



The FY2013 Budget Request: Presidential Priorities for Development Face Uncertain Outcome

A Report of the Rethinking U.S. Foreign Assistance Program

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The international affairs portion of the president's FY2013 budget will likely generate concern among aid advocates over cuts to health and humanitarian assistance. With so many budget variables in play during an election year, it is difficult to predict an outcome, but international affairs spending will remain under pressure as policymakers search for ways to address budget deficits.

The president's budget, released on February 13, sets total government-wide spending at \$8.3 trillion. The international affairs budget, or 150 Account, constitutes 1.6 percent of total spending. At \$56.2 billion, the request is \$1.3 billion, or 2.4 percent, greater than last year's appropriated level.

The highlights of the budget include a proposal for a new Middle East and North Africa Incentive Fund, the elimination of the Assistance to Europe, Eurasia, and Central Asia account, and decreases in health and humanitarian accounts. Apart from these big changes, funding levels for other major accounts do not diverge greatly from FY2012 appropriations. The FY2013 base budget of \$48 billion is an increase of \$4.3 billion, or 9.8 percent.

Again this year, the administration is requesting an Overseas Contingency Operations (OCO) account for activities in Iraq, Afghanistan, and Pakistan, but at reduced levels from 2012. OCO would fall by \$3 billion, or 27 percent.

The 150 Account, FY2012 and FY2013 (in billions)

| | Base | OCO | Total |
|---------------|-------------|-------------|--------------|
| FY2012 | 43.7 | 11.2 | 54.9 |
| FY2013 | 48.0 | 8.2 | 56.2 |

This budget brief analyzes the president's 2013 budget request on the basis of initial summary documents released on February 13. The administration has not yet released detailed country and program documentation, but the summary documents are sufficient to assess the administration's priorities for development.

The International Affairs Budget is Now “Non-Security”

The Budget Control Act of 2011 (BCA) set caps on discretionary spending for 2012 and 2013. For 2012, the BCA distinguished between security and non-security spending. International affairs spending was a part of the security budget that also included the Department of Defense, the Department of Homeland Security, and intelligence agencies. The BCA required a “super committee” to devise an agreement to cut \$1.2 trillion over the next decade, or a sequestration process would kick in as of January 2013. Under sequestration, automatic cuts are made to reach the BCA’s annual cost-saving targets.

With the super committee unable to reach an agreement, Congress and the White House have less than a year to find savings to avoid sequestration. For the international affairs budget, the Congressional Budget Office estimates an 8 percent cut in FY2013 under sequestration. With regard to the 150 Account, the lack of agreement means that international affairs moves to the non-security category for FY2013. The consequence is that diplomacy and development will compete against domestic programs, rarely a positive scenario in an election year.

Top-Line Numbers See Little Change

The 2013 core budget request is \$48.0 billion, a \$4.3 billion or 9.8 percent increase from 2012. The OCO request has been reduced from \$11.2 billion in 2012 to \$8.2 billion, a 27 percent decrease. Food assistance would decrease from \$1.65 billion to \$1.58 billion.

Total, Base, and Overseas Contingency Operations, 2011–2013

| | 2013 | 2013 | 2013 | 2012 | 2012 | 2012 | 2011 |
|---------------------------|-------|-------|------|-------|-------|------|--------------------|
| | Total | Base | OCO | Total | Base | OCO | Total ¹ |
| State Operations | 18.51 | 14.15 | 4.36 | 17.7 | 13.07 | 4.63 | 15.63 |
| Foreign Operations | 36.15 | 32.27 | 3.88 | 36.11 | 29.53 | 6.58 | 33.38 |
| Food Aid | 1.58 | 1.58 | - | 1.65 | 1.65 | - | 1.69 |

Note: All figures are in billions of current dollars. Figures may not total because of to rounding. Figures exclude some international commissions that are funded in the State and Foreign Operations appropriations bill, but are not part of the 150 account.

¹ OCO was not requested for 2011, but the State Department later identified \$5.4 billion as constituting OCO.

OCO: Temporary is the New Permanent

As was proposed last year, the budget includes a request for a base budget and Overseas Contingency Operations (OCO) budget for temporary and extraordinary expenses related to civilian activities in some frontline states. The Pentagon has long used an OCO request to distinguish between temporary and base funding. With the seeming success of a Defense OCO and the Obama administration's general reluctance to rely on annual supplemental funding bills, an OCO line was included in last year's budget for the Department of State and USAID. The 2012 request was \$8.7 billion, for activities in the frontline states of Afghanistan, Pakistan, and Iraq. However Congress approved a nearly 30 percent increase as it expanded the account's use beyond these three countries. Because OCO does not count against budget caps, this funding shift allowed for higher levels in the base budget.

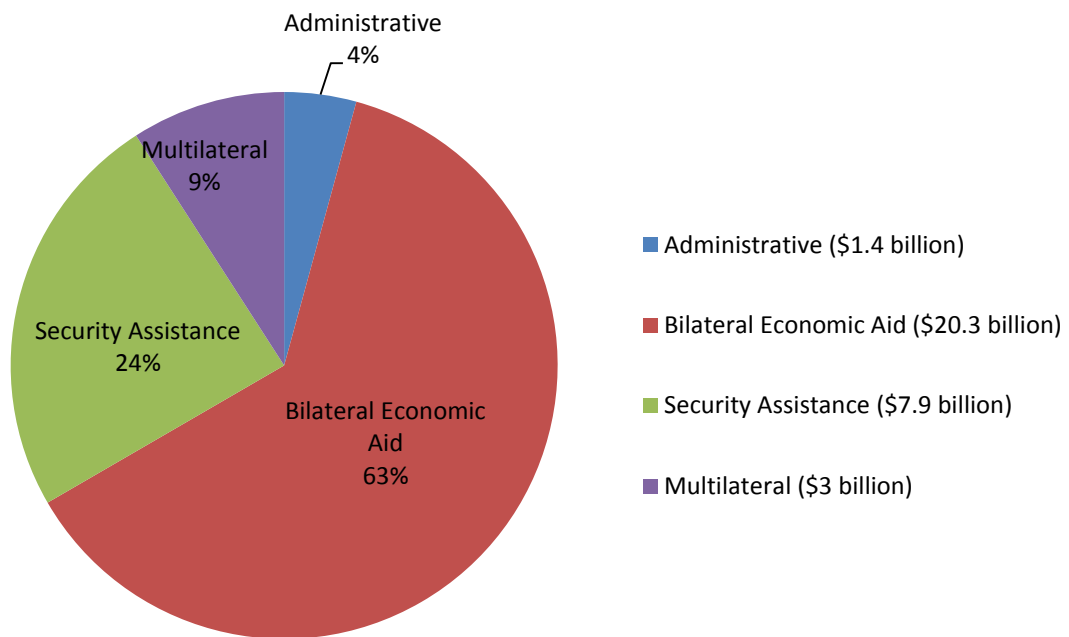
The total OCO request of \$8.2 billion for 2013 reverses the practice of using the account for only civilian activities in frontline states. A continued reliance on using OCO to cover some of the base budget could cause potential problems in the future. If the OCO account is phased out, then it may be difficult to justify transferring what was described as a temporary and extraordinary expense back into the base budget. Realistically, OCO has replaced the annual request for supplemental funding, which also did not count against budget caps, to cover unexpected expenses. It is quite conceivable that OCO will represent a permanent, or at least long-term, component to the budget process.

The Ratio of Bilateral to Multilateral Aid Remains the Same

Of the \$32 billion foreign operations base budget, bilateral economic assistance is the largest portion. This is consistent with the U.S. emphasis on using bilateral aid over multilateral instruments. The multilateral portion remains around 9 percent, similar to previous years. Despite the administration's endorsement of multilateral aid as an efficient and effective development tool, the administration has not significantly increased U.S. contributions.² One big exception for 2013 will be a larger contribution to the Global Fund for HIV/AIDS, Tuberculosis and Malaria.

² See *Fact Sheet: U.S. Global Development Policy* (<http://www.fas.org/irp/offdocs/ppd/global-dev.pdf>).

FY2013 Foreign Operations Account³



Health Still Dominates the Major Accounts

Global Health programs continue to dominate U.S. economic assistance, receiving about 39 percent of total bilateral aid. The largest health account funds the President's Emergency Plan for AIDS Relief (PEPFAR) and is administered by the State Department's Office of the Global Aids Coordinator (OGAC). The account would decrease by \$193 million under the President's budget, with a related increase in the U.S. contribution to the Global Fund from \$1.3 billion to \$1.6 billion. While this request would fulfill the U.S. commitment to the Fund, it may also cause some heartburn among global health advocates who see any decrease in funding for bilateral programs as a retreat from the President's vow to have 6 billion people receiving AIDS treatment by the end of 2013.

³ For the purposes of this analysis, Bilateral Economic Aid includes all bilateral aid accounts, independent agency accounts (Millennium Challenge Corporation, Peace Corps, Inter-American Foundation, and African Development Foundation), Treasury Department technical assistance, and debt restructuring.

USAID’s health account, which funds maternal and child health, reproductive health, and health system capacity, would decrease by \$121 million. There is little indication in the budget of transferring the Global Health Initiative to USAID as called for by the Quadrennial Diplomacy and Development Review.

The **Development Assistance (DA)** account is scheduled for a modest increase of \$5.5 million. A large portion of the President’s **Feed the Future (FTF)** initiative is funded through the DA account, and FTF would see a slight increase, up \$26 million to \$1.2 billion. This includes a \$134 million contribution to the Global Agriculture and Food Security Program (GAFSP) located at the World Bank. The GAFSP request, together with the 2012 contribution, will fulfill the U.S. pledge of \$475 million.

The **Economic Support Fund (ESF)** is slightly higher than last year when counting both base and OCO. ESF was designed to provide assistance to countries of strategic importance that may not otherwise qualify for U.S. assistance, but that distinction has become blurred over time as a number of countries now receive both DA and ESF funds.

The **Assistance to Europe, Eurasia and Central Asia (AEECA)** account, as discussed below, is proposed for elimination. The request reduces the account by 18 percent and transfers the remaining funds to ESF, Global Health, and the International Narcotics Control and Law Enforcement accounts.

The **Millennium Challenge Corporation** would receive level funding in 2013 at \$898 million. The 2012 pipeline includes second compacts with Cape Verde and Georgia, and a first compact with Zambia. Funds for 2013 are projected for second compacts with Ghana, El Salvador, and Benin as well as new threshold programs in Honduras and Nepal.

Health Accounts Continue to Dominate

| | FY2012 | FY2013 | % Change |
|---|--------|--------|----------|
| Global Health & Child Survival | 8.17 | 7.85 | - 3.9% |
| <i>State</i> | 5.54 | 5.35 | - 3.4% |
| <i>USAID</i> | 2.63 | 2.50 | - 4.9% |
| Development Assistance | 2.52 | 2.53 | + 0.4% |
| Economic Support Fund | 5.80 | 5.89 | + 1.5% |
| Ass’t Europe, Eurasia & Central Asia | .63 | 0 | -100% |
| Millennium Challenge Corporation | .90 | .90 | 0% |

Note: Figures are in billions of current dollars, have been rounded, and include OCO.

Humanitarian accounts are managed by both the State Department and USAID, the largest being the Migration and Refugee Assistance account. Six accounts comprise humanitarian assistance: five funded in the State and Foreign Operations bill and the food aid account funded through the Agriculture bill. Altogether, humanitarian assistance would see a decrease of nearly 7 percent.

FY2013 Funding for Humanitarian Accounts

| | FY2012 | FY2013 | % Change |
|--|----------------|----------------|-----------------|
| International Disaster Assistance | 975.0 | 960.0 | - 1.5% |
| Transition Initiatives | 56.7 | 57.6 | + 1.6% |
| Complex Crisis Fund | 40.0 | 50.0 | + 25.0% |
| Emergency Refugee/Migration | 27.2 | 50.0 | + 83.8% |
| Migration and Refugee Aid | 1,875.0 | 1,625.4 | - 13.3% |
| Food Aid (PL 480 & McGovern-Dole) | 1,650.0 | 1,584.0 | - 4.0% |

Note: Figures are in millions of current dollars, have been rounded, and include OCO.

The Business of Development Will Continue to be Challenging

USAID Operating Expenses, from which USAID pays for staffing and other operational expenses, would remain the same in 2013. This means no new hiring under the Development Leadership Initiative (DLI) will occur in 2013. The DLI, begun in the Bush administration, intended to double the number of foreign service officers in an effort to rebuild the agency as called for in the QDDR. To date, 80 percent of the target number has been hired. FY2013 OE funds will be used to hire 16 procurement staff, positions considered critical for the agency to implement procurement reforms.

FY2013 Funding for USAID Administrative Accounts

| | FY2012 | FY2013 | % Change |
|--------------------------------|----------------|----------------|-----------------|
| Operating Expense | 1,347.3 | 1,347.0 | 0% |
| Capital Investment Fund | 130.0 | 135.0 | +3.8% |
| Inspector General | 52.0 | 51.0 | -1.9% |

Note: Figures are in millions of current dollars, have been rounded, and include OCO.

New Proposals and Significant Changes Could Be Controversial

New Middle East Fund in Response to the Arab Spring. The administration proposes a new account—the Middle East and North Africa (MENA) Incentive Fund—with a \$770 million pot. When Arab Spring demonstrations broke out last year, the administration found itself unable to deploy resources nimbly. The new fund would tie assistance to democratic, institutional, and economic reforms. However, Congress will likely have many questions about MENA since \$700 million of the fund is currently undesignated. The obligated \$70 million is for the Middle East Partnership Initiative (MEPI) and the Office of Middle East Programs (OMEPI). Congress loathes the sight of big pots of money that remain unobligated for too long. The administration will need to convince Congress that it will be consulted on allocations if Congress is to be able to resist the impulse to heavily earmark the fund.

Sudan Debt Relief. The budget includes \$250 million to forgive the \$2.4 billion Sudan owes the United States. But, Sudan must meet the eligibility requirements under the Heavily Indebted Poor Country (HIPC) framework. If it is unable to meet the requirements, the administration is asking for authority to use the funds for other multilateral purposes.

AEECA Eliminated. The AEECA account (Assistance to Europe, Eurasia, and Central Asia) is declared a success and zeroed out, but that does not translate into saving \$630 million. AEECA funds will be mainlined back into the Economic Support Fund (ESF), Global Health accounts, and International Narcotics Control and Law Enforcement (INCLE) account which represent the type of programs that had been funded. AEECA replaced two earlier accounts targeted at Eastern Europe and the former Soviet republics soon after the dissolution of the Soviet Union. This account was ripe for elimination and the administration is to be commended for doing so. The next step is to more closely look at many former AEECA countries to reorient the aid relationship given their record of growth and stability. While the budget proposes spending 18 percent less on AEECA countries, this region presents opportunities for even greater savings.

Decrease in Health Funding. Global health funding would decline by 3.8 percent in 2013, but the account still dwarfs any other economic assistance fund. Health funding has mushroomed six-fold since 2001 with PEPFAR a driving force. The budget request proposes to capture the efficiencies of generic drugs, cheaper shipping costs, and greater use of nurses and community health workers. The administration contends that these and other efficiencies have reduced PEPFAR's per person treatment costs from \$1,100 to \$335. The administration believes that it will still be on track to fulfill the president's pledge to support six million people on antiretroviral treatment by the end of 2013. The budget also proposes to contribute \$1.65 billion to the Global Fund to Fight AIDS, Tuberculosis and Malaria, a 27 percent increase from 2012. This amount would fulfill the U.S. pledge of \$4 billion by 2013.

However, this increase for the Global Fund and the slightly reduced top-line health number will put a squeeze on some bilateral programs, and this will activate health advocates to lobby

Congress for higher numbers. Scaling back PEPFAR dollars in some countries may be justified on the basis of the countries' absorptive capacity, by transferring some costs to recipient countries, and by considering where other resources are available. Focusing resources where PEPFAR can have the most significant impact is a good thing.

Prospects for the Future:

Budget austerity will continue to dominate the political process this year, and the debates will only be sharpened by the approaching presidential and congressional elections. With the stakes so high for both political parties, it will be all the more difficult to find agreement on a consensus budget that would trim enough expenses to avoid sequestration in January 2013.

On top of all this, it is unlikely that Congress will pass a budget resolution. Senate leaders have asserted that one is not necessary since the Budget Control Act established spending caps for 2013. House leaders have promised to produce an alternative to the president's plan.

Appropriators will proceed with the intent of following regular order, but the State and Foreign Operations bill will likely be included in an end-of-year omnibus. If partisan impulses dominate, a short- or long-term continuing resolution could be an option. This would defer difficult decisions into a lame duck or a new Congress, and perhaps a new administration. However, this would present a very difficult situation if members of congress want to avoid sequestration, as many do because of its potential effects on the defense budget.

All considered, even though this is a responsible international affairs request, the political dynamics of an election year mean that this budget and the priorities it sets out may look far different by the time the budget process concludes.