

**U.S. Foreign Aid Reform:  
Will it Fix What is Broken?**

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By Stewart Patrick

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**ABSTRACT**

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The Bush Administration's foreign aid reform plan is motivated by a laudable goal: introducing greater strategic coherence into the fragmented and dysfunctional U.S. foreign aid regime. This quest for coherence may prove elusive or even counterproductive unless the administration corrects several shortcomings in its current approach. First, the scope of action permitted to the new Director of Foreign Assistance is too narrow to fulfill his ambitious mandate. Without additional legislation, a large proportion of U.S. foreign aid will remain outside his authority, as well as being constrained by congressional earmarks. Second, the reform plan as now structured risks marginalizing and subordinating long-term development goals to short term political and security imperatives. At a minimum, the Bush administration should spell out how it intends to navigate the tensions inherent in aligning U.S. security, diplomatic, and development efforts. Third, the reform plan does little to ameliorate longstanding weaknesses in U.S. assistance policy. Among other gaps, it fails to provide: a strategy for engaging fragile states; clarity about agency responsibilities in post-conflict operations; a solid foundation for partnership with other donors and local partners; or a framework for monitoring and evaluating the results of U.S. foreign aid. While the reform plan is sure to be tweaked in the coming months, the ultimate goal of any reform effort should be a total overhaul of the 1961 Foreign Assistance Act and the creation of an independent, Cabinet-level department for international development.

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# U.S. Foreign Aid Reform: Will It Fix What Is Broken?

*Stewart Patrick\**

## Introduction

On January 19, 2006, Secretary of State Condoleezza Rice introduced a sweeping plan to bring greater strategic coherence and accountability to the country's fragmented foreign assistance regime. The goal of this reform effort is to ensure that foreign aid advances broad U.S. foreign policy and national security goals. The plan is part of a larger "transformational diplomacy" agenda, designed to permit the United States to help "build and sustain democratic, well-governed states that will respond to the needs of their people and conduct themselves responsibly in the international system."<sup>1</sup> A core premise of this vision is that the main threats to U.S. security emanate today not from great powers but from the spillover effects of dysfunctional governance in the developing world. To address these dangers, the United States must use all of its policy instruments – and particularly foreign aid -- to reform the domestic authority structures of other countries so that they are both able and willing to exercise responsible sovereignty.

The reform plan is unfolding in the context of significant increases in the overall U.S. aid budget in recent years. From 2000-2005, U.S. disbursements of official development assistance (ODA) surged from approximately \$10 billion to \$27.5 billion. This dramatic increase began under the Clinton administration and accelerated under President George W. Bush with the launching of the Millennium Challenge Account (MCA) and the President's Emergency Plan for AIDS Relief (PEPFAR).<sup>2</sup> This historic expansion of foreign assistance has been buoyed by a bipartisan consensus in the aftermath of 9/11 that promoting growth and opportunity in developing countries is critical to ameliorating the roots of violent extremism, not least in the Muslim world.

At the same time, there has been widespread dissatisfaction with the fragmentation and perceived ineffectiveness of much U.S. foreign assistance. Today, foreign aid pours out of at least eighteen separate aid spigots within the State Department and the U.S. Agency for International Development (USAID) alone, addressing everything from health interventions to military training, counter-narcotics assistance, and economic support to allies. This is to say nothing of the twenty-odd other federal departments and agencies that maintain their own aid programs. Rather than reflecting coherent U.S. strategies toward particular countries, aid is too often driven by the desires of individual agencies or U.S. missions, with the right hand not always knowing what the left hand is doing.

The Administration's reform plan is a serious first step in the effort to bring discipline to the chaotic U.S. foreign aid regime, notably by centralizing management and accountability over

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*\*Stewart Patrick is Research Fellow at the Center for Global Development. From September 2002-January 2005 he served on the Secretary of State's policy planning staff. He thanks Carol Lancaster, Larry Nowels, Todd Moss, Sheila Herrling, Kaysie Brown and several current and former U.S. government officials for comments.*

<sup>1</sup> Secretary of State Condoleezza Rice, "Transformational Diplomacy," speech at Georgetown University, January 18, 2006, <http://www.state.gov/secretary/rm/2006/59306.htm>

<sup>2</sup> Much of the increase over the 2004 figure of \$19.7 billion is likely to be temporary, as the lion's share (\$8.5 billion) represents supplementary funding approved by Congress to support recovery efforts in Iraq and Afghanistan.

USAID and State Department funds and by categorizing aid by purpose. Whether the laudable goals of the reform effort will be realized, however, remains in doubt. This paper raises several reservations about the implications of the administration's chosen approach – and its implementation to date -- for policy coherence, aid effectiveness and development outcomes.

The paper begins by reviewing the main aspects of the administration's reform. It then identifies three main shortcomings that need to be corrected if the effort is to succeed. First, the actual authorities of the new Director of Foreign Assistance (DFA) are far too limited to ensure coherence in U.S. aid policy. Second, the reform plan as currently structured runs the risk of marginalizing and subordinating long-term development goals to short term political and security imperatives. At a minimum, the Bush administration should spell out how it intends to navigate the tensions inherent in aligning U.S. security, diplomatic, and development efforts. Third, the plan to date does little to address longstanding weaknesses in U.S. assistance policy. Among other gaps, it fails to advance a comprehensive U.S. approach toward fragile states; to clarify interagency leadership and roles in conducting post-conflict operations, particularly between the State Department and the Department of Defense; to explain how U.S. efforts will leverage the contributions of U.S. partners within the donor community; to lay a promising foundation for partnership with local actors in developing countries; or to provide a framework for monitoring and evaluating the results of U.S. foreign aid, including the realization of espoused objectives.

To be fair, the reform plan is still in its infancy and will surely be tweaked in the coming months. Whether the preceding misgivings are warranted will become clearer in the next year, with the submission of the FY08 budget. For its part, the administration has described its initial reforms as only a first step in rationalizing the dysfunctional U.S. approach to foreign aid. There is thus ample opportunity to correct gaps in its current approach. Ideally, the ultimate goal of any such effort should be a total overhaul of the 1961 Foreign Assistance Act and the creation of an independent, Cabinet-level department for international development.

### **The Reform Plan in a Nutshell**

In January 2006, Secretary of State Condoleezza Rice appointed Randall Tobias as the country's first Director of Foreign Assistance (DFA), charged with overseeing a reorganization of U.S. foreign aid. Tobias, the former head of the President's Emergency Plan for AIDS Relief (PEPFAR), serves at the level of Deputy Secretary of State and is "dual-hatted" as the Administrator of USAID. Under the guidance of the Secretary of State, the DFA sets the priorities that should drive overall U.S. foreign aid. The objective is to ensure that the "tactical plans" for implementing U.S. foreign aid programs correspond to "strategic direction and priorities" from the Secretary of State.<sup>3</sup>

Tobias' mandate is broad but not unlimited. His primary duties are to oversee the drafting of an overall U.S. government foreign assistance strategy, as well as the development of five year integrated country plans. He has explicit authority and oversight over the design, planning, coordination and implementation of all funding and programs of the Department of State and USAID. In addition, he is to provide "coordination and guidance to all foreign assistance

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<sup>3</sup> Office of the Director of United States Foreign Assistance, "Focusing U.S. foreign Assistance to Support Transformational Diplomacy," power point briefing, April 2006.

delivered through other agencies and entities of the USG, including the Millennium Challenge Corporation and the Office of the Global AIDS Coordinator.”<sup>4</sup> As discussed below, the nature of that “coordination and guidance” remains undefined.

The reform plan emerged following a year-long review by the State Department’s Policy Planning Staff, which revealed extensive fragmentation, duplication, and inefficient use of aid monies.<sup>5</sup> Initially, the administration conceived of pursuing an ambitious legislative remedy, including a re-writing of the Foreign Assistance Act of 1961. When consultations with Congress in autumn 2005 suggested this was unrealistic, particularly in view of the political calendar, it chose to pursue reform first within the confines of existing authorities. In effect, the administration calculated that legislators would be more likely to grant additional flexibility and resources if it first demonstrated its dedication to strategic planning, results, and accountability.

### *A New Strategic Framework*

In May 2006, Ambassador Tobias released a new Strategic Framework for Foreign Assistance, explaining how the DFA would seek to rationalize foreign aid appropriated to the State Department and USAID. In support of the core goal of promoting “democratic, well-governed states,” the framework establishes five overarching objectives for U.S. aid: (i) advancing peace and security; (ii) promoting just and democratic governance; (iii) encouraging investments in people; (iv) promoting economic growth; and (v) providing humanitarian assistance. (The second, third, and fourth of these goals mirror the MCA eligibility criteria.) The DFA does not prioritize among these objectives.

Aware that different contexts will shape how the United States pursues these goals, and thus the design of its aid interventions, the administration has also assigned each of the 154 developing and transitional countries that currently receive U.S. aid into one of five general categories, reflecting U.S. assessments of their current circumstances.<sup>6</sup> These categories include:

- *Rebuilding Countries* – twelve countries emerging from or rebuilding after internal or external conflict, including Afghanistan, Colombia, Haiti, Sudan, Liberia, Kosovo, Iraq, Democratic Republic of Congo, Nepal, Cote D’Ivoire, Sierra Leone, and Somalia.
- *Developing Countries* – low or lower-middle income countries (below \$3,256 per capita) that are either not yet meeting MCA performance criteria or do not meet a hard hurdle on either corruption or political rights. This cohort currently includes a wide range of countries at various states of development, from Cambodia to Pakistan, Egypt to Ecuador.
- *Transforming Countries* – low or lower-middle income countries (below \$3,256 per capita) that perform above the median on at least half of all three MCA indicators, as well

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<sup>4</sup> State Department Fact Sheet, “New Leadership Role for U.S. Government Foreign Assistance,” January 13, 2006.

<sup>5</sup> The author left the State Department policy planning staff shortly before this review was launched.

<sup>6</sup> The practical ramifications of putting countries into these baskets remain unclear. The administration has reassured development partners that these categorizations are meant as an “internal USG planning tool” and are “not political” or tied to eligibility to particular aid accounts. USAID Administrator Randall Tobias to USAID employees and missions, “Update on Foreign Assistance Reform,” May 12, 2006, p. 5.

as above the median on corruption and political rights. Twenty-four nations, including all MCA recipients and threshold countries, currently make up this cohort.

- *Sustaining Partnership Countries* – middle income (or better) countries “for which U.S. support is provided to sustain partnerships, progress, and peace.” The 43 countries on this list range from Israel to Mexico, Russia to Kuwait.
- *Restrictive Countries* – these are “states of concern where there are significant governance issues,” and where direct U.S. funding is restricted. The cohort includes eleven authoritarian regimes, or, in the administration’s parlance, “outposts of tyranny.”<sup>7</sup>

For each country category, the administration establishes a general end goal,<sup>8</sup> as well as a “graduation trajectory,” which may include moving to the next category up or graduating from foreign aid entirely. In July 2006, the DFA added a sixth category to cover “global or regional” issues, defined as “activities that advance the five objectives, transcend a single country’s borders, and are addressed outside a country strategy.”

The administration has decided to implement the new Strategic Framework in two phases. For the FY07 budget, 35 countries representing 61% of all bilateral foreign assistance have been placed on a “fast track,” with operational foreign aid plans drawn up through DFA-led country coordination meetings. Beginning in FY08 all developing countries will be the subject of such strategic plans. To support his work, the DFA has been given a large, 80-100 person office, with staff drawn primarily from State and USAID that previously performed foreign assistance functions of strategic planning, budgeting, program planning, results reporting and accountability.

### **Kudos and Concerns**

The Bush Administration’s deserves praise for seeking to bring strategic coherence to the chaos of foreign aid. Although it would have been preferable to see the emergence of a cabinet-level department of international development, the decision to bring the USAID Administrator more closely into the State Department is arguably an improvement over the previous situation, in which USAID essentially fell between two stools: That is, it was neither an independent Cabinet-level department able to hold its own as a strong advocate for development in interagency meetings, nor was it fully integrated into the State Department as an effective instrument of U.S. foreign policy. In principle, the concentration of authority and accountability in the position of the DFA could encourage the State Department and USAID to be better stewards of taxpayer dollars and make U.S. aid more effective in advancing U.S. foreign policy objectives. There is a big caveat, however: achieving this result will require both solid indicators and metrics against which to gauge progress, as well as robust monitoring and evaluation mechanisms. The DFA is only beginning the laborious process of developing such mechanisms.

The framework also places a welcome emphasis on state-building, being designed to help other countries build the institutions they need to provide security, create the conditions for growth,

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<sup>7</sup> Although not public, by process of elimination they include Belarus, Burma, China, Cuba, Iran, Libya, North Korea, Syria, Uzbekistan, Venezuela, and Zimbabwe. This category was initially named “reforming countries.”

<sup>8</sup> For “rebuilding countries,” e.g., the goal is a “stable environment for good governance, increased availability of essential social services, and initial progress to create policies and institutions upon which future progress will rest.”

and govern effectively. It also recognizes, at least implicitly, that advancing “development” may rely on a wide range of policy instruments, from multiple agencies, to address the poor governance and internal conflict that beset so many developing countries.<sup>9</sup> What the administration has not yet developed, in the view of multiple officials consulted, is a rigorous process to ensure thorough deliberation and adjudication of the various U.S. policy goals at stake in each particular aid recipient, including how these should be balanced and integrated.

### *Old Wine in New Bottles?*

Despite these potential benefits, the administration’s reform plan confronts several potential pitfalls. Perhaps the major question is whether the proposed reforms will have any measurable impact on either the strategic coherence of foreign assistance or its impact on the ground, or instead devolve into business as usual or (even worse) another layer of bureaucratic complexity. One of the prime motivations for overhauling U.S. assistance was the frustration of senior State Department officials that foreign aid resources were not strategically linked to advance either the main goals of U.S. foreign policy or U.S. priorities in particular countries. In principle, the traditional Mission Performance Plans (MPPs) -- which required embassies and USAID missions to justify resource requests in terms of an overall State-USAID Strategic Plan -- should have been sufficient to ensure such coherence. In practice, MPPs often reflected the predilections of individual agencies, bureaus, and offices. By the time they arrived in Washington, in the words of one official, they tended to be “95% pre-cooked.” The DFA may be able to encourage a more rigorous approach, including vigorous debate over the relative priority of various objectives and the resources that should be devoted to each.

Whether such rigor will be pursued remains to be seen. Some early indications have not been encouraging. Participants in several DFA-chaired meetings on “fast track” countries complained that deliberations were rushed and chaotic, that they received little training or guidance about how to actually apply the new framework, and that there was no consistent planning methodology to help determine where and how to spend limited resources based on a clear set of criteria, desired outcomes and contextual factors. Rather than engaging in a genuine reassessment about how aid monies should be allocated to achieve the five strategic goals, country meetings often devolved into “rice bowl” exercises, whereby participants simply mapped last year’s agency budgets over the new framework, shoe-horning current programs and activities under the five core objectives established by the DFA.<sup>10</sup> To avoid such shortcomings in the future, DFA should craft a more robust planning methodology to guide five year strategic and one year operational plans for each country.

Beyond the risk that nothing much will change, there is also the danger that the reform plan could fail, or even make things worse. Three misgivings are noteworthy and will be discussed in the remainder of this essay. First, the scope of action envisioned for the Director of Foreign Assistance may be too small to make a difference. Without additional legislation, a huge

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<sup>9</sup> The need for integrated approaches was a theme *On the Brink: Weak States and U.S. National Security*, produced by the CGD-sponsored Commission on Weak States and US National Security. See also Robert Picciotto, et. al., *Striking a New Balance: Donor Policy Coherence and Development Cooperation in Difficult Environments*, background paper for OECD/DAC Learning and Advisory Process on Difficult Partnerships (January 13-14, 2005).

<sup>10</sup> Interviews with several participants involved, summer 2006.

proportion of U.S. foreign aid will remain outside his authority, including in domestic agencies and the Department of Defense, as well as being constrained by congressional earmarks.<sup>11</sup>

Second, there is a risk that strategic coherence will come at the expense of good development outcomes, as short-term diplomatic or security concerns overwhelm long term efforts to nurture effective institutions. The integration of foreign aid under the authority of a single individual sounds attractive, but one must recall that development and diplomatic actors -- to say nothing of defense agencies -- possess different mandates, motivations, time lines, and operating structures. Striking the right balance between the imperatives of security, democracy promotion, and development will be an ongoing challenge.

Third, the reforms do little to correct several other deficiencies in U.S. assistance policy. These include inadequate U.S. attention to fragile states; weak civilian capacity to conduct post-conflict reconstruction efforts; anemic U.S. support for multilateral cooperation with other donors; insufficient U.S. commitment to building “ownership” within host countries; and poor U.S. performance in monitoring and evaluation of aid. The following sections outline these concerns and (where possible) identify steps the DFA and others might take to alleviate them.

### **A Constrained Coordinator**

A main impetus behind foreign aid reform is the perceived chaos of the U.S. foreign aid regime, which has U.S. assistance pouring out of multiple spigots across the U.S. government. With this goal in mind, the DFA’s mandate includes providing “coordination and guidance to *all* foreign assistance delivered through other agencies and entities of the U.S. government, including the Millennium Challenge Corporation and the Office of the Global AIDS Coordinator.”<sup>12</sup> Unfortunately, the office’s aspirations may well outstrip its practical capacities and legal authorities. To be truly effective, the DFA needs – but will be unlikely to receive – authority to (1) shift funds across accounts within USAID and the State Department; (2) roll back outdated and irrelevant congressional earmarks on foreign aid; (3) coordinate the independent MCA and HIV/AIDS initiatives; and (4) assert his authority over foreign aid spending by other U.S. agencies, most notably the Department of Defense.

#### *Limitations on Shifting Funds across State and USAID Accounts*

In principle, the DFA is empowered to manage all State Department and USAID assistance, including reallocating funds among countries and programs. In practice, his ability to foster strategic coherence will be limited by the existence of eighteen distinct State Department and USAID accounts. To cite one potential example, today some three quarters of U.S. aid programs in sub-Saharan Africa are in health and education, whereas some of the most pressing challenges are in governance, growth and security. When it comes to shifting allocated funds within specific accounts (such as Development Assistance or DA), the DFA can submit a reprogramming request to Congress -- though even in this case legislative approval is not

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<sup>11</sup>Larry Nowels and Connie Veillette, “Restructuring U.S. Foreign Aid: The Role of the Director of Foreign Assistance,” CRS Report for Congress, June 16, 2006, p. 3.

<sup>12</sup>Emphasis added. State Department fact sheet, “New Leadership Role for U.S. Government Foreign Assistance,” January 13, 2006.

guaranteed. Things will get much more complicated if the DFA tries to shift allocations across accounts (say, from DA to Economic Support Funds), since the relevant Congressional committees are likely to resist to preserve their powers of oversight and appropriation.

### *A Plague of Earmarks*

Even more problematic, the reform plan does nothing to alleviate the problem of earmarks, which mandate that foreign assistance funds be devoted to particular countries or purposes. Today's foreign operations budget is constrained by hundreds of distinct Congressional earmarks, as well as multiple executive branch directives, many of which reflect parochial interests and undercut aid effectiveness, particularly from a development perspective. They are also very difficult to remove, given the entrenched support of domestic constituencies and special interests. Although often framed as a specific pathology of Congress, the White House is also culpable, particularly given the proliferation of "Presidential Initiatives" that often come at the expense of established aid programs. Unless Tobias can persuade Congress to eliminate some of these restrictions and impose discipline on the executive branch itself, he will find it difficult to align State and USAID funds with pressing U.S. priorities in particular countries.

### *Lack of Control over MCA and PEPFAR*

Even if the DFA succeeds in rationalizing foreign assistance within State and USAID, a large proportion of aid resources will remain beyond his reach, including the Bush administration's two signature initiatives, MCA and PEPFAR. By statute the MCC was created as an independent corporation, and the Office of the Global AIDS Coordinator (OGAC) reports directly to the Secretary of State.<sup>13</sup> Nevertheless, the DFA aspires to offer "guidance" to both, through regular, structured conversations to ensure information sharing and harmonization of approaches. State Department officials also note that Tobias, as USAID Administrator, sits on the board of the MCC, and that the Secretary of State serves as chair. Despite these assurances, the actual substance of the DFA's "dotted line" relationship with MCC and OGAC remains unclear. Without budget authority the DFA may find that its guidance is simply ignored.

### *Coordinating Foreign Aid across Domestic Agencies*

Equally problematic, the DFA lacks any clear authority over numerous foreign aid accounts and activities of domestic departments and agencies that in 2005 controlled 21% of U.S. foreign assistance. Some of these aid programs -- including those pursued by the Departments of Agriculture, Energy, Health and Human Services, Labor, and Treasury -- are quite large. The Treasury Department, for example, controls U.S. relations with the international financial institutions, as well as the extension of debt relief and provision of technical assistance.<sup>14</sup> During his confirmation hearings, Tobias indicated a desire to institute a "formal process" to fulfill his mandate of providing "coordination and guidance" across the interagency. Such efforts have been tried in the past without much luck, as in the creation of a Development Coordinating

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<sup>13</sup> Although there were reasonable grounds for establishing OGAC and MCC as independent entities, the costs have included a duplication of in-country aid delivery mechanisms and added hurdles for donor coordination.

<sup>14</sup> Other departments (e.g., Commerce, Homeland Security, Interior, Justice, Transportation) also have aid programs.



Council in 1973 (as Section 640B of an amended Foreign Assistance Act).<sup>15</sup> One interim if imperfect option would be for the President or NSC to require relevant Cabinet officials to meet regularly with the DFA to review issues, trends, gaps and duplication in foreign aid policies.

### *Reining in the Pentagon*

Finally, it is highly unlikely that the DFA will have any practical influence over the expanding aid role of the Department of Defense, including post-conflict reconstruction and counterterrorism, counter-narcotics and humanitarian assistance. The growth in DoD programs is one of the most striking recent trends in foreign aid. In Iraq and Afghanistan, funds appropriated to DoD for reconstruction and stabilization totaled \$4.66 billion in FY06, with an additional \$500 million for the flexible Commanders' Emergency Response Program (CERP), in addition to \$7 billion in the FY05 supplemental for training and equipping security forces in those countries. DoD funds go well beyond just military activities, to include the repair of oil infrastructure and health care for injured Iraqi children. Outside Iraq and Afghanistan, the FY06 budget provides DoD with \$200 million for counterterrorist military assistance and training of foreign militaries, as well as \$917.7 million for counter-drug activities in nine countries.<sup>16</sup>

The emergence of DoD as a massive aid provider is a problematic development, since it encroaches on the State Department's leadership in U.S. foreign policy. In early 2006, the Pentagon secured even more leeway, gaining authority from Congress (under provision 1206 of the National Defense Authorization Act) to control \$200 million in Train and Equip funds for counterterrorism purposes worldwide.<sup>17</sup> On May 5, President Bush identified approximately twenty countries as partners in the "global war on terrorism" that were eligible for direct funding from the Department of Defense. The expansion of the U.S. military into development has taken it far from its ostensible mandate. One recent example is the involvement of the Combined Joint Task Force-Horn of Africa in the construction of schools in Kenya.<sup>18</sup>

In sum, while some administration officials claim the DFA will manage 80% of U.S. foreign aid, the true proportion is likely to be considerably smaller, given the separate status of PEPFAR, MCA, and the programs of multiple domestic agencies and DoD. Indeed, the Congressional Research Service estimates that in FY05 the DFA would have controlled only 55% of U.S. foreign aid (with DoD controlling 19% and other departments and agencies some 26%).

### **A Commitment to Development?**

The previous section suggests clear limits to the DFA's practical ability to bring coherence to U.S. foreign assistance. But this raises a more general question: *coherence for what?* The development community, for its part, has long advocated "policy coherence for development" – that is, the alignment of aid and non-aid policy instruments to advance sustained economic

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<sup>15</sup> Nowels and Veillette, "Restructuring U.S. Foreign Aid," p. 5.

<sup>16</sup> Nowels and Veillette, "Restructuring U.S. Foreign Aid," pp. 5-6

<sup>17</sup> The use of these funds is subject to the concurrence of the Department of State. [http://thomas.loc.gov/cgi-bin/cpquery/?&sid=cp109313am&refer=&tr\\_n=sr254.109&db\\_id=109&item=&sel=TOC\\_839886&](http://thomas.loc.gov/cgi-bin/cpquery/?&sid=cp109313am&refer=&tr_n=sr254.109&db_id=109&item=&sel=TOC_839886&).

<sup>18</sup> "Kenyan Government, U.S. Military Build School in Lamu, Kenya,"

<http://usinfo.state.gov/xarchives/display.html?p=washfile-english&y=2006&m=September&x=20060920165041MBgrebneerG0.4850733>

growth and poverty alleviation. In contrast, the over-riding goal of the administration's reform plan might be labeled "policy coherence for national security." Indeed, when Secretary Rice announced her plans for foreign aid reform, many in the development community were struck by her failure to mention poverty alleviation as a priority goal of U.S. aid policy. She couched her remarks not in terms of improving the human condition through social and economic progress but rather in terms of good governance, democracy and their benefits for U.S. national security.

On one level, there may be less daylight between the administration and its critics than meets the eye. The basic premise of the reform plan, according to State Department officials, is one embraced by political scientists and development economists in recent years, namely, that institutions matter. That is, aid interventions are likely to be effective in promoting development only in good policy and institutional environments. The reform plan envisions nurturing the institutional infrastructure of poor countries so that the latter can attain the diverse goals of physical security, accountable government, economic growth and social welfare. The Bush administration might reduce anxieties within the development community by clearly stating its commitment to poverty alleviation and the achievement of the Millennium Development Goals,<sup>19</sup> while insisting that these objectives can be realized only through prior investment in institutions.

### *The "Securitization" of Foreign Aid?*

On another level, however, the administration's heavy emphasis on national security and democracy promotion as the main rationales for U.S. foreign aid raises questions about its commitment to the development enterprise. While ameliorating poverty, reducing political extremism, and advancing democracy are presumably mutually reinforcing in the long run, there may well be short-term tensions and trade-offs, as "freedom from fear" (for us) trumps "freedom from want" (for them). A big concern is that DFA officials will be under constant pressure, on diplomatic and national security grounds, to divert resources and attention toward political purposes, such as rewarding allies in the U.S.-led "global war on terrorism" (GWOT) and away from nurturing institutions in countries of lower strategic profile where human needs are urgent. Of course, geopolitical concerns have long guided the allocation of much U.S. foreign aid, most obviously in the form of Economic Support Funds (ESF) and Foreign Military Financing (FMF) for strategic allies. The anxiety today is that the integration of USAID into State will accelerate this trend, as the priorities of the stronger entity overwhelm those of the weaker.

Since 2001 the United States has largely avoided hard trade-offs between security and development. With overall ODA levels rising, the administration could reward Pakistan, Jordan and other "GWOT" allies even as it got PEPFAR and MCA up and running. Nor is there any evidence through 2005 that core USAID aid resources have suffered from new strategic priorities.<sup>20</sup> But as a yawning budget deficit exerts downward pressure on spending, development accounts will become tempting targets. The administration's FY07 budget, which

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<sup>19</sup> On this theme, see Interaction Board Statement, "Reform of United States Foreign Assistance," March 2006. [http://www.interaction.org/files.cgi/5218\\_InterAction\\_Board\\_Statement\\_on\\_US\\_Foreign\\_Assistance\\_Reform.pdf#search=%22interaction%20board%20statement%20reform%20of%20united%20states%20foreign%20assistance%22](http://www.interaction.org/files.cgi/5218_InterAction_Board_Statement_on_US_Foreign_Assistance_Reform.pdf#search=%22interaction%20board%20statement%20reform%20of%20united%20states%20foreign%20assistance%22)

<sup>20</sup> Todd Moss, David Roodman and Scott Standley, "The Global War on Terror and U.S. Development Assistance: USAID Allocation by Country, 1998-2005," CGD Working Paper 62 (July 2005) <http://www.cgdev.org/content/publications/detail/2863/>

calls for cuts in accounts for Development Assistance (-15%) and Child Survival and Health (-13%) but a surge in Economic Support Funds (+23%) for strategic countries and International Narcotics and Law Enforcement funds (+69%), may signal the start of a troubling trend.<sup>21</sup>

The Bush Administration sees development as inextricably linked to broader U.S. foreign policy and national security goals. Over the long term, this is undoubtedly true: promoting development -- including investments in health, education, and economic opportunity -- is likely to advance U.S. security. But development is also a worthwhile end in and of itself, one that often has little to do with national security directly: it is just the right thing to do. It also requires long-term engagement with entire societies, rather than simply managing state-to-state relations and responding to immediate crises. Moreover, to avoid being compromised in both their effectiveness and perceived intent, development initiatives may sometimes require distance from diplomats and security officials. Indeed, too close an alignment with U.S. national security policy, or too explicit an intent to change governing structures of host nations, can undermine the perceived neutrality, credibility and generosity of U.S. development efforts in partner countries.

### *Promoting Democracy, Promoting Development*

In a similar vein, the administration's declaration of democracy promotion as the cornerstone of U.S. global engagement -- espoused most dramatically in the *National Security Strategy of 2006* -- has potentially problematic implications for U.S. development policy. Like the administration, most in the development community support the emergence of democratic, well-governed states. But they also understand that democracy promotion and institution-building are not the same thing, and that in some circumstances the latter must take priority over the former. Democracy, moreover, is not the only measure of development. While the United States and other donors should of course work for positive political change, they also need to fight poverty, hunger, hopelessness and disease in non-democracies. Finally, the emergence of democracy will require sustained -- in some cases decades-long -- investment, including in social sectors like health and education. In sum, promoting healthy institutions of governance is a worthy goal of foreign assistance. But it would be a mistake to subsume all U.S. foreign aid objectives in a democracy promotion agenda that may be difficult to achieve in many contexts in the short or medium term.

### *Whither -- or Wither -- USAID?*

The foreign aid reform plan also casts doubt on USAID's capacity to serve as an effective promoter of global development. Already, much of USAID's control over development policy -- and increasingly over programs -- has migrated to the State Department.<sup>22</sup> Some critics believe that foreign aid reform will accelerate what they see as a "merger by stealth," transforming USAID into a mere implementer of (some) aid programs with little voice over policy.<sup>23</sup>

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<sup>21</sup> Data from Global Leadership Campaign, <http://www.usgloballeadership.org/archives/000222.php>. Jim Loeb, "Guns Over Butter at Home and Abroad," *Interpress Service*, February 7, 2006. Guy Dinmore, "Aid Organizations Hit Out at Bush Budget," *Financial Times*, February 7, 2006. To date the development accounts have been largely unscathed due to congressional cuts in MCC requests.

<sup>22</sup> Examples include Support for East European Democracy (SEED), the President's Emergency Plan for AIDS Relief, and counter-narcotics programs.

<sup>23</sup> Carol Lancaster, "Bush Foreign Aid Reforms Do Not Go Far Enough," *Financial Times*, January 20, 2006. The administration added some fuel to this fire by suggesting initially that overall goals and priorities for foreign aid

State Department officials and Tobias himself have rejected the characterization of foreign aid reform as a takeover of USAID by the State Department, arguing that it has actually enhanced USAID's stature and influence, by placing the agency's development sensibilities and operational culture at the heart of U.S. decisions about the allocation of the entire foreign aid budget. Nevertheless, misgivings about the politicization of foreign aid have persisted in the months since the reform plan was announced. According to participants in DFA-led interagency meetings, aid ceilings for each recipient have been set by senior State Department officials prior to the meetings themselves, on the basis of the country's ranking in U.S. foreign policy priorities. The rationales for these rankings and aid ceilings were never spelled out.<sup>24</sup>

The administration may be able to mollify its critics by reassuring them that development will not be sacrificed to the priorities and time horizons of foreign policy professionals and that aid policy will be formulated by people who will actually be responsible for designing and implementing programs. These assertions will be more credible if the administration simultaneously persuades Congress to begin restoring USAID's once vaunted technical expertise, including by expanding its ranks of professional Foreign Service Officers.

### **Issues the Reform Plan Fails to Address**

In the inaugural essay in this series, CGD president Nancy Birdsall and colleagues outlined several weaknesses in U.S. development policy: These included the relatively low volume and poor quality of U.S. foreign assistance; the mixed record of U.S. policies to advance development beyond foreign aid (such as trade, technology, environment, migration, security, and investment policy); the failure to come up with a coherent fragile states strategy; and the U.S. penchant for unilateral and bilateral approaches at the expense of more cost- and impact-effective coordination within donor community.<sup>25</sup> It is unclear that the Administration's reform does anything significant to resolve these problems. Nor does it offer the promise of better U.S. performance in conducting post-conflict operations; building host country ownership of aid programs; and monitoring and evaluating U.S. foreign assistance.

#### *An Incomplete Taxonomy: Inattention to Fragile States*

A big shortcoming in the reform plan is the omission of a coherent strategy to help bolster effective institutions in the world's 50-odd weak and failing states.<sup>26</sup> For diplomatic reasons, the administration did not specify a "fragile state" category in its taxonomy of aid recipients,

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would be set by the Undersecretary of State for Political Affairs, typically a senior Foreign Service Officer with little development expertise. U.S. Department of State, "Illustrative Foreign Assistance Work Flow," January 31, 2006

<sup>24</sup> Interviews with State Department officials, August 2006.

<sup>25</sup> Nancy Birdsall, Stewart Patrick, and Milan Vaishnav, "Reforming U.S. Development Policy: Four Critical Fixes," *CGD Essay*, February 2006. Despite a recent up-tick in development assistance, the United States remains in the bottom half of donors in terms of ODA as a share of GDP. Moreover, a very high percentage of that aid – 77% by one estimate -- is "tied" aid, meaning that it can only be spent on goods and services procured in the United States.

<sup>26</sup> For an indicative list, developed in collaboration with the Susan Rice of the Brookings Institution, see Stewart Patrick and Kaysie Brown, "Fragile States and U.S. Foreign Assistance: Show Me the Money," Working Paper 96, Center for Global Development (August 2006). <http://www.cgdev.org/content/publications/detail/9373/>

lumping most such states into the catch-all “developing country” category.<sup>27</sup> Besides being inconsistent with the administration’s espoused strategic concern with weak and failing states,<sup>28</sup> this lacuna suggests that the United States has a reactive policy toward war-torn countries and a punitive one toward rogue states, while lacking a preventive strategy to stop struggling states from sliding toward either abyss. It is also problematic from a practical standpoint, since -- as the Development Assistance Committee (DAC) of the OECD has recognized<sup>29</sup> -- states that are unable or unwilling to provide essential political goods to their inhabitants pose distinctive policy dilemmas for donors and require innovative approaches to development cooperation.

In the absence of a specific fragile states category, one hopes that the administration will bear these unique needs in mind as it develops its country plans, particularly for “fast track” countries, since 21 of the 35 in this group can be classified as fragile.<sup>30</sup> Any review of current programs should also explore a better balance between aid to good performers and assistance to deserving fragile states. In this regard, a close analysis of the administration’s FY07 budget request reveals a yawning gap between U.S. rhetoric regarding the importance of weak and failing states and actual resource allocations to helping reform and bolster such nations. Beyond Iraq, Afghanistan and Pakistan, only a tiny proportion of International Affairs spending (the so-called “150 Account”) goes to advancing stability and development in fragile states.<sup>31</sup>

#### *Unclear Implications for Post-Conflict Operations*

Another measure of success for the reform effort will be whether it reinforces civilian leadership in U.S. “nation-building” efforts. Just one month before Secretary Rice announced her transformational diplomacy initiative, the White House released National Security Presidential Directive (NSPD) 44, assigning to the Secretary of State leadership in coordinating interagency efforts to stabilize and reconstruct countries emerging from violent conflict.<sup>32</sup> The focal point for this mission was intended to be the Office of the Coordinator for Reconstruction and Stabilization (S/CRS), created in summer 2004 in response to the perceived failings of postwar planning for Iraq. The office’s mandate includes the creation, management, and deployment of standing civilian response capabilities to war-torn countries for a variety of purposes, including fostering public security, legitimate governance, social and economic welfare, and justice and reconciliation. Unfortunately, the ability of S/CRS to fulfill this ambitious mandate has been crippled from the outset by the refusal of Congress to provide the office with anywhere near the resources it requires, by insufficient political support from the White House, and by bureaucratic resistance from within the State Department itself.

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<sup>27</sup> Some of today’s fragile states are captured in the administration’s “rebuilding” and “restrictive” categories.

<sup>28</sup> *National Security Strategy of the United States of America 2002*.

<sup>29</sup> OECD/DAC, “Principles for Good International Engagement in Fragile States,” April 7, 2005, <http://www.oecd.org/dataoecd/59/55/34700989.pdf>

<sup>30</sup> Stewart Patrick and Kaysie Brown, “Fragile States and U.S. Foreign Assistance.”

<sup>31</sup> Patrick and Brown, “Fragile States and U.S. Foreign Assistance.” The United States is not alone in this regard: recent data from the DAC reveals that certain fragile states receive significantly less aid than do other low-income countries, despite similar governance and performance indicators. OECD DAC, *Monitoring Resource Flows to Fragile States*, DAC News, July 26. <http://www.oecd.org/dataoecd/48/6/37046754.htm>

<sup>32</sup> National Security Presidential Directive 44, “Management of Interagency Efforts Concerning Reconstruction and Stabilization,” December 7, 2005, <http://www.fas.org/irp/offdocs/nspd/nspd-44.html>

In the absence of a robust civilian capability to stabilize and reconstruct postwar societies, the Department of Defense (DoD) will inevitably continue to fill this vacuum. In July 2005, Secretary of Defense Donald Rumsfeld endorsed DoD Directive 3000.05, on “Military Support for Stability, Security, Transition, and Reconstruction Operations (SSTR),” declaring that such activities would henceforth constitute a “core military mission.”<sup>33</sup> While acknowledging that many such tasks are more appropriately carried out by civilians, the directive notes that this may be impossible in chaotic environments or where civilian capabilities are lacking. Accordingly, U.S. troops must be prepared to carry out all relevant activities, ranging from rebuilding infrastructure to reforming security sector institutions to reviving the private sector to developing institutions of representative government. Indeed, frustrated by the delay in building adequate reconstruction capabilities within civilian agencies, officials in the Pentagon are exploring the creation of a *civilian* cadre at DoD to perform such functions, akin to a colonial service.

The Pentagon directive is consistent with the expansion of DoD’s role in implementing relief, reconstruction and development. Given its unique logistical capabilities, massive resources and ability to operate in hostile environments, the U.S. military is frequently called upon to respond in the immediate aftermath of natural disasters (such as the Indian Ocean tsunami or Pakistani earthquake) and during active hostilities (such as the insurgency in Iraq). However, in most efforts at post-conflict stabilization and reconstruction, as well as humanitarian emergencies, primary reliance on U.S. military forces to implement assistance is neither good development practice nor good public diplomacy, since it tends to encourage unsustainable, externally imposed interventions and to tar reconstruction efforts with a military brush.

Going forward, a priority for the Bush administration must be to give primary responsibility for implementing U.S. foreign assistance programs in post-conflict environments to adequately resourced civilian actors, consistent with the central role assigned to the Department of State by NSPD 44.<sup>34</sup> In parallel fashion, it is incumbent on the Secretary of State to reaffirm the primacy of the S/CRS within the State Department -- and by extension within the interagency -- in leading civilian efforts to plan, prepare for, and conduct post-conflict stabilization and reconstruction operations. While these tasks fall squarely within the mandate of S/CRS, the creation of the new DFA office has clouded matters, as exemplified by the DFA’s insistence on a lead role in managing U.S. efforts to assist the reconstruction of Lebanon in summer 2006.

### *The Limits of Unilateralism: Harmonizing Donor Approaches*

Another major challenge for the DFA will be to ensure that greater coordination within the U.S. government does not make it even more difficult for the U.S. government to partner and engage in real dialogue with other donors and local actors. The United States has a lower commitment to multilateralism in development cooperation than most other donor states of the OECD/DAC. This penchant for independent action expresses itself in a variety of ways, including the modest

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<sup>33</sup> Cite DoD Directive 3000.05, “Military Support for Stability, Security, Transition, and Reconstruction (SSTR) Operations”, November 28, 2005 <http://www.dtic.mil/whs/directives/corres/html/300005.htm>

<sup>34</sup> It is worth noting that the U.S. military has been one of the most ardent proponents of a credible civilian capability for post-conflict operations. To advance this goal, the Pentagon has supported section 1207 of the Defense Authorization Act to permit the transfer of up to \$100 million in DoD funds over the next two years to support State Department’s involvement in such activities.

share of U.S. ODA channeled through international institutions and U.S. tendency to create parallel aid delivery mechanisms rather than rely on established multilateral bodies or donor coordination mechanisms. There is some danger that the U.S. reform effort, even if it improves the coherence of U.S. foreign aid, will undermine harmonization within the donor community.

There are two issues at stake here, one philosophical and the other practical. First, the merging of development with national security makes the United States something of an outlier within the community of OECD/DAC donors, where the dominant trend has been to empower development agencies, on the grounds that poverty alleviation is a worthy goal in its own right. By treating development simply as a means (and subordinate) to security ends, the United States risks speaking – and acting -- past other donors. Second, from a practical perspective, the US is rarely the largest single donor in any one country, where the role of the World Bank, the EU, Japan, the UK, France or others may be greater. In such settings it makes little sense for the United States to design and implement its aid programs in isolation. Further, U.S. national efforts to integrate the development, political, and military purposes of U.S. foreign aid -- and the blurring of these components in the field -- may create insurmountable obstacles for harmonized donor approaches to development cooperation, as well as for coordination with NGOs.<sup>35</sup>

#### *Reconciling Host Country Ownership with Aid Programs “Made in the USA”*

Foreign aid reform will pose similar challenges for partnerships between the United States and the beneficiaries of its assistance. One of the core principles espoused by the OECD/DAC is that development cooperation should be founded on the basis of alignment with host country priorities. Some donors take this injunction very seriously.<sup>36</sup> Current blueprints for U.S. foreign aid reform, however, say little about the role of developing country governments and other local stakeholders in shaping the contours of U.S. assistance strategies. Indeed, given its emphasis on top-down strategic direction from Washington, it is unclear how or when in the process of policy formulation the administration intends to solicit such input from local partners, or whether this can possibly rise above the tactical level.

One welcome step would be for each U.S. embassy (and USAID mission) to institutionalize an annual dialogue with the host government and key elements of civil society, including the private sector and citizens’ groups, to solicit their views on the preconditions for effective institutions of governance, broadly defined. The foreign assistance relationship could then be codified, as in the case of the MCA, in the form of a “contract” spelling out the purposes to which U.S. aid will be put and the responsibilities of both partners. Such an arrangement would pay dividends in terms of both aid effectiveness and public diplomacy. Beyond eliciting local views about the main challenges to security, good governance, economic freedom, and investing in people, this approach would highlight the generosity of the United States in addressing these obstacles.

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<sup>35</sup> This issue is particularly problematic in the field of humanitarian action but also poses grave difficulties for development actors, particularly in volatile post-conflict settings. See Victoria Wheeler and Adele Harmer, eds., *Resetting the Rules of Engagement: Trends and Issues in Military-Humanitarian Engagement*, Humanitarian Policy Group Report 21, March 2006, Overseas Development Institute, <http://www.odi.org.uk/hpg/papers/hpgreport21.pdf>

<sup>36</sup> See, for example, *Shared Responsibility: Sweden’s Policy For Global Development*, <http://www.sweden.gov.se/content/1/c6/02/45/20/c4527821.pdf>

## *Taking Monitoring and Evaluation Seriously*

A final weakness of the reform effort to date is the absence of a mechanism to monitor and evaluate the impact of U.S. foreign aid under the new framework. As colleagues at the Center for Global Development have documented, failure to take monitoring and evaluation seriously is a recurrent weakness of donor aid initiatives.<sup>37</sup> This failing is particularly common within the U.S. government, which often measures inputs and outputs rather than impacts or outcomes. To maintain Congressional and public support for foreign assistance, the Bush administration and its successors will need to show concrete results from the use of taxpayer dollars.

The mandate of the DFA includes responsibility for “monitoring and evaluation of program results against goals and objectives,” and Ambassador Tobias has made a welcome commitment to take this obligation seriously.<sup>38</sup> To date, however, there has been little detail about how the new office intends to define “success” across its five core objectives, and about what indicators it will use to gauge progress in achieving them. Those who have seen initial DFA efforts at defining metrics suggest that these will measure only outputs -- the number of programs implemented or the amount of money spent -- and not outcomes -- the relative impact of inputs.

To some degree, the DFA will be able to rely on well-developed metrics used by the MCA, particularly in the three spheres of just governance, investments in people, and economic freedom. Identifying the right indicators for “peace and security” will be more daunting, given the potential breadth of the categories of violence or insecurity (including crime, terrorism, counter-narcotics, weapons of mass destruction, and internal conflict) and the lack of scholarly agreement on appropriate metrics. DFA officials have begun to reach out to NGOs and policy experts for ideas about how to measure state performance in this area.<sup>39</sup> Beyond identifying indicators, there remains the dilemma of how (and over what time frame) to assess progress toward the “end goal of foreign assistance” for each country category, in part because the DFA’s proposed end states are quite general and ill-defined.<sup>40</sup> Given the inherent disincentives to objective in-house monitoring and evaluation, the ideal solution would be for the Secretary of State to establish an independent evaluation authority that could perform this function.

### **Wanted: A New Foreign Assistance Act and a New Cabinet Department**

The U.S. foreign aid regime is clearly broken, but it is not clear that the administration’s reform plan – however well intended -- will fix it. Under the current scenario, the Director of Foreign Assistance will face high practical hurdles in his effort to integrate the aid efforts of the State Department and USAID, much less to the multiple aid programs run by U.S. domestic agencies and DoD. Beyond this matter of authority, the administration needs to devote more explicit

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<sup>37</sup> Report of the Evaluation Gap Working Group, “When Will We Ever Learn? Improving Lives Through Impact Evaluation,” Center for Global Development (May 2006), <http://www.cgdev.org/content/publications/detail/7973>

<sup>38</sup> As Tobias testified on April 26, 2006, “The new Foreign Assistance Framework and Operational Plans will improve accountability by allowing stakeholders, such as Congress, to track progress against invested funds across countries, programs and partners based on a defined set of goals and indicators.” <http://www.state.gov/f/releases/remarks2006/68404.htm>

<sup>39</sup> Briefing on Foreign Aid Reform, Office of the Director of Foreign Assistance, August 3, 2006.

<sup>40</sup> For “Developing Countries,” e.g., the end goal is “continued progress in expanding and deepening democracy, social service delivery through public and private organizations, and policies that support economic growth.”



attention to the complicated question of how to balance competing U.S. goals -- including security, diplomatic, and development considerations -- in countries receiving U.S. aid. Without a regularized process to conduct such deliberations and a serious methodology for planning the integration of various foreign aid tools, the quest for coherence will inevitably suffer. Finally, the administration's approach to the foreign aid conundrum still leaves U.S. assistance policy with critical weaknesses, including the lack of a fragile states strategy, weak civilian capabilities for post-conflict operations, an inadequate commitment to multilateral cooperation, and insufficient mechanisms for monitoring and evaluation. Correcting some of these flaws should be one of the administration's priorities in the months ahead.

A truly comprehensive approach to foreign aid reform, however, will require more dramatic steps, including an overhaul of the Foreign Assistance Act (FAA). The White House missed an opportunity during 2005 to lay legislative groundwork for this objective within the Republican-led Congress. Since the Bush administration is highly unlikely to pursue this goal in its final two years in office, any major legislative change will likely await its successor.

A central component of any reform of the FAA should be the creation of a Cabinet-level Department for International Development. This would place development on a stronger footing within the U.S. executive branch, befitting its growing importance to U.S. foreign policy. Within Washington policy circles, there has been much discussion of late about integrating the "3Ds" -- diplomacy, defense, and development -- of U.S. global engagement.<sup>41</sup> This trend is apparent within the wider donor community, too, but with a critical difference: Outside the United States, the movement toward "whole of government" or "joined up" approaches typically takes the form of a consortium of equals (or at least quasi-equals), including a robust development ministry alongside foreign and defense ministries.<sup>42</sup>

It is true that the political headwinds against such an independent cabinet department remain fierce in Washington. In the interim, this administration or the next can take concrete steps to improve the coherence of U.S. development policy. One place to begin would be for the President to issue an executive order designating the DFA as the head of development issues within the United States government, and authorizing the DFA to conduct a "Quadrennial Development Review" (similar to its defense counterpart) that would drive development programming by all federal departments.<sup>43</sup> Such a commitment would underscore to the entire government the centrality of development as an equal pillar, along with defense and diplomacy, in the realization of U.S. foreign policy goals in developing countries.

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<sup>41</sup> See consensus recommendations of the Aspen Institute's Global Interdependence Initiative, "Guiding Principles for Effective Development Assistance in a 3-D World," May 16-17, 2006, retreat at Wye, MD, [http://www.gii-exchange.org/web/file\\_upload/Principles\\_Effective\\_3D.pdf#search=%22Guiding%20Principles%20for%20Effectiv e%20Development%20Assistance%20in%20a%203-D%20World%22](http://www.gii-exchange.org/web/file_upload/Principles_Effective_3D.pdf#search=%22Guiding%20Principles%20for%20Effectiv e%20Development%20Assistance%20in%20a%203-D%20World%22)

<sup>42</sup> See Stewart Patrick and Kaysie Brown, "*Greater Than the Sum of Its Parts? Comparative Experiences in Whole of Government Approaches to Fragile States*" (working title), a joint report of the Center for Global Development and the International Peace Academy (forthcoming 2006).

<sup>43</sup> Douglas Menarchik of USAID first proposed such a document.