



# Engagement Amid Austerity

A Bipartisan Approach to Reorienting the International Affairs Budget

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# Introduction and summary

U.S. government spending on foreign affairs will face significant pressures in the coming years under almost any scenario. A divisive political environment, continuing worries about a sluggish economic recovery, concerns over rising budget deficits and national debt, and upcoming elections make it difficult for policymakers to reach agreement on budget priorities. That uncertainty will have far-reaching consequences.

This bipartisan report is offered in the spirit of trying to determine how we as a nation can make the most efficient and effective use of scarce resources, reform our foreign affairs institutions, and defend our core national interests amid such major budget uncertainty.

It is important to underscore the importance and value of the international affairs budget in advancing U.S. interests while at the same time conducting reasonable contingency planning for the possibility of sharply reduced funding in the near and medium term. It is ideal for Congress and the administration to reach a sensible 10-year budget plan that includes both cuts and revenues while protecting our core interests both domestically and internationally.

In that light, it is worth mentioning the recently passed “Ryan Budget” to emerge out of the House of Representatives. (This budget plan was issued after the final working group meetings were conducted, and so the opinions on it are solely those of the authors.) The budget plan would slash some \$31.6 billion from 2012 levels out of the foreign affairs accounts in just four years. By any reasonable estimation, such an approach would decimate our nation’s ability to effectively advance our interests overseas, and such budget calculations cannot be justified based on a deliberate analysis of our needs and foreign policy priorities as a nation.

In contrast, we hope that our report can be used to begin a practical conversation even as the high-stakes budget battle is waged and allow policymakers to both

identify areas that require sustained or even increased resources in order to maintain U.S. global leadership as well as areas of lesser priority.

The United States is not alone in trying to better balance its approach to international affairs at a time of declining resources. A number of our key European allies have also reviewed their approach to diplomacy and development in recent years in hopes of better focus.

Central to this challenge is understanding several important developments that will shape America's engagement in the coming years. These mega-trends include enormous pressures on the federal budget, continued globalization, the increasingly important role that private philanthropy plays in international development, and a likelihood that the major state-building exercises of Iraq and Afghanistan over the last decade will be a historical anomaly.

Almost every major study and review of our foreign affairs institutions and spending priorities has identified areas of dysfunction and operations that need significant reform. Efforts such as the Obama administration's first-ever Quadrennial Diplomacy and Development Review and a Presidential Study Directive on Global Development are important steps forward on reform. Yet enormous work remains, and the executive and legislative branches do not agree on the underpinnings of effective international engagement.

The Center for Global Development and the Center for American Progress established the senior-level Working Group on Aid Priorities amid Declining Resources to help policymakers and concerned citizens set sensible priorities for international affairs spending in the Function 150 account: the State, Foreign Operations, and Related Agencies appropriations bill containing spending on global economic, diplomatic, and humanitarian programs by the State Department, United States Agency for International Development and the Millennium Challenge Corporation among others, and food aid accounts in the agriculture appropriations bill.

## Why foreign aid is important

Every U.S. president since Harry Truman has seen economic and security assistance abroad—which made up about 1 percent of the federal budget in recent years—as essential to America's national interests even though foreign aid traditionally lacks strong defenders in Congress. In fact, Republican presidents have overseen the largest increases in foreign assistance. To be sure, foreign assistance is an imperfect tool, but it also is a core part of America's strategy to increase the number of stable, free-market democracies around the world. Such countries make better trading partners and better allies, and are an abiding source of stability.

Nations need not be aid recipients forever. In the 1960s nations across Latin America and Asia were dismissed as perennial basket cases yet countries in both regions combined sensible reforms with a jump-start from U.S. assistance programs to achieve dynamic, lasting growth. Ten of the 15 largest importers of American goods and services, including countries such as South Korea, Taiwan, and Singapore, graduated from U.S. foreign aid programs according to the United States International Trade Commission.<sup>1</sup>

The working group was comprised of a highly bipartisan group of policy experts with long experience in Republican and Democratic administrations, Congress, nongovernmental organizations, philanthropy, and the private sector. The working group's co-chairs, Connie Veillette of the Center for Global Development and John Norris of the Center for American Progress, authored the final report based on the outcomes of the working group's deliberations. All opinions in this report are those of the co-authors and should not be seen as reflecting the endorsements of the working group members in whole or part. The recommendations were developed through consultative meetings, one-on-one interviews, literature reviews, and working group deliberations.

The working group reviewed the entire international affairs budget, which encompasses the operations of the State Department, the U.S. Agency for International Development and the assistance programs they manage, food aid programs, and the programs of many smaller and specialized U.S. agencies. Approximately two-thirds of the 150 account is made up of economic and security assistance provided by both the State Department and USAID. (This report does not cover aid appropriated by the Department of Defense, though the Defense Department delivers some State Department security assistance.) Since this is the largest share of the international affairs budget, the core of our recommendations center on how to improve this assistance.

Given the rapid timeframe of this exercise we focused on areas offering the greatest promise for reform. This report is not a comprehensive review of every single activity carried out through the 150 account. We hope to further articulate and explore some of the key issues in this report going forward.

Further, U.S. contributions to multilateral institutions, such as the World Bank and the United Nations, represent a vital means for the United States to engage the world. They also make an impact on sectors or countries where our bilateral presence is less influential and represent an important complement to bilateral assistance programs. We welcome a closer examination of these multilateral contributions, and a number of other donors and organizations have also begun examining where their multilateral dollars can best be directed to make the greatest impact.<sup>2</sup>

Our work identified four ideas that would fundamentally transform how we conduct diplomacy and development. None of these ideas is without controversy, and all would require significant change to be instituted.

Behind all of our ideas is the belief that America's approach to diplomacy and development requires significant modernization. Our engagement and dollars should be focused where they are going to make a lasting difference, and we have often been too slow to recognize and admit where engagement and investments have little return. But we also argue strongly for increased, not decreased, investments in training our international affairs personnel and feel that universal diplomatic representation very much remains in the national interest. Working group members agreed that America's investments in diplomacy, development, and international trade are extremely valuable and any cuts should not undermine our strategic priorities or values. We identify budget areas that should be protected.

Here are four ideas that have the greatest potential for effectiveness and transforming how this country engages the world.

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#### Make economic and security assistance more selective

In 2012 the United States is delivering bilateral assistance through the international affairs account to 146 nations with 103 of these receiving economic assistance and 134 receiving security assistance.<sup>3</sup> These efforts are far too diffuse, undisciplined, and unfocused, and we could achieve much more by concentrating economic and security assistance where they will be most effective and curtailing resources where they will not. This idea may sound simplistic, but it would be revolutionary in contrast to how aid is currently disbursed.

Our country-by-country analysis of economic and security assistance included in this report was subjective but highly data-informed, taking into consideration a country's commitment to reform, its capacity to achieve lasting development and stability, its need, and its strategic importance to the United States. In a limited number of cases we argue for priority investments based on immediate conflict prevention efforts or to ensure that a country that enjoyed significant postconflict investment does not slide backward. We made the data we used for each country readily available as part of this report to encourage further debate on these issues. (see "Country Profiles" section)

## Bilateral economic assistance

We argue for a major shift away from 103 recipient countries to sustaining or increasing investment in 53 core countries over a five-year period. This includes increasing investment in 32 high-priority countries and holding funding levels flat in 21 countries where there is a continued imperative for engagement but more limited expectations. Eighteen countries would graduate from U.S. bilateral economic assistance within a five-year period; 11 countries would see their programs eliminated because they are small, expensive to operate, or peripheral-interest country programs; and 21 poor-performing countries would see economic assistance largely limited to support for democratic and civil-society groups, humanitarian relief, and PEPFAR funding. Eleven USAID missions could be closed or consolidated as part of this realignment.

## Bilateral security assistance

We argue that aid should be focused on 72 core countries rather than 134 recipients, with increased investment in 45 high-priority countries and flat funding levels in 27 countries where there is a continued imperative for engagement but more limited expectations. Assistance would be curtailed in 62 countries, including 30 that should be able to graduate from U.S. security assistance within the next five years, 15 where security assistance is relatively small or peripheral to our national interest, and 17 we deem to be poor performers.

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## Transition PEPFAR to country ownership

The President's Emergency Plan for AIDS Relief, or PEPFAR, continues to be a very large portion of U.S. international affairs spending. Started by President George W. Bush in 2003 to help provide prevention, treatment, and care services to countries suffering high HIV/AIDS burdens around the world, the initiative represents the largest health commitment ever by one country to combat a single disease internationally.

The Obama administration established PEPFAR Partnership Frameworks—five-year joint strategic frameworks for cooperation between the U.S. government, the partner government, and other partners to combat HIV/AIDS in the host country. These partnership frameworks acknowledge that PEPFAR recipient

countries need to share much more of the burden moving forward. This created some controversy, but sharing costs, particularly with upper-middle-income PEPFAR recipients (Botswana, Caribbean Regional, Central America Regional, Dominican Republic, Namibia, and South Africa) should be accelerated as part of a well-managed and transparent plan that will allow host countries and private philanthropy to work together with the United States to keep momentum going in the battle against HIV/AIDS.

This also recognizes that PEPFAR Partnership Frameworks can provide a model for how to foster country ownership and transfer financial responsibility to recipient countries while changing the program itself from an emergency humanitarian program to more of a long-term, sustainable, and integrated approach to health and development.

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### Overhaul U.S. food assistance

A web of outdated laws and regulations—cargo preference, limitations on local and regional purchase, and monetization—vastly increase the cost and reduce the effectiveness (and timeliness) of our food aid. Food must be purchased in the United States and shipped on U.S.-flagged vessels. Some of the food can then be sold on local markets to raise cash that NGOs use for development projects.

Numerous studies show the inherent inefficiencies of this process. Overhauling these restrictions could save taxpayers billions of dollars and make food aid programs more effective and efficient. Food aid is a classic example of an area where smart reforms would make programs work better and save a great deal of money.

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### Create an International Affairs Realignment Commission

Finally, the administration, in consultation with Congress, should appoint a commission to undertake a sorely needed overhaul of our foreign affairs agencies and operations based on the very successful model of the Defense Base Realignment and Closure Commission, or BRAC.

Rather than focus on physical installations, as BRAC did, an International Affairs Realignment Commission would have the writ to not only look at the physical presence of U.S. embassies, consulates, and USAID missions around the globe

but more importantly recommend regulations that could be eliminated, programs and projects that are no longer necessary, or even institutional consolidation or streamlining. In essence, the commission would help shepherd a long-overdue rewrite of the Foreign Assistance Act of 1961, the antiquated legislation guiding the authorities, use, and allocation of U.S. foreign assistance.

The president would appoint commissioners in consultation with Congress, and the commissioners would base their recommendations on the broad strategic guidance established in the Quadrennial Diplomacy and Development Review and through subsequent consultations. The president could accept or reject the commission's recommendations in their entirety. If rejected, the commission would have a set period to amend and resubmit. The commission's final report would have the force of law if Congress did not reject it.