State Department. In total, USAID manages and co-manages programs for FY2006 with an appropriation of about \$9.1 billion. Beyond this, the State Department currently oversees several other security and refugee assistance programs worth \$7.5 billion in FY2006. Overall, USAID and the State Department manage foreign aid programs totaling roughly \$16.6 billion this year.² In addition, a further \$7.8 billion worth of programs are administered by other foreign aid entities, such as the Millennium Challenge Corporation (MCC), the Global Aids Coordinator, the Peace Corps, the Treasury Department, and the Trade and Development Agency.

When first announced, the DFA was described as having authority over all State Department and USAID foreign assistance programs. Subsequent statements by officials introduced some ambiguity as to whether certain State Department/USAID programs would fall under the DFA's jurisdiction. At his USAID confirmation hearing on March

¹ U.S. Department of State Fact Sheet: New Direction for U.S. Foreign Assistance, January 19, 2006.

² CRS calculation. Administration documents have set this amount at about \$19 billion, but that amount appears to include \$2 billion for the PEPFAR Coordinator's Office, funds that will not fall under the DFA's authority. The \$19 billion estimate further does not appear to reflect a 1% across-the-board rescission required for FY2006.

7, 2006, before the Senate Foreign Relations Committee, Ambassador Tobias said that the DFA would have responsibility for all foreign aid funding accounts over which Secretary Rice maintains authority, and that the Secretary would delegate her authority to the DFA.³ Nevertheless, it appears from statements made by other Administration officials that the State Department's Office of the Global AIDS Coordinator will not be under the DFA's control. It is also unclear as to the relationship between the DFA and State's Office of the Coordinator for Reconstruction and Stabilization.⁴

Other assistance programs are scattered among various government departments and agencies. Some, like the MCC, the Peace Corps, and Treasury Department-managed international financial institutions and debt policy activities, are funded through foreign policy budget accounts. Others are managed and funded through Defense Department and domestic agency appropriations. As the size of foreign aid budgets and the number of operational agencies have increased, especially in recent years, a number of observers have highlighted the fragmentation of programs and the possible lack of coordination among them. Some critics also argue that the Bush Administration, while launching a number of innovative and important initiatives, has not articulated a coherent foreign aid policy strategy or an integrated set of core objectives within which to operate efficient and well-coordinated assistance programs.

The degree to which the DFA will be able to guide and coordinate these entities falling outside the State Department and USAID has not been fully articulated and is likely to be one of the most difficult challenges faced by the new Director. Ambassador Tobias said at his confirmation hearing that he hoped to put in place a "formal process" for achieving the DFA's mandate of coordinating across the government.⁵ Similar approaches have been tried in the past, but with limited impact. An entity legislated in 1973 by Section 640B of the Foreign Assistance Act of 1961 (FAA) — the Development Coordinating Council (DCC) — was intended to coordinate government-wide foreign assistance activities. The DCC, however, rarely met and according to USAID, exists today "only as an unimplemented provision in the FAA."⁶

Earlier Attempts at Foreign Aid Reform

While reforming U.S. foreign assistance strategy and programs has been a matter raised a number of times by past Administrations, members of Congress, public policy think-tanks, and American non-governmental organizations (NGOs), implementation of such initiatives has proved difficult. During the past two decades, Congress and the

³ See exchange between Senator Sarbanes and Ambassador Tobias at the Senate Foreign Relations Committee hearing on March 7, 2006.

⁴ "State Department Officials Hold a Background Briefing on U.S. Foreign Assistance - News Briefing," Political Transcripts by CQ Transcriptions, January 19, 2006. In briefings to Congressional staff, department officials indicated that the exact accounts over which the DFA would have authority had not been fully determined.

⁵ See exchange between Senator Lugar and Ambassador Tobias at the Senate Foreign Relations Committee hearing on March 7, 2006.

⁶ See "USAID History," found at [http://www.usaid.gov/about_usaid/usaidhist.html].

executive branch have considered three broad foreign aid reform proposals, each of which stalled.

Hamilton-Gilman Foreign Aid Reform Task Force. With an increasing recognition of changing global conditions near the end of the Cold War and 14 years after the previous overhaul of U.S. foreign aid policy, two senior members of the House Foreign Affairs Committee — Representatives Lee Hamilton and Ben Gilman — were asked to shepherd a bi-partisan effort to re-write basic foreign aid laws. The initiative was intended to draft legislation that reflected new realities of U.S. foreign policy, narrow and more clearly define key American foreign aid objectives, streamline congressional restrictions placed on executive implementation of the program, and restore congressional confidence in the purpose and achievements of foreign assistance. Although the House Foreign Affairs Committee endorsed legislation reflecting most of the Task Forces' recommendations, key Members, including Representative Gilman, dissented from some of the major proposals. Without executive and Senate support, the initiative died.

Clinton Administration initiative. At the outset of the Clinton Administration in 1993, Deputy Secretary of State Clifford Wharton was named to lead a review of U.S. foreign aid policy that would design a post-Cold War policy framework and reform USAID. While the Wharton review never published a final report, in late 1993 the Administration submitted to Congress the Peace, Prosperity, and Democracy Act (PPDA), a bill that included many ideas that arose during the Wharton review. Congress raised concerns over proposals to increase Presidential flexibility in managing foreign aid programs and to consolidate funds into a more narrow set of appropriation accounts focused on strategic objectives as articulated by the executive branch. While the House passed a modified version of the PPDA, the bill stalled in the Senate and was not re-submitted by the Administration in the 104th Congress.

Consolidation of USAID into the State Department. Arguing that the Secretary of State should have more direct control over all tools of U.S. foreign policy, a number of analysts and members of Congress proposed in the mid-1990s to abolish the U.S. Information Agency (USIA), the Arms Control and Disarmament Agency (ACDA) and USAID, and consolidate their operations within the State Department. After three years of debate, Congress enacted legislation in 1998 (Division G of P.L.105-277), transferring USIA and ACDA into State, but retaining USAID as an independent agency. The legislation, however, further required that the USAID Administrator report to and serve under the foreign policy guidance of the Secretary of State. This remains the current relationship between USAID and the Department of State.

Issues for Congress

As with any restructuring initiative, the creation of the DFA raises a number of questions with regard to implementation. The restructuring initiative has been applauded by many as marking the beginning of what they perceive as a long overdue effort to reform a cumbersome and fragmented U.S. foreign assistance program. Some supporters of the plan, however, believe it does not go far enough and that the Administration is missing an opportunity for launching a much bolder, and necessary reform effort. Some critics have expressed strong concern that the new initiative may lead to a greater degree of aid politicization and that USAID will be further marginalized as a key maker of U.S. development policy. As currently envisioned, the restructuring will not have a direct role

for Congress, although key congressional committees are likely to maintain close oversight as the plan moves forward. Nevertheless, some have questioned whether the Secretary has authority to create the DFA position without congressional authorization.

Coordination of Aid Programs. Secretary Rice has argued that more coordination and coherence is needed in foreign assistance programs in order to meet transformational development goals. With some 18 foreign aid accounts in both the State Department and USAID appropriations, and numerous other programs scattered throughout other government agencies, Secretary Rice has not been the first to observe that the U.S. foreign aid apparatus is cumbersome and lends itself to inefficiency and redundancy. A number of programs have similar or identical purposes, but management is split between USAID and State. It is unclear at this point how much authority the DFA will have to coordinate activities, and what effect better coordination will have on funding levels. For example, counter-narcotics and democracy programs are shared between USAID and State. Questions have been raised as to whether better coordination will produce efficiencies, reduce redundancy, and result in more effective programs. It is also unclear how much authority the DFA will have over State Department offices that are not formally a part of his portfolio. For example, the State Department has created the Office of the Coordinator for Reconstruction and Stabilization (O/CRS) to respond to post-conflict situations. Its Coordinator also reports directly to the Secretary of State.

While the Director of Foreign Assistance has been granted authority over State Department and USAID aid programs, a number of other foreign aid agencies remain outside the scope of the Director's responsibility. As mentioned earlier, the largest is the Millennium Challenge Corporation, but several others, like the Peace Corps, the Overseas Private Investment Corporation, and the Trade and Development Agency maintain smaller but important aid activities. In addition, the Treasury Department is responsible for U.S. participation in the World Bank and a number of other international financial institutions. It is unclear how the DFA will provide "guidance" to these types of programs in light of his mission to develop a coordinated U.S. foreign assistance strategy. There is also concern that if a truly coordinated foreign assistance strategy is achieved, countries that are not considered prime candidates for transformational development, but who nonetheless are in need, will see their assistance reduced in favor of those countries that are moving in the right direction.

The Department of Defense is playing an increasing role in post-conflict situations, and has for many years maintained its own programs supporting U.S. humanitarian responses and narcotics interdiction. Even though the DFA is to provide guidance for all foreign assistance programs, it is unclear how much influence he will have over DOD programs in such strategic places as Iraq and Afghanistan.

Politicization of Aid Programs and the Role of USAID. Some critics of the restructuring fear that long-term development and poverty reduction goals, the traditional concern of USAID, will be overwhelmed by the demands of shorter-term strategic considerations, often of high priority for the State Department. The need to balance these often competing objectives will be challenging. Some observers have argued that USAID has lost considerable influence in past years due to the separation of policy and implementation in which the State Department, as the stronger agency, has gained significant authority over policy. Examples include creating coordinators at State to oversee aid programs in Eastern Europe and the former Soviet Union, shifting primary

responsibility over international HIV/AIDS programs from USAID to the Global AIDS Coordinator at the Department, and dividing democracy promotion activities between the two agencies. The future of USAID is unclear at this juncture. Those who believe in USAID's traditional mission of promoting long-term development fear that the agency will be relegated to a position of solely implementing programs rather than shaping development policy. Secretary Rice and other senior Administration officials, however, contend that the reconfiguration will strengthen USAID's role and status. Since the DFA will also serve as USAID Administrator, they argue, USAID will more likely participate in the policy and budget decision-making process to a greater extent than at present. At his confirmation hearing, Ambassador Tobias noted that a difficulty faced by his predecessor at USAID, Andrew Natsios, was the time consumed negotiating with State Department officials over whom the Administrator had no authority. This would no longer be the case, he argued, since the DFA would have such authority.⁷

Authority to Create the DFA Position Without Congressional Involvement. Secretary of State Rice has created the position of Director of Foreign Assistance without seeking legislative authorization from Congress. Currently Section 1 of the State Department Basic Authorities Act (22 U.S.C. 2651a) specifies the number of Deputy Secretaries, Under Secretaries, and Assistant Secretaries authorized for the State Department, requiring each to be confirmed by the Senate. At Ambassador Tobias' confirmation hearing as USAID Administrator on March 7, Senator Sarbanes observed that while the Secretary had authority to delegate responsibilities, she could not create unilaterally an Assistant Secretary of State position. He noted his concerns that Secretary Rice was creating a very high-level position at the Department without passing it through congressional review.

Reforms Deferred and Subsequent Initiatives. During the State Department's 2005 review of foreign aid reforms, a number of other policy options were considered, but either dropped or deferred until later. It appears that the Department seriously considered creating a more formalized position of either a Deputy Secretary of State or Undersecretary for foreign aid. Also planned but eventually dropped was a proposal to restructure the current appropriation accounts, and to significantly consolidate funding channels into six or seven that would be based on the strategic purposes of particular aid activities, such as assistance for failing and post-conflict states, or transformational development. Both options would have required extensive review and ultimate approval by Congress. Administration officials have said that the current restructuring effort is only the first step in a more expansive reform of foreign aid, suggesting that issues considered but dropped may be part of subsequent initiative, perhaps in the 110th Congress. But a number of observers note that a piecemeal approach to comprehensively reorienting U.S. foreign aid is particularly difficult, especially in the final two years of an Administration. They argue that the State Department should have aimed for a much broader plan, consulted with Congress throughout the review process, and presented a complete legislative package for congressional approval this year.

crsphpgw

⁷ See exchange between Senator Sarbanes and Ambassador Tobias at the Senate Foreign Relations Committee hearing on March 7, 2006.