
Fiscal Year 2008 Testimony on Foreign Assistance Budget

By

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[The following are excerpts of the testimony presented to the Subcommittee on State, Foreign Operations, and Related Agencies of the Senate Appropriations Committee, Washington, D.C., March 28, 2007.]

Responsiveness to this Subcommittee

Before discussing the budget, I would like to note our efforts to address your concerns raised, and re-emphasized in fiscal year (FY) 2006 report language, and again in FY 2007 report language. This subcommittee directed that Congressional Budget Justification materials improve in both the timing of their delivery and the quality of information put forth. I am happy to say that this year, we delivered material to support the Congressional Budget Justification on February 14, 2007 nearly a month before the March deadline. Further, we included standardized budget tables per country to allow the public to meaningfully compare request levels per country. In addition, we have addressed the coordination concerns between United States Agency for International Development (USAID) and the Department of State (DoS) programs raised in FY 2007 report language by bringing DoS and USAID staff and senior managers to the same table to discuss budget priorities for FY 2008.

We have done far more than make process changes, however. With the new budget package comes a carefully considered set of budget priorities that, combined, will help advance our national security strategy. I realize that not all of the changes that we are proposing will sit entirely comfortably with each member of this distinguished subcommittee. To the contrary, it is more likely that at least one of the changes we propose will raise concerns with you about our prioritization. Part of my drive, to lay out the budget transparently in a way that can be compared across countries, is so that we can have a discussion, using common understandings and terminology, about just where our foreign assistance dollars are going and what we are trying to accomplish by allocating them as we have.

We have taken big steps to increase transparency, accountability, and coherence of strategy in the allocation of our resources, including the creation of one office, under my direction, to oversee all USAID and DoS foreign assistance resources. I hope to make your oversight responsibility less burdensome by laying our principles and priorities clearly on the table, and providing tools by which we can consistently assess results.

Specifically, we applied six principles to the allocation of the FY 2008 budget, in response to concerns raised by Congress and the President himself about the lack of coordination and coherence in our planning, allocation and monitoring of foreign assistance funds. I would like to take a moment to elaborate on them now. The Principles The FY 2008 DoS and USAID foreign assistance request is \$20.3 billion, a \$2.2 billion or 12 percent increase over FY 2006 enacted levels, the last year for which we have completed allocations. Given current budget pressures and a shared commitment with Congress for deficit control, this increase reflects the importance this Administration places on foreign assistance, not just as a moral obligation to alleviate suffering, but as a foundation of our national security strategy.

As a result of foreign assistance reform, this year's request reflects a different approach to building the budget from previous years methods, and I would like to take a moment now to explain the six principles that governed our prioritization.

First, we integrated planning based on the totality of U.S. government resources and the commitment to a shared goal. Consistent with your request that we improve coherence and coordination of State and USAID foreign assistance, for the first time in our nation's history, all \$20.3 billion of U.S. foreign assistance under the authority of the DoS and USAID, as well as resources provided by the Millennium Challenge Corporation, are being applied to the achievement of a single overarching goal transformational diplomacy. In response to input received from many of you, our colleagues in the international development community, and our host government counterparts, that goal now reads:

To help build and sustain democratic, well-governed states that respond to the needs of their people, reduce widespread poverty and conduct themselves responsibly in the international system.

Over 100 interagency teams, organized by country, were tasked with ensuring that all State and USAID resources were coordinated for maximum efficiency and impact, and targeted to the achievement of shared objectives. Teams considered investments from the President's Emergency Plan for Acquired Immunodeficiency Syndrome Relief (PEPFAR) and the Millennium Challenge Account (MCC) when allocating resources. As a result, in countries that will receive MCC Compact funds in 2008, you will see funds allocated to programs that will support the success of these investments, such as an increase in trade and investment funds and private sector competitiveness in Honduras, and in Ghana, a shift in funding to enhance the capacity of local government, who will be responsible for implementing the MCC Compact's programs.

Second, we focused on country progress. The ultimate goal of transformational diplomacy is to support recipient country efforts to move from a relationship defined by dependence on traditional foreign assistance to one defined by full sustaining partnership status. Now, I will spend a bit of time on this principle, because, while it seems like this is what we have been doing all along, this year's approach was quite different.

In past budget years, funds were allocated first by account, then by sector, and lastly, by country. Much of the budget was built by determining so much for family planning, so much for basic education, so much for security assistance, and so on. Funding from within these sector levels was then parceled out to countries on the basis of multiple sector-based strategies - one for family planning, etc. You get the picture.

It is not that these sectors are not critical to a country's development strategy clearly they are, and we continue to evaluate resources by sector, ensure appropriate targeting, and incorporate best practices. It is a matter of what should drive the country's development program, country-prioritized need or a set global amount for a sector. We must tailor programs to the unique needs of each recipient country in reaching the transformational diplomacy goal. This year, we led with country progress. We brought together teams of experts from USAID and DoS in consultation with their field counterparts, and we gave them an overall planning number for each country -- not by account, not by sector, just a total.

We gave them data on the status of country progress against independent indicators assessing poverty, human capacity, life expectancy, governance, and barriers to economic growth. We gave them the new *Strategic Framework for U.S. Foreign Assistance*, which outlines interventions according to countries' common country traits. We then asked them to allocate that budget to the areas that would

best advance individual country progress, based on the opportunities and challenges that exist on the ground, and in turn, advance U.S. policy. The result is an FY 2008 budget focused on country progress.

Third, consistent with concerns raised by this subcommittee to align our foreign assistance resources with our National Security Strategy, we invested in states critical to long-term regional stability and prosperity. As many of you are aware, the new Strategic Framework for Foreign Assistance categorizes each country receiving U.S. foreign assistance based on common traits and places them on a trajectory to measure their development progress against standardized indicators. The country categories are largely explained by their category name: Rebuilding, Developing, Transforming, Sustaining Partnership and Restrictive.

In the FY 2008 budget request, you will find that 51 percent of DoS and USAID program assistance resources are concentrated in Rebuilding and Developing countries. These are the countries that are farthest away from sustaining partnership status, as measured by instability, poverty, human capacity, life expectancy, governance, and barriers to economic growth – all critical barriers to regional stability and success in the War on Terror.

We have seen the risks that ungoverned spaces can pose to our national security and to their regional neighbors; we are also very aware of the costs of these ungoverned spaces to their own citizens. States like Somalia, Afghanistan, Sudan, and the Democratic Republic of the Congo are among the poorest in the world. Their citizens are among the least able to access basic needs including security. At the same time, to truly transform the development landscape, we need to focus on developing States such as Nigeria, Ukraine, Georgia, Pakistan, Jordan, and Indonesia. States that are on the cusp of transitioning to economic, political and social self-sustenance, and that, with continuing progress, can serve as anchors for regional stability and prosperity. We need to work with them to help them strengthen their institutions to make their progress permanent.

Fourth, we focused on demand-driven interventions that are critical levers for sustainable progress and transformation. Foreign assistance in the past has run the risk of being a mile wide and an inch deep. With a thousand agendas embedded in our foreign assistance programs, our impact was diluted and diffuse. It is important to note, as I often do, that there is very little that we do in our development portfolio that is bad. Someone, some community, is benefiting from the services we are providing and the interventions we are supporting.

But that is not the point. The real question is, are we achieving sustainable impact? Are we, in fact, enabling transformation? Are we giving people what they need to sustain further progress on their own? Based on the new country-driven process, we have prioritized resources to the areas that we believe will promote and sustain long-term country progress. Funding is increased to programs targeted to improving governance and democratic participation, programs mitigating diseases that threaten the human and economic capacity of countries to progress on their own, programs that expand access to and improve the quality of education, and programs that enhance economic opportunity and the skills needed to participate in the global economy. These resource allocations reflect the wisdom of our interagency teams of country experts.

I often think about our past practice of allocating funds as being similar to teaching an individual a little French, a little German, and a little Spanish. If we keep doing it, that person will very slowly be able to speak a little more French, a little more German, and a little more Spanish. But if we instead took the resources spent on each language and put them toward one language, that person would be able to communicate fluently, and would then be better able to learn the other languages on his or her own.

Similarly, when we split up our resources into too many sectors in one country, progress will be slow and often imperceptible. If we instead focus our resources, we enhance the ability of countries to gain enough strength and stability in areas critical to sustaining further progress on their own. Focusing resources in this way has its tradeoffs. When one area goes up, unless there is an abundance of new resources, other areas go down. While the FY 2008 budget increased by \$2.2 billion over FY 2006 enacted levels, we squeezed far more in the budget. The budget includes important increases for human immunodeficiency virus (HIV) and AIDS, malaria, and humanitarian assistance; and for countries in which there are new requirements and opportunities such as in Kosovo, Iran, and Cuba. The FY 2008 budget also reflects efforts to continue to shift program funding, where requirements are predictable, from supplemental requests for Iraq, Afghanistan, Sudan and avian influenza into the base budget.

Within the country-level requests, you will also find quite a bit of smaller, yet equally important, shifts. Country teams prioritized interventions that would help a country's institutions to build the capacity to take on challenges in the longer term. So you will see increases in resources for conflict mitigation, justice systems, executive branch institution-building, anti-corruption, basic education, energy services, agriculture policy, workforce development, and clean environment. But with these increases, certain sectors were not prioritized by the country teams to the degree that they have been funded in the past. These areas include sectors that we realize are important to members of Congress, including family planning, maternal and child health, and biodiversity. We know that putting decreases forward in these areas requires a robust justification of our reasons, and I hope we will have a substantive dialogue about why our teams made the choices that they did.

At the outset of the reform process, some members of this Committee expressed concern that greater alignment between DoS and USAID foreign assistance resources would result in a short-shrifting of long-term development goals. I am pleased to note that in fact the opposite occurred. In FY 2008, resources for the three objectives targeted to achieving long-term development:

- Governing justly and democratically
- Investing in people
- Economic

Growth has increase by 19 percent over FY 2006 levels for these objectives. The FY 2008 request includes the largest request this Administration has ever made for basic education, and when projected FY 2008 MCC disbursements are considered, investments in these objectives increased by 29 percent over FY 2006.

Fifth, we allocated funds intended for country programs to country-level budgets. In the past, ambassadors and mission directors often did not have a full picture of the resources being implemented in their countries, because some activities were planned and implemented from Washington. Consequently, they did not exercise full oversight over these programs, and doing so from Washington was costly and time-consuming.

To empower our mission directors, ambassadors, and country teams, who are our people in the field with the best knowledge of country circumstances, the reform process maximized resources implemented at the country level into country-level budgets. Resources within global or regional budgets that had been planned for specific countries were accordingly shifted to those countries budgets and planned together with other country-based support. As a result, such resources can be implemented consistent with country strategies and benefiting from expertise on the ground.

Recognizing that not all foreign assistance is most effectively implemented on a country basis, and that issues that transcend a single country's borders are best addressed as part of a global or regional strategy, activities such as support to regional institutions, multilateral organizations, or cross-cutting research remain funded within global and regional budgets. Humanitarian assistance, which is allocated on the basis of emerging crises, also remains funded within global budgets.

Finally, we matched accounts with country circumstances and the priorities the county categories are designed to address. Many of you may be used to hearing about the budget less in terms of countries and more in terms of accounts. There is a specific reason I have not mentioned accounts until now.

Account levels did not drive our allocation process. Country progress did. After the country teams submitted their allocations by program, we centrally aggregated them to their appropriate accounts. In doing so, we sought to maximize the use of account authorities and establish clear priorities in support of effective implementation of foreign assistance programs. This means that, overall, funding for the development assistance account (DA), which has traditionally supported assistance in poor countries that demonstrate performance or a commitment to development, has been prioritized to Developing and Transforming countries. The economic support fund (ESF), which focuses primarily on providing economic support under special economic, political, or security conditions, has been prioritized to support activities in the rebuilding and restrictive country categories.

However, activities to support the poor and invest in development have not changed. For the three objectives supporting long-term development:

- Governing justly and democratically
- Investing in people
- Economic growth

The DA and ESF totaled \$3.7 billion in FY 2006. For FY 2008, DA and ESF in these objectives total \$3.8 billion. The real change is within restrictive and rebuilding countries. Total funding in the three objectives supporting long-term development increased by 63 percent over FY 2006 levels. However, the balance between DA and ESF changed, with DA declining from \$331 million in FY 2006 to \$42 million in FY 2008; and ESF increasing from \$525 million in FY 2006 to \$1.4 billion in FY 2008. Now I realize that this may have many of you worried that this DA decrease and ESF increase means that foreign assistance will now be used increasingly for political ends and that poor people will suffer. I know there is often a skepticism between our two branches when one side or the other presents a series of numbers, so let me address any doubts by citing a group many consider an honest broker the Global Leadership Campaign. In their February 26, 2007, analysis, they point out, "Overall development-type activities do not decline in FY 2008 due to the shift between DA and ESF, and in fact, increase in the aggregate." Let me assure you of this point. Our intent in shifting funds from DA to ESF is to draw cleaner lines around their use, as identified by country characteristics. These cleaner lines allow us to justify to you why we have requested amounts for each account. There is no intent to take the development out of any of our development resources.

Regional Funding Trends

Consistent with the principles mentioned above, I would like to review briefly the regional funding trends you will see in the FY 2008 budget.

Africa

When projected MCC disbursements are included, the FY 2008 request for Africa represents a 54 percent increase over FY 2006. Including actual disbursements and projected FY 2008 disbursements from the MCC, resources for Africa have nearly quadrupled from 2001-2008. Over 75 percent of the FY 2008 budget will focus on investing in people in order to address the crippling effects of disease and poverty, a \$2 billion increase from FY 2006. These increases are largely due to HIV/AIDS resources, but not entirely. When HIV/AIDS, MCC and the emergency-oriented accounts of P.L. 480 Title II food aid, Migration and Refugee Assistance, and International Disaster and Famine Assistance are excluded in both FY 2006 and FY 2008 (as allocation of emergency funds is often unknown until the end of a fiscal year), there is actually a 15 percent increase in resources to Africa.

East Asia and the Pacific

With projected FY 2008 MCC disbursements included, proposed FY 2008 funding for the region increases by 15 percent over FY 2006. Democratic challenges and terrorist threats require that peace and security programs emphasize counterterrorism and conflict mitigation while also maintaining military assistance for key War on Terror partners. Resources for these types of key security programs make up 18 percent of the request for the region. Countries such as Indonesia, the Philippines, and Mongolia collectively receive 53 percent of the region's request.

Near East

The FY 2008 request for the Near East represents a 4 percent increase over FY 2006, including reduced levels for Egypt and Israel under glidepath agreements. The FY 2008 request emphasizes continued investments in Peace and Security and political reform. Accordingly, funding for Peace and Security increase by 4 percent, while investments in Governing Justly and Democratically increase by more than 80 percent. The FY 2008 request is concentrated in Iraq, Israel, Egypt and Jordan, representing 93 percent of the region's budget.

South and Central Asia

Funding to South and Central Asia increased by 6 percent in the FY 2008 request compared to FY 2006 levels for the region. Funding will continue to support the global war on terror through security, reconstruction, development and democracy efforts, particularly in Afghanistan and Pakistan, which represent 84 percent of the region's request. Success in these countries is critical to achieving peace, stability, and development progress throughout South and Central Asia. Funding for the five Central Asian countries declined by nearly 24 percent from FY 2006 to FY 2008. Much of the decline comes in Uzbekistan, where the government has worked actively to limit U.S. assistance related to reform, and in Kazakhstan, whose oil wealth lessens the need for our assistance.

Western Hemisphere

Foreign assistance for Latin America has risen dramatically since the start of the administration, rising from \$862 million in FY 2001 to a requested \$1.4 billion in FY 2008 for DoS and USAID administered programs. If the FY 2008 request is fully funded and MCC FY 2008 disbursements are taken into account, resources to the Western Hemisphere will have doubled under this Administration, from \$862 million in FY 2001 to \$1.66 billion in FY 2008, a 4 percent increase over FY 2006. The focus of resources within the region has also changed. The Western Hemisphere, in general, has made significant progress over the last decade, although major challenges remain. Funds have therefore shifted from service-delivery in health and basic education, where the region has made progress relative to other regions, to economic growth and activities to help consolidate democratic gains. Our programs are targeted to improve government capacity and provide access to economic opportunity to

all citizens, especially the poor and marginalized, by catalyzing private sector investments, reducing the cost of doing business, and expanding access to microcredit. With MCC disbursements considered, economic growth resources are up 80 percent in FY 2008. Resources to improve government capacity and strengthen democratic institutions are up 5 percent.

I am aware of recent briefings where concern has been expressed about declining funding for our neighbors. In fact, my very first trip since submitting the FY 2008 budget was to Bolivia, Ecuador, and Peru, three countries that have sustained decreases in the FY 2008 budget. In each of these countries, the positive impact of our past investments was clear, and our ability to build on them with innovative programming and partnerships was also evident.

Europe and Eurasia

This region represents another success story in development. The FY 2008 request for Europe and Eurasia represents a 26 percent decrease from FY 2006, reflecting success achieved in the region. When projected FY 2008 MCC disbursements in Georgia and Armenia are included, the reduction is 13 percent from FY 2006. While U.S. assistance has played a substantial role in supporting further integration of countries in Eastern Europe and the Western Balkans into Euro-Atlantic institutions, a number of difficult challenges remain across the range of foreign assistance objectives. Funds for Kosovo and Serbia represent 27 percent of the region's request. Countries at the forefront of reform Ukraine, Georgia, and Moldova and countries that present democratic challenges Russia and Belarus together represent 30 percent of the region's budget.

Conclusion

The debate between Congress and the Administration regarding foreign assistance has lacked focus. Very much like a ship with too many calibrations, the foreign assistance boat would move in one direction for a while, then shift directions with a new administration or a new congress, oftentimes back-tracking over the same course it had traveled just a few years ago. As a consequence, many recipient countries have not been given the tools they need for a long enough period of time to help their countries sustain progress. Globally, progress has been slow and often imperceptible.

The FY 2008 Foreign Operations budget, built on the basis of the principles and methodologies described above, reflects country-based strategies for progress, evaluated within the context of regional challenges and opportunities, and responsive to a shared goal and objectives targeted to achieve that goal. And since budget planning was thoroughly integrated, the FY 2008 budget, like a Rubic's Cube, relies on each individual piece to maintain the integrity of the whole.

In addition to developing the new *Strategic Framework for Foreign Assistance*, we have developed a standardized set of definitions or a development dictionary of the programs that relate to our five priority objectives, and ultimately to the transformational diplomacy goal. The development dictionary describes what we mean, across all programs and sources of funding, when we describe a program as justice system reform or conflict mitigation. We published this reference on line and have invited comments from your staffs and the non-government organizations community. Every dollar of the FY 2008 budget is identified against these common definitions, making comparisons across fiscal years, countries, programs, and regions transparent and easy.

We have developed common indicators for each of the programs defined in the development dictionary, such that we will be able to compare partner, program, and country performance across agencies and sources of funding. We developed these indicators with input from the non-government organizations community and have posted them on line, together with an e-mail address to collect comments. We have wrapped the money, definitions, and indicators into one system that will be able to tell you who is getting the money, what they are spending it on, and what results we expect to be

achieved. This information will come together in an annual operational plan submitted to Washington for each country where foreign assistance funds are provided. For the first time, starting with FY 2007 funds, we will be able to tell you what a \$1 million change from X activity to Y activity will mean for a program so that you can better determine whether such a change, and its opportunity cost, best reflects the impact you want to have.

In making these changes, we sought explicitly to be responsive to concerns raised by Congress about the transparency of our decision making, the coherence of our resources, and our ability to account for results. My hope is that the first steps taken over the past nine months will support a robust dialogue between the legislative and executive branches about funding priorities. Because with this new transparency of information comes a new responsibility on both of our parts to raise concerns where we feel our differing priorities will have a detrimental impact on transformational diplomacy progress.

Far more than just moving the deck chairs, the reform reflected in the FY 2008 budget represents the re-calibration of the ship. But only when we discuss our differing priorities, in the spirit intended by the balance of powers between the executive and legislative branches, will the ship find its most appropriate and progressive course.