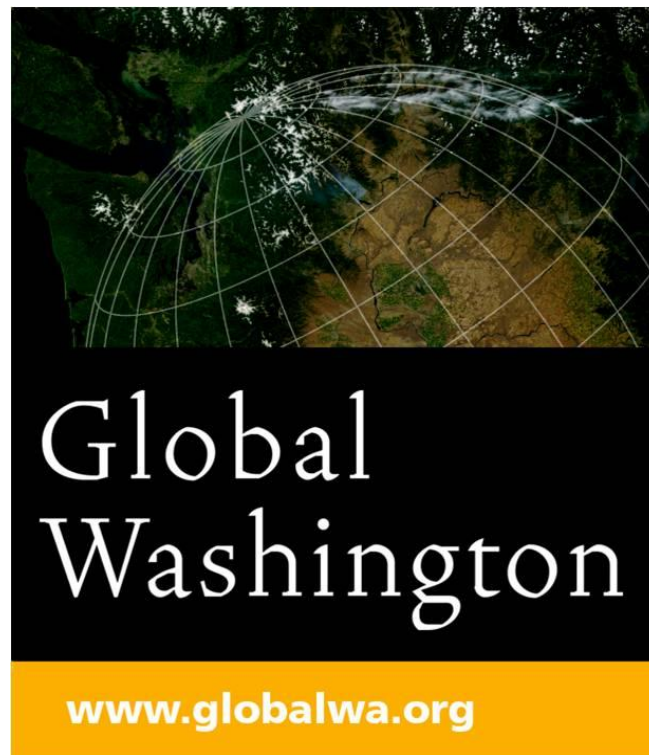


Making U.S. Foreign Assistance More Effective

Recommendations for Reform



A GLOBAL WASHINGTON WHITE PAPER

DECEMBER 2009

**In partnership with the University of Washington's International Studies Program
at the Henry M. Jackson School of International Studies**

EXECUTIVE SUMMARY

United States foreign assistance could be more effective at delivering aid to address global development challenges. This report identifies principles of aid effectiveness and uses them to diagnose the major problems facing U.S. foreign assistance. It also proposes recommendations for meeting 21st century global development challenges. Given the current level of political will and interest in international affairs, now is the time to ensure that our foreign assistance is effective. Development is increasingly recognized as a third pillar of foreign policy, yet the U.S. falls short of delivering policies and projects to further the national interest. Additionally, more effective aid is urgently needed to address the recent economic crisis that has pushed 53 million more people around the world into poverty.ⁱ The future will hold even greater challenges for the fight against global poverty, and we need an effective aid delivery system in place to respond to these challenges.

The Principles of Aid Effectiveness

Global Washington has drawn on the international development expertise of our supporters from the academic, non-profit, philanthropic and business communities to develop the following principles of aid effectiveness:

1. **Transparency and Accountability:** to make information on strategy, goals and spending easily available to U.S. taxpayers and international beneficiaries, thereby increasing accountability.
2. **Consolidation and Coordination:** to make sure efforts are not duplicative and are able to meet articulated goals as well as ensure non-aid policies, such as diplomacy, defense and trade, complement aid goals.
3. **Local Ownership:** to ensure that aid aligns with local priorities, builds local capacity and promotes local economies.
4. **Targeting:** to direct aid at reducing poverty, especially in the world's poorest countries

These principles could serve as a framework for decision makers to assess aid effectiveness and develop policies to improve it. Or, in other words, to ensure that U.S. taxpayers' money is going where it is intended to go and to have the impact it is designed to have.

How Effective is U.S. Foreign Assistance?

This report finds that U.S. foreign assistance lacks transparency, although some agencies are more transparent than others. Researchers for this report found it difficult to access budget and program information for several agencies, especially the USDA. A major cause of this is the absence of a strategy that guides U.S. investments in global development, lack of overarching goals, and inconsistent mechanisms for monitoring and evaluating aid programs.

The lack of a strategy in combination with a labyrinth of legislation, agencies and a confusing budget process shows that U.S. foreign assistance lack consolidation and coordination. No individual or agency has the authority or responsibility for oversight and a \$40 billion FY09 International Affairs budget is divided between 75 different programs across 25 agencies. As a result, U.S. foreign assistance is extremely fragmented and unaccountable.ⁱⁱ

Local ownership is not prioritized. A host of U.S. foreign assistance practices limits the ability of countries to take ownership of development projects and make them sustainable. One example is the

excessive use of tied aid, where U.S. foreign assistance dollars must be used to procure U.S. goods and services. The U.S. ties around 72% of its aid, one of the highest tied aid rates in the world. Other countries, such as the UK, tie 0% of their aid.ⁱⁱⁱ

Foreign assistance is not targeted at reducing poverty. U.S. taxpayers may believe that their global development tax dollars are being spent to tackle the most extreme poverty, but they would be mistaken. Only half of U.S. aid focuses primarily on reducing poverty and less than a quarter goes to the least developed countries.^{iv} Instead, U.S. foreign assistance is spent on a variety of objectives other than reducing poverty, which are often related to short term political goals.

Recommendations and Actions to Make U.S. Foreign Assistance More Effective

1. Develop a National Global Development Strategy to increase coordination and transparency

Action: Support the *Initiating Foreign Assistance Reform Act* and the *Global Poverty Act* which mandate the President to develop a National Global Development Strategy.

2. Create a single department – perhaps an elevated and strengthened USAID – autonomous from State and the Department of Defense (DoD) to coordinate the implementation of the National Global Development Strategy.

Action: If either of the above bills passes, Global Washington should support the inclusion of **all sectors of global development in shaping the national development strategy**. Specifically, Global Washington should demand the **creation of a high-level U.S. foreign assistance administrator** and encourage the President to place the **internationally agreed upon Millennium Development Goals** at the center of this strategy.

3. Make information about the National Global Development Strategy, goals, and budget data easily accessible to U.S. taxpayers and partner countries. This will help to increase transparency and accountability.

Action: Ensure that the National Global Development Strategy includes specific recommendations to increase transparency in the model of www.recovery.gov.

4. Create unified legislation that clarifies the structure of foreign aid, improves the local ownership of aid and targets aid at the most pressing problems in the neediest countries:

Action: Over the next 6-12 months, support the efforts of Congressional leaders to rewrite the Foreign Assistance Act (FAA) and encourage the involvement of all dimensions of the global development sector, including academic, philanthropic, nonprofit, corporate, and government organizations in the rewrite process. Specifically the new bill should include recommendations to:

1. **Increase local ownership of aid programs by reducing ineffective aid channels**
2. **Improve the targeting of U.S. foreign assistance programs to the poorest countries**
3. **Promote cross-sector partnerships** to leverage the resources of the entire global development sector to meet development goals in the national interest

Comprehensive reform of U.S. foreign assistance will be difficult given its complex nature, dispersed beneficiaries and concentrated nature of constituents who benefit from the status quo. Nonetheless, Global Washington believes that there is a unique opportunity to seize the momentum for reform and create a U.S. foreign assistance system that meets the national interest and delivers effective 21st century aid.

As Global Washington's policy work moves forward, it should focus on an in-depth analysis of the two bills that will begin the reform process. Subsequently, Global Washington should develop strategies to include the voices of the global development sector in the State of Washington to shape the President's National Global Development Strategy as well as mobilizing support for a rewrite of the FAA.

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INTRODUCTION

Foreign assistance reform is squarely on President Obama’s and Congress’s agenda. Secretary Clinton recently said “We want to streamline [USAID]. We want to make it more efficient...because we are wasting an enormous amount of money. Fifty cents on the dollar doesn’t even get into the pipeline to actually be delivered”.^v Howard Berman, Chairman of the House Foreign Affairs Committee has argued “our current system of foreign assistance is severely hindered by the duplication of programs among the various agencies involved, inadequate coordination among them, the lack of clear purposes and objectives, and—especially with respect to USAID—a basic lack of capacity to implement programs on the ground”.^{vi}

As a unique membership association uniting one of the nation’s most dynamic global development sectors, Global Washington can add the perspective of our diverse membership to the growing debate on foreign aid reform. Up to now the debate has been dominated by D.C.-based, policy-oriented organizations. This is the first report to take a state-based, practitioners’ perspective on federal global development policy.

Global Washington’s Approach

Global Washington’s starting point is to ask, “**when** is aid effective?” The major question around foreign aid is not whether aid should be given. Millions of people’s lives have been improved or even saved around the world because of U.S. foreign assistance.^{vii} On the other hand, some aid has had very little or no impact, and in other cases has even had negative consequences. Therefore, the debate around aid should focus on **the conditions under which aid works best**. In this paper, we develop an aid effectiveness framework to help decision makers diagnose problems with the current U.S. aid system as well as develop recommendations to improve U.S. foreign assistance.

Methodology

This report is a result of the collaboration between Global Washington, the Principles Working Group and the University of Washington’s Henry M. Jackson School of International Studies. The Principles Working Group is composed of global development practitioners and advocates in Washington State.

The process included public forums on making aid work from the ground up, documentary screenings on improving aid, and on-line surveys to develop the evolving principles. Global Washington commissioned this White Paper to demonstrate the use of these principles to both diagnose problems with U.S. foreign assistance and to propose recommendations for reform. Five students from the Jackson School served as principal researchers on this project. Global Washington staff and two International Studies professors coordinated the project.

This report first gives an overview of U.S. foreign assistance and subsequently develops an aid effectiveness framework to diagnose major problems with U.S. foreign assistance as well as develop recommendations for reform.

1. WHAT IS U.S. FOREIGN ASSISTANCE?

U.S. foreign assistance is confusingly combined with consular, embassy and other State Department international operations in the International Affairs Budget (Function 150). As defined by the U.S. government, U.S foreign assistance is broadly equivalent to generally accepted definitions of Official Development Assistance (ODA).¹ It is important to highlight that although the U.S. includes military and security financing in its definition of foreign assistance, the OECD does not allow these items to be included as ODA.^{viii} **This paper refers throughout to foreign assistance to capture all elements of the U.S. approach.**

The U.S. government divides **foreign assistance** into five categories:

- Bilateral economic assistance: Mainly overseen by USAID
- Multilateral economic assistance: Overseen primarily by the Department of Treasury
- Humanitarian assistance: Overseen primarily by the State Department and DOD
- Military assistance: Overseen primarily by the State Department and DoD
- Law enforcement assistance: Overseen primarily by the State Department and DoD

Though four main agencies oversee around 90% of foreign assistance, there are a host of other agencies such as Peace Corps and the Millennium Challenge Corporation that provide foreign assistance.

Foreign assistance is governed by a labyrinth of legislation, including the foundational Foreign Assistance Act of 1961, as well as additional legislation that addresses more specific development challenges, such as the McGovern-Dole Food for Education Act of 2002.

I. How Did We Get Where We Are?

A historical perspective explains the complex nature of the U.S. aid system. This system has evolved over 60 years, pushed and pulled by U.S. strategic interests and the genuine desire to combat global poverty in the context of a rapidly changing world. New challenges were met with additional legislation and agencies added on top of old legislation and programs. It is clear that overarching reform is sorely needed to meet 21st Century global challenges.

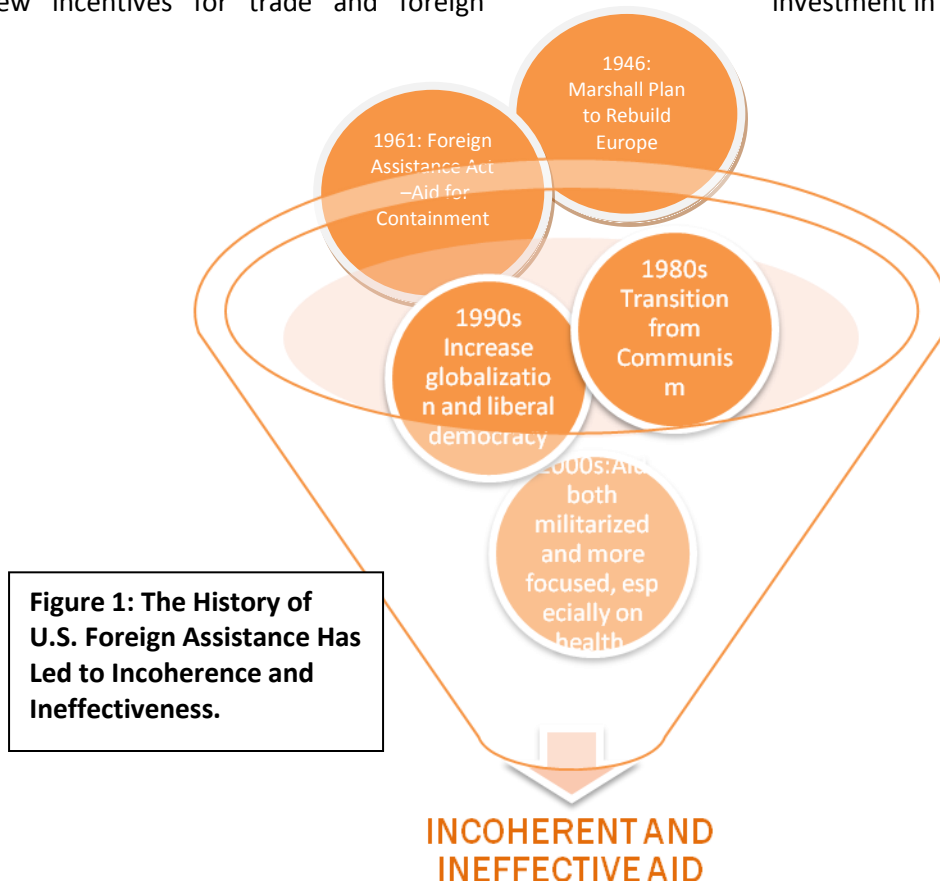
Foreign aid began at the end of World War II with centerpiece programs such as the Marshall Plan aimed squarely at rebuilding Europe and, most importantly, preventing the spread of communism. Yet within a decade, the perceived urgency of containment and the withdrawal of European powers from much of the developing world required a new strategy. The first bill to reflect this new geo-political reality was the 1961 Foreign Assistance Act (FAA). This act created the U.S. Agency for International Development (USAID), the first government agency whose sole function was to provide and monitor long-term foreign economic aid. U.S. foreign assistance became intimately interwoven with Cold War strategies. For example, U.S. aid money competed with Soviet aid in certain countries. A country's geopolitical importance in the Cold War was often a determinant of its foreign aid.

At the end of the Cold War, U.S. foreign assistance found a new role in fostering international partnerships and trade with transitioning economies. Two bills that emerged from this period were the SEED Act passed in 1989 and the Freedom Support Act passed in 1992.^{ix} The Freedom Support Act

¹ The OECD defines Official Development Assistance (ODA) as “those flows to developing countries and multilateral institutions provided by official agencies, including state and local governments, or by their executive agencies, each transaction of which meets the following tests: i) it is administered with the promotion of the economic development and welfare of developing countries as its main objective; and ii) it is concessional in character and conveys a grant element of at least 25 per cent”.

increased U.S. bilateral aid to the former Soviet Bloc by \$410 million and increased U.S. funding for the IMF by an additional \$12 billion.^x

Instead of overhauling a Cold War foreign aid system, U.S. foreign assistance evolved synergistically with broader trade and globalization agendas throughout the 1990s. For example, President Clinton signed into law Congressman McDermott's African Growth and Opportunity Act (AGOA) in 2000, which created new incentives for trade and foreign investment in Africa.^{xi}



September 11th caused another momentous shift in geo-politics. During George W. Bush's administration, U.S. foreign assistance became both more militarized and more focused on global poverty.^{xii} President Bush launched several new initiatives, such as the MCC and PEPFAR, with increased focus on accountability and results. While these developments are encouraging, they are also an indictment of the rest of the U.S. system: available agencies have not been transparent, coordinated or focused enough to deliver effective aid.^{xiii} Moreover, President Bush's additional legislation and agencies made the alphabet soup of U.S. foreign assistance even more opaque and incoherent.

It is clear that U.S. foreign assistance is complicated. How can such a complex system usefully be analyzed? This report proposes an aid effectiveness framework that examines the transparency, coordination, targeting and emphasis on local ownership of U.S. foreign assistance.

2. THE PRINCIPLES OF AID EFFECTIVENESS

Drawing on the expertise of our members in delivering development programs across the world, Global Washington has developed a set of principles that we believe should be a starting point for reforming U.S. foreign assistance. These principles serve as a framework to diagnose the problems with the U.S. foreign assistance system as well as suggest a clear agenda for action to make U.S. foreign assistance more effective.

- 1. Transparency:** Foreign assistance should be transparent and information about budget, strategy, programs and results should be easily accessible to hold donors and recipients accountable.
- 2. Consolidation and Coordination:** Foreign assistance should be directed by a coherent strategy and consolidated structure at home and should coordinate with other donors abroad to reduce duplication of programs and leverage specialization.
- 3. Local Ownership:** Foreign assistance should have the long-term goal of building the capacity of the public sector and local civil society organizations, as well as fostering locally-driven economic development.
- 4. Targeted:** Scarce foreign assistance dollars should be targeted at sustainable poverty reduction and focus resources on the poorest countries and regions to meet internationally agreed upon targets such as the Millennium Development Goals.

We believe these are the basic principles that have the greatest effect on pressing global development issues and that should be used to deliver aid that is in the national interest .

Transparency is a fundamental issue in foreign assistance as it would enable increased scrutiny and make obvious when and where perverse incentives² are operating that limit aid effectiveness.^{xiv} Transparency would also increase mutual accountability by making decisions and information about results more easily accessible to all stakeholders.

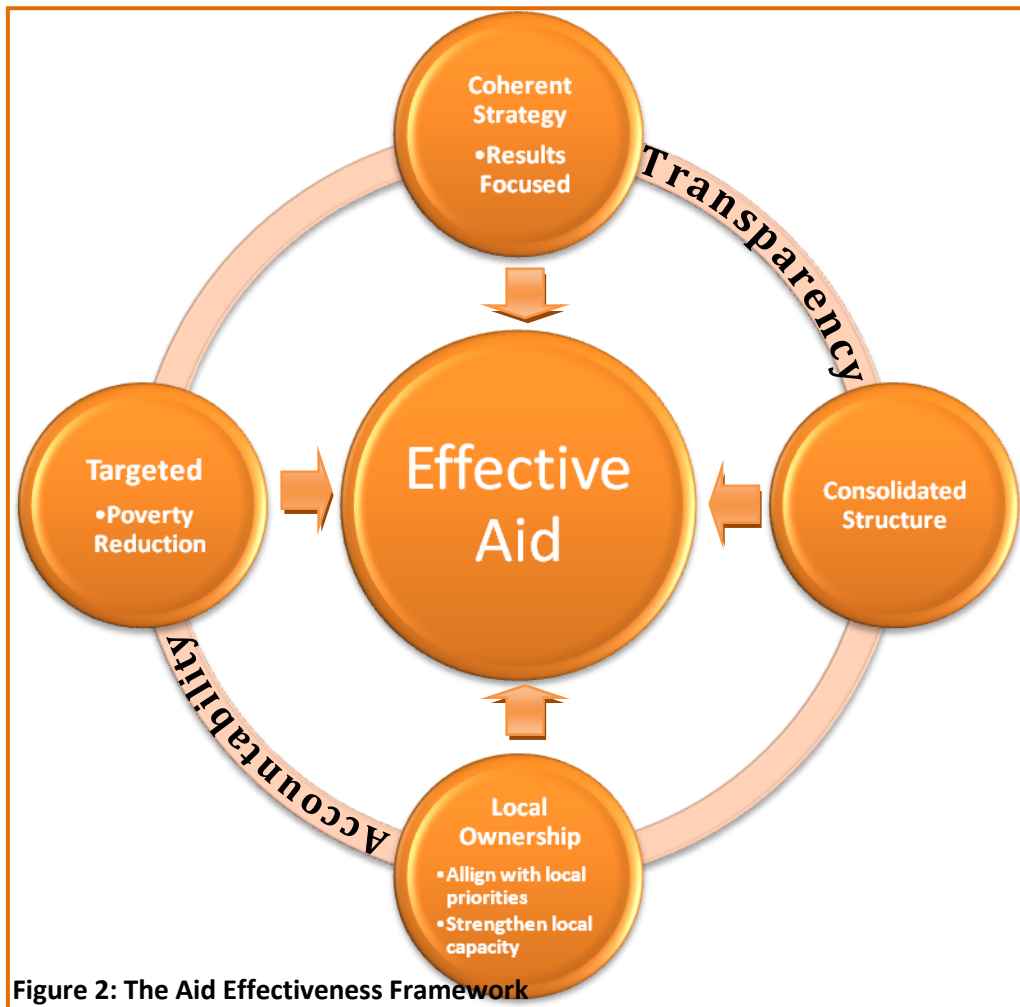
Consolidating U.S. foreign assistance will allow it to better respond to shifting priorities and deliver aid in context-specific environments that change radically across countries and even within areas of countries. Moreover, coordinating foreign assistance better will reduce administrative inefficiencies, making it easier for partner countries to navigate the aid bureaucracy and facilitate coordination with other non-aid policy areas as well as other donors.^{xv}

Local Ownership is a central tenet of working successfully in development programs in the public and nonprofit sectors. Without true local design and buy-in, development projects cannot hope to be sustainable once funding is reduced. In tandem with this, aid must work to build the capacity of local institutions, so that when aid funding is reduced, vital programs and services can continue. On a practical level, channeling aid in ways that promote donor country goods and services undermines local economies and increases the costs of goods and services.^{xvi}

² One of the central paradoxes of development assistance is that beneficiaries of aid money have no power to punish or reward decision makers. Therefore decision makers have few incentives to focus on the needs of beneficiaries and instead focus on other constituents who are able to reward or punish them. Increasing information about policies, budget and results should enable increased scrutiny and make obvious when and where perverse incentives are operating that limit aid effectiveness.

Finally, scarce foreign assistance dollars need to be carefully targeted at countries where they are most needed and at solutions that work. **Targeting** aid will be critical to meeting the Millennium Development Goals, which should form a central part of U.S. foreign aid strategy.^{xvii} Targeting could also encourage recipients to build governance capacity as a prerequisite for aid. This in turn helps the long-term sustainability of aid programs as outlined above.

Global Washington’s principles of aid effectiveness can be used as a framework for understanding how to deliver effective aid, as summarized in Figure 2 below. This diagram shows transparency and accountability as a principle that should run through all U.S. foreign assistance.



3. HOW EFFECTIVE IS U.S. FOREIGN ASSISTANCE?

We use the aid effectiveness framework to analyze U.S. foreign assistance and highlight areas where improvement is needed.

I. How Transparent and Accountable is U.S. Foreign Assistance?

U.S. foreign assistance suffers from a lack of overall transparency and is complicated by a confusing array of agencies, presidential initiatives, legislative earmarks, and government contracting. While certain agencies are well regarded for their transparency, such as USAID, the researchers for this report tried with mixed success to obtain simple budget and program data from other agencies that are far less transparent.^{xviii} One researcher for this paper persevered with calls on the 2009 Budget to the USDA's Foreign Agricultural Service until he spoke to the Director of the FAS, yet was still unable to obtain any budget or program information.

The absence of any strategy to guide foreign assistance is a true impediment to transparency and accountability. Furthermore, The Center for Strategic and International Studies criticizes U.S. transparency and budgeting, arguing that many U.S. cross-agency plans lack effective oversight and funding, as well as metrics for assessment of assistance programs.^{xix} How can we hold people responsible for their performance if we are not sure what they are supposed to be doing?

Additionally, the U.S. aid system, like aid systems around the world, inherently suffers from a paradox that provides perverse incentives: the recipients of public money cannot hold those making policy decisions that affect their lives accountable and policy-makers have little incentive to listen to beneficiaries who are unable to vote.^{xx} While this paradox is common to all aid bureaucracies, it is exacerbated in the U.S. assistance because of the lack of consolidation and coordination (see Section II) that make it difficult to find budget and policy information and bring perverse incentives to light.

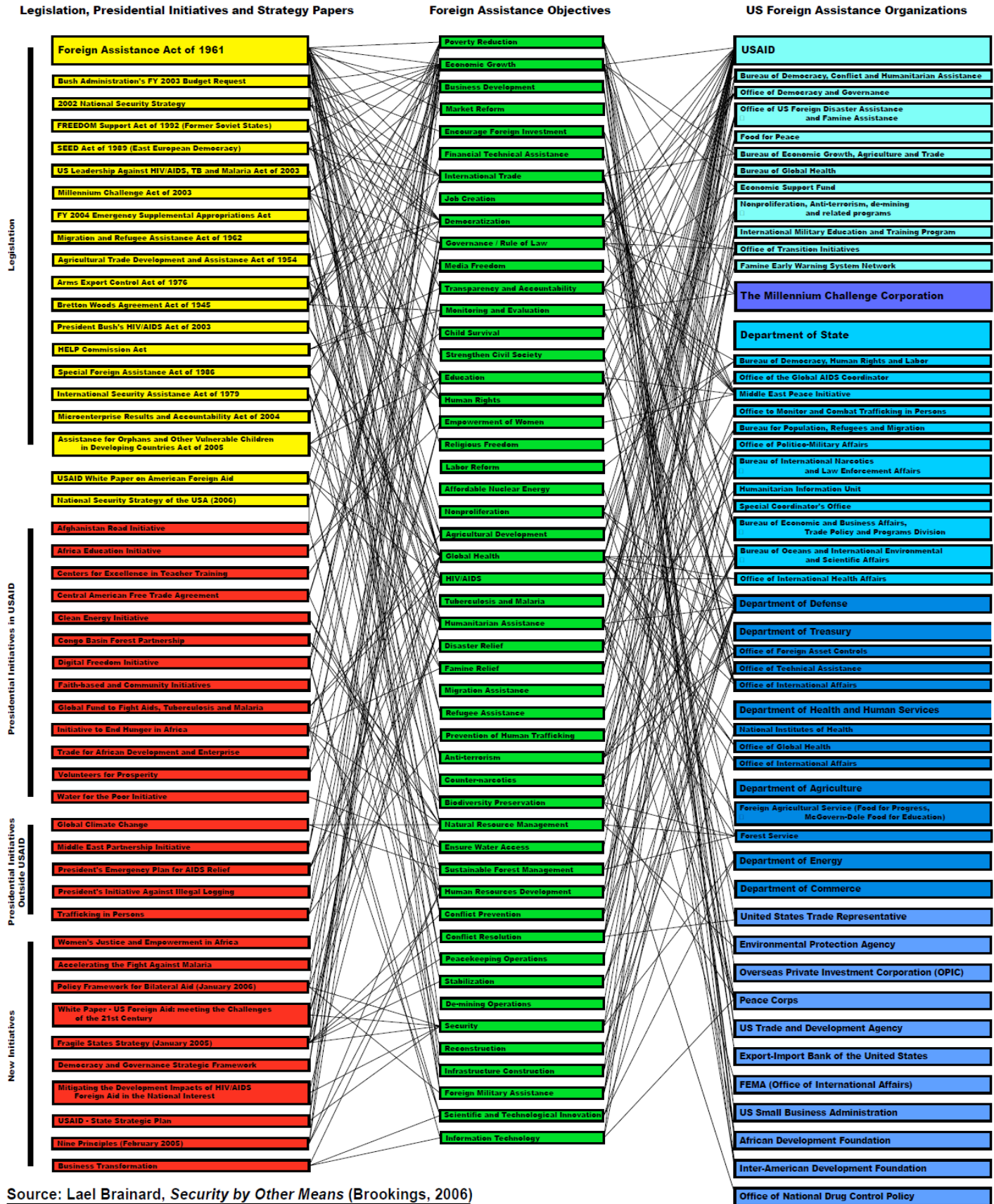
II. How Coordinated is U.S. Foreign Assistance?

There is broad agreement in the NGO, advocacy, and academic communities that U.S. foreign assistance desperately needs better coordination and consolidation. This unity of criticism provides great opportunity for reform of the U.S. foreign assistance system.

The first major issue is legislation. A recent Congressional Research Service (CRS) report shows that coordination between policies, particularly between DoD and State, is inadequate. There is also ambiguity between the State Department and USAID, as well as between the various other 25 departments, agencies and offices that provide some type of aid.^{xxi} This same report concludes that U.S. foreign assistance is "fragmented and cumbersome, and lacking in flexibility, responsiveness, and transparency. Aid policy is considered lacking in focus and coherence".^{xxii}

The Foreign Assistance Act of 1961 identifies 33 major objectives, 75 priorities, and 247 directives for U.S. aid, but it is not the only legislation governing U.S. foreign assistance.^{xxiii} Additional legislation during the intervening 40 years has added 140 more directives and 400 objectives.^{xxiv} This confusing tangle is highlighted in Figure 3:

US Foreign Assistance Legislation, Objectives and Organizations



Source: Lael Brainard, *Security by Other Means* (Brookings, 2006)

Figure 3: The Messy Web of the U.S. Foreign Assistance System

A second major concern is the budgeting process. Foreign assistance is budgeted by sector and account (e.g. Development Assistance) rather than by country or region, which makes it hard to develop coherent and holistic strategies to tackle the most important development issues in a particular country.^{xxv} In total, the \$39.5 billion FY2009 International Affairs Budget request is divided among 75 foreign assistance accounts. Excluding State Department Operations, which includes embassy and consular operations, from the International Affairs Budget, we are left with a snapshot of U.S. foreign assistance operations that are shown in Figure 4 below. There are so many agencies involved and no one has the responsibility or authority for broad foreign aid oversight, so there is little chance for accountability and coordination of U.S. foreign assistance.

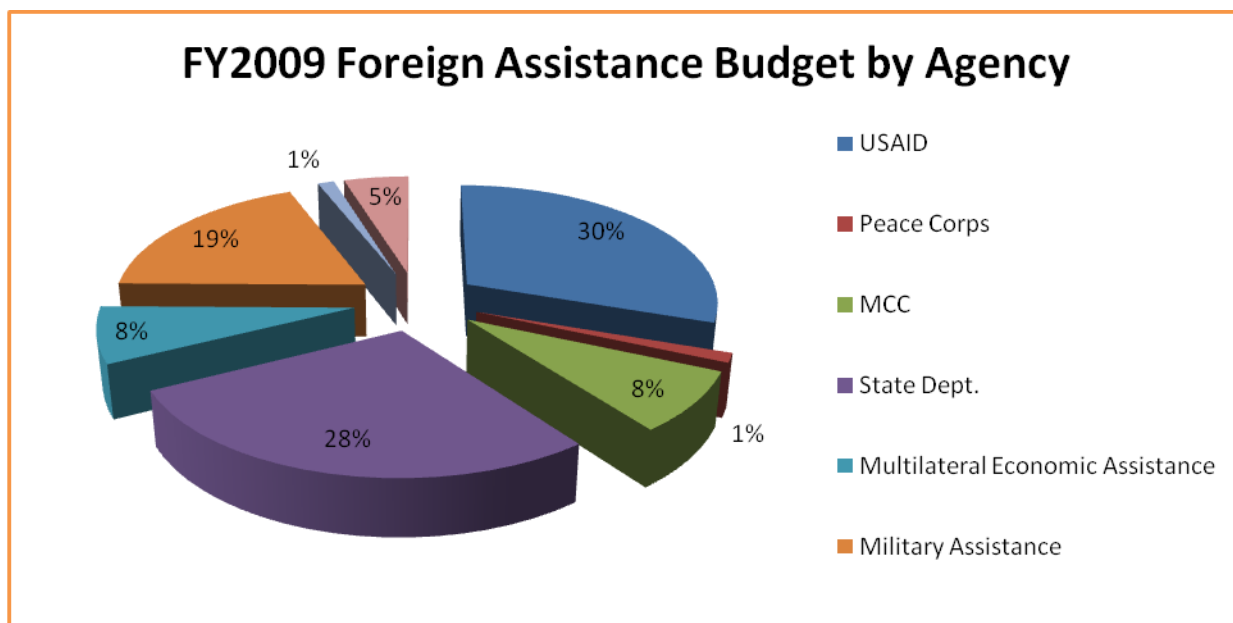


Figure 4: Agency Breakdown of FY 2009 Requested International Affairs Budget Source: State Department^{xxvi}

Moreover, special interests and short-term aid policies are undermining long-term aid strategies that bigger agencies like USAID strive to maintain. Conflating military and development work is an increasing concern to many groups. For example, fuzzy lines between the military and civilian agencies in development work in Afghanistan not only reduce aid effectiveness, but also put future aid workers in jeopardy when they are seen as an extension of foreign military forces. Oxfam is particularly concerned about the increasing role of DoD in development, which serves to take resources away from established civilian agencies and undermine development as a core component of the 3Ds of foreign policy – diplomacy, defense and development.^{xxvii} Figure 5 below shows the dramatic increase in the share of development funding the military has received in the past decade and the corresponding decrease in USAID’s share.

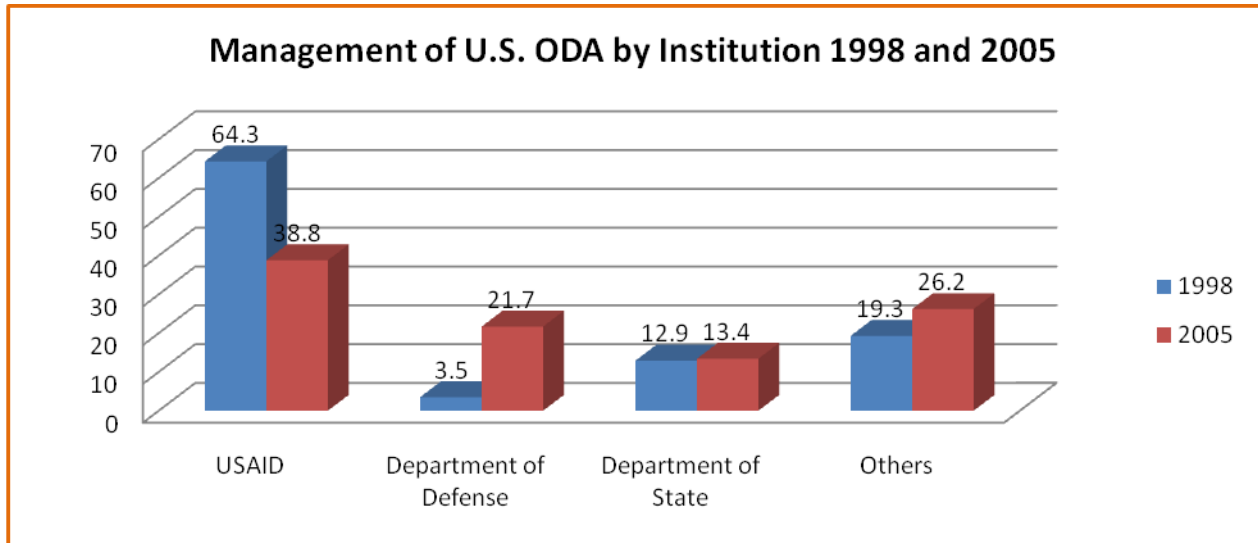


Figure 5: Increases in DoD's role in International Development. Source: OECD^{xxviii}

Additionally, the division of labor between State, DoD, USAID and other agencies is unclear. The DoD oversees military assistance that includes foreign military financing grants, international military education and training, Iraq and Afghanistan security forces funds, and peacekeeping operations, among others. State oversees narcotics control, nonproliferation, anti-terrorism and demining operations, all of which have a significant military component. State also oversees the Global HIV/AIDS Initiative as well as migration and refugee assistance, but USAID oversees child survival and health, with clear overlap with the HIV/AIDS work at State, as well as international disaster & famine assistance, which relates to migration and refugee assistance under State's purview.

Finally, the lack of coordination between aid and non-aid policy areas, caused in part by the lack of oversight of U.S. foreign assistance, hinders effective aid delivery. Creating trade or agricultural policies that harm the poorest countries is like giving with one hand and taking away with the other. Many NGOs, including Oxfam, point out that the U.S. Farm Bill and policies on agricultural and textile trade are undermining the ability of least developed countries to lift themselves out of poverty.^{xxix}

III. Does U.S. Foreign Assistance Emphasize Local Ownership?

Noted development expert Lael Brainard argues that the U.S. aid infrastructure is outdated and based on Cold War thinking, which de-emphasizes the importance of aid based on local ownership. She also critiques U.S. foreign assistance for not investing enough in civilian capabilities and local ownership.^{xxx} Similarly, InterAction, a large development advocacy group, asserts that U.S. foreign assistance is fragmented and "badly broken". It criticizes the lack of focus on promoting self-sufficiency through building "local capacity". Similarly, CRS reports that there is a "lack of a strategy to guide programs that responds holistically to recipient country needs and U.S. priorities".^{xxxi}

Another way to assess how serious the U.S. is about promoting local ownership is to look at aid channels. Aid experts such as Steve Radelet of the Center for Global Development argue that technical assistance, food aid in the guise of food exports and tied aid limit the amount of local ownership because they pre-determine where money should be spent.^{xxxii}

Certain types of technical assistance are seen as ineffective aid channels since they are expensive and channel money to donor country consultants rather than boosting the local economy.^{xxxiii} Some

technical assistance is necessary—such assistance can be used to help facilitate and monitor the dispersion of aid to avoid waste or fraud. But all too often, technical assistance involves flying over high-priced consultants to work on complex or unnecessary development projects.^{xxxiv} Secretary Clinton recently testified that “50 cents on the dollar never get into the pipeline to be delivered” because of the waste associated with using contractors.^{xxxv}

Unfortunately, food aid often benefits farmers in America far more than the poor in developing nations. Food aid is often given in-kind—surplus agricultural commodities are freighted overseas by U.S. shipping companies to developing countries. While such aid is appropriate in certain humanitarian situations, such food aid is expensive and can undermine local agricultural systems. The GAO estimates that U.S. food aid is more expensive than World Food Program locally-procured food aid by an average of 25%.^{xxxvi}

Finally, in the words of aid expert Steve Radelet, tied aid—aid that is earmarked to particular procurement requirements - “severely cripples the ability of agencies to effectively allocate funds to the highest priority areas”.^{xxxvii} As Figure 6 below shows, the U.S. gives far more aid through ineffective channels than the rest of the world.^{xxxviii}

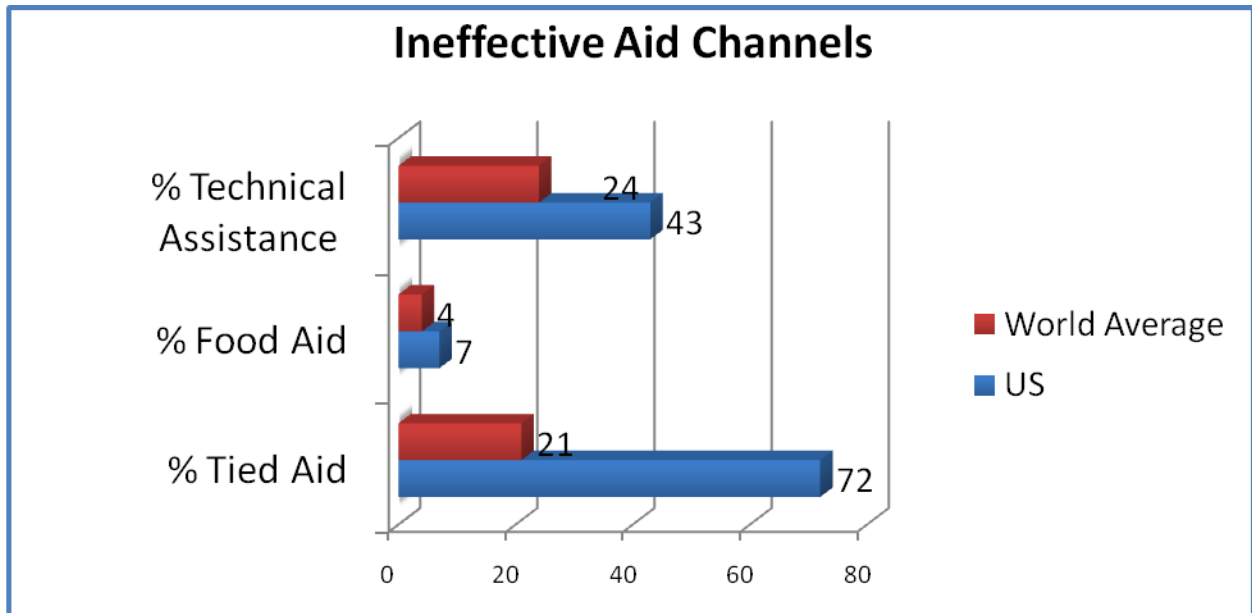


Figure 6: The U.S. Leads the World as a User of Ineffective Aid Channels. Source: Easterly 2008³

IV. Where is U.S. Foreign Assistance Targeted?

Many NGOs and other observers have criticized the U.S. for focusing on short-term assistance goals as opposed to long-term goals. A CRS report on foreign assistance concludes that U.S. policies are not always about alleviating poverty. Rather they are about furthering U.S. interests, which may overlap with poverty alleviation but also may be unrelated.^{xxxix} For example, RESULTS asserts that little money is

³ It should be noted that there is considerable confusion over the precise figures for tied aid. The CRS reports the figure for 2007 as 32%, and the Center for Global Development reports the figure for 2008 as 47%. In all studies, the U.S. has the worst figures for tied aid globally. This confusion shows how difficult it is to get reliable data on foreign aid.

targeted at the poorest countries (about one quarter of the time) and when it is ostensibly directed to poverty reduction efforts (about half the time) “politicization distorts country allocation”. Thus “the FY09 budget request proposed spending \$20 per child death in Ethiopia, the second most populous country in Africa, and nearly \$3,500 per child death in Jordan”.^{xl}

Overall, of the \$18.5 billion that flowed through bilateral channels in 2006-2007 (or 87% of the total), only 34% went to the 62 Least Developed Countries (LDCs) and other low income countries whose citizens live, on average, on \$975 per person per year. On the other hand 39% of the assistance went to the 47 countries whose citizens live on an average of \$976–3,855 per year, as illustrated by Figure 7.

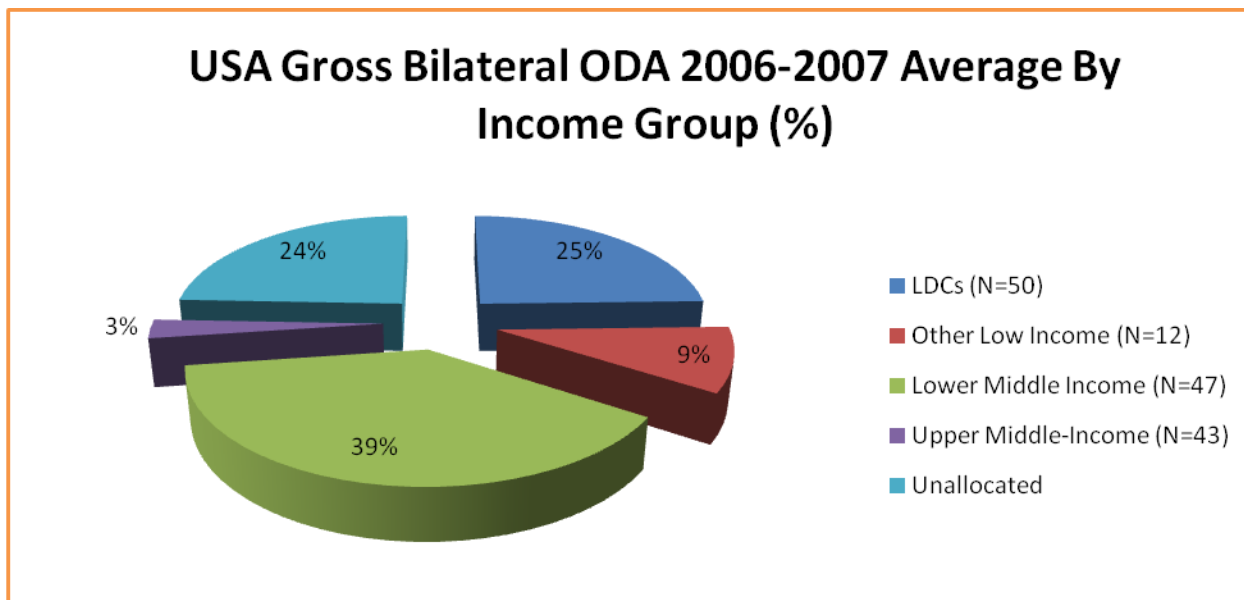


Figure 7: U.S. Bilateral Aid Recipients by Income Group⁴. Source: OECD^{xli}

How does this compare with other countries? Figure 8 below shows that the U.S is the only country out of the sample that gives under 40% of its ODA to LDCs and other low income countries. The chart also breaks down the regions by percentage of population of recipient countries. The LDCs and low income countries make up 25% of the population of recipient countries overall, so perhaps it seems generous that they receive 34% of U.S. ODA. On the other hand, the OECD and other donor countries recommend targeting scarce dollars at the poorest countries of the world to have the most impact.^{xliii} As an example of this targeting, we can see that Norway gives close to 90% of its ODA to the poorest countries in the world.

⁴ Least Developed Countries are defined as low income countries with a specific set of social and economic challenges as determined by the UN, Low Income Countries are defined as those with a GNI per capita of less than \$975, Lower Middle Income, \$976–3,855; upper middle income, \$3,856–11,905; and high income, \$11,906 or more.

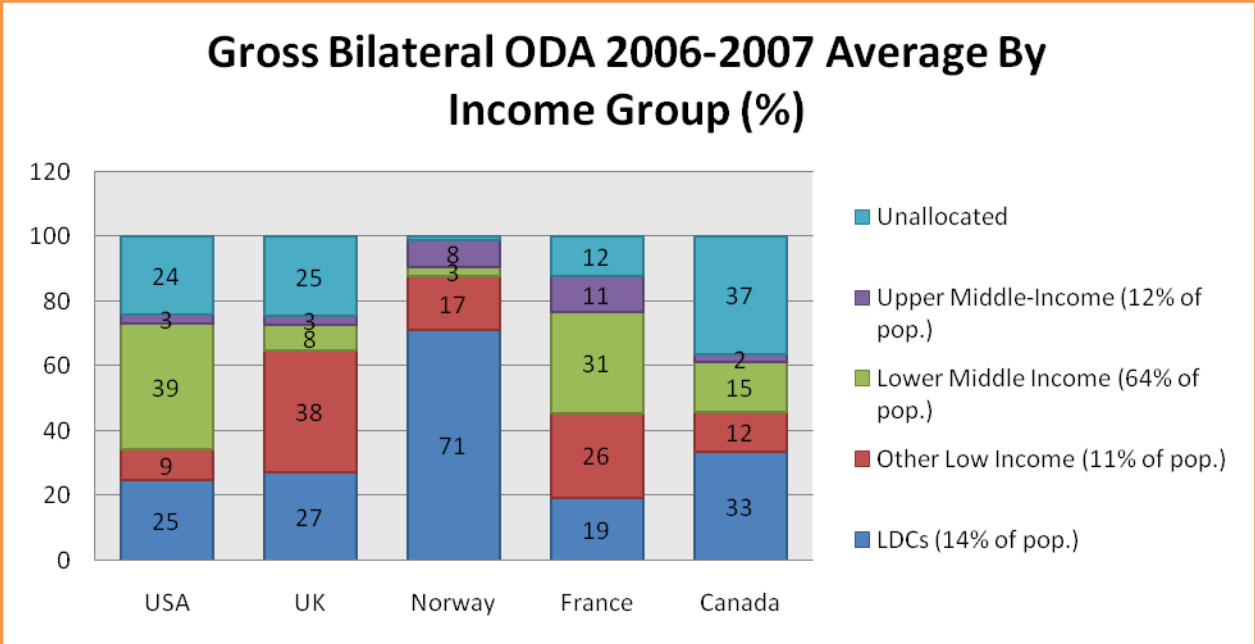


Figure 8: Gross Bilateral ODA 2006-2007 Average By Income Group Source: OECD^{xliii}, population figures from 2009 CIA World Fact Book estimates

To break down the U.S. numbers further using World Bank per capita income data, in 2007 only 1 of the top 20 poorest countries in the world is a top 20 recipient of U.S. economic aid per capita, and only 4 of the top 20 poorest countries are in the top 40 recipients of U.S. economic aid per capita.^{xliiv} The bulk of U.S. ODA goes to strategic allies with relatively high per capita incomes, which in 2007 included El Salvador, Jordan and Palau, as the table in Appendix B shows. Only Liberia, with \$64 in per capita economic assistance in 2007, is both one of the world’s poorest countries and one of the top 10 recipients of U.S. economic aid per capita.

Conclusion

U.S. foreign assistance is fragmented, incoherent and lacks transparency compared to other aid systems around the world. Furthermore, compared with other donors, scarce aid dollars are not targeted at the most pressing issues in the neediest countries. Shockingly, aid continues to be delivered in ways that are widely acknowledged to be ineffective. There are many recommendations for reform that enjoy support among the nonprofit and advocacy community and which build on America’s strong commitment to foreign assistance. If implemented, these recommendations would ensure that the U.S. is able to deliver effective aid in the national interest.

4. A CHANGE ON THE HORIZON: RECOMMENDATIONS FOR REFORM

Major reform is required if the U.S. is serious about employing development as a third pillar of foreign policy and addressing critical issues of poverty that threaten our collective security and prosperity. We developed the recommendations in this section using the aid effectiveness framework and the significant work done on reform options by groups such as RESULTS, InterAction, the Center for U.S. Global Engagement and the HELP Commission.

I. Recommendations to Increase Transparency & Accountability

Create a unified foreign assistance strategy, similar to the National Security Strategy: Oxfam International, RESULTS and Bread for the World, among others, are calling for the President to develop a coherent national global development strategy with clear goals.^{xlv} This strategy will increase transparency by clarifying the goals of foreign assistance and could include explicit strategies to increase coordination, make aid results-focused and create an elevated oversight position (see below).

Make information easily available in the mold of [recovery.gov](http://www.recovery.gov): All information about U.S. foreign assistance policies and budgets should be made easily available to the public, so that U.S. taxpayers and beneficiaries can hold U.S. decision makers accountable. www.recovery.gov offers an example of an accessible system to monitor government spending.

COUNTRY HIGHLIGHT: The U.K. Department for International Development (DfID) has created a body, called the Independent Advisory Committee on Development Impact (IACDI) that is responsible for checking the effectiveness of all aid programs. This helps make sure money isn't wasted and oversees whether relevant standards are used in aid distribution.

Program-based approaches, as well as mutual assessment and accountability efforts, help strengthen accountability: The OECD's *Paris Declaration* sets targets for improving the rate of program approaches as well as joint program assessment and accountability activities. The Accra Agenda for Action (AAA) further specifies that mutual accountability means donor countries must work harder to disclose volume, allocation,

and results of aid efforts to help assist recipient states, as well as use recipient country systems for conducting mutual accountability reviews from 2010.^{xlvi} The U.S. should continue to work with partners to develop the capacity to monitor and evaluate aid as well as create independent agencies that can monitor the development impact of U.S. foreign assistance.

II. Recommendations to Increase Coordination

Create an elevated, possibly cabinet-level-Department of Foreign Aid: Elevating aid by creating a cabinet level agency could make aid a genuine third pillar of U.S. foreign policy, as conceived by President's Bush National Security Strategy of 2002. Reports by Lael Brainard^{xlvi}, the Center for Security and International Studies^{xlvi}, the Center for Global Development^{xlix}, HELP^l, InterAction^{li}, and Oxfam America^{lii} advocate creating a cabinet-level position.

COUNTRY HIGHLIGHT: Many donor countries, including Canada, Germany, Japan, Norway, and the U.K., have a ministry or a government department solely devoted to foreign aid, along with clear and concise national aid strategies that encompass developing country policies. A single, unified ministry provides better communication channels and less fragmentation between agencies as well as increased accountability.

We recommend creating this department as opposed to simply strengthening the Bureau of Foreign Assistance. The Bureau of Foreign Assistance (F), formed in 2006, was created in order to coordinate aid flows. However, the Bureau, led by the Director of Foreign Assistance (DFA) only oversees roughly half of U.S. aid flows.^{liii} The F Process has been slow to bring about change, and currently the DFA position remains unfilled. Additionally, further incorporating U.S. foreign assistance into the State Department does little to diminish the influence of short-term political goals on development strategies.

Reform the structure and agencies that deliver foreign aid by writing comprehensive foreign aid legislation: A full rewrite of the Foreign Assistance Act that clarifies the role of various government agencies and branches, and reforms America’s aid priorities is essential to improving aid coordination and alignment. The Center for Global Development lays much of the blame for the bureaucratic tangle of America’s foreign aid work on the FAA saying that without a rewrite, no serious gains in aid effectiveness can occur, since aid bureaucracies will continue to provide funds to conflicting and outdated directives.^{liv} Rewriting the FAA will also be critical to incorporating the recommendations to improve targeting and local ownership below.

Develop partnerships with multilateral organizations and increase input from recipient countries to offer a path to more coordinated aid: The U.S. is currently working with a variety of multilateral institutions, yet the amount of U.S. foreign assistance allocated to multilateral organizations averages a little less than 8% annually since 2000.^{lv} A stronger partnership with multilateral organizations can reduce program duplication and overhead costs for recipient countries by leveraging the specialized nature of some of these agencies, such as the Global Fund.

Ensure coordination between aid and non-aid policies: An elevated oversight position for the director of U.S. foreign assistance would enable aid policies to interact with other policy areas at a high level, making sure that trade, agriculture and industrial policies complement rather than hinder aid programs.

COUNTRY HIGHLIGHT: The UK has created a trade policy unit with members from DfID and the Department for Business Innovation and Skills, the equivalent of the U.S. Department of Commerce. This unit works to develop trade deals that are beneficial to both the UK and to poorer countries.

III. Recommendations to Increase Local Ownership

Collaborate with local countries in the design of aid packages and build the capacity of local country systems to deliver programs and services: According to InterAction^{lvi}, sustainable development requires needs-based aid, as well as building on local capacity in order to promote local self-sufficiency. U.S. foreign assistance should work with and build the capacity of local institutions. Public education and public health programs, for instance, should build strong country systems to deliver these public goods to their citizens. Economic development projects should foster locally-driven economic development and strengthen local economies. Also important to building institutional capacity is providing long-term aid, as opposed to annually fluctuating aid that is driven by short-term political priorities.^{lvii}

COUNTRY HIGHLIGHT: Large donors such as Denmark, Japan, and Spain have all made large strides in increasing aid flows through public fiscal management and procurement systems in their recipient states.

The U.S. should realize its Paris Declaration obligations through the increased use of recipient fiscal management or procurement systems: The *Paris Declaration* sets targets for a reduction of aid that **does not** use the fiscal management or procurement systems of partner states for public sector aid.^{lviii} It states further that donors will immediately create and implement internal plans towards “using [recipient] country systems in all forms of development assistance” to meet the Paris targets.^{lix} The U.S. should work to meet both *Paris Declaration* targets and help to strengthen recipient country systems.^{lx}

The U.S. must reduce the use of ineffective aid channels, including tied aid, food aid and certain forms of technical assistance: As of 2008, 88% of aid from OECD donors was untied, up from 75% in 2005.^{lxi} Although some large donors, such as the United Kingdom, have successfully untied 100% of their aid, the United States continues to lag behind much of the world.^{lxii}

COUNTRY HIGHLIGHT: The UK’s *International Development Act 2002* makes tied aid illegal.

IV. Recommendations to Improve Targeting At Poor Countries

Focus on specific problems in the poorest regions while carefully monitoring results: The U.S. should reduce the number of recipient countries and focus on the least-developed countries and regions that need the aid most. By targeting a few specific goals and narrowing in on the demands of certain countries or regions, aid could be more specialized and overhead costs would be reduced.^{lxiii} The U.S. ought to focus not on the amount of aid given, but on achieving the intended *outcomes* of the aid money. And the best way to see those outcomes is to focus more intensely on monitoring fewer programs, so lessons can be learned, and if necessary, adjustments made.

Build strategy and capacity to tackle modern problems: The developing world will likely be hit hard by climate change, compounding the challenges of development. Senator John Kerry, who has been a leader in the Senate on foreign aid reform, accurately sums up the challenge in the developing world. “The most dire impacts of climate change will likely be felt by those who did the least to bring it about and who are least capable of managing its impacts.”^{lxiv} The UN Framework Convention on Climate Change estimates that between 28 and 67 billion dollars annually will be needed in the developing world to help nations adapt to climate change.^{lxv} Aid helping poor countries prepare for and mitigate climate change, above and beyond current development aid flows, should be authorized.

COUNTRY HIGHLIGHT: Most countries give more as a percentage of GDP than the U.S. The Netherlands gives 0.8% and Norway is striving to give 1%. The U.S lags, with just 0.18% of GDP dedicated to ODA.

The U.S should increase its aid budget in line with other donors and ensure civilian agencies lead aid efforts: The U.S lags far behind other donors with just 0.18% of GDP dedicated to ODA.^{lxvi} The U.S. could increase the amount of aid while enhancing the resources of civilian agencies that can better decide how to allocate long-term aid, an idea agreed upon by

14 advocacy and non-profit groups surveyed in a recent CRS report.^{lxvii} Many civilian agencies need additional funding to build capacity and prevent further outsourcing of aid to the private sector (where the government has less control over aid delivery) or to agencies which may not be as equipped to handle development aid, such as the Department of Defense.

5. AN ACTION PLAN FOR GLOBAL WASHINGTON

Reform efforts should focus initially on transparency/accountability and coherence because it is an accepted principle of public office. There are two bills that will be introduced to the House over the next 3-6 months that might warrant significant support depending on the results of further policy analysis that should be undertaken by Global Washington.

- **The *Initiating Foreign Assistance Reform Act (H.R. 2139)***, sponsored by Congressman Howard Berman, would require a national development strategy to be implemented, defining America's role in global development and setting objectives for reducing poverty and improving economic growth in developing countries. It also requires the President to develop effective mechanisms for monitoring aid effectiveness and improves transparency by requiring extensive information about U.S. aid flows to be published, ensuring that both the taxpayers and recipient nations have access.
- **The *Global Poverty Act (H.R.2639)***, sponsored by Congressman Adam Smith, similarly mandates a national development strategy and specifically includes the Millennium Development Goals as official U.S. policy.

Following the successful passage of one of these bills, Global Washington can work to influence the mandated national global development strategy so that it:

- Includes a commitment to the Millennium Development Goals.
- Develops strategies to tackle contemporary development challenges, including climate change.
- Includes concrete attempts to reorganize U.S. foreign assistance by creating a single oversight position for foreign assistance and possibly a consolidated department of foreign assistance.

Subsequently, reform efforts should focus on re-writing the Foreign Assistance Act, which could begin in 2010. Specifically, the new FAA should:

- Articulate the principles that drive U.S foreign assistance and its overarching goals.
- Target U.S foreign assistance at the poorest countries and regions of the world and at the most pressing obstacles to global development.
- Reduce or ban tied aid, food aid and some forms of technical assistance and focus on effective aid channels that can include increased multilateral commitments and promoting partnerships between the public, private and voluntary sectors.
- Clearly articulate strategies to enhance local ownership, including meeting previously made commitments to the OECD under the Paris Declaration and AAA.

Comprehensive reform of U.S. foreign assistance will be difficult for two reasons. First, the dispersed nature of the beneficiaries of aid who cannot vote makes it hard to build powerful support for change. Second, the organizations and companies that stand to lose out from reallocation of aid dollars are highly concentrated in Washington D.C. and could provide significant opposition to reform.

Nonetheless, Global Washington believes that there is a unique opportunity to seize the momentum for reform and create a U.S. foreign assistance system that meets the national interest to deliver effective 21st century aid. As Global Washington's policy work moves forward, it should focus on an in-depth analysis of the two bills that will begin the reform process. Subsequently, Global Washington should develop strategies to include the voices of the global development sector in the State of Washington to shape the President's national development strategy as well as mobilize support for a rewrite of the FAA.

APPENDIX A: U.S. INTERNATIONAL AFFAIRS BUDGET 2009

Account	Amount in Millions 2009 Request
	1,578
USAID	1,639
USAID Child and Survival health Programs	3,154
USAID Development Assistance	1,946
USAID Economic Support Fund	344
Other USAID	2,225
Other Bi-Lateral Agencies	4,779
Peace Corps	1,202
MCC	407
State Department ODA	1,308
Global HIV/AIDS Initiative (GHAI)	2,071
International Narcotics Control and Law Enforcement (INCLE)	5,150
Andean Counterdrug Program (ACP)	338
Other State	1,326
Multilateral Economic Assistance	3,026
Other Foreign Assistance Programs	8,197
Military Assistance	699
Other Foreign Operations (includes export assistance)	108
USDA (PL 480 Title II and McGovern Dole)	39,498
Other International Affairs (non-ODA)	
Department of State Contribution to International Organizations	3,026
Department of State Operations	8,197
Broadcasting Board of Directors	699
Other Programs	108
Total International Affairs	39,498

Table 2: FY 2009 International Affairs Budget Accounts Breakdown Source: State Department^{lxviii}

APPENDIX B: TOP RECIPIENTS OF U.S ECONOMIC ASSISTANCE AND THE POOREST COUNTRIES OF THE WORLD (2007)

Table 3: Top U.S. recipients of Economic Assistance per capita 2007 Source: USAID and World Bank

Countries in purple denote U.S. strategic allies in 2007

Country	US Economic Assistance per capita \$ 2007	GDP/ Capita 2007
Palau	1,311.38	8,270
Marshall Islands	778.51	3,240
Botswana	111.09	6120
El Salvador	72.52	2850
Liberia	63.89	140
Jordan	57.74	2840
Lebanon	52.02	5800
Mali	44.61	500
Namibia	42.82	3450
Guyana	40.97	1250

Country	GPP/Capita 2007	U.S Economic Assistance per Capita 2007
Burundi	110	4.53
Liberia	140	63.89
Congo, Dem. Rep.	140	2.3
Guinea-Bissau	200	4.24
Ethiopia	220	5.85
Malawi	250	7.84
Sierra Leone	260	2.88
Eritrea	270	0.54
Niger	280	2.7
Rwanda	320	12.02
Burundi	110	4.53

TABLE 4: POOREST COUNTRIES IN THE WORLD AND U.S. ECONOMIC ASSISTANCE PER CAPITA 2007 SOURCE: USAID AND WORLD BANK

GLOSSARY

Accra Agenda for Action (AAA): A 2008 follow-up accord to the Paris Declaration stipulating the shortcomings in current aid practices and encouraging donors to more aggressively move towards reforms.

Economic Support Fund (ESF): A USAID-administered effort providing roughly \$3-4 billion annually in financial assistance to allies around the world, helping to strengthen government- and market-based institutions and facilitate future economic growth. Most ESF funding is targeted in the Middle East and South Asia, including some reconstruction projects in Iraq and Afghanistan.

F Process: A series of reforms started in 2006 to help coordinate and consolidate America's burgeoning aid bureaucracy, placing USAID under more direct control of the State Department.

Food aid: Aid given in-kind by the U.S. to developing countries which competes with local agriculture. Includes food provided after humanitarian disasters.

Foreign aid: Referred to in this paper as monies given as ODA. This is different to Foreign Assistance (see below).

Foreign assistance: Roughly \$50 billion per year and covered under the International Affairs Budget, it includes bilateral economic assistance, multilateral economic assistance, humanitarian assistance, military assistance, and law enforcement assistance. Although not all foreign assistance is ODA, all ODA is foreign assistance.

Foreign Assistance Act (FAA): The 1961 piece of legislation that created USAID and currently governs America's foreign aid system.

Initiating Foreign Assistance Reform Act (H.R. 2139): A 2009 bill sponsored by Congressman Howard Berman requiring the president to create a new national strategy for global development and improve monitoring of current foreign aid flows.

International Affairs Budget: The U.S. budget that covers foreign assistance as defined above that includes ODA, foreign military financing and embassy and other State Department functions.

Millennium Challenge Corporation (MCC): A U.S. government program started in 2004 to award long-term grants to selected developing countries which meet certain criteria for governance, economic freedom, and social well-being.

Multilateral Aid: Aid flows funneled through multilateral organizations such as the IMF or the World Bank. Individual donors do not directly manage multilateral aid.

Non-Governmental Organizations (NGOs): Groups outside of government working to influence the policy debate and/or working on the ground to deliver aid and administer programs.

Official Development Assistance (ODA): The official foreign aid flows as defined by the OECD as follows: "those flows to developing countries and multilateral institutions provided by official agencies, including state and local governments, or by their executive agencies, each transaction of which meets the following tests: i) it is administered with the promotion of the economic development and welfare of developing countries as its main objective; and ii) it is concessional in character and conveys a grant element of at least 25 per cent". Excludes most military and security aid.

Paris Declaration on Aid Effectiveness: A 2005 agreement to improve aid effectiveness by creating indicators of effective aid and measuring donor progress. The U.S. is a signatory to the Paris Declaration.

President's Emergency Plan for AIDS Relief (PEPFAR): A U.S. effort launched in 2003 to help the developing world cope with the HIV/AIDS epidemic. Will receive \$48 billion between 2008 and 2013.

Technical assistance: Consultants or advisors from the United States sent to states receiving aid to work on training, capacity building, or program management. Also includes costs for residents of aid recipient states to receive training abroad.

Tied aid: Aid with strings attached that require developing nations to use goods and services from U.S. companies.

LIST OF ABBREVIATIONS

AAA: Accra Agenda for Action

CRS: Congressional Research Service

DFA: Director of Foreign Assistance

DFID: Department For International Development (U.K.)

DoD: U.S. Department of Defense

FAA: Foreign Assistance Act of 1961

GDP: Gross Domestic Product

IMF: International Monetary Fund

MCC: Millennium Challenge Corporation

NGOs: Non-Governmental Organizations

ODA: Official Development Assistance

OECD: Organisation for Economic Co-operation and Development

PEPFAR: President's Emergency Plan For AIDS Relief

UN: United Nations

USAID: United States Agency for International Development

USDA: United States Department of Agriculture

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