



Modernizing Foreign Assistance in
Turbulent Times:
Recommendations
for a **New**
Administration

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Upon taking office, the Biden administration will confront a world reeling from the devastating health, humanitarian, and economic impacts of COVID-19. Significant development gains made during recent decades will have been eroded by the pandemic and substantial investment will be required to make up lost ground. These challenges will be compounded by longer-term risks to global prosperity and security, such as increasing great power competition; climate change; future pandemics; forced migration and refugee crises; the erosion of democratic governance; and the increasing concentration of the world's poor in fragile states.

Both diplomacy and foreign assistance will be essential to meet these challenges. As the administration seeks to strengthen America's standing in the world, few actions will send a stronger signal than committing significant new resources to the global COVID-19 recovery effort. Likewise, the best way to counter the influence of China's growing global development footprint will be to provide an appealing alternative: robust levels of foreign assistance with a commitment to transparency and country ownership, with an emphasis on gender, social equality, and civil society strengthening. Furthermore, one of the most effective ways to mitigate the global impacts of climate change and other future shocks will be to make long-term investments in the institutional capacity of developing countries.

America's foreign assistance agencies are uniquely suited to meet these challenges. A bipartisan record of foreign aid reform spanning the past two decades has contributed to preserving the United States' international leadership and enhanced our own prosperity, and the current moment calls for renewed attention, reform, and investment to maximize the potential of our foreign assistance. This paper offers recommendations for actions that strengthen the effectiveness of U.S. foreign assistance. It begins with a focus on cross-cutting actions that the administration should take early on, followed by specific recommendations for the U.S. Agency for International Development (USAID) and the Development Finance Corporation (DFC).

EARLY ACTIONS

ELEVATION OF DEVELOPMENT

Development can and should be a central element of foreign policy and, in particular, an integral component of the U.S. strategy to respond to the global COVID-19 pandemic and the rising influence of China in the developing world. This will require giving development a seat at the national security table; in prior administrations, the unique development perspective, most clearly embodied in the USAID Administrator, has not been consistently integrated into high-level national security discussions.

Recommendation:

- Include the USAID Administrator in the National Security Council.

LEADERSHIP

Effective political leadership of development agencies is critical to give career staff clear direction; in its absence, decisions go unmade and progress stagnates. Unfortunately, in prior administrations, foreign assistance agencies have gone several months without Senate-confirmed leadership. Likewise, a strong development voice at the White House is necessary to ensure effective coordination between the agencies and, when necessary, resolve inter-agency disputes.

Recommendations:

- Quickly nominate a complete development team to lead the U.S. Agency for International Development (USAID), the Millennium Challenge Corporation (MCC), and the Development Finance Corporation (DFC), along with the President's Emergency Plan for AIDS Relief (PEPFAR).
- Appoint a National Security Council Senior Director for Development and Humanitarian Affairs.

STRATEGY

Maximizing the impact of international development, especially at a time of global fragility and dislocation caused by the pandemic, requires a clear and shared vision of the purpose of foreign assistance and the role of each agency.

Recommendation:

- Produce a U.S. Global Development Strategy that, at a minimum, articulates the short-term and long-term goals of U.S. foreign assistance and describes the role of each agency in fulfilling those goals.

GLOBAL ENGAGEMENT

During the Trump administration, the United States withdrew from multiple international agreements and walked back its commitment to the Sustainable Development Goals (SDGs). This undermined U.S. global leadership. It also had significant implications for the effectiveness of U.S. foreign assistance because it inhibited donor coordination and weakened U.S. alignment with partner countries' own development plans.

Recommendations:

- Restore U.S. participation in multilateral development frameworks, including the SDGs and the Paris Agreement. Within the first 30 days, publicly signal the United States' re-commitment to the SDGs and cancel the United States' withdrawal from the World Health Organization.
- Work to renew and revitalize the global aid effectiveness agenda in the context of a changed landscape.

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)

For two decades, a bipartisan effort to strengthen USAID led to significant progress in the areas of evidence-based programming; monitoring and evaluation; partnerships with local organizations; transparency; and efficiency, all of which advanced the effectiveness of foreign assistance. This progress continued into the Trump administration. Under the leadership of Ambassador Mark Green, extensive consultations with career staff and non-governmental stakeholders led to “Transformation,” a re-organization of the agency that garnered bipartisan support on Capitol Hill and that, when completed, promises to help the agency operate more efficiently and effectively. Ambassador Green also created a new strategic framework for USAID, “the Journey to Self-Reliance” (J2SR) which, in alignment with the Sustainable Development Goals, focused USAID’s development programming on increasing countries’ ability to plan, implement, and finance their own development outcomes. The following recommendations focus on key areas for action that are meant to enhance the agency’s operational efficiency and ability to deliver quality and impactful programming

WORKFORCE

USAID’s workforce is the foundation of the agency’s success and its ability to operate effectively in a changing world. The need for an overhaul of the workforce model became more evident after the 2017-2018 hiring freeze, when the agency struggled to re-hire to pre-freeze levels. While some progress was made in 2019 and 2020, several additional steps are needed to increase the capacity and effectiveness of the workforce. In the past year, the COVID-19 pandemic, and the worldwide travel restrictions it precipitated, highlighted both the importance of the Foreign Service National staff and the current limitations in how they can be deployed for maximum aid effectiveness.

Recommendations:

- Increase use of flexible hiring mechanisms such as Foreign Service Limited.
- Increase staffing levels to enable more training and professional development.
- Prioritize hiring and training Agreement Officers (AOs) and Contracting Officers (COs), who have an outsized impact on USAID’s programs.
- Increase the number and elevate the role of Foreign Service Nationals (USAID overseas staff hired locally).
- Enhance diversity, equity, and inclusion at all levels of seniority.

ORGANIZATIONAL STRUCTURE

The USAID re-organization process known as “Transformation” yielded many important reforms to the agency’s structure, policies, and processes. It was substantially driven by career USAID staff and included significant consultation with the development community, resulting in, among other advances, a more streamlined Front Office and Bureau structure. As of this writing, Transformation is still incomplete—in particular, the proposed Bureau of Policy, Resources, and Performance (PRP), which would reunify the agency’s planning and budget functions, has not yet been cleared by several relevant congressional committees.

Recommendations:

- Focus on completing and implementing the “Transformation” process, rather than initiating any major new re-organization.
- Prioritize clearing the PRP bureau with relevant congressional committees.

BUDGET

Proposed budget cuts and limited appropriations are not the only budget challenges that U.S. foreign assistance has faced in recent years. The foreign aid budget process itself has become dysfunctional, with the greatest impact felt at USAID. The State Department’s Office of Foreign Assistance (F) was created to coordinate foreign assistance but has taken on a more operational role with respect to USAID foreign assistance programs; this has unnecessarily complicated the budget process and led to significant delays in obligations. Micro-management from the Office of Management and Budget has further compounded the problem. Additionally, delays have been made worse by the cumbersome administration-congressional consultations on funding allocations, known as the “653(a) process,” as well as the growing number of sector and country requirements in appropriations bills, which have made it nearly impossible for foreign assistance programs to accurately reflect local needs.

Recommendations:

- Improve the efficiency of the foreign aid process, including by delegating greater budget authority to USAID.
- Use pilot programs and existing authorities to demonstrate the potential of a more flexible and adaptive model of foreign assistance.

COUNTRY OWNERSHIP

Country ownership has long been a pillar of effective foreign assistance. If development initiatives are to be sustainable and successful, partner countries, including the government, private sector, and civil society, must have a clear stake. This means that local entities should play a role in shaping development programs and, where possible and appropriate, in implementing them. USAID has made significant efforts to give local entities a greater voice in shaping U.S. development programs, including in the Country Development Cooperation Strategies (CDCSs) and the Journey to Self-Reliance. The United States has also committed to doubling funding for Domestic Resource Mobilization (DRM) under the Addis Tax Initiative. One under-utilized tool for strengthening local capacity is government-to-government assistance; it is possible to expand the use of this tool while guarding against corruption and mismanagement.

Recommendations:

- Ensure that each year’s budget request is aligned with the CDCSs to the greatest extent possible.
- Continue key initiatives begun under the Journey to Self-Reliance, especially the Acquisition and Assistance Strategy; the New Partners Initiative; CBLD-9 (a new metric for measuring local capacity); and the Self-Reliance Learning Agenda.
- Create a new, public-facing Civil Society Strategy.
- Double DRM funding by Fiscal Year 2025.
- Safely ease restrictions on government-to-government assistance and encourage its use where appropriate.

EVALUATION

In recent years, significant progress has been made to improve the number and quality of foreign assistance evaluations and enhance the incorporation of learning into the program cycle. Some of this progress was codified in 2016, when Congress passed the Foreign Aid Transparency and Accountability Act (FATAA), which required the establishment of guidelines for evaluations across all foreign assistance agencies. Yet, significant challenges remain in realizing the potential of evaluation and learning to enhance aid effectiveness.

Recommendations:

- Require that all senior political appointees and career staff prioritize a learning agenda.
- Conduct an agency-wide review of monitoring, evaluation, and learning practices.
- Ensure that civil society actors and communities impacted by USAID programs play a direct role in evaluation.
- Continue to support adaptive management for improved program outcomes.
- Rebalance the emphasis of evaluations to focus more on entire programs, rather than individual projects.
- Strategically select programs and interventions for full impact evaluations.

INCORPORATING GENDER ANALYSIS INTO THE PROGRAM CYCLE

Embedded gender norms and implicit biases undermine the effectiveness of the design and execution of foreign assistance programs. To effectively respond to the COVID-19 pandemic and to meet the complex challenges of today's world, it is more important than ever that USAID use the right analytical tools to ensure the effectiveness of its programs. USAID should build on the progress made by recent legislative and agency initiatives aimed at incorporating gender analysis into each stage of the program cycle.

Recommendations:

- Improve implementation of USAID gender policies; focus on enhancing capacity and incorporating gender analysis requirements into procurement documents.
- Make an early public statement to signal USAID's recognition of the importance of gender analysis and gender equality to successful development.
- Include gender equality as part of the USAID Mission statement.

DRIVING INNOVATION

As America's lead development agency, USAID should be at the forefront of innovation in the design and implementation of development programs. USAID's Global Development Lab has made important strides; now is the time to take stock and assess USAID's innovation efforts to date.

Recommendation:

- Assess the value for money of USAID's Development Innovation Ventures and Grand Challenges for Development programs.

PLANNING FOR FUTURE SHOCKS

Too often, foreign assistance programs are designed to address past and current conditions, rather than creating resilience so that countries are able to better respond to future challenges. The economic and humanitarian impacts of COVID-19 have highlighted the importance of preventing and planning for climate change and other shocks that have the potential to undermine development progress.

Recommendations:

- Regularly assess long-term risks facing partner countries, including climate change, and use these risk assessments in funding and programming decisions.
- Establish an early warning system for pandemics, modeled on USAID's Famine Early Warning Systems Network.

DEVELOPMENT FINANCE CORPORATION

Enacted in 2018, the BUILD Act combined the Overseas Private Investment Corporation with USAID's Development Credit Authority, creating a new agency – the Development Finance Corporation (DFC). It also gave the DFC several powerful new tools, including the authority to make equity investments; increased flexibility in financing arrangements; a doubling of the exposure cap; and technical assistance capacities. Furthermore, the BUILD Act provided a stronger mandate to prioritize developmentally-impactful projects in low-income and lower-middle income countries, as well as significant new accountability and risk management requirements.

The DFC formally opened its doors in December 2019. To date, progress has been uneven, and the DFC has faced competing priorities, including the unprecedented challenge of adapting operations to a world gripped by pandemic. In May 2020, President Trump signed an executive order instructing DFC to support investments that enhance domestic medical supply chains through a delegation of authorities under the Defense Production Act (DPA). This new directive drew criticism from some members of the development community who noted that domestic financing would reflect a marked departure from the agency's statutory mandate. Meanwhile, the DFC's international equity authority remained under-resourced, due to a dispute about how such investments should be scored (described in detail below).

The DFC has great potential as a flexible, effective instrument to help project American values and influence. The next administration should engage Congress as a partner to ensure that the DFC fulfills its ambitious development mandate. Equally important is carefully balancing the DFC's dual mandate to enable developmentally-beneficial private sector investment and to advance U.S. foreign policy. The following recommendations focus on key areas for action: prioritizing development, fixing equity, and enhancing transparency.

PRIORITIZING DEVELOPMENT

The agency's new domestic responsibilities under the DPA are a significant potential distraction. Even in the best of circumstances, the challenge of balancing the DFC's competing mandates will present a challenge: the DFC will often have to withstand pressure from some members of Congress, and from the State Department and White House, to deliver deals that advance short-term national security or foreign policy objectives. Increasing investments in low-income and lower-middle-income countries (LICs and LMICs) are key to fulfilling the agency's development mandate, but will mean taking on greater risk, which will require additional credit subsidy and may at times be incompatible with protecting the DFC portfolio from potential loss. Deals in LICs and LMICs may also imply an increased administrative cost, as they tend to be smaller—and it takes more time to make a large number of small investments than to make a small number of large investments. In many cases, such deals also require a greater level of due diligence. Furthermore, the DFC will need to develop a pipeline of investable projects in LICs and LMICs; with a limited ability to place employees overseas, creative partnerships will be essential to ensure success.

Recommendations:

- Refocus on the DFC's core mission by phasing out the DFC's DPA responsibilities.
- Create an enabling environment by increasing credit subsidy and administrative expenses; encouraging new partnerships; crowding in private capital; aligning environmental and social

standards with U.S. Treasury standards; and continuing the 2X initiative, which prioritizes projects that empower women.

- Strengthen internal and external alignment by ensuring the Chief Development Officer (CDO) reports to the CEO, not the board, and creating a joint USAID-DFC fund managed by the CDO.

FIX EQUITY

The BUILD Act gave the DFC an increased limit for total outstanding commitments of \$60 billion, \$21 billion of which could be used for equity financing. However, the Fiscal Year 2020 appropriation only allowed the DFC to fund \$150 million in equity. This extreme discrepancy exists because, rather than scoring equity investments on a fair-market value basis, as if they were loans which produce returns, the Office of Management and Budget determined that such investments would be scored on a dollar-for-dollar basis, as if they were grants, which do not produce returns. This led the Trump administration to request a large Fiscal Year 2021 increase in funding for DFC to support equity scored on a dollar-for-dollar basis, creating new pressures in an already-stretched foreign assistance budget. In July 2020, Representatives Ted Yoho and Adam Smith introduced legislation (H.R. 7570), to amend the BUILD Act and provide instructions for scoring of equity to reflect that it is an investment tool expected to produce financial returns; however, legislation may not be required to resolve the equity scoring issue.

Recommendation:

- Work with OMB and Congress to assume fair-market value scoring for equity.

TRANSPARENCY

The DFC can set the “gold standard” in transparency for development finance institutions. It should live up to the expectations of Congress and stakeholders as quickly as possible, while balancing the need to shield commercially-sensitive information. As a new agency, it is especially important that the DFC is transparent about what deals it is making and how it is measuring development impact.

Recommendations:

- Commit to publishing appropriate project-level data on the DFC’s website in a manner that provides maximum information while protecting commercially-sensitive information.
- Ensure that the DFC’s evaluation policies reflect the Office of Management and Budget’s guidance for foreign assistance evaluations, which were produced in accordance with the Foreign Aid Transparency and Accountability Act of 2016.
- Include a budget line item for impact evaluations and the Impact Quotient methodology.
- Publish guidelines for the use of monitoring, evaluation, and learning. Publish monitoring and evaluation reports.
- Publicly release details from the IQ development impact matrix.