The UNITED STATES

Development Assistance Committee (DAC)

PEER REVIEW

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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The Peer Review Process

The DAC conducts periodic reviews of the individual development co-operation efforts of DAC members. The policies and programmes of each member are critically examined approximately once every four or five years. Five members are examined annually. The OECD's Development Co-operation Directorate provides analytical support and is responsible for developing and maintaining the conceptual framework within which the Peer Reviews are undertaken.

The Peer Review is prepared by a team, consisting of representatives of the Secretariat working with officials from two DAC members who are designated as "examiners". The country under review provides a memorandum setting out the main developments in its policies and programmes. Then the Secretariat and the examiners visit the capital to interview officials, parliamentarians, as well as civil society and NGO representatives of the donor country to obtain a first-hand insight into current issues surrounding the development co-operation efforts of the member concerned. Field visits assess how members are implementing the major DAC policies, principles and concerns, and review operations in recipient countries, particularly with regard to poverty reduction, sustainability, gender equality and other aspects of participatory development, and local aid co-ordination.

The Secretariat then prepares a draft report on the member's development co-operation which is the basis for the DAC review meeting at the OECD. At this meeting senior officials from the member under review respond to questions formulated by the Secretariat in association with the examiners.

This review contains the Main Findings and Recommendations of the Development Assistance Committee and the report of the Secretariat. It was prepared with examiners from > and > for the Peer Review on 7 December 2006.

*In order to achieve its aims the OECD has set up a number of specialised committees. One of these is the **Development Assistance Committee**, whose members have agreed to secure an expansion of aggregate volume of resources made available to developing countries and to improve their effectiveness. To this end, members periodically review together both the amount and the nature of their contributions to aid programmes, bilateral and multilateral, and consult each other on all other relevant aspects of their development assistance policies.*

The members of the Development Assistance Committee are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, the United States and the Commission of the European Communities.

Acronyms

AGOA	African Growth and Opportunity Act
APEC	Asia-Pacific Economic Cooperation
BSS	Basic Social Services
CAFTA	Central American Free Trade Agreement
DAC	Development assistance committee (OECD)
DCHA	Bureau for Democracy, conflict and humanitarian assistance
DFA	Office of the Director of Foreign Assistance
DOC	Development Outreach and Communication Officers
DOD	Department of Defense
FAA	Foreign Assistance Act
FTAA	Free Trade Area of the Americas
FY	Financial year
GDA	Global Development Alliance
GNI	Gross national income
LMICs	Lower middle-income countries
MCA	Millennium Challenge Account
MCC	Millennium Challenge Corporation
MDB	Multilateral Development Bank
MDGs	Millennium Development Goals
NGO	Non-governmental organisation
NSS	National Security Strategy
ODA	Official development assistance
OFDA	Office for Foreign Disaster Assistance
PEPFAR	President’s Emergency Plan for AIDS Relief
PPP	Public-private partnerships
TFCA	Tropical Forest Conservation Act
UNDP	United Nations Development Programme
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNRWA	United Nations Relief and Works Agency for Palestine Refugees in the Near East
USAID	United States Agency for International Development
USG	United States Government

WFP	World Food Programme
WHO	World Health Organisation
WID	Women in development
WTO	World Trade Organisation

Signs used:

USD	United States dollar

( )	Secretariat estimate in whole or part
-	Nil
0.0	Negligible
..	Not available
…	Not available separately but included in total
n.a.	Not applicable

Slight discrepancies in totals are due to rounding.

The United States' Aid at a Glance

UNITED STATES

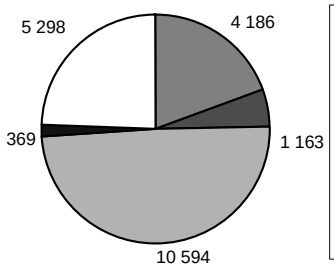
Gross Bilateral ODA, 2004-05 average, unless otherwise shown

Net ODA	2004	2005	Change 2004/05
Current (USD m)	19 705	27 622	40.2%
Constant (2004 USD m)	19 705	26 888	36.5%
ODA/GNI	0.17%	0.22%	
Bilateral share	82%	92%	

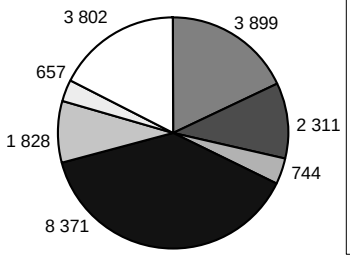
Top Ten Recipients of Gross ODA (USD million)	
1 Iraq	6 926
2 Afghanistan	1 060
3 Egypt	750
4 Sudan	575
5 Ethiopia	552
6 Jordan	368
7 Colombia	366
8 Palestinian Adm. Areas	227
9 Uganda	225
10 Pakistan	224

By Income Group (USD m)

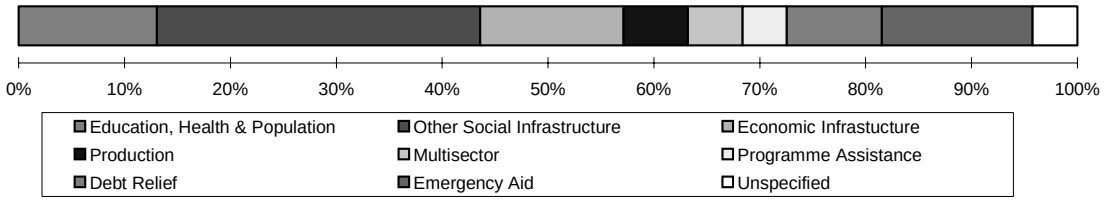
Clockwise from top



By Region (USD m)



By Sector



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THE DAC'S MAIN FINDINGS AND RECOMMENDATIONS

Overall framework and new orientation

The United States is a leader in international development co-operation because of the large size of its economy, its ability to influence global action and its presence within the international donor community. It is the largest donor in the DAC. Historically, the US has justified its development assistance policies in terms of both recipient country needs and its own foreign policy objectives. The events of 11 September 2001 and the "War on Terror" which grew from them have provided the starting point for a renewed American interest in development co-operation. Since that time, the government has used the logic of national security to resuscitate the image of development co-operation with Congress and the American public. A variety of policy statements has helped to define the role of development in relation to this national security perspective. Prominent among them, the National Security Strategies of 2002 and 2006 have moved the United States in significant new directions since the 2002 DAC Peer Review.

Clarifying US development strategy with poverty reduction as the starting point

The US National Security Strategy raises development to the status of one of three pillars of national foreign policy, along with diplomacy and defence (the 3Ds). Building on this strategic perspective, the Department of State has shaped a policy of Transformational Diplomacy, aimed at working "with our many partners around the world to build and sustain democratic, well governed states that will respond to the needs of their people and conduct themselves responsibly in the international system." The extent to which this policy will translate into a clear vision of long-term development on a par with diplomacy and defence, or whether development will remain primarily as a tool to support other priority political goals remains to be seen.

Transformational Diplomacy has crystallised around an operational matrix - the Foreign Assistance Framework. This framework does not yet fully factor in international objectives for reducing world poverty, however, it offers a promising opportunity to do so. Widespread poverty is a major contributor to world insecurity and its reduction is consistent with the expectations of the American public. Another challenge is to broaden the reach of the Foreign Assistance Framework across all US Government development actors, including the Department of Defense. Currently, the framework mainly guides the operations of the Department of State and the United States Agency for International Development (USAID). Similarly, in line with the draft *DAC Principles for Good International Engagement in Fragile States*, the government should pursue approaches that best unite development, defence, diplomatic and humanitarian communities in fragile states. In doing so, the potential for conflict among these different communities should be recognised and ways of actively managing it should be found. There are also complementarities among the communities and this sensitive balance requires an approach which, for example, avoids unnecessary militarization of aid work in the humanitarian sector.

As the Foreign Assistance Framework is further refined and used, it needs to draw more explicitly on the operational lessons learned from other US institutions, such as the Millennium

Challenge Corporation (MCC), and from wider international donor experience. This includes the Paris Declaration aid effectiveness agenda, which focuses on improving the international aid delivery system at the country level. The new framework could include policy goals which link to issues such as streamlining systems, working more with other donors, putting greater focus on country-led development, capacity development and local procedures.

A need to better inform the public

Polls widely concur that the American public supports aid which can efficiently promote the better welfare of the world's poor. This support has grown further since the events of 11 September 2001, even though strategy for the War on Terror has not yet highlighted poverty reduction as a primary objective of US policy. Nevertheless, the public remains cynical over the way government aid programmes are implemented. This includes perceptions that only a small percentage of aid reaches the poor and concern that aid is diverted for more political objectives, such as supporting regimes friendly to the US. Public cynicism and misunderstanding of official aid programmes can be addressed through more ambitious and strategically targeted programmes. Government actions for public awareness have been modest to date, in part because the resources for this purpose are limited by Congress. Given the influence of public opinion in matters of development assistance and the public misunderstanding of the size and role of American aid, public awareness should be a priority task for the government and its development partners.

Recommendations

- DAC commends the US for raising development to a high priority within the 3D foreign policy approach. Development needs to be accorded the same status as diplomacy and defence and the key importance of **poverty reduction** within this mandate should be more explicitly recognised.

- The **Foreign Assistance Framework** has the potential to become an instrument for furthering coherence. To realise this, its scope should be broadened over time to include all government development co-operation actors. The framework also has the potential to be an effective tool for sharing with Congress and other stakeholders the US approach in achieving results in different country contexts and to build in good practice on international aid effectiveness.

- The United States needs to improve **public awareness** of its development co-operation. It should develop a strategy for better targeted and accurate information to the public, while seeking alliances with other public, private and civil society organisations.

Aid volume and distribution

Record high level of ODA

With a record high net official development assistance (ODA) of USD 27.6 billion in 2005, the United States ranked first among DAC members in terms of volume of aid. As a share of Gross National Income, this ODA represented 0.22%. While this was its highest level since 1986, the US ranks second to last within the DAC for this statistic. The bulk of this growth is explained by Iraq debt forgiveness and reconstruction; reconstruction and anti-narcotics efforts in Afghanistan; and specific programmes in Africa, primarily Sudan and Ethiopia. Given the substantial debt relief granted for 2004-05, aid volumes may be lower in the future, although an annual level over USD 20 billion is probable.

The new Framework for Foreign Assistance offers the United States an opportunity to work toward a longer-term ODA plan in line with international donor commitment to greater aid predictability. Such a plan could simultaneously provide a more strategic allocation of aid, whether between bilateral or multilateral instruments or across countries. As the government has opportunities to increase aid, it should consider shifting resources towards low-income countries, including fragile and post-conflict states, many of which are currently receiving insufficient attention, including aid.

Continuation of major allocation trends

Current aid allocations are consistent with several past organisational, geographic and sector allocation trends, often linked to Congressional funding earmarks and Presidential Initiatives. Among the most remarkable was the continued fragmentation of funding among government institutions and the continued redirection of ODA away from USAID. The Agency was responsible for 38.8% of total ODA in 2005 (down from 50.2% in 2002). A primary factor in this decline was the rapid increase in ODA disbursements managed by the Department of Defense (21.7% in 2005 versus 5.6% in 2002). This is consistent with the growing budget trend in support of global security interests, particularly in the Middle East. However, the consistently reduced share of funding to USAID carries risks, both because it is the most experienced government provider of aid and because it contains much of its development expertise.

Government ODA allocations also continue to increase in the sectors of governance, social services and emergency assistance and reconstruction. By contrast, funding to infrastructure and the productive sectors continued to decrease, despite the United States Government's long-standing interest in issues of economic growth.

Finally, while the volume of multilateral ODA has fluctuated over time, its share of gross ODA has experienced a decline from almost 26% at the time of the previous Peer Review to 8% in 2005, among the lowest in the DAC. The DAC has long recognised the relative merits of both bilateral and multilateral approaches to development. The DAC further recognises that the decline in multilateral share is the result of a number of factors rather than a change in US policy. Nevertheless, the Committee encourages the US to review its role in multilateral financing. The US could also develop a clearer performance-based framework for allocating ODA to multilateral institutions, based on the emerging approaches to monitoring effectiveness. At present there is no consistent system in place within the US for tracking results and effectiveness of aid channelled to these institutions.

Recommendations

- The DAC applauds the major increase in American ODA volume and its efforts with the international community to reduce the debt burden of poor countries. The US should work towards a longer-term **ODA plan** that can permit greater aid predictability and a more strategic allocation of funds across instruments and countries.

- The escalating distribution of aid to **crisis countries** and to address emergencies reflects current US policy priorities. The government needs to find a balance between the use of aid in these countries and those where long-term and significantly increased development efforts are required.

- US Government funding of the **multilateral system** has fluctuated and the multilateral share of ODA has declined in recent years. The DAC encourages the government to play

a stronger financing role in the multilateral system. This could usefully be supported by a more consistent performance framework to inform multilateral allocations.

Promoting national and international policy coherence

A clearer US development vision with poverty reduction as its central point is needed as the rallying concept around which to build US policy coherence for development. Based on a more systematic and strategic vision, the government will need to put in place the organisational structure, leadership (plausibly in the Office of the Director of Foreign Assistance) and supporting resources needed to better analyse and manage the policy coherence for development agenda. DAC partners already working in this area could be effective allies in supporting such an emphasis and in generating an internationally informed perspective on these topics.

In light of the size and global impact of the US economy, policy coherence discussions should focus on key areas, such as trade, investment, financial flows and environment.

Recommendations

- The government is encouraged to develop a more explicit policy on the role of policy coherence for development. It also needs to put in place the **resources** needed to carry out analysis and effectively manage the policy coherence agenda, drawing, for example, on the resources of think tanks, academia and civil society.

Aid management and implementation

Bringing the American system together

While about 26 government institutions are involved in providing ODA, five institutions (USAID, Defense, Agriculture, State, Treasury) accounted for over 90% of the funding in 2005. An approach to address this organisational fragmentation was announced in 2006 with the creation of an Office of the Director of Foreign Assistance in the Department of State. It is described as "an umbrella leadership structure for rationalising and co-ordinating all foreign assistance policy, planning and oversight". Consistent with new political importance accorded to development and to enhance his span of control, the Director was appointed both as Deputy Secretary of State and as Administrator of USAID. The operational detail of this Office is still being defined, but it is already getting organised around some 100 staff drawn from both the Department of State and USAID.

As its operational approach becomes better defined, the Office of the Director of Foreign Assistance needs to be clear on its role and responsibilities relative to other parts of the aid delivery system. In particular it needs to find effective ways of drawing on the wealth of expertise in its decentralised overseas resources. This will ensure that its perspectives on development are based on field realities, on an operational understanding of effective poverty reduction and on country need. To be effective in its leadership role, it will also be important to extend the office's authority beyond only the Department of State and USAID to the other key actors in official development. The office should also actively involve other informed partners outside government.

Another organisational innovation of particular note was the creation in 2004 of the Millennium Challenge Corporation "… to reduce poverty by supporting sustainable, transformative economic growth in low-income countries…". MCC field operations are at the earliest stages and implementation is only just starting in many countries. Nevertheless, it is a good example of how the US aid system could be more broadly adapted in line with the aid effectiveness principles of the

Paris Declaration. This includes approaches to local ownership and funding that are results-based (rather than being tied only to US procurement) and that do not include Congressional earmarks. Consideration should now be given to extending these opportunities to other parts of the government system and to a wider set of partner countries to ensure greater efficiency. Integration of MCC strategy and resources into the overall US development effort has yet to be addressed fully. In addition, the US Government runs the risk of giving rise to an expensive parallel mechanism at country level, which may add to transaction costs.

Of special interest to this Peer Review is the rapidly growing ODA role of the Department of Defense. Several recent initiatives support greater co-ordination between Defense and the other development institutions, driven by the perceived difficulties facing civilian actors in delivering assistance in highly insecure environments. DAC asks that all donors maintain policies based on development experience and good practice and which avoid risks of prejudicing achievement of sustainable and broad-based development in the recipient countries. This should apply equally to implementation of development action by military institutions. Similarly, while deploying military forces to support humanitarian operations in sudden major crises, it is critical to protect the independence and impartiality of humanitarian and developmental action.

Fitting aid management into the new organisational context

The reshaping of American aid organisation has required new management approaches appropriate to the new structures. With the creation of the Office of the Director of Foreign Assistance, many management functions (planning, budgeting, monitoring) will be standardised and centralised in one location. Centralised aid planning and budgeting for USAID and the Department of State has begun around the Foreign Assistance Framework model. Joint programme evaluation and accountability will be rolled out over the next year. The DAC sees much of this reform as good operational practice. As the US harmonises its own national management systems, it will be particularly important to do the same with other international and local partners in the field.

Joining together the separate and parallel systems of the Department of State and USAID into a common results-based framework for development will be a challenge if it is to provide the comprehensive feedback traditionally expected by both systems while remaining operationally lean and efficient. Identifying priority development objectives within the Foreign Assistance Framework and clearly assigning roles among actors can help to simplify the monitoring and reporting of results.

The US Government sees results-based management of its bilateral system as synonymous with aid effectiveness and the best way to address Congressional insistence on “value for money”. The DAC views aid effectiveness as an international issue, involving interaction between partner countries and the donor community, as much as a bilateral one. More explicit, organised across-government action that fosters ownership, strengthens partner country systems and procedures, and collaboratively tracks results would support the international Paris Declaration effort to address effectiveness. This will also help to promote better donor harmonisation, sharing of staff and delegated partnerships.

Congress itself is viewed widely as limiting the efficiency and flexibility of American aid because of the cumulative impact of its extensive earmarking of funding allocations and other directives. The Office of the Director of Foreign Assistance is well positioned to study the impact of these practices on the effectiveness of foreign aid and to suggest a better approach. Another area largely driven by Congress is the practice of tying aid exclusively to US sources. This can reduce

its effectiveness by limiting competition, increasing costs and undermining local ownership. The office is also encouraged to further analyse the cost of tying American aid and the impact of this practice on aid efficiency and effectiveness. Consistent with the DAC *Recommendations on Untying*, the US should continue to work toward identifying and implementing additional actions to untie aid.

Recommendations

- As its structures and operating procedures evolve, it is desirable that the **Office of the Director of Foreign Assistance** become the strategic reference for the entire development co-operation system over time.

- As the government seeks to accord a greater role in development and humanitarian work to the Department of Defense, it should persist in clarifying the respective lines of operational responsibility between **military and development** institutions to ensure that aid efforts are optimally co-ordinated and primarily focused on development outcomes.

- Consideration should be given to widely applying the lessons learned from the experience of the **Millennium Challenge Corporation**.

- The current United States objective of improved **aid effectiveness** should be supported by further government attention to the Paris Declaration agenda**,** including actions on ownership, untying and collaborative strengthening of local systems and tracking of results. The new Office of the Director of Foreign Assistance should brief Congress on the Principles of the Paris Declaration on Aid Effectiveness and their implications for US foreign assistance.

- Building on the Paris Declaration for Aid Effectiveness, US agencies are encouraged to increase dialogue with other donors to achieve shared results and joint learning.

- Bringing the Department of State and USAID into one **results-based management** approach will be a useful first step toward consolidating and streamlining the current system in ways which both reduce transaction costs and enhance coherence within the US Government. Clear identification of priority development objectives and specific assignment of roles among institutions will also facilitate this action.

Humanitarian aid

The US role as the largest bilateral donor of official humanitarian assistance is complemented by a range of other strengths. These include an unparalleled operational and technical capacity to respond to major crises, strong engagement with the multilateral and non-governmental organisations and important efforts to strengthen the protection of civilians. To sustain its capacity to respond and plan for a wide range of growing threats, and to realise its commitment to impartial humanitarian response, it will be important to sustain core budgets at existing levels so as to avoid a further dependence on supplemental funding. A growing willingness to consider reforms to the emergency food aid regime is commendable. Delivering these reforms can offer major efficiency gains for the US and significant benefits for vulnerable people. The Office of the Director of Foreign Assistance, with USAID, should work to muster Congressional support for locally sourced commodities and consider cash-based alternatives.

Historically, the architecture of US humanitarian assistance has underscored the distinctiveness of its principles and objectives. The reform of the wider aid architecture will have implications for humanitarian aid. It will demand greater co-ordination between humanitarian actors and those engaged in a wider range of developmental, security and peace-building objectives in unstable environments. In these environments, humanitarian principles and approaches should be reaffirmed and understood across the government. The new Foreign Assistance Framework presents a range of other opportunities and challenges for humanitarian work. In particular, it offers the potential for increased co-ordination between the different components of government that have responsibility for humanitarian affairs. In the medium-term, consideration might be given to how to consolidate a complex array of agencies responsible for humanitarian affairs.

As the Administration works to achieve its wider objectives around security, stabilisation, recovery and state-building, it will be important to ensure that protection issues are fully addressed, and that space for independent humanitarian action is maintained. This issue is especially relevant in the complex "grey zone" environments of protracted instability, such as the Middle East and Afghanistan.

The whole-of-government approach should also help to articulate more clearly the relationship between humanitarian and longer-term development work. It provides scope for increasing development commitments to basic services and livelihoods in protracted crises, where much of humanitarian action is currently carried out. In addition, the Food for Peace emphasis on food security for the most vulnerable, and growing government willingness to consider less tied and more cash-based approach to supporting food security are welcome. These and other steps should enable humanitarian officials to concentrate on responding to the most extreme threats to lives and livelihoods.

Among its many achievements in the humanitarian arena, the US stands out for the efforts it has made to improve objective measures of humanitarian need, and of the performance and impact of humanitarian assistance. There is scope for further strengthening the monitoring and evaluation of partner work, in particular through promoting the views of beneficiaries at all stages of the project cycle, and in expanding the use of Good Humanitarian Donorship indicators in internal reporting frameworks, including at field level.

Recommendations

- The Department of State and USAID should jointly develop and disseminate an **overarching strategic plan (2007-2012)** to guide US humanitarian work. This would provide a framework for increasing the coherence of different US agency approaches as well as informing US efforts internationally to improve the effectiveness of humanitarian action.

- Continued reform of the emergency **food aid** regime should remain a priority.

- Links between the government **humanitarian and development dimensions** should be strengthened in accordance with humanitarian principles. Increased support for basic services in fragile states through non-humanitarian aid instruments should be encouraged, as should investment in longer-term safety nets to address acute poverty.

SECRETARIAT REPORT

Chapter 1

Strategic Foundations and New Orientations

Strategic foundations of American development co-operation

A history of development co-operation leadership

The United States has been the largest Development Assistance Committee (DAC) donor and a leader in international development co-operation for much of the last 50 years. One of its earliest aid successes was the Marshall Plan (1947-51), which played a major role in rebuilding Europe after World War II. The US subsequently played a lead role in setting up the OECD and the DAC, while passing legislation (1961) to establish its own development co-operation system, including its lead national agency, the United States Agency for International Development (USAID). The US was also instrumental in setting up the multilateral institutions of development and remains the largest financial contributor to many of them.

A salient feature of all United States Government development programmes is the emphasis on **democratic governance** and a **private sector**-led economy for sustainable development. Both themes have strongly influenced the overall government approach to development co-operation. The United States is a signatory to the Millennium Declaration and believes that "good governance, including democratic institutions, well-functioning markets and investing in people" is the most effective way to achieve the Millennium Development Goals (MDGs).

Pragmatic policies shaped around the national interest

Historically, the United States has justified its development assistance policies in terms of both recipient country need and its own foreign policy objectives. Such a "win-win" approach was used, for example, in the case of the Marshall Plan (rebuilding Europe while repelling communism and improving trade) and in the language of the 1961 Foreign Assistance Act (helping developing countries while supporting US national security and prosperity). Over the latter half of the 20th century the political rationale for aid related largely to the Cold War. By 1991, the collapse of communism forced a serious reconsideration of the logic of US development assistance. The search for a new vision continued through the 1990s when aid policies, lacking a strong overarching vision, tended to be pragmatically shaped around different aspects of national interest,[1]

1 . An excellent example at the highest level of government strategy is the *United States Strategic Plan for International Affairs*, revised periodically by the Department of State and which is

international agreement and individual developing country need. The Congress continued to play a major role through its practice of "earmarking" the annual foreign assistance budget, based on its perceptions of priorities. During this period USAID was frequently criticised by Congress and regularly subject to enforced budget and staff reductions.

The events of 11 September 2001 and the subsequent "war on terror" renewed American interest in development co-operation. Since then, the government has effectively used the logic of national security to resuscitate the image of development co-operation among Congress and the American public. A succession of USAID and Department of State policy documents[2] helped to define the role of development co-operation in relation to this national security perspective. Of these, the watershed document is the *National Security Strategy* (NSS), both the 2002 and 2006 versions, which has set the stage for some of the most far-reaching reforms in American development co-operation since 1961.

The United States is now attempting to move its national development co-operation in a significantly new direction. As is noted below, many initiatives have already been launched by the current administration, including a remarkable increase in Official development assistance (ODA) volume since the previous Peer Review (Chapter 2). Even as these building blocks are being put in place, it is unclear if the current blueprint for reform will withstand future changes in political leadership. Nevertheless, this time of change for US development co-operation merits the attention of the international donor community.

New orientations and initiatives

Remembering the 2002 Peer Review

The United States has made progress in addressing several key recommendations made by the DAC in its 2002 Peer Review (Annex A). These include:

- The better joining together of US agencies around a common **vision and framework** of co-ordinated action (Chapters 1, 5).
- Multiple actions to address **system inefficiencies**, including the creation of the Millennium Challenge Corporation (MCC) and joint USAID-Department of State management planning (Chapters 1, 3, 5, 6).
- Expanded interest in **results-based management** (Chapter 5).
- Greater attention to **human resources** (Chapters 5, 6).

Recommendations which received lower priority attention include: to seek out and reinforce international partnerships (Chapters 4, 5, 6); to establish a plan for policy coherence for

described as a "comprehensive and systematic vision of United States national interests". The government focus on development co-operation is subsumed in its list of strategic goals, all of which are justified in light of one or more specific national interests.

2 . Among the key documents were: USAID's *Foreign Assistance in the National Interest: Promoting Freedom, Security and Opportunity* (2003); the USAID/Department of State joint *Strategic Plan for FY 2004-09* (2003); the USAID White Paper on *US Foreign Aid: Meeting the challenges of the twenty-first century*; the Department of State *National Foreign Policy Strategy* (2004); the USAID *Policy Framework for Bilateral Foreign Aid* (2006).

development (Chapter 4); to bring together government and civil society efforts in favour of greater public awareness (Chapter 1); to further untie aid (Chapters 2, 4); and to further empower field missions (Chapter 5).

Development at the leading edge of an emerging security policy framework

At the time of the previous Peer Review the US President had just announced (September 2002) the new **National Security Strategy** within which development co-operation was an integral part. This strategy made several explicit references to development objectives: doubling the size of economies in poor countries within a decade; using the new Millennium Challenge Corporation to increase aid by 50%; measuring results wherever aid is used; supporting international financial institution efforts to combat poverty; giving grants instead of loans to poor countries; assisting trade and investment in poor countries; and emphasising the health, education and agriculture sectors. A subsequent set of special presidential initiatives attracted major funding to areas such as HIV/AIDS and malaria, access to education, maternal and infant mortality, and justice for women.

As an indication of its political importance, the National Security Strategy was further refined in 2006. In terms of development co-operation it essentially reconfirmed and extended the previous 2002 perspective. Stronger emphasis was placed on "building effective and secure democracies to foster economic and social progress and lay the foundation for a safer, more prosperous world". To extend the "frontiers of freedom", it announced support for the rule of law, the strengthening of institutions of democratic and accountable government, the promotion of economic and political freedom and the fostering of sustainable growth.

Perhaps the most important innovation of the National Security Strategy for development co-operation was the elevation of development to become one of the three pillars of national foreign policy, along with diplomacy and defence. This new policy of the "3Ds" recognises the importance of development for national security and asserts that the lack of political openness and economic progress in poor countries can help to create conditions for international terrorism. However, it will be a major challenge for the US Government to put this high-level recognition of development, including poverty reduction, into practice. Poverty and related instability drive conflict. In the context of national foreign policy there is a basis for making long-term poverty reduction a goal in its own right. To ensure that effective development action is not overwhelmed by shorter-term political priorities, it will be important to ensure that it has a voice at the highest levels of government.

Operational implications of transformational diplomacy

Building on this strategic perspective the Secretary of State announced the new foreign policy of **transformational diplomacy** in 2006. Its objective was "To work with our many partners around the world to build and sustain democratic, well-governed states that will respond to the needs of their people and conduct themselves responsibly in the international system". Because of the difficulty of drawing clear lines among US security, development and democratic goals, it was stipulated that all three must work together and advance simultaneously. Foreign assistance is an essential component of transformational diplomacy. Because of the belief that America's security is linked to the capacity of foreign states to govern justly and effectively, US foreign assistance is used to help those countries to obtain results.

While still evolving, an immediate consequence of transformational diplomacy has been to clarify the priority **objectives** and types of **recipients** of foreign assistance from the Department of State and USAID:

- **Objectives:** (1) peace and security; (2) governing justly and democratically; (3) investing in people; (4) economic growth; and (5) humanitarian assistance.

- **Types of recipients:** (1) countries that are rebuilding; (2) developing countries; (3) transforming countries; (4) sustaining partnership countries; (5) restrictive countries; and (6) global or regional actions.

This policy clarification has permitted the US Government to establish a simple and practical **foreign assistance framework** around which to organise and prioritise strategic and budgetary planning for the Department of State and USAID. This framework (Annex B) is a matrix that matches these five priority objectives with the six recipient categories. The framework has the potential to promote more co-ordinated, high-level decision-making across all the government's development institutions (it is currently focused on the Department of State and USAID), both in Washington and in the field. The emerging operational implications of the framework are addressed in detail elsewhere, but it is seen as a promising context for a strategic focus on poverty reduction, a more structured approach to results-based management and a useful reference for promoting learning across countries facing similar challenges. We encourage greater thought to detailing its content so as to better factor in these issues. Chapter 5 looks in more detail at the potential value of the framework in the context of performance feedback.

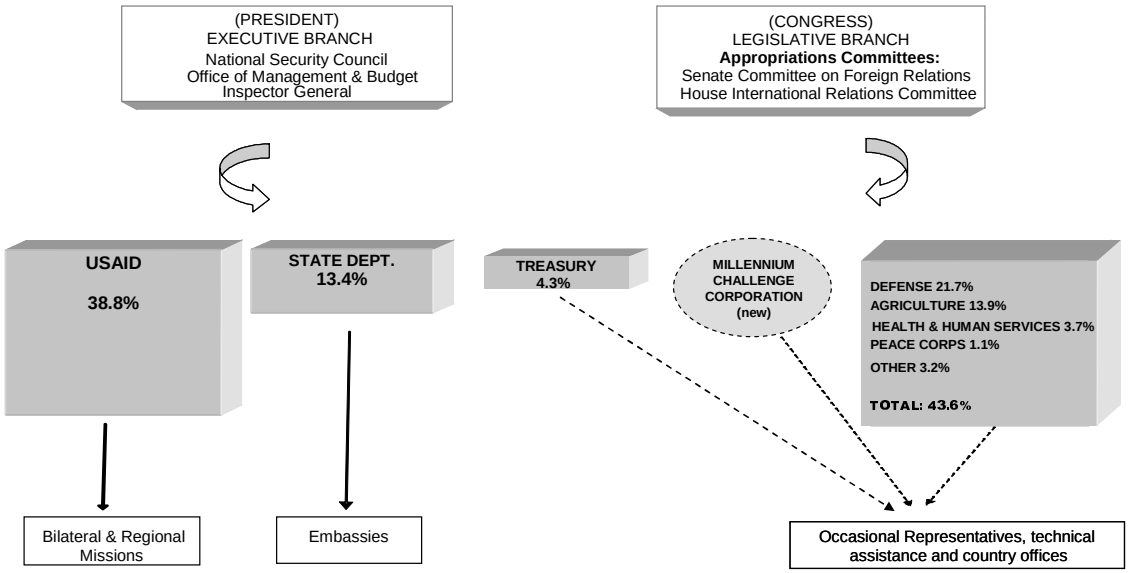
Joining together a fragmented organisational network of agencies

As noted in the 2002 Peer Review, the various entities that currently deliver US development assistance are not formally part of a single, integrated system. They operate under the general foreign policy guidance of the National Security Strategy. These entities to date generally have had weak linkages to each other and their actions have not been systematically co-ordinated. Key entities in this system are identified in Figure 1 and are more fully discussed in Chapter 5. According to the government, some 26 departments and agencies provide Official Development Assistance, although the five largest currently provide over 90% of the total.

An important US Government organisational innovation since the previous DAC review has been the creation of the **Millennium Challenge Corporation** (MCC), paradoxically further fragmenting the system. The MCC was announced by the President of the United States in March 2002 as a new development mechanism which would provide aid to countries that "rule justly, invest in their people, and encourage economic freedom". It was established by Congress in January 2004 and given a strong operational mandate. This mandate relieves it of many of the constraints imposed on other government institutions. These include tied aid; earmarking of funding; and a Washington-centric perspective that undermines country ownership and more effective aid approaches in the field. Several of these issues were raised in previous DAC reviews. The MCC is now in the earliest stage of implementing its programmes abroad. While it is still too soon to make judgements, the MCC is an example of how the national development co-operation system can be brought more in line with the aid effectiveness principles embodied in the 2005 Paris Declaration on Aid Effectiveness (Chapter 6). A fuller description of the MCC is provided in Chapter 5 and references to it are made throughout this report.

Figure 1. United States co-operation system

Per cent of total ODA in 2005



A second significant organisational innovation, announced in January 2006, was to make the new Administrator of USAID concurrently head of the new **Office of the Director of Foreign Assistance** (DFA) in the Department of State. This office is now setting up its operations around the emerging policies noted above and is piloting implementation of the foreign assistance framework matrix to better pair up the new government assistance goals with the Department of State and USAID budget allocation process. A fuller description of the DFA is provided in Chapter 5, including suggestions for using this structure to better join together the national development institutions.

The central issues of political oversight and public awareness

Crucial legislative legitimacy

The way Congress plays its role in the system of "checks and balances" has had a powerful legislative influence on the conduct of US policies, including those of foreign assistance. Congress regularly imposes its opinions on programmes implemented by the Executive Branch of the government through the annual budget process. In development co-operation it expresses itself at the level of detail. It is a widely held view that Congress is too involved in aid implementation in areas that are often only of concern to a very small number of members. Whatever the perspective, most agree that the role of Congress in development co-operation is important and merits special attention. Because external review of this topic can easily flounder in discussions of the sometimes complex procedures of American decision-making, we limit ourselves to summarising current suggestions for a more helpful Congressional role:

- Replacing the earmarking of funds with advisory language.
- Establishing a high-level position (perhaps within the DFA) to liaise with Congressional committees.

- Simplifying and making more transparent a range of routine legislative procedures for aid (Flickner, 2006).

Together, the Congressional funding earmarks and other directives (along with Presidential and other Executive Branch directives) have multiple negative repercussions for the efficiency of US foreign assistance. From the DAC perspective, these Congressional actions are also an obstacle to US participation in aid effectiveness innovations currently promoted by donors in the field (Chapter 6). American aid practitioners have long recognised the operational disadvantages of earmarking and other directives, although no study has yet estimated their actual cost to aid efficiency and effectiveness. The Office of the Director of Foreign Assistance is well positioned to study this topic and we encourage it to do so. This examination could support both government and Congressional interests, given their shared and publicly-stated desire for greater aid efficiency.

The only legislation to govern the evolution of United States development co-operation is the Foreign Assistance Act of 1961, as periodically amended. Despite major changes in the political rationale for aid, efforts over the past 45 years to write new development legislation have never achieved consensus. With the current political leadership in favour of development, and a reasonably bipartisan consensus in Congress, it could be an excellent moment to promote more comprehensive legislation for US development co-operation. A Congressional Commission[3] was recently set up to examine reforms of the current government development approach; as part of its review it will examine the rationale for new legislation.

Public perceptions of development co-operation

While the landscape of American public opinion is complex, all polls agree that the American public supports both official and non-governmental aid which can efficiently promote the better welfare of the world's poor. Nevertheless, there has been considerable cynicism over the way government programmes are used. Common perceptions include: i) that only a small percentage of aid actually reaches the poor (*e.g.* 10% for official aid, 30% for that of non-governmental organisations); and ii) that aid is often diverted to more political objectives, such as "propping up" political friends of the United States. Perhaps the most prevalent perception is that aid is a major drain on the national budget. A 1995 poll revealed that many Americans were very poorly informed of both the size and scope of US foreign aid (*e.g.* believing official aid to be 18% of the federal budget when in reality it was less than 1%). More recent surveys confirm the resilience of this widely-held belief and also show that Americans may resist efforts to address world poverty because of an assumption that other donors are not doing their part.

Since the last Peer Review there has been a general increase in public support for aid, attributed both to the events following 9/11 and to the growing influence of politically active religious groups. A 2002 poll revealed public support for a much higher proportion of new spending on foreign aid when framed as part of the effort to combat terrorism. A 2004 opinion survey (Chicago Council on Foreign Relations, 2004) showed support for humanitarian goals, AIDS, population control and women's education. It also revealed growing support for foreign aid among American political leaders, 64% of whom believed that improving the standard of living in less developed countries should be a "very important" foreign policy goal. Finally, a 2005 poll (Program on International Policy Attitudes, 2005) revealed that 65% of Americans surveyed would

3 . The HELP Commission (Helping Enhance the Livelihood of People) is a bipartisan body of 20 members, plus the Administrator of USAID, with the mandate "to identify the barriers … and develop new approaches to ensure the assistance reaches those most in need … ". The Commission is to report to Congress in 2008.

support a US commitment to the UN donor funding target of 0.7% of Gross National Income and 71% of those polled would approve the use of taxpayer funds to achieving the MDGs if other industrialised countries did as well.

Perhaps the most promising feature of most of these surveys is the fact that greater public support may be achieved simply through better targeted and more accurate information: on the size of US taxpayer resources actually used for aid; on the positive impact of government programmes; or on the fact that development co-operation is already a major international effort in which the United States is playing an important funding role.

Getting the development message out: current approaches and challenges

As the government body responsible for development awareness, USAID has now integrated into its communications strategy the concepts of transformational diplomacy: "To communicate how US foreign assistance helps to build democratic, well governed states that respond to the needs of their people and conduct themselves responsibly in the international system". It targets three distinct audiences with specific messages to explain the benefits of this new development approach:

- "Internal" (civil servants, Foreign Service Officers, local employees in the field): messages about improved USAID operations; more effective government assistance; and greater credibility of the USAID business model.

- "Stakeholders" (Congress, NGOs, private sector, think-tanks, inter-agency institutions, ethnic diasporas, contractors): messages about greater accountability; making USAID more effective managers of taxpayer dollars; improving government effectiveness on the ground; and bringing more support to foreign assistance at home.

- "Host nation citizens" (direct recipients and their civil society organisations): messages about making government assistance more transparent and measurable; raising awareness of what government is doing by being more accountable; making aid more effective by helping host nations to account for their own effectiveness.

To assist in these tasks, USAID recently created a group of professionals called Development Outreach and Communication Officers. Each USAID mission overseas now has one of these officers, who shares information and writes press releases and other communications. Within the missions, the officer monitors and reports on actions relating to performance plans and impact measurements.

Nevertheless, the government traditionally has not targeted major resources to building domestic public awareness. Over the last three years, the USAID Office of Legislative and Public Affairs has spent an average of USD 2 million per year on public awareness. Of that total, USD 700 000 per year was used for researching and implementing the "One Shared World" campaign,[4] which uses research and a variety of communication instruments for development education. According to its website, the campaign currently seeks "to connect America's working women to the many public and private efforts that help people in developing countries overcome poverty, hunger, illiteracy and disease". Funding for development education has traditionally been modest (the amount is capped by Congress) compared to the billions of dollars of aid handled every

4 . See http://onesharedworld.org.

year. As suggested in the previous Peer Review, USAID (and now the Office of the Director of Foreign Assistance) should seek out alliances with other like-minded official and civil development organisations to promote greater awareness of development issues and of the vital role played internationally by Americans and their government.

The strong influence of public opinion on US development programmes, combined with public misunderstanding about the size and role of aid, suggests that communicating with the American public is a priority for US development agencies and its national partners. USAID's ability to promote public awareness and publicise its development actions and achievements have been restricted by Congress.[5] This restriction is unique among members of DAC and should be re-examined. It is an unnecessary obstacle to the new policy of making development a political priority.

Future considerations

- The United States has taken a decisive step forward by elevating **development policy** to the same level as that of diplomacy and defence. It will be important to ensure that the shape and content of its development co-operation programmes are driven by a balance of these objectives and that immediate security considerations do not dominate. The government must ensure that longer-term development objectives, including poverty reduction, are not overwhelmed by short-term domestic political priorities.

- The **foreign assistance framework** is an important new tool for more joined together and strategic development co-operation. The Office of the Director of Foreign Assistance is encouraged to use it to better integrate other international priorities for development, such as poverty reduction.

- Working relationships in development co-operation between the Administration and the **Congress** are widely recognised to be inadequate. The Office of the Director of Foreign Assistance must build on objective analysis to promote more efficient and collaborative behaviour between the executive and legislative branches of government.

- The government needs to improve **public awareness** of its development co-operation. Based on updated analysis, it should develop a coherent and adequately resourced strategy to provide better targeted and accurate information to the public. To extend public awareness, it should also forge alliances with other public, private and civil society organisations.

5 . Section 540 of the Foreign Assistance Appropriations Act, entitled "Prohibition on Publicity or Propaganda" notes: "No part of any appropriation contained in this Act shall be used for publicity or propaganda purposes within the United States not authorised before the date of enactment of this Act by Congress". This prohibition has been maintained since the earliest years of USAID. Ultimately, Congress was persuaded to allow USAID to fund development education activities by selected non-governmental organisations but Congress agreed to do so only under a limited dollar ceiling, which it alone establishes.

Chapter 2

Aid Volume, Channels and Allocation

The US official development assistance picture

ODA reaches a record high

In 2005 the United States was the largest DAC donor in terms of volume (net ODA was USD 27.6 billion). As a share of Gross National Income (GNI), its ODA was 0.22%, its highest level since 1986. But this was substantially lower than the average DAC country effort of 0.48%. In terms of ODA/GNI ranking, the United States comes 21st out of the 22 DAC member countries. Between 2001 and 2005, the US net ODA grew from USD 11.4 billion to 27.6 billion and the ODA/GNI ratio doubled. This record high level of ODA is consistent with government commitments made in Monterrey, Mexico to increase aid. However, it should be noted that the United States never committed to the UN target of 0.7% and has not attempted to increase its aid to meet that target.

The bulk of ODA growth from 2004 to 2005 is explained by Iraq debt forgiveness (USD 3.9 billion) and reconstruction aid (USD 6.9 billion); reconstruction and anti-narcotics programmes in Afghanistan (USD 1.3 billion); and programmes in Sub-Saharan Africa (USD 4.2 billion), primarily Sudan and Ethiopia.[6] The rate of ODA growth between 2004 and 2005 is almost halved if debt relief is subtracted. It is unlikely that this high aid level can be sustained into the future, given the magnitude of debt relief to Iraq in 2005 and the limited opportunity for additional relief. ODA volumes plausibly could exceed USD 20 billion in future years, assuming the reconstruction work in Iraq and Afghanistan continues and given the additional funds approved in 2004-05 for the Indian Ocean tsunami. With the Millennium Challenge Account and the President's Emergency Plan for AIDS Relief (PEPFAR) coming on line, the pace of grants will likely increase.

The new framework for foreign assistance (Chapter 1) offers a good opportunity for the United States to work towards a longer-term ODA plan in line with donor commitments under the Paris Declaration for greater aid predictability. Such a plan could simultaneously provide a more strategic allocation of aid within the US system, whether between bilateral or multilateral instruments or across countries. As the volume of debt relief declines the government will have opportunities to increase aid. It can examine options for shifting resources toward low-income countries, including the fragile and post-conflict states where challenges are great and where significant poverty reduction could be achieved.

6 . Other grants include USD 0.3 billion for Pakistan (Economic and Support Fund), USD 0.2 billion for Indonesia (multi-sector) and USD 0.3 billion for relief operations conducted by the Department of Defense following the Indian Ocean tsunami. Additionally, eight heavily indebted poor countries (HIPCs) collectively benefited from USD 0.3 billion in debt forgiveness as bilateral agreements entered into force in 2005.

Official channels and budget accounts for delivering aid

We note a further decline in USAID's share of responsibility for delivering aid (Table 1), already observed in the 2002 Peer Review. The main factor in this decline is the rapid increase in ODA payments by the Department of Defense, especially from Iraq Relief and Reconstruction Funds and for other humanitarian/development activities, such as the Indian Ocean tsunami.

Table 1. Management of ODA by institution (%)

INSTITUTIONS	1998	2002	2005
USAID	64.3	50.2	38.8
Department of State	12.9	18.6	13.4
Department of Defense	3.5	5.6	21.7
Department of the Treasury	12.6	10.7	4.3
Department of Agriculture	2.3	5.8	13.9
Department of Health and Human Services	..	..	3.7
Other	4.4	8.9	3.2
Peace Corps	..	..	1.1

Source: USG and OECD.

Congress plays a strong role in providing development co-operation budgets for all agencies. Funds are made available in the form of different accounts, often with their own special management and reporting requirements. These accounts are managed by USAID and, to a lesser extent, the Department of State (for Migration and Refugee Assistance, International Narcotics Control and Law Enforcement and the United Nations), the Treasury Department (for Debt Restructuring and the Multilateral Development Banks) and the recently established MCC**.** USAID accounts respond to funding earmarks by Congress and are subject to Presidential Initiatives. Congressional accounts are organised along functional and regional lines.

Bilateral aid

Gross volumes (disbursements) of bilateral ODA have grown from USD 9.7 billion in 2001 to USD 25.4 billion in 2005 (Table C.2). This represents 92% of total gross ODA, significantly more than the 74% registered in 2001.

Geographic allocation

A priority toward supporting global security interests

The United States now spreads its ODA across 137 countries (Table C.4), a somewhat larger number than recorded in the 2002 Peer Review. Iraq has received major funding in recent years (USD 6.9 billion or 42% of gross bilateral disbursements in 2004-05), tilting geographic allocations in favour of the **Middle East** (technically included in the Asia region by the government). Aid to Iraq is part of a package of USD 21 billion "no-year funds" (*i.e.* available until fully disbursed) committed in 2003 for relief and reconstruction efforts. Disbursements to Iraq in 2005 were estimated at USD 10.8 billion, including debt relief (USD 3.9 billion). Funds directed to Iraq and Afghanistan represented 48% of bilateral ODA in 2004/05, confirming the importance of these countries for US national security. By contrast, aid to the **Americas** has decreased significantly since the last review, both in volume and as a share of bilateral disbursements (26% in 2001 compared to 7% in 2005). The share of aid going to **Europe** also decreased to 3% of bilateral ODA in 2005.

A significant aid increase for sub-Saharan Africa

At the 2005 G8 Summit in Gleneagles, the US stated that its aid to **sub-Saharan Africa** had tripled since 2000 and pledged that it would double again by 2010 (based on 2004 levels). According to DAC data, total American ODA to this region was USD 1.47 billion in 2001 and USD 4.16 billion in 2005 (Table C.3). Most of the growth in bilateral aid to the region is explained by increases in emergency aid, including emergency food aid, aid to refugees, disaster preparedness and assistance to HIV/AIDS control and education. Even with these increases, this aid represented 19% of gross bilateral disbursements allocable by region in 2005, below the DAC average of 34%. The pledge to double aid to the sub-region by 2010 appears to be largely derived from previous important pledges such as the Millennium Challenge Account, PEPFAR, the Education for All Initiative and the President's Malaria Initiative. Country-specific directives, funding earmarks, Presidential initiatives and humanitarian needs are the key determinants of bilateral aid for the region in the future.

Spending by income category

Until 2005, United States bilateral ODA for lower-middle income countries was rising faster than for low-income countries, reaching 68% of gross bilateral ODA in 2005. This compared to 42% for the average DAC member country. By contrast, aid to least developed and low-income countries combined was 29% of gross bilateral ODA, compared to 53% for the average DAC donor (Table C.3). For least developed countries alone, net ODA (bilateral and multilateral) was 22.9% of total ODA (Table C.6), again lower than the DAC average of 29.5%.

Similarly, the top ten recipients of US bilateral ODA in 2004-05 (Table C.4) included four least developed countries (USD 2.41 billion); one low-income country (USD 224 million); and five lower-middle income countries (USD 8.6 billion), which included many countries that directly match up with US foreign policy objectives. The new foreign assistance framework is therefore likely to further influence the future distribution of aid recipients and sectors, in close relationship with US national objectives.

Sector allocation

Largest aid levels to social infrastructure and services

Since 2000, the United States has allocated more aid funds to the social infrastructure and services sector than in previous periods (Table C.5). Commitments rose to USD 10.76 billion in 2004-05 (43% of bilateral commitments, compared to 35% in 1999-2000). This was mostly as a result of budget allocations to **government and civil society**, which increased to USD 4.87 billion. This was 20% of all bilateral sector commitments, compared to an average of 13% for the DAC. This trend is likely to continue given the emphasis of US foreign assistance on supporting democratic governance.

Presidential Initiatives and special funds targeted to basic social services

The ODA trend of supporting **basic social services**[7] is increasing across all DAC donors. US commitments to this sector grew from USD 1.44 billion to USD 3.1 billion between 2001 and 2005. These amounts are subject to jumps due to PEPFAR and special funds such as the Global Alliance for Vaccines and Immunisation (GAVI). Basic health and population/reproductive health, which accounted for two-thirds of DAC member bilateral aid for HIV/AIDS control programmes, have been strongly influenced by US commitments. The basic health and population/reproductive health accounts grew to 10% of bilateral commitments in 2004-05, compared to 6% for the DAC (2004). By contrast, the basic education and water supply/sanitation sectors received only 2% and 4% respectively. These percentages are close to DAC averages.

Low levels of aid to economic infrastructure and services, and the productive sectors

USAID played a leading role within the DAC Poverty Reduction Network (POVNET) in formulating messages linking poverty and economic growth, and was particularly active in the network's task forces on agriculture and infrastructure. Yet allocations to economic infrastructure and services accounted for 13% (USD 3.34 billion) of US bilateral sector ODA in 2004-05, compared to 17% for the DAC, while aid to the productive sectors accounted for 6%. The energy sector has attracted more aid since 2003 than any other component under this sub-heading, although the share of ODA for this sector (7% in 2004-05) is still below the DAC average of 8%. While the US Government has not given special funding priority to agriculture and infrastructure in developing countries, MCC has agreed to fund substantial amounts to these areas since 2005. In its first nine Compacts (Box 4, Chapter 5), over 66% of the USD 2 billion committed are for infrastructure and agriculture activities.

The prevalence of humanitarian aid

The US is the world's single largest donor of humanitarian aid. It allocated USD 3.28 billion or 13% of its ODA to emergency assistance, reconstruction and disaster preparedness in 2004-05 compared to a DAC average of 7%. The USG has channelled massive amounts of public and private aid to support the nations hit by the 2004 Indian Ocean tsunami, pledging USD 350 million of its regular humanitarian assistance. It also approved USD 631 million in supplemental funding to the Tsunami Recovery and Reconstruction Fund (USAID, 2006d). In Africa, the Darfur region of Western Sudan received more than USD 682 million in humanitarian aid (USAID, 2006c). See Annex D for a fuller discussion of US humanitarian assistance.

Food aid remains a major ODA instrument

The US is the world's largest provider of food aid. In addition to donating food aid in emergencies, USAID provides food in longer-term development programmes to help maintain food security and avert future emergencies. According to OECD data, net spending on food aid, including developmental food aid and relief food aid, rose from USD 1.5 billion in 2002 to USD 2.3 billion in 2005 (in constant 2005 USD). At the same time food aid loans have decreased since 2000.

7. The DAC basic social services category combines data on: basic education; basic health; population (including policy and administration, reproductive health, sexually transmitted disease control including HIV/AIDs and personnel development); basic drinking water supply and basic sanitation; and multi-sector aid.

In 2006, under the Agriculture Appropriation Act, the food aid account received USD 200 million more than requested by the Administration, although Congress failed to approve a Presidential request to re-programme food aid funds to the International Disaster and Famine Assistance Fund. This action would have allowed for food assistance to be provided quickly in cash for famine situations mainly caused by natural disasters. Annex D on humanitarian assistance provides a more detailed discussion of this aspect of the US's use of food aid.

Women in development

USAID reports that the budget for its Women in Development Office has remained fairly flat at USD 11 million since the last Peer Review. However, compared to total bilateral ODA the share of funds to women in development (WID) fell from 0.23% in 2001-02 to 0.1% in 2005, mostly as a result of the large increase in total bilateral ODA. The government does not report the gender equality focus of its ODA to the DAC on the grounds that gender is frequently integrated into field activities and is too difficult to extract. Nevertheless, the DAC would appreciate receiving even simple data that identifies gender equality-focused expenditure in key geographical areas and sectors so as to assess both the quantity and quality of government interventions on the ground.

Multilateral aid

The share of the US's total ODA payments to multilateral agencies over the period 2001-05 has been uneven (Table C.2). It was only 8% of total ODA in 2005. That share peaked in 2001 (26%) and decreased to 17% in 2004, significantly less than the DAC average of 28%. Comparing 2000 and 2005 data, the decline of gross multilateral ODA seems to affect most international organisations (Table 2). The DAC recognises the relative merits of both bilateral and multilateral approaches to development and encourages the government to review the developmental logic of its allocation of multilateral funds. The DAC further recognises that the decline in multilateral share is the result of a number of factors rather than a change in US policy.

Table 2. US ODA allocation to multilateral agencies

Percentage of gross ODA disbursements

Agency	2000	2005
Gross multilateral ODA	**23.6**	**8**
- United Nations Agencies, of which:	**11.4**	**2**
a) WFP	*(3.9)*	-
b) UNHCR	*(2.0)*	-
c) UNICEF	*(1.1)*	*(0.4)*
d) UNDP	*(0.6)*	*(0.4)*
e) WHO	*(0.1)*	*(0.2)*
f) UNRWA	*(0.8)*	-
g) UNO	*(0.3)*	*(0.2)*
h) Other UN	*(2.6)*	*(0.8)*
- World Bank Group	**7.1**	**3**
- Regional Development Banks	**2.5**	**1**
- Other Multilateral	**2.6**	**2**

US foreign policy towards multilateral development banks

The United States is the world's single largest contributor to the multilateral development banks (MDBs). Its voice, vote and influence are substantial, particularly within the World Bank Group. The Treasury has primary government oversight of these institutions and leads US efforts to improve their developmental and institutional effectiveness. The US approach to the MDBs is specified in a document which Treasury produces for Congress and publishes widely (US Government, 2005b). Its MDB policy is shaped by many considerations, including principles of aid effectiveness and broad foreign policy goals. The government has pursued an aggressive reform agenda of these institutions, focusing on measurable results; grants instead of loans for the poorest and most debt vulnerable countries; country performance and commitment to pro-growth policies; and good governance, in particular broadening and deepening multilateral efforts to combat corruption.

The US uses its influence to shape MDB policy in relation to broad US foreign policy objectives. Positions taken by the government appear to have successfully influenced multilateral institution support for US priorities such as reconstruction in Iraq and Afghanistan, assistance to post-conflict and rebuilding countries, or the fight against HIV/AIDS. The US, as with other donors, needs to take care to avoid over emphasising narrower bilateral perspectives into the multilateral agenda, with the downstream risks of complications for management and reduced efficiency of multilateral aid.

Steps to reduce poor countries' debt burden

In 2005, in collaboration with other G-8 countries, the United States secured a landmark agreement called the Multilateral Debt Relief Initiative (Box 1) which allows multilateral debt cancellation for those Heavily Indebted Poor Countries which qualify for it. The US has also worked to encourage multilaterals to increase their use of grants instead of loans. A key objective of these efforts is to end the destabilising lend-and-forgive cycle of development assistance to the poorest and most vulnerable countries. For 2007, the government has requested USD 182.8 million from Congress for Heavily Indebted Poor Countries, and for other debt reduction programmes such as the Tropical Forest Conservation Act.

Box 1. The Multilateral Debt Relief Initiative

The Multilateral Debt Relief Initiative will allow for the 100% cancellation of debt owed to the World Bank, the African Development Fund and the International Monetary Fund by eligible countries in the Heavily Indebted Poor Countries initiative. Over time, 42 countries are projected to receive some USD 60 billion in debt relief. The removal of unsustainable debt combined with additional development grants will be a significant step towards achieving the Millennium Development Goals. The initiative will be financed through contributions to International Development Association and the African Development Fund.

Source: US Department of Treasury.

The US cancelled a total of approximately USD 4.2 billion in bilateral debt during FY 2005, including all of Iraq's debt. Bilateral debt relief to Nigeria is likely to augment ODA by USD 619 million in 2006.

Beyond official aid

Civil society funding

The government does not report the total ODA it channels to the large non-governmental organisation community in the United States.[8] USAID has historically worked in partnership with American and developing world NGOs,[9] foundations, for-profit companies and others to implement its programmes, particularly where a recipient government may be a difficult partner or lacks capacity. Increasingly, NGOs are called upon to play a role in public-private efforts such as the Global Development Alliance (Chapter 3). In addition to USAID, the Department of State Bureau of Population, Refugees and Migration funds over 40 NGOs each year in order to fill critical gaps in protection and humanitarian assistance for refugees and victims of conflict. In FY 2005, the Bureau gave USD 97.3 million or 12.9% of its budget to American and other international NGOs.

NGOs are supported through a variety of mechanisms that may be managed centrally in USAID Washington or in USAID field missions. The most common are multi-year "co-operative agreements" and grants. With a grant, USAID may fund all or part of the NGO programmes. To encourage financial sustainability, some grant programmes require cash matches by recipients. Co-operative agreements are administered in the same manner as a grant, but USAID has a substantial involvement in the implementation of the agreement. This can include identifying key positions, approving key personnel, annual work plans and monitoring progress towards programme objectives.

Private financial flows

In addition to normal US official assistance, the US is an important source of non-official financial flows to the developing world. Data compiled by a Washington-based policy research organisation suggest that these overall non-official resources may have reached USD 70 billion in 2004.

According to this estimate, personal remittances from developing world nationals may represent two-thirds of these flows. Resources mobilised by NGOs grew continuously between 2000 and 2003, levelling off at USD 10 billion in 2004. Other private flows to the developing world consist principally of bilateral direct investments and export credits. These amounts have fluctuated widely between 2001 and 2005 (from USD 21.9 billion to USD 69.2 billion), making it difficult to estimate future trends.

The special issue of tied aid

The Congressional requirement to tie aid means that goods procured with aid funds must originate from the US and be furnished by US suppliers, and services must be procured from firms

8 . United States Government (2006), *United States Memorandum for the DAC Peer Review*, November 2006.

9 . In this report the term NGO embodies international non-governmental organisations, local NGOs, private US-based non-profit organisations (PVOs) as well as some public international organisations, such as the Committee of the International Red Cross. The United States uses the term NGO for local and partner country NGOs only.

of US nationality.[10] This practice is justified by the US as one way of demonstrating to the American public that public funds used in aid programmes also provide an economic return to the US. In fact, until the 1990s an elaborate tracking scheme was in place to demonstrate the volume of reflows and where they occurred.

Tying aid to United States products and services can reduce its effectiveness by limiting competition and undermining ownership of the process in beneficiary countries. Since January 2002, a waiver has enabled the United States to implement the DAC *Recommendation on Untying Official Development Assistance to the Least-Developed Countries*. Food aid and free-standing technical co-operation, major components of the United States' programme, are excluded from the recommendation's coverage.

For example, 99% of the US's food aid (currently excluded from the DAC *Recommendation*) was sourced in the United States in 2003. This increased the cost by 33% on average compared to alternative commercial transactions. In addition, the requirement that 75% of food aid be carried on US flagged ships may add an additional 50% - 200% to delivery costs. Food aid has been brought under the coverage of the World Trade Organization (WTO) Agreement on Agriculture; the provision of food aid is being debated in the context of the Doha Development Agenda. In the case of technical assistance (currently excluded from the DAC *Recommendation*), expatriate American services may not be the least expensive option and the quality of their programmes may not be the most appropriate in all circumstances. Encouraging USAID contractors to buy US vehicles can increase expense and operational inconvenience. Relaxing the requirement or preference to "Buy America" should improve both the efficiency and effectiveness of United States aid. Finally, tied aid also contradicts the more general USG interest in freeing up barriers to trade. It should be noted, however, that the US's major reconstruction aid to Afghanistan is untied, in accordance with the DAC provisions. In 2005 the United States issued its report to the OECD on untied aid awards, which included 64 untied aid notifications amounting to USD 5 billion.

The 2004 legislation which created an untied Millennium Challenge Account (MCA) was perhaps a herald of change in the American perspective on tied aid. The fledgling MCA is still grappling with its procurement policies. Generally it has modified host country or World Bank international rules to guide its procurements. This example merits careful tracking by US authorities so as to better understand, first hand, the acceptability of further extending agreement on untying of funds for other development agencies as well. We also encourage the United States to undertake an updated study of the cost to its taxpayers of tied aid, and its impact on aid efficiency and effectiveness. Finally, and in line with the DAC *Recommendation on Untying*, we encourage the United States to identify and implement supplementary actions for untied ODA, including support for local and regional procurement opportunities.

Future considerations

- In the context of its new foreign assistance framework, the United States should undertake an **ODA plan** that would address the international interest by creating better

10 . Tied aid, which includes loans, grants or associated financing packages with a concessionality level greater than zero percent, is defined as "aid which is in effect (in law or in fact) tied to the procurement of goods or services from the donor country or a restricted group of countries". Bilateral ODA implemented by USAID is in principle tied to the procurement of goods and services from the United States, but this restriction may be relaxed for reasons of availability, emergency or efficiency on a case-by-case basis. Significant recent examples of this are in Iraq, Afghanistan, Pakistan and the tsunami-affected countries.

targeted and more predictable aid delivery. This tool ultimately should be used to improve strategic budget decisions across countries and between bilateral and multilateral instruments.

- In accordance with the terms of the DAC *Recommendation* on Untying ODA to the least developed countries, the United States is encouraged to identify and implement supplementary actions to **untie** its bilateral assistance.

- As the volume of debt relief declines over 2006 and beyond, the United States is encouraged to look for opportunities to shift resources towards **low-income countries** where it can make a significant impact on poverty reduction.

Chapter 3

Poverty Reduction and Other Specific Themes

US foreign assistance and poverty reduction

A multifaceted approach to reducing poverty

The United States does not have a tradition of targeting its ODA only on the basis of country poverty levels although USAID uses a poverty index, among other parameters, for country screening processes. There is no policy guidance specifically addressing the issue of poverty, yet since the last Peer Review the government has taken a number of steps to combat poverty in developing and transition countries. At the 2005 G-8 Summit, the US recommitted to doubling aid to Africa by 2010 and agreed to erase 100% of the debt burden of the world's poorest countries. It also created the Millennium Challenge Corporation in 2004 to combat poverty through "sustainable, transformative economic growth" (Chapter 5). Other measures have included the creation of a Global Development Alliance that stimulates public-private partnerships, increased trade-related technical assistance and Presidential Initiatives focusing on health and education. The US is also leading the G-8 in committing to an action plan for "Applying the Power of Entrepreneurship to the Eradication of Poverty". By virtue of its global leadership role, the volume of its aid and the multiplicity of individual poverty actions, the US plays a vital role in the international effort to combat poverty and meet the Millennium Development Goals (MDGs).

USAID, the Department of State, MCC, and a variety of other government entities are promoting economic growth to reduce poverty in developing and transition countries. USAID counts on its pillar bureaus, in particular the Economic Growth, Agriculture and Trade Bureau (EGAT) and its Office of Poverty Reduction, to promote broad-based, economic growth. With 33 staff, the Office of Poverty Reduction's role is to ensure that USAID's programmes adequately address the needs, capabilities and vulnerabilities of the poor, and contribute to the Millennium Development Goals of halving poverty by 2015. With funding of USD 180 million in FY 2004 and USD 200 million in FY 2005, USAID reports it has supported almost four million entrepreneurs and households worldwide. As these businesses expand and integrate into the formal economies of their countries, USAID expects that they will be able to provide opportunities for the poor in terms of jobs and revenues.

In 2003 the USAID Center for Development Information and Evaluation examined USAID approaches to poverty reduction in Honduras, Mali, Romania and Uganda. In these countries, USAID support directly provided social services to the poor in the areas of health, nutrition, population, humanitarian assistance, education, micro-enterprise and agricultural extension. In contrast, support decreased to programmes contributing to sustainable development and an enabling environment for poverty reduction through policy, legal and institutional reforms. The resource shifts away from economic growth programmes were influenced by Congressional funding earmarks and directives, and by reporting practices required by the USAID "management for results" system. There was also reduced attention given to the policy/regulatory enabling environment for private sector growth and job creation, an innovative area of support which had

formerly been widely appreciated. The assessment recommended that USAID continue to exert influence on the poverty reduction process by increasing attention on removing obstacles to growth and by focusing on distorting exchange rates, fiscal policies, weak banking sectors and distorted price and regulatory regimes.

Clarifying government policy on poverty reduction

The US is the largest aid donor in absolute terms, as well as a highly respected contributor to thinking on poverty in the international arena, including the DAC Network on Poverty Reduction. However, it does not have a clear policy on poverty reduction. It also has yet to integrate poverty as a cross-cutting theme of the new foreign assistance framework, although it is currently noted as part of the end goal of foreign assistance in the "developing" category of recipient countries (Annex B). While the US does address world poverty on multiple fronts, with much of the funding directed towards solving specific long-term development problems that are clearly related to the Millennium Development Goals, it also targets middle-income and lower-middle income countries more than low-income countries. Many bilateral interventions with a poverty orientation are innovative, with strong potential for being replicated in different regions and contexts, including by other donors eager to learn from good practice. Yet they lack a long time horizon which would be useful for planning ODA for development purposes.

This situation calls for a clarification of the government policy agenda on poverty reduction. This is all the more logical given the "3Ds" policy (Chapter 1) and the need to situate poverty reduction in the currently evolving context of US foreign policy. As the operational contours of its approach to aid management take shape, the Office of the Director of Foreign Assistance should consider making poverty reduction the cornerstone of its development strategy. This would relate well to the security agenda, since poverty reduction is viewed as one important part of the war on terror. It could be one of the simplest ways to distinguish the US development policy mandate from those of defence and diplomacy. It would also be consistent with much of the fieldwork currently undertaken by agencies such as USAID, and would fulfil the expectations of the American public.

Specific actions for poverty reduction

Mobilising private sector financing: The Global Development Alliance

The US is a lead donor in mobilising private sector financing to complement public resources and has implemented such programmes since the 1960s. A major new programme, the Global Development Alliance, was established in 2001. Through it, USAID has funded about 400 public-private partnerships with over USD 1.4 billion in government funding, leveraging more than USD 4.6 billion in partner resources. More than 1 400 organisations, including international and local businesses, private foundations, trade, labour and advocacy groups, NGOs and governments are partners in 97 countries. In Indonesia, the Peer Review team was impressed by the extent of multinational company commitment to reconstruction efforts following the Indian Ocean tsunami (Annex D). The combined commitment of US private sector and government left a visible impact on poor people's ability to start new lives. Box 2 illustrates GDA efforts in Asia.

Box 2. Global Development Alliance in Asia

Public-private partnerships aim to increase development impact through the combined strength of multiple stakeholders in which all parties share in the risks and the rewards of the alliance. The private sector can contribute cash or in-kind resources, which may include technology and intellectual property rights, market creation, policy influence and technical expertise.

The USAID/Indonesia programme is considered one of the pioneers in developing these partnerships. In 2005 and 2006, USAID pursued a wide range of partnerships through the Global Development Alliance, bringing together private sector technical expertise, management skills and financial resources. One notable partnership is the SUCCESS alliance, devoted to improving cocoa yields in Indonesia, the Philippines and Viet Nam. The alliance leveraged USD 65 million in resources in 2005, improving control of cocoa disease through the use of pesticide-free methods and establishing cocoa as a viable commodity crop and source of income for farmers. Other examples concern water resource management in West Java, extending the basic education mandate to under-served areas of Indonesia and an alliance with the World Wide Fund for Nature (WWF) and the Nature Conservancy to reduce illegal logging through a certification programme.

To encourage participation by the private sector in reconstruction activities following the 2004 tsunami, USAID signed five private-public development alliances, helping to direct resources for reconstruction and providing tangible assistance to Aceh's citizens. Unocal Foundation, Chevron, ConomiPhillips Indonesia, Microsoft and Mars Candy were involved. A new GDA with WWF was agreed to rebuild homes with responsibly-harvested forest products. In total, the agency signed nine partnerships for tsunami-affected countries, leveraging more than USD 11 million in private sector funds. Overall private partners contributed over USD 75 million to the alliances with USAID/Indonesia.

Supporting trade development and trade capacity-building

The US has significantly increased its support for trade-related assistance to developing and transition countries since the last Peer Review. Between 2001 and 2004, US trade-related commitments increased by 43%. In 2004, they represented 4.2% of total US (sector-allocable) ODA commitments, or approximately USD 798.3 million (WTO/OECD, 2005). This makes the US the second largest bilateral donor. That year, the US also financed 26% of total trade-related assistance (WTO/OECD, 2005). US support to trade development and capacity-building is likely to further increase in light of declarations made at the 2005 G7 Summit and the WTO Hong Kong Ministerial Conference.

The US provides technical co-operation to help build partner country capacity to understand and analyse issues related to bilateral, regional and multilateral trade talks and agreements and to negotiate in international fora. It also helps countries to carry out trade agreements and assists governments to create a competitive and enabling environment for local business. It has designed a number of regional programmes to enhance trade competitiveness and to improve the potential of developing countries' producers to sell to the US market. In Africa, the Trade for African Development and Enterprise (TRADE) strengthens the ability of African countries and businesses to develop their export trade and to take advantage of the African Growth and Opportunity Act (AGOA). US exports to sub-Saharan Africa reached USD 10.3 billion in 2005, a 60% increase since 2003, while US imports from the region almost doubled (largely in petroleum products), reaching USD 50.3 billion in 2005 (US Government, 2006b). Non-oil AGOA imports totalled USD 3.5 billion, an increase of 2% over the previous year. On the multilateral front the US contributes to the Trust Fund for the Doha Development Agenda and participates in a number of multi-donor actions.

Organisationally, USAID, the MCC, the Department of Labor, the Department of Agriculture, the US Trade and Development Agency, the Office of the US Trade Representative and the

Department of State are among the key official actors involved in trade development activities. Because of the cross-cutting nature of the topic, interagency working groups have been set up to help improve the effectiveness and coherence of these actions. For example, a new interagency team has recently been formed to develop a common strategy for monitoring and evaluating trade-related programmes. USAID field missions receive technical support from their Bureau for Economic Growth, Agriculture and Trade.

Health and education activities

USG development programmes in **health** have been globally defined and funded since 1992 through the Child Survival and Health Programme account managed by USAID, which totalled USD 1.5 billion in FY 2006 (USAID, 2006b). This programme included activities around HIV/AIDS, TB, malaria, avian influenza, other public health threats, maternal and child health, and family planning/reproductive health. The US also contributes to the Global Fund to Fight AIDS, Tuberculosis and Malaria (USD 402 million in FY 2006) (Global Fund, 2006); the President's Emergency Plan for AIDS Relief – PEPFAR (Box 3); the President's Malaria Initiative; the International Mother and Child HIV Prevention Initiative; and the International Partnership on Avian and Pandemic Influenza. As part of PEPFAR, a new Global HIV/AIDS Initiative account and a Global AIDS Co-ordinator position were created.

Box 3. President Bush's Emergency Plan for AIDS Relief (PEPFAR)

The President's Emergency Plan for AIDS Relief (PEPFAR), approved by Congress in 2003 for five years, is a USD 15 billion initiative to combat the HIV/AIDS pandemic. It is the largest commitment ever by one nation dedicated to a single disease. The Department of State co-ordinates the work of four priority implementing institutions (USAID, Health and Human Services, Defense, Peace Corps). The Office of the US Global AIDS Coordinator is responsible for co-ordinating this effort as well as all HIV/AIDS activities financed by the government.

PEPFAR combats HIV/AIDS and promotes integrated prevention, treatment and care in 15 countries that are amongst the most afflicted nations of the world, mainly in Africa, the Caribbean and Viet Nam. Another key priority is to support the implementation of good policies and effective legislation, particularly at the community level, *e.g.* programmes that promote the "ABC" approach: abstinence until marriage ("A"), being faithful within marriage ("B") and use of condoms ("C"). PEPFAR focuses on developing local capacity for sustainable, high-quality interventions in recipient countries. Around 82% of all implementing partners in FY 2005 were partner country organisations, and over 20% of host country partners were public sector entities.

There is a growing body of evidence and active public scrutiny of the impacts of PEPFAR's early years. The General Accounting Office conducted an extensive investigation in April 2006 of PEPFAR policies for preventing sexual transmission of HIV/AIDS. This feedback is now providing valuable messages on ways to further improve the PEPFAR model: the positive and negative perceptions of the ABC model for some groups or individuals; the fact that over-attention on spending funds can undermine donor ability to respond to local prevention needs; the need to remain operationally focused and not unduly driven by ideology; the need to rely on local ownership and field-based design; and the importance of transparency in reporting the use of funds. Because of its size and global reach, PEPFAR provides an excellent opportunity for worldwide learning in this area.

In **education**, US programmes focus on Africa and Latin America through the President's regional Africa Education Initiative and the Centers for Excellence in Teacher Training. The Centers aim to improve the quality of classroom reading instructions in poorer countries and disadvantaged communities. With a budget of USD 600 million (USAID, 2006a) the Africa Education Initiative expects to provide 550 000 scholarships to African girls at primary and

secondary levels by 2010. The Department of State is involved in education through the Bureau of Educational and Cultural Affairs which sponsors the Fulbright Program to increase mutual understanding. The Department of Agriculture also provides training through the Cooperative State Research, Education and Extension Service.

The USAID education programme in Indonesia directly supports key elements of the strategic plan for both the Ministry of National Education and the Ministry of Religious Affairs. The programme specifically assists local governments in managing and delivering education resources, in allocating funding to school-based management and generally advancing the reforms of the Indonesian school system, including those addressing Muslim education. USAID programmes in Indonesia are geared towards responding to the needs and priorities of the Indonesian Government, but are only weakly co-ordinated with other bilateral and multilateral donors involved in education.

These USG initiatives in health and education have provided major resources and leadership on several issues, particularly for HIV/AIDS and malaria. However, these initiatives are still too compartmentalised and we suggest progressively bringing together the US health and education approaches to create a more strategically knit package. The US should consider taking a more integrated and strategic perspective to the health and education problems of poor countries, including addressing sustainability concerns like the shortage of well-trained doctors, nurses, teachers and administrators. Closer working relationships with other donors also involved in health and education could help reduce the risk of a proliferation of uncoordinated agencies and activities and reduce transaction costs for all.

Keeping gender on the agenda

The USAID Office of Women in Development (WID) is the focal point for technical expertise and leadership on gender issues for USAID. The WID Office currently has an USD 11 million budget, a staff of 11 gender advisors at headquarters and contact points in most field missions. The WID Office advises Congress, international organisations and the NGO community on gender issues and represents the USG on high profile and often sensitive gender issues domestically and internationally. Collaboration with the Department of State is particularly intense during preparations for the annual UN Commission on the Status of Women and with the Labour and Justice Departments for input and advice related to trafficking in persons. The WID Office provides training tailored to the requests of field missions, US embassies and other US agencies and partners, including NGOs. Part of the WID Office's work is to identify gender issues that have been insufficiently addressed (*e.g.* gender aspects of trade and trade capacity-building) or emerging issues which have not yet figured in programme planning (*e.g.* gender-based violence in schools).

USAID can take credit for many successful stories involving women throughout the developing world. Nevertheless it is of concern that USAID has decreased its focus on gender equality and women's advancement (OECD/DAC, 2005b) and that there is no explicit reference to gender equality or women in development in the new foreign assistance framework (Annex B). USAID notes that gender related issues are addressed under key elements of the framework where lack of attention to the topic could hinder progress toward transformational development. Keeping gender on the screen of US foreign assistance requires political will and commitment as well as the active efforts of the WID Office. USAID officially asserts that government acceptance and proactive adherence to the 1995 World Conference on Women in Beijing overrides any need, at this juncture, to prepare a US specific gender policy paper. Nevertheless, a more specific US strategic statement on this topic should replace the now USAID Women in Development policy of 1982 and would help to more specifically translate the US Government perspective on good practice in this area.

The Department of State, the MCC and other parts of the government also hold gender considerations in high regard. The WID Office needs to get involved in mobilising other departments, including Defense (which has a growing role in delivering aid) to enhance the gender dimension of development.

Responding to new foreign policy and national security interests

The US response to weak and failing states

The events of 11 September 2001 prompted the government to take a number of important steps to address challenges to US national security posed by poverty, weak institutions and corruption:

- Under the foreign assistance framework, failed and failing states are part of the "Rebuilding Countries" category (Annex B) and so have specific development objectives assigned to them.
- The Millennium Challenge Corporation was established as a tool for rewarding poor countries with increased assistance provided they demonstrate progress measured by a range of political, social and economic indicators.
- The Department of State Office of the Coordinator for Reconstruction and Stabilization (S/CRS) was created to co-ordinate and institutionalise US civilian capacity to prevent or prepare for post-conflict situations and to help stabilise and reconstruct societies in transition from conflict or civil strife.
- The Department of Defense issued a Directive on Military Support for Stability, Transition and Reconstruction Operations (S/STR) in 2005.
- USAID published a *Strategy for Fragile States* in 2005 and created the Office of Conflict Management and Mitigation (CMM) to mainstream conflict mitigation into the Agency's work. Work is planned to bring the strategy more in line with the future direction of overall US foreign policy.

The new institutional approach of the Office of the Director of Foreign Assistance aims at closer co-ordination among US agencies and the adoption of consistent, joint government approaches. At the present time, these measures appear dominated by security-related concerns and may not address the range of real developmental challenges faced by countries that do not meet MCC criteria. Those countries are often poor or very poor and have trouble performing the most basic functions of state, whether keeping their people secure, governing legitimately, managing the economy or providing basic social welfare. They represent the hard core of today's development challenges and are a growing source of transnational threats ranging from terrorism, to crime, to infectious diseases.

The draft *DAC Principles for Good International Engagement in Fragile States* (which were endorsed for testing by the DAC High-Level Meeting in April 2005) provide some guidance for addressing the challenges of weak and poor states. They call for a "whole-of-government" approach that unites defence, development and humanitarian communities. It will be important for the United States and the broader donor community to increase the synergy between humanitarian work and work on peace and security, governance and justice, conflict mitigation and management, and in fragile states. At present, the potential complementarities – particularly with regard to the protection of civilians – are not fully realised. Equally, the potential for difficulties, for example, over how to measure impact, have not fully been explored or addressed.

By relying less heavily on project modalities and external contractors and engaging more with multilateral institutions and key allies, the US could improve the effectiveness of its foreign assistance policy in fragile states, its leverage of resources and its options for delivering aid. The case of Aceh Province in Indonesia is a useful example. Aceh is recovering from the tsunami and from a protracted civil conflict. The US programme there could better link these related processes. Poor linkages have allowed imbalanced resource allocation within the province, and have overloaded the national and provincial administrative system. Linking the development, conflict reduction and security agendas in environments such as Aceh requires a heavy investment in strategic analysis and in influencing key stakeholders, including the national government, other donors and multilateral partners. The importance of humanitarian assistance as an instrument for engaging in fragile and conflict states cannot be underestimated in this context. Annex D provides a more complete analysis of humanitarian assistance in the US system.

Future considerations

- **Poverty reduction** needs to be given prominence in the currently evolving context of US foreign policy. As the United States develops its Framework for Foreign Assistance, it should clarify its poverty reduction agenda and review the implications of that perspective (tracking, aid allocation, human resources).

- The government should consider adopting a long-term, more integrated approach to the **health and education** problems of poor countries. The aim would be to develop more efficient and effective relationships with other donors and reduce the instance of poorly-coordinated and overlapping activities.

- The Office of the Director of Foreign Assistance should help revise the outdated Women in Development policy so that **gender** considerations can become a common objective for the broader interagency effort in development.

- The government should pursue an approach to **fragile states** which unites the defence, development, diplomatic and humanitarian communities. The division of labour between the Office of the Director of Foreign Assistance and the Coordinator for Reconstruction and Stabilisation should be clarified to further such an approach.

- Links between the **humanitarian and developmental dimensions** should be strengthened in accordance with humanitarian principles. Increased support for basic services in fragile states through non-humanitarian aid instruments should be encouraged, as should investment in longer-term safety nets to address acute poverty.

Chapter 4

Development Policy Coherence

Why policy coherence is important for development

Policy coherence matters across all OECD member government policies, but it is particularly important given the impact that OECD countries can have on poor and vulnerable nations. Without it, the policies and actions of non-development sectors of government can undercut efforts to reduce poverty in the developing world. The international community is still on a learning curve for this topic (OECD/DAC, 2005a). Based on experience to date, key policy areas where coherence is important commonly include agriculture, trade, investment, migration, environment and conflict prevention. As donors now scale up the volume of their aid, they have even more incentive to ensure that these resources are not diminished or even undercut by policy incoherence.

As the world's largest economy, the United States' policies can have a substantial impact on developing countries, both positive and negative. The United States' global leadership role also means that its decisions serve as a point of reference for many other donors. Perhaps more than any other bilateral member of the DAC, sustainable poverty reduction in developing countries depends on the United States working alongside other donors to promote policy coherence for development.

Achieving policy coherence can be complex and requires directed action. Specific challenges can commonly arise from domestic interest groups and government agencies whose policy focus is not on reducing global poverty or other developmental objectives. These are relevant considerations for the United States, where the government tackles a remarkable breadth of international issues, all of which require different forms of internal political arbitration. This process is complicated by the American separation of powers between the executive and legislature branches of government. This results in Congress playing an independent role in formulating policies, many of which may already have been negotiated separately with a range of government agencies and special interest groups. For the United States to pursue a proactive approach to policy coherence for development in this context is truly a challenge and will require political leadership at the highest level.

Development policy coherence in the US

The United States is now building a cohesive approach to foreign assistance based on its National Security Strategy, whose national security agenda has become the cornerstone of US foreign policy, including development co-operation, over the last four years. This agenda is now driving the construction of a new approach to US development co-operation – including its vision, organisation, funding and even staffing. However, as discussed earlier, though important, the security-development linkage is not an exclusive one. Ensuring security only partly depends on development actions, just as development only partly depends on security actions. The security vision cannot be the sole rallying force around which US policy coherence for development can be built.

Looking beyond the security agenda, the United States does not have a formal strategy on policy coherence for development – although it has recognised its importance in some settings, such as the Doha discussions or those of the Central American Free Trade Agreement (CAFTA). The term "policy coherence" has been used frequently by the current government, generally to refer to the internal co-ordination of government development institutions. This use of the term reflects the growing official recognition of the increasingly fragmented nature of government development co-operation organisation and the pressing need to make it more "coherent". This low-key reference to policy coherence may also come from the fact that the principal institutional voice for development, USAID, has been significantly disempowered and marginalised over the last decade. Indeed, it has lost a significant portion of its capacity for policy analysis and advocacy.

As with many other aspects of today's system of official development co-operation, policy coherence has been treated pragmatically as an *ad hoc* issue, around which the system comes together in time of need. Support for this type of cross-government behaviour is promoted by the National Security Council, often based on directives coming directly from the White House. The National Security Council Web site highlights the wide range of high-level issues with which it deals among which development co-operation is a very modest sub-topic. Nevertheless, development topics figure among the range of Policy Co-ordination Committees initiated by the Council to promote cross-government policy co-operation. Reconstruction and stabilisation is co-ordinated through a specific Policy Co-ordination Committee, which includes sub-groups for topics such as early warning, humanitarian response, security and justice. The Department of State's Office of the Coordinator for Reconstruction and Stabilization (S/CRS) serves as secretariat to these specific groups.

There are many other types of *ad hoc* policy co-ordinating structures: USAID has worked out inter-agency positions for follow up to international conferences and G8 meetings, and with the Office of the Trade Representative on trade and investment issues. There is also active inter-agency co-ordination for the regional initiatives (CAFTA, AGOA, etc.), for anti-corruption efforts and for food and agriculture issues, among others. Taken together, these represent a major effort to join up different agency perspectives. However, many are reactive and they seldom highlight a strong development perspective as the leading focus for collaboration. Most importantly, they still fall short of the strategic and more systematic approach to policy coherence for development for which the DAC has advocated over the last decade. The political decision to make development one of three priority pillars of US foreign policy, and the emerging organisation which accompanies it, may offer new opportunities for a more organised government interest in policy coherence for development. One promising sign is that the Office of the Director of Foreign Assistance will lead the development of the next Five Year Strategic Plan for foreign assistance, which will involve other agencies and is expected to provide a forum for identifying and analysing issues of policy coherence for development.

Promoting further US policy coherence for development

The challenge for the US is to translate existing international guidelines (*e.g. Shaping the 21st Century*; *DAC Guidelines on Poverty Reduction*) and public commitments, such as the 2002 Ministerial Declaration "OECD Action for a Shared Development Agenda", into appropriate structures, institutions and decisions for coherence. Members of the DAC have taken up that challenge through a variety of means ranging from new legislation to specially dedicated organisational resources.

The United States has made a major effort to strengthen co-ordination across different government agencies responsible for policies in closely related areas, including development. With

the advent of the 3Ds, it now needs to more formally recognise the importance of policy coherence for development in achieving its foreign policy objectives. This means setting up a national approach that more systematically and strategically addresses the effects of broader government policies on developing countries. We suggest the following areas for future reform in this sense.

Seek commitment at the highest level

OECD experience shows that commitment by a country's political leaders is a precondition of development policy coherence and for allocating the resources to achieve it. In the United States the elevation of development to one of the 3Ds should help to establish a clear **statement of vision** on policy coherence for development. Such a statement could then serve as a framework to better prioritise and focus resources around a coherence agenda, to assign leaders and to organise broader action by government and other partners. Political actors and public opinion play a key role in mobilising political support for this type of policy coherence; these aspects could be systematically included in the Office of the Director of Foreign Assistance and USAID's information policies.

Identify organisational leadership

Without a clear strategy, any organisational approach to policy coherence for development will remain fragmented and *ad hoc*. Current efforts to better co-ordinate the different parts of the government aid system around the Office of the Director of Foreign Assistance imply that this office may be the logical focal point for policy coherence. Organisational leadership will need to be identified, along with the types of linkages needed with the broader network of partners. The United States has well-organised development think tanks and NGO advocacy groups to which a significant amount of work on policy coherence could be outsourced, along with advocacy work later on. Specialists with some responsibility in this area could also be tactically placed at strategic levels of government or outside government. For example, USAID's senior specialist, who advises the National Security Council on international development assistance, could be particularly useful for this effort. Finally and as noted previously, the elevation of development to a leading national foreign policy priority could lead to the creation of a development voice at Cabinet level, as has already happened in some other DAC member countries.

Government emphasis on recipient country ownership of its development efforts, and the strong USAID and embassy field presence in-country, would suggest both need and opportunity for the US to invite developing world perspectives into its national review of policy coherence issues. Government officials already in the field should be engaged as a primary source of insight for this effort.

Promote analysis and identify priorities

The government currently lacks formal capability for identifying and analysing development policy coherence. Because of the importance of the United States in many key issues of international policy coherence, we encourage it to develop this institutional capacity, along with links with the analytical bodies outside the government system that we mentioned above. Perhaps the Five Year Strategic Plan noted earlier will provide clarity on a specific government approach to this topic.

The existence of five clearly stipulated objectives for foreign assistance (peace and security; economic growth; just and democratic governance; investing in people; humanitarian assistance) could be an appropriate starting framework for this analysis. Simultaneously, government field missions should be able to provide a more bottom-up and specific perspective. Any examination of

this topic should engage the numerous international partners (donor institutions, advocacy NGOs, think tanks) who are already working in this area. For example, the European Community is attempting to build a network for development policy coherence among its member states. An analytical alliance with these groups could substantially encourage a more common perspective in the international arena on development policy coherence.

Future considerations

- The US should develop a clear national **statement on policy coherence for development** and ensure that it is produced and endorsed at the highest level of government. It should aim to make explicit how the development dimension of the 3Ds should be translated across the wider US system.

- Based on this more systematic and strategic vision, the government will need to put in place the **resources** needed to better analyse and manage the priority policy coherence agenda in a manner consistent with its development expectations. Networking with international partners already working in this area would be an efficient way to generate a US perspective on these topics.

Chapter 5

Organisation and Management

Organisational fragmentation

The 26 government institutions that provide official bilateral and/or multilateral development assistance are loosely affiliated, often with different mandates which may overlap. The lack of a unified system of development co-operation means that there are few routine institutional linkages, nor is there regular communication among them. This fragmentation has been justified in the past by the strengths of institutional diversity, especially the system's ability to benefit from each institution's comparative advantage. More recent organisational debate within the US, particularly since development was given greater political priority, has focused on the disadvantages of such fragmentation, both in terms of system inefficiency and of the difficulty of managing for results.

Within this broad network of actors, strategic and operational leadership for development is located in six separate institutions (USAID, State, MCC, Defense, Treasury and Agriculture). Together these managed over 90% of national ODA in 2005 and are the organisational focus of this Peer Review.

- The **United States Agency for International Development** (USAID) has been the development system's central organisational actor and the location of most of USG development expertise since its creation in 1961. In 2005 it was responsible for 38.8% of ODA, a historic low (down from 50.2%, recorded in the 2002 Peer Review). However, it continues to influence development thinking across the broader network of government institutions. A recent organisational chart of USAID headquarters is contained in Annex E.1. Traditionally, USAID management is highly decentralised to its 77 field missions, including considerable delegation of authority. Field missions are both country level (full, medium-sized, small) and regional. The latter are also known as "hubs"; they provide a variety of services to the country missions and may implement their own regional programmes.

- The **Department of State** is the United States' lead foreign affairs agency and the Secretary of State is the President's principal foreign policy adviser. It implements many types of foreign policy objectives, including diplomatic, military, economic, and a wide range of other issues. It is responsible for implementing 13.4% of ODA. It recently acquired a lead policy and budget role through the creation of the Office of the Director of Foreign Assistance. Traditionally, its lead role in development relates to management of funds for the United Nations system and other qualifying international organisations, to migration and refugees, and to narcotic related development actions. It has limited development and overseas activity management expertise and has often relied on USAID to implement the development aspects of its politically negotiated assistance programmes. It maintains an extensive system of embassies in virtually every country. The administrative units of the department that specialise on some aspect of development are shaded on the organisational structure in Annex E.2.

- The **Millennium Challenge Corporation** (MCC) is an innovative new instrument of United States development co-operation, created by Congress with bipartisan support in 2004. The MCC administrative infrastructure, including some 300 staff, is now in place although implementation of its activities overseas is only just beginning (Box 4). The MCC is an institutional experiment of particular interest because of the implementation authority it has been given. The DAC has identified several examples of good practice, such as untied aid, no-year money, local ownership of programmes, performance-based approaches, etc.). An MCC organisational chart is contained in Annex E.3.

- A variety of other, less developmentally-oriented departments manage additional aspects of United States development co-operation, but generally do not have significant specialised career staff dedicated to these tasks. Most notable of these in 2005 included the **Department of Defense** (21.7% of ODA in humanitarian relief and selected reconstruction), the **Department of the Treasury** (4.3% of ODA in USG contributions to multilateral development banks), and **Department of Agriculture** (13.9% of ODA, primarily debt forgiveness). All have established, as needed, some form of working development relationships with USAID and the Department of State.

Box 4. Using the MCC to implement the MCA vision

The mission of the MCC, the operational arm of the Millennium Challenge Account (MCA), is "to reduce poverty by supporting sustainable, transformative economic growth in low-income countries which create and maintain a sound policy environment". The MCC is managed by a Chief Executive Officer and overseen by a public-private Board of Directors chaired by the Secretary of State. The Board selects MCA eligible countries according to each country's demonstrated commitment to "ruling justly, investing in people, and promoting economic freedom", which are measured as performance against 16 policy indicators. In order to qualify, a country must perform above the median in relation to its peers on at least half of the indicators in each of the three policy categories and above the median on the corruption indicator. The principle of country ownership is central to the MCC approach.

Eligible countries submit their own proposal for achieving sustainable economic growth and poverty reduction based on MCC guidance, including a requirement to consult extensively within their society to identify priorities. If approved, the MCC and recipient enter into a binding **Compact** agreement, which includes a limited number of objectives and result targets, benchmarks to measure progress, a clarification of responsibilities, identification of beneficiaries and a multi-year financial plan. Nine Compacts totalling more than two billion US dollars were signed between April 2005 and October 2006. Implementation is the responsibility of the local partner; the MCC normally establishes a small liaison office in-country. Countries that do not qualify for Compact funding but demonstrate a commitment to meeting eligibility requirements in the future may be selected using alternative **Threshold** funding. This is designed to help redress weaknesses identified in the MCA policy indicators and to help a potential partner country become eligible for a Compact agreement. By October 2006 MCC had approved USD 286 million for 11 Threshold Programmes, the first of which was signed in July 2005. USAID generally represents MCC in-country and implements these Threshold Programmes.

The MCC believes that its performance-based incentive approach often produces results even before the first payments are made. In April 2006, researchers at Harvard University released a study corroborating that MCC selection criteria may already have accelerated policy reform within countries potentially eligible for MCC funding. In any case, it is increasingly clear that MCA is a new and interesting direction in USG development co-operation, both because of the large size of its aid and because it offers an important opportunity to improve the allocation and delivery of assistance. Based on its limited exposure to MCC operations, we offer the following observations:

Poverty focus. The MCC mandate of "poverty reduction through growth" remains to be demonstrated. Peer Review exposure to MCA field operations in Georgia suggests that current project linkages to poverty reduction may be only indirect and long-term. Actual impact should be systematically assessed, much of

which will only be measurable several years after the five-year compact timeframe ends.

Institutional issues. i) The field implementation of Compacts appears layered, involving multiple local outsourcing and sub-agreements. Once underway, the administrative costs and potential inefficiencies associated with this approach should be evaluated to identify options for further system streamlining and effectiveness. ii) With authority vested in MCC headquarters and the partner institution in the field, the role of the MCC field office is potentially redundant. Its role should be clarified as new Compacts are formed. iii) As an externally funded donor activity, MCC projects should be integrated into current collaborative aid effectiveness initiatives and subject to broader partner scrutiny. The MCC should avoid isolated administrative arrangements that do not actively support common donor approaches.

Potentially unrealistic timeframes. The difficulties inherent in effectively disbursing aid in poor countries targeted by the MCC have long been known. Of the USD 4.2 billion of MCC funds appropriated by Congress to date, only a portion has been committed (mostly in the last year) and of this total only a small part has been spent (mainly for start-up costs for local project units). The requirement to complete spending within five years of signing of the Compact may be unrealistic. Options for extending this deadline under reasonable circumstances should be anticipated now.

Congressional pressures. Congress relieved MCC of much of its micromanagement that has weakened other government programmes. This has permitted funding that is demand-driven, untied, no-year and without earmarks. Every effort should be made to protect this agreement and extend similar opportunities to other government programmes. MCC flexibility improves its ability to focus on results and be more effective.

Of special interest in this Peer Review is the unusually large ODA management role played by the Department of Defense in 2005, mainly because of massive reconstruction involvement following US interventions in Afghanistan and Iraq, and the implementation of large amounts of humanitarian relief after the Indian Ocean tsunami. Nevertheless, it is also important to note recent high-level initiatives to improve institutional co-ordination between the department and other agencies in the areas of "stability, security, transition and reconstruction" (SSTR).[11] A new Office of Reconstruction and Stabilization has been created in the Department of State to promote this co-ordination, and USAID has set up an Office of Military Affairs. The Department of State and other agencies are now engaged in contingency planning which could increase the Department of Defense's "state building" role in conflict or post-conflict situations when civilian agencies are not prepared to engage due to inadequate security. This new government guidance is one more concrete aspect of the current broader effort to work at the intersections of defence, diplomacy and development. The DAC, particularly in its ODA definitions relating to military involvement in development, makes a distinction between ODA-supported development actions ("with the promotion of economic development and welfare as the main objective") and other efforts which focus on local security objectives. The 2004 and 2005 DAC High-Level Meetings helped clarify the boundaries of ODA in security-related fields.

Beyond these statistical considerations, however, the DAC encourages member states to jointly examine the developmental ramifications of an enhanced role for the military in these areas,

11 . A National Security Presidential Directive 44 (December, 2005) provides operational guidelines for the management of government interagency reconstruction and stabilisation efforts. Among other objectives, it specifies "a general framework for fully co-ordinating stabilisation and reconstruction activities and military operations at all levels where appropriate". Department of Defense Directive No. 3000.05 (November 2005) establishes DOD policy and provides guidance on joint operations concepts relating to "Stability, Security, Transition and Reconstruction (SSTR)". Stability operations are defined as "activities conducted across the spectrum from peace to conflict to establish or maintain order in states and regions". SSTR is defined as activities that support government plans which "lead to sustainable peace while advancing US interests".

to ensure that the operational guidelines put in place are as supportive as possible of broader international efforts in development co-operation. In the United States itself some are voicing caution over the unequal power relationships and "blurring" of operational lines of responsibility that could emerge from these new relationships between military and development institutions. While admittedly a complex area of policy debate, the DAC asks that all members maintain policies which are based on developmental experience and good practice and which more generally avoid risks of prejudicing achievement of the shared long-term vision of sustainable and broad-based development in the recipient countries.

Finally, as noted in Chapter 2, the United States also has an increasingly active group of civil society organisations, including NGOs, foundations and private sector groups. **Non-governmental organisations**[12] have worked with USAID funding since it was created in 1961 and now are also significant partners of the Departments of State and Defense. These NGOs are often large, well-funded and sometimes politically influential. A wide variety of NGO associations represent the collective interests of their members in relation to the government aid system or Congress. InterAction, one of the largest umbrella organisations for international development and humanitarian NGOs, notes that its 165 members collectively receive more than USD 3 billion in annual contributions from private donors alone. There is also a growing number of **privately endowed foundations** who manage sometimes significant development activities, especially in health, education or environment. Perhaps best known is the Bill and Melinda Gates Foundation (USD 31.9 billion endowment). Collectively these civil society organisations are viewed by the government and the American public as key contributors to the overall US approach to development co-operation. They also frequently provide important alternative perspectives on development co-operation, particularly concerning efforts to reduce poverty and promote grassroots development.

Moving toward more co-ordinated development activities

Co-ordination across even the core group of development institutions has traditionally been organised in an *ad hoc* and pragmatic manner, depending upon need. Thematic working groups are used to foster collaboration among agencies on emerging issues of particular importance. Central oversight organisations, such as the Office of Management and Budget or the National Security Council, sometimes play an active role in encouraging greater collaboration among similarly empowered agencies of government. This pragmatic approach has helped ensure inter-institutional co-ordination in the past, but has fallen short of being systematic and strategic.

The beginnings of such a systematic and strategic approach were formally announced to Congress in April 2006 by the Department of State in a letter establishing the **Office of the Director of Foreign Assistance** (DFA). This office was described as "an umbrella leadership structure for rationalising and co-ordinating all foreign assistance policy, planning and oversight". In line with the new political importance accorded to development, the DFA's Director serves at the rank of Deputy Secretary of State (Chart E.2); to ensure immediate effective control over development operations he also has the title of Administrator of USAID. Domestic debate over the wisdom of creating the DFA has been lively. Some specialists are concerned that this institutional merger process will lead to the disappearance of USAID and dilute the developmental leadership of the United States, while others assert that the institutional integration of development into diplomacy will force US foreign policy to address the issues of development more directly. In any case, the DFA now exists and is moving quickly to set up operations. Soon after its establishment it

12 . Commonly referred to as PVOs (private voluntary organisations) in USAID.

was staffed with 80-100 planners and budget specialists from offices in the Department of State and USAID. The status of DFA operations is already evolving fast and is noted in greater detail below.

At the field level (Chapter 6), the DFA has left the traditional parallel **field organisational structures** (the local embassy and USAID mission) largely intact. However, current government organisational thinking is clearly moving toward more co-ordinated approaches for these organisations (*e.g.* co-location within the embassy, shared administrative structures). Much of the context for stronger field strategic co-ordination at the planning and budgeting level is offered by the foreign assistance framework (Chapter 1). Within the geographic and sector logic imposed by the framework, the DFA provides strategic direction to field-level staff to guide their tactical decision-making, including detailed guidance on resource allocation. This latter guidance has been strongly influenced by field input. More generally, the balance between central direction and field-based programming is still evolving. We believe a predominantly field-based approach should be a critical aspect of United States development co-operation. Local exposure to field realities, close collaboration with other knowledgeable partners and an approach to development that is inspired by local ownership will be central to the ultimate effectiveness and sustainability of government development efforts. We also recognise that maintaining such a decentralised approach may be difficult given the politically charged decision-making environment in Washington and the proximity of development and domestic geo-political goals in the same joined-up organisation. Managing this tension and striking the right balance could be one of the more difficult challenges for this new development co-operation organisation.

For the DFA to be fully effective as the "umbrella leadership structure" of foreign assistance, it will need to establish a mechanism in Washington for better **joining together** the policies (and operations in the field) of:

- Other Department of State development actions not currently linked to the DFA.[13]
- The 24 other USG development institutions not currently contained in the DFA structure, particularly the other key development institutions (*e.g.* Treasury, MCC) or those with major operational overlaps (*e.g.* PEPFAR, Centers for Disease Control and Prevention, Agriculture).

It will also need to create strategic space for American civil society organisations and other informed voices outside of government. This role, and the pursuit of development at the highest level, will require senior political leadership, perhaps by creating a development position at Cabinet level, as is the case for some of the other DAC members.

Management

Fitting overall aid management within the new organisational context

The reshaping of government organisation also requires management approaches that align with the new structure. Already noted in the 2002 Peer Review, organisational fragmentation has led to fragmented planning, budgeting and organisational activities. With the creation of the Office of the Director of Foreign Assistance, many of these functions will be centralised. Operational co-ordination in headquarters will centre around a "core country team", technical and geographic staff who will serve as the point of contact and co-ordination for all major country-level decisions

13 . Including the large development operations run by the Bureau of Population, Refugees and Migration and those undertaken by the Co-ordinator for Reconstruction and Stabilisation.

taken in Washington. The DFA Director announced to the Peer Review that the longer-term management vision is characterised by three "ones" – a single strategy, a single co-ordinating unit and a single performance monitoring approach. Centralised development planning and budgeting for USAID and the Department of State has now begun around the foreign assistance framework model. Downstream aspects, such as joint programme evaluation and accountability will be rolled out over the next year.

Using the foreign assistance framework as a "roadmap" and drawing on their knowledge of local realities, the Department of State and USAID will work closely with other agencies at post, including MCC and the military, to produce an integrated Operational Plan. This will account for all US foreign assistance funds managed by the Department of State and USAID, including a discussion of other planned activities inside and outside of government. DFA has identified 67 "fast track" countries (including all African countries) for which a pilot country Operational Plan (activities, partners, funding level, expected output, ultimate outcome) will be submitted to Washington by January 2007. All field missions will be expected to prepare an integrated Operational Plan for FY 2008.

In his testimony to Congress, the DFA Director asserted that this new management approach will:

- Improve **accountability** by allowing stakeholders such as Congress to track progress across country programmes and partners based on a defined set of goals and indicators.

- Improve **efficiency** by integrating the Department of State and USAID planning processes. One set of goals will strengthen the link between policy, programme planning and results; one operational plan will ensure that activities are mutually supportive and comprehensive.

- Improve **effectiveness** by reducing duplication among programmes – all official institutions will be able to provide recipients and implementers with one message, will be held consistently accountable for performance, and will be able to amplify the impact of aid.

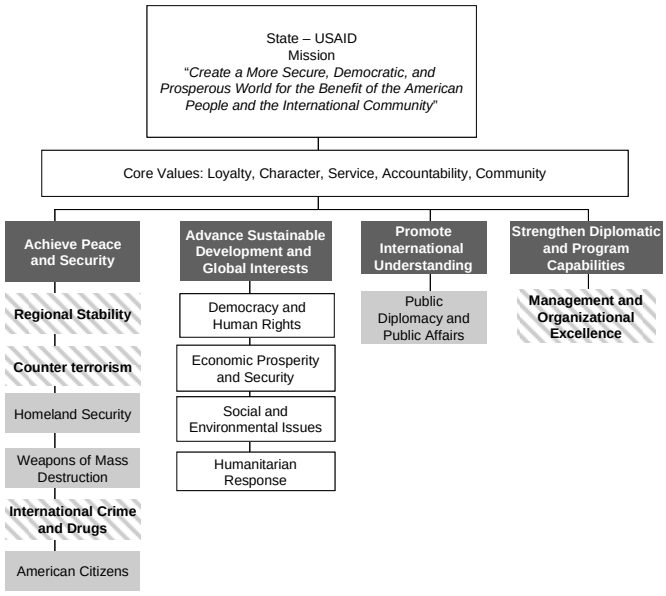
Much of this perspective is viewed as good operational practice by the DAC and is in line with the Paris Declaration on aid effectiveness. As its development system becomes better co-ordinated and starts to speak with one voice in the field, it will be important for the United States to then improve harmonisation with other partners in the field. This is particularly important to the international community, given the weight of the United States as a development partner and the high level of authority it already delegates to the field.

A common approach to strategy

The **Joint State-USAID Strategic Plan for FY2004-2009** was a precursor to the current effort at joint USAID-Department of State development operations. This plan uses a strategic goal framework to combine both organisations' highest priority objectives and goals (Figure 2). As a result of the plan, USAID now organises its work around eight goals that strategically capture USAID Washington and field responsibilities. USAID has its own **Policy Framework for Bilateral Foreign Aid** for implementing the joint strategic plan, along with the many policy and strategic directives which guide USAID's programmes. It is now logical for this strategic planning approach to be superseded by the evolving foreign assistance framework.

This common strategic plan has helped to clarify the previous mix of development and diplomacy issues and the role of each institution in carrying them out. It also helped to clarify the multifaceted nature of government development co-operation and the strategic context of political priorities in which development co-operation is now situated. With the advent of the Office of the Director of Foreign Assistance, it should be possible to better isolate and clarify the often longer-term "developmental" roles (those with the promotion of economic development and welfare as the main objective) of USAID and other institutions versus those that are more driven by shorter-term domestic political or other considerations. This should then help to ensure that these institutions receive the strategic and operational space they need.

Figure 2. Joint State-USAID Strategic Plan



Source: USAID, Performance and Accountability Highlights, FY 2005.

An increasingly common approach to business system reform

As a lead agency for development co-operation under significant scrutiny by the Congress, USAID has been actively reforming its business systems over the last several years. Since the last Peer Review it has implemented a **Business Transformation Plan** to improve internal management efficiency. This includes: i) business systems modernisation (financial management, procurement, information technology); ii) strategic budgeting; iii) strategic management of human capital; and iv) knowledge for development.

Since the last Peer Review, progress made by USAID to modernise its business systems includes:

- The worldwide deployment of a new accounting system (Phoenix) which permits faster, more transparent and accountable transactions.

- The design of a new USAID-Department of State joint procurement system which will permit immediate access to accurate procurement data.

- The design and updating of joint information technology systems.

Strategic budgeting is part of the current establishment of the Office of the Director of Foreign Assistance and was noted earlier. Progress on strategic management of human capital and knowledge for management elements of the Business Transformation Plan are noted separately below.

Much of the business system reform agenda is now regularly assessed by the **State-USAID Joint Management Council.** This body supervises the joining up of the two institutions around a Joint Strategic Plan, with priorities in human resources, training, information technology, administration, overseas facilities, security and resource management. The Council Charter notes the intent of the Department and USAID to pursue opportunities "to co-ordinate, collaborate and integrate management structures where appropriate". As the DFA becomes increasingly operational, other aspects of business system reform are likely to be actively considered for joint management as well.

Establishing a joined-up performance framework

Results-based management is seen within the United States system as synonymous with the effectiveness of aid and has been a preoccupation of Congress for many years. In 1993, it passed the **Government Performance and Results Act** (GPRA) which established a system of performance requirements for all government institutions, including detailed annual performance plans that cover goals, measures, strategies, resources and procedures of verification and validation.

The USAID experience

As the lead institution of development co-operation, USAID has been the pioneer in helping to set up the standards of a performance system for US development operations since the mid-1990s and continues to pursue an active agenda of performance management practices. For the last decade, USAID has maintained a performance monitoring system that included a USAID-specific, multi-year strategic plan, an annual performance plan and regular annual performance reports. The Mission Management Assessment (Box 5) is an operational performance practice more recently established in USAID and which is recognised by the Agency for its potential to provide performance monitoring of future forms of USAID-Department of State management. It has been designed along similar lines to a peer review.

Box 5. Use of Mission Management Assessments to track performance

In 2004 USAID initiated a system of co-ordinated Mission Management Assessments to evaluate and improve the effectiveness of field operations. Assessment teams composed of senior officers in key operational areas (senior management, administration, finance, programming, contracting) use a peer review approach to carry out fieldwork. A relatively simple and cost-effective mechanism, the Assessment typically covers programme rationale, implementation and monitoring, roles of offices and teams, organisation and staffing, administrative and financial management, external relations, morale and security. A dozen assessments have now been carried out to identify "best practice" in both programme and internal management. In 2006 they will focus on workforce size and composition, operating expense savings, and the optimal shaping of responsibility for regional offices.

USAID believes that the Mission Management Assessment is a valuable tool for: i) identifying best practice that requires broader dissemination; and ii) uncovering problems that require attention at headquarters. Reports are submitted to the USAID Steering Committee and shared throughout the agency.

This approach to performance monitoring has undoubtedly led to a strong focus on establishing clear performance frameworks and generating data for these. However, our team did hear concerns that it can lead to too much attention to "ticking boxes" at the expense of a focus on data quality and use, as well as on the relative importance of different performance indicators. The Department of State's Eastern Europe and Central Asia Directorate uses an approach which may reduce these concerns. This involves a system of "spidergrams" built around a limited number of key performance indicators. These graphically present an overall picture of performance, as well as making comparisons across countries.

The shift to performance monitoring in the mid-1990s has also inadvertently shifted attention away from the use of **evaluation** as a management tool within USAID. The number of evaluations carried out fell by 80% between 1993 and 2001. About the time of the previous Peer Review authorities had realised the need to couple performance monitoring with evaluation data to increase their understanding of why results occur and the value added of a programme. By January 2005, the USAID Administrator had authorised the agency's evaluation branch (Center for Development Information and Evaluation) to launch an Initiative to Revitalize Evaluations. This included a request to begin systematic evaluations of all major programmes, to improve the quality of evaluation and to use evaluations to improve development assistance. Of interest to the DAC is an expectation that all major activities will submit to final impact evaluations and that lessons learned will be shared with other USAID missions and partners. We encourage USAID to link this new source of learning with the international aid effectiveness agenda currently developing in the field.

A final new aspect of the USAID approach to results-based management is its efforts around **knowledge management,** entitled "knowledge for development". The Knowledge for Development Strategy – FY 2004-08 seeks to bring together existing knowledge-sharing activities to create capacity for knowledge management within the agency. The strategy speaks ambitiously of an "extended enterprise": a broad partnership whereby entities beyond USAID (*e.g.* other government institutions, international donors, contractors, grantees, recipient countries, etc.) will work together on knowledge management. The strategy is organised around three "faces" of USAID (field, strategic, operational) as a frame of reference for knowledge-sharing. The strategy aims to show that USAID can be "acknowledged as an organisation that works smarter using cutting edge technology". It contains a specific proposal for joint action with the Department of State over the 2004-08 timeframe and refers to other donor experiences and the DAC. Here too we encourage the United States to maintain collaboration with the international community and other partners, so that joint learning can become an active part of current efforts to achieve international aid effectiveness.

Establishing the common performance framework of tomorrow

Joining the two separate and parallel systems of the Department of State and USAID into a common performance framework for development will be a major challenge if it is to provide the comprehensive feedback traditionally expected by both systems, while remaining operationally lean and efficient. The previous description of the joint **planning** process illustrates the complexities involved: multiple objectives (country and central levels), multiple agencies and departments, and multiple external partners (inside and outside the system).

As for the establishment of a common **performance management** process (the bottom-up, flip side of the planning sequence), this will require clear objectives and a simplified approach to carry it out. Merging the two institutions around a common strategic, budgeting and monitoring framework has to simplify both the planning and reporting sides of the performance management system and needs to begin with a clear identification of the core developmental aspects of the 3Ds.

Clearer differentiation of the development function within the performance framework will help to clarify and simplify the monitoring and reporting of expected results. This approach can benefit from cross-agency strategic synergy to simplify and lower transaction costs, while offering a better focus for information as a management tool. It would also be consistent with the desire to give development equal priority as diplomacy and defence.

There may already be value in reconciling the different approaches to performance management more clearly across the broader range of government institutions, particularly as an increasingly consolidated approach to planning and delivery takes shape. The Office of the Director of Foreign Assistance should review these approaches and consider the scope for a more rationalised system which matches the new country planning grid and the positioning of development within the national security framework. This should include a focus on core development issues, as well as wider policy issues encompassed by the Framework. Alongside this, it would also be worth reflecting on the balance at project level between data quantity and quality and on the actual use made of performance data.

International approaches to aid effectiveness currently being tested appear to share the Office of the Director of Foreign Assistance vision of "a single strategy, a single co-ordinating unit, and a single performance monitoring approach". If the DFA shapes its field-based approach to performance management along these lines, it would also help break down the bilateral barriers that are common among individual donors. This would greatly enhance efforts to promote joint learning. To the extent that all partners are able to help construct local capacity, ultimately these functions properly belong with the host country. US efforts to build local capacity in this area are welcomed by other partners and should be co-ordinated with them.

Strategic management of human capital

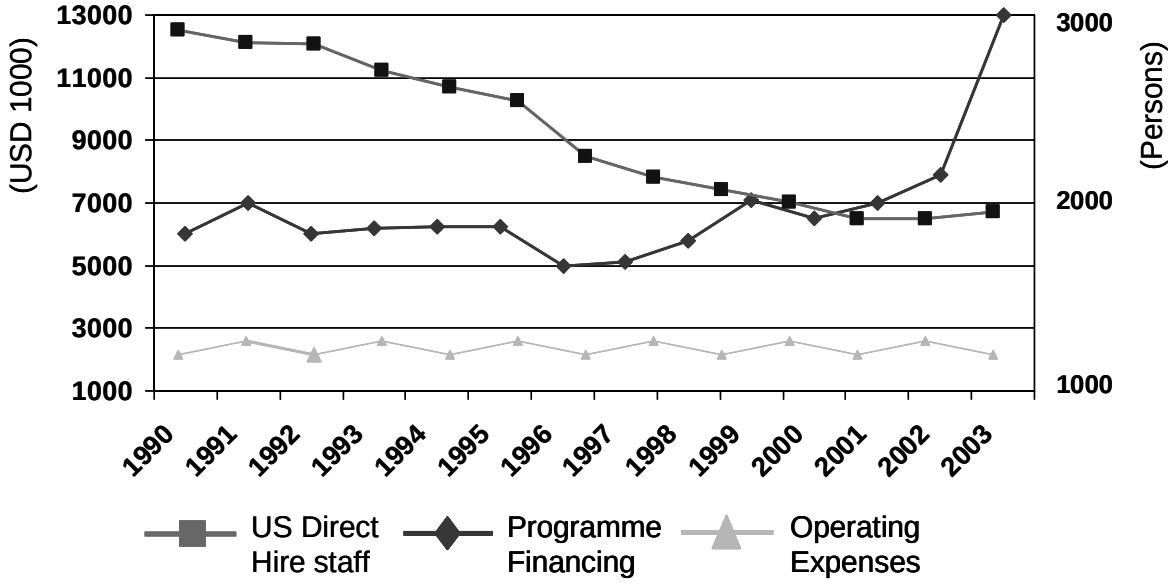
Government human resource statistics are not organised to provide an integrated view of overall staff availability of the key official development institutions (USAID, State, MCC, Treasury). Within its mandate to seek more integrated approaches to development co-operation, the Office of the Director of Foreign Assistance is well placed to undertake a special study of the human resource capacity in USAID, the Department of State and other agencies so as to better identify development skills and to seek out more strategic approaches to their use in the context of more co-ordinated management planning. We limit this section to human resource management in USAID. Being the lead development agency in the broader system, it represents as much as 80-90% of overall government human resources in this specialty area and an even larger percentage of development staff in the field.

Since the early 1990s, USAID has reduced staff and hiring, and eliminated most training (Figure 3). During the 10 years before the previous Peer Review, the size of USAID-managed programmes doubled, while the number of "direct hire" employees (career professionals) plummeted by 37%. Since the 2002 Review, USAID has increased its directly hired staff by 10% (to a current total of 2 391). One-third of these are stationed overseas and the remainder in Washington. Additionally, most professional and practically all administrative support staff overseas are locally employed. This brought the total USAID staff worldwide in 2005 to 8 279.[14]

14 . Worldwide USAID staff numbers as of December 2005: US Direct Hire (USDH) = 2391; local career nationals (FSN) = 85; local, third-country and US personal service contractors = 5500; other = 303.

As recommended in the last Peer Review, USAID has developed a ***Human Capital Strategic Plan for 2004-2008*** (USAID, 2004a). Given the need for significant advance planning in personnel management and the critical importance to development operations of experienced and competent professional staff, an overall personnel policy should be an ongoing priority for both USAID and DFA leadership. Numerous personnel challenges are already on the horizon. Most recent data for USAID suggest that as much as 40% of the direct hire employees will be eligible for retirement over the next two years. Also, the new approach to development co-operation, along with shifting strategic priorities, will affect the types of professional skills needed and their location. The rapidly evolving donor experimentation with more effective and co-ordinated approaches to local aid delivery should create potential for sharing government staff with other donors. We encourage DFA and USAID to take up these challenges actively as a priority aspect of their joint work in personnel management.

Figure 3. USAID Core Resources vs Growing Portfolio Size



Source: USAID.

Future considerations

- The **Millennium Challenge Corporation** is an innovative new instrument of US development co-operation. As it becomes operational, the MCC is encouraged to reflect upon the emerging issues raised in this review (linkages to poverty reduction, the efficiency of field implementation, unrealistic timeframes, Congressional pressure). Where relevant, the lessons learned from the MCC should be applied more widely.

- While the government seeks to give the Department of Defense a greater role in development co-operation, it should continue to clarify the operational responsibilities between **military and developmental** institutions and to ensure that government development efforts remain primarily focused on promoting economic development and welfare in recipient countries.

- For the Office of the Director of Foreign Assistance to be fully effective as the **umbrella leadership structure** of development co-operation, it must find the means to exercise strategic authority in matters of development carried out by the broader network of development institutions.

- The Office of the Director of Foreign Assistance is encouraged to follow through on its expectations for **field empowerment** and strategic leadership within its new operational system, in order to work toward the fundamental developmental objectives of effectiveness and sustainability.

- The foreign assistance framework offers opportunities to improve and simplify **results tracking** and monitoring and evaluation. We encourage it to review and rationalise the current performance management approaches in place across the government.

- As part of the USAID effort (and later that of the DFA) to improve **evaluation** and **knowledge management**, the United States should pursue its current interest in joint learning with its partners in the field and elsewhere.

- The Office of the Director of Foreign Assistance is encouraged to undertake **human resource planning** across the various government institutions of development so as to identify opportunities for better sharing of scarce skills across institutions and with international partners in the field.

Chapter 6

Country Operations

At the request of the United States Government, the DAC Peer Review team visited Indonesia from 15 to 19 May 2006 and Georgia from 17 to 21 July 2006 (Boxes 6 and 7 for visit highlights). The US is the largest bilateral donor in both countries, which are transition economies in the lower middle-income category. In 2006, Indonesia became eligible for an MCC Threshold Programme and has committed to the policy reforms necessary to qualify for Compact funding (Box 4). Georgia was among the first countries eligible for MCC funding and signed a Compact in 2005.

Indonesia

Country context

With an estimated population of 240 million spread over 17 000 islands, Indonesia is the fourth largest country in the world and the one with the largest Muslim population. The country benefits from huge mineral and energy resources, as well as a rich, though threatened, biodiversity. Building upon its first-ever direct presidential election in 2004 it held peaceful, free and fair district elections in 2005 and has since been under a democratic political system.

Upon taking office in October 2004, President Yudhoyono initiated an ambitious programme of political, social and economic reforms. He has had to face unexpected priorities such as relief and reconstruction following the tsunami, and signing a peace agreement with the separatist province of Aceh. Despite progress on many fronts, the country continues to struggle with the aftermath of the 1997-98 Asian financial crisis. Growth remains too low to accommodate the expanding labour force and foreign investors are confronted with corruption and legal barriers to doing business. Porous borders and coastlines, a sprawling geography and poor law enforcement also make Indonesia a haven for international criminal activity. Finally, Indonesia must deal with about 1.5 million internally displaced persons, as well as with increasing poverty. The number of Indonesian living under USD 1 a day increased by 4 million in 2005, reaching a total of 39 million.

Matching strategic and development objectives in Indonesia

Indonesia is a strong ally of the United States in the war against international terrorism. It is also on the front line of the worldwide fight against avian influenza and HIV/AIDS. USAID's assistance programme to "help Indonesia to succeed" supports high priority US foreign policy objectives such as fighting extremism and terrorism, preserving stability in Asia, promoting democracy and respect for human rights and improving access for US exports and investments. The post-tsunami programme to integrate Aceh more fully into a moderate, stable and productive Indonesia also responds directly to US national interests. A thriving Indonesian democracy could serve as a good example and inspiration to other Muslim nations with a long experience of autocratic rule.

Over the last two decades, USAID has responded to Indonesia's local needs in three ways:

- In the mid-1990s a country assistance "graduation strategy" was developed at a time when it appeared that the US funded development assistance could be phased out.
- A 1997-98 "crisis response" strategy followed Indonesia's financial, economic and social crisis and led to new opportunities in democracy, governance and decentralisation.
- A 2000-03 "transition strategy" deepened policy reforms in the aftermath of the crisis.

USAID's current 2004-08 Strategic Plan is a "transformational development" programme aimed at strengthening "a moderate, stable and productive Indonesia". It focuses on: i) the quality of basic education; ii) the delivery of basic human services; iii) effective democratic and decentralised governance; and iv) economic growth and employment creation. It is entirely compatible with US foreign policy objectives in Indonesia: democracy and education activities are closely integrated with the Department of State's public diplomacy efforts; efforts to promote political, economic and education reform form integral parts of the broader strategy to counter terrorism; judicial and other good governance reforms remain critical to encourage foreign direct investment needed to reduce poverty and increase people's stake in democracy. By supporting the government of Indonesia (GOI) in the fight against corruption and improving the delivery of basic services, the programme is also helping Indonesia to qualify for MCC Compact funding.

USG's development commitment towards Indonesia between 2004 and 2008 amounts to USD 626.5 million, made up of Development Assistance (DA), Child Survival and Health (CSH) and Economic Support Fund (ESF), plus USD 75 million in food aid. According to the USAID Mission Performance Plan for FY 2008, lower than projected budgets for FY 2006 and FY 2007 reflect the application of the new foreign assistance typology which currently considers Indonesia as a "non-strategic" country. This designation seems to have negatively affected assistance budget levels but does not appear to reflect the real needs of this huge and massively poor country.

A partnership approach to programming

The 2004-08 Strategic Plan was developed in stages jointly by the Department of State and USAID. The Embassy's Public Affairs Section, Regional Security Office and the local representative of the Department of Justice and Office of Defense Cooperation were consulted. Beginning in 2003 a "concept paper" was developed between USAID/Indonesia and USAID/Washington. The initial plan included a needs assessments and informal "peer reviews" to solicit comments from representatives of the national and local governments, civil society organisations and private sector representatives, along with major bilateral and multilateral donor organisations. As a result of this vetting process, the plan is consistent with the key objectives of the Indonesian Government's Interim Poverty Reduction Strategy Paper (PRSP) (a final PRSP has not been released) as well as with the 2004-09 Medium Term Development Plan into which the goals and objectives of the PRSP are integrated. The Strategic Plan was subsequently amended to integrate the large post-tsunami reconstruction effort in Aceh. It reflects both Indonesian needs and US foreign policy and development objectives. In addition, USAID field staff worked closely with MCC to support the MCC threshold assistance programme.

Box 6. Observations from Indonesia

Strategic orientation. There needs to be recognition within the US Government of potential tension between the US foreign policy of transformational diplomacy and bottom-up, needs-based development programming at the country level. Directives coming from Washington, as well as extensive Congressional earmarking, may jeopardise the realisation of local priority objectives. Poverty eradication is not the starting point of aid strategy in Indonesia; instead it is a by-product of USAID's development interventions. A major driver of the US portfolio is the focus on results. Target areas were chosen based on population density or capacity to succeed in delivering local services (rather than on degree of poverty). A stronger and clearer focus on poverty could bring government development planning more in line with real needs and other key donors, thereby improving opportunities for scaling-up and broadening joint impact. There is a critical need to give a leadership role to the field for identifying local development needs. The new joined-up Department of State-USAID framework is an opportunity to find a proper balance of roles and instruments for top-down and bottom-up programming.

Partnerships for effective development. The Indonesian Government, which has been a missing development partner for many years, is now an increasingly viable one, with BAPPENAS (Ministry of Planning) asserting itself as the main co-ordinator of donor assistance. This opportunity should be embraced by the US as it will create some space for policy dialogue at a higher level. In consultation with the Indonesian authorities, USAID could lead in supporting the development of sound national sector strategies in key areas of comparative advantage. Based on the experience of the DAC and the current international agenda, the US is encouraged to actively explore and promote all forms of partnership, including working through other donors.

Delivering more effective aid. The vast majority of USAID's current portfolio in Indonesia is delivered in the form of projects with large amounts of tied technical co-operation. Washington needs to provide the field mission with clearer guidance both on the topic of technical co-operation and the associated concept of local capacity-building. It also needs to encourage the adoption of good practice as noted in the DAC document *The Challenge of Capacity Development: Working Towards Good Practice.* For the purpose of mutual planning, US funds, which are almost exclusively off budget, should be reported to the Indonesian Government. Harmonised donor approaches to development should reduce the demands of donors on local counterpart time.

Performance management. The US emphasis on accountability has led to an approach to implementation management and performance tracking that is highly convergent and built around detailed results. The complexity of the current system could be adjusted so as to reduce transaction costs. This approach has not been accompanied by regular impact analysis and there is an absence of a clear evaluation function and incentives to build lesson learning into the design of programmes. The tracking of project-level results could be more efficient if done collaboratively with other donors in some sectors (*e.g.* primary education, basic health, decentralisation) and integrated into the monitoring and evaluation systems of local and central government partners. The new State-USAID approach should lead to the use of one report, rather than four, for reporting to Washington.

Humanitarian action. The US responded to the tsunami with the generosity and professionalism that characterise the world's largest bilateral donor. The deployment of the large military effort to support relief efforts in Aceh was instrumental for the success of the relief response in the first days of the crisis. This was US assistance at its best – rapid, results-oriented and able to draw on a wide range of assets.

Georgia

Country context

Bordered to the east by the Black Sea, Turkey to the south and Russia to the north, Georgia is a small country (4.7 million people) located at an important strategic crossroads between Europe and Asia. When Georgia acquired independence from the Soviet Union in 1991, the profound consequences of the demise of the USSR were exacerbated by the eruption of internal conflict in South Ossetia and Abkhazia, both of which chose to break away from the new nation-state. The

Government of Georgia, led by President Saakashvili since January 2004, has made the reintegration of the two territories one of its key policy planks and has mounted a diplomatic offensive to encourage both the EU and the US to become more involved in the settlement of the dispute in those two territories.

Since taking office the government has acted swiftly on several fronts, adopting an urgent approach to reform. It moved quickly to streamline its institutions, fight corruption, enact legislation to devolve power to local government and change parliamentary procedures. It reduced hurdles to doing business, increased tax revenues and launched a reinvigorated privatisation programme using bilateral and multilateral loans. Currently the country benefits from strong economic expansion: real gross domestic product (GDP) growth reached 9.3% in 2005, with inflation surpassing 8%. However, growth is somewhat restricted to the capital, Tbilisi, and current GDP is only 56% of the level recorded in 1989. Over 50% of Georgians live below the poverty line and about 20% still live in extreme poverty, mostly in rural areas. The Georgian Government recently agreed to a Poverty Reduction and Growth Facility programme with the International Monetary Fund. It has no national poverty reduction strategy (the PRSP of the previous government was ignored by the current one). The government welcomes assistance for social sector reform and is investing larger portions of the national budget in such areas as pension reform, health and education.

Observers of the situation in Georgia contend that while its reforms are raising expectations, endemic corruption, territorial instability, judicial independence and the increased concentration of executive power are causes for concern. Reform efforts could be derailed by social unrest unless the immediate needs of the dispossessed and disadvantaged are addressed. This suggests that there is a need and even a political requirement for directed and targeted poverty reduction interventions which should complement economic activities intended to reduce poverty over the longer term.

Matching strategic and development objectives in Georgia

Georgia is a staunch ally of the US in the war in Iraq and is central to US foreign policy interests. On the "frontier of freedom", Georgia's ambition to be a vibrant, peaceful and free-market democracy makes it a stabilising force as well as a potential model of reform in the Caucasus. Moreover, having invested heavily in an oil pipeline from Azerbaijan via Georgia to Turkey, the US is anxious to protect its economic and strategic interests as well.

USAID undertook a phase-out assessment of its development activities in the months immediately following the Rose Revolution in 2003. However, its 2004-09 Strategic Plan targeting economic growth, energy, democracy and social issues was overcome by political events. The US is currently trying to accommodate demands as they emerge from line ministries and the Cabinet while at the same time fulfilling primary US foreign policy objectives, which tend to reflect Georgia's own requirements. These include: i) consolidating the array of democratic reforms undertaken since the Rose Revolution; ii) bolstering regional stability and integrating Georgia into the European Union and NATO; and iii) fostering Georgia's efforts to attain energy security. Since poverty reduction has not been an overarching concern of the national government, the US programme has not focused on this theme although it argues that anything that enhances economic growth and democratic governance has a direct linkage with poverty reduction. Greater attention to poverty reduction would bring US assistance more in line with other key donors and help to improve opportunities for broader joint impact.

Box 7. Observations from Georgia

Building on US comparative advantage. The United States Government is, by far, the lead donor and dominant external political voice in Georgia. It could use this leverage to encourage and assist Georgia and its international partners to develop a more comprehensive and long-term joint vision for the development of the country. USAID could lead in supporting the development of sector strategies in selected areas, ensuring that the immediate needs of the poor are addressed along with long-term growth. Promoting local development ownership requires that the US country planning process starts in the field and builds not only on the local political, social and economic context, but also on the perceptions and opinions of other concerned stakeholders, including NGOs.

Aid effectiveness. The US programme is mainly project-driven, with clear advantages in its flexibility and ability to respond rapidly to locally-expressed needs. It should aim for more predictable, longer-term sustainable funding. The packaging of USAID's funding around technical co-operation has generally been appreciated by Georgians to date for its responsiveness and high quality. However, the system overly relies on US expatriate consultants and carries inherent risks (transaction costs, supply driven, sustainability, etc.). US commitment is needed to strong local ownership and scaling-down of technical co-operation as Georgian capacities scale-up. The US is clearly engaged in strengthening internal co-ordination and interaction among the various US agencies involved in Georgia. It could take stronger responsibility for wider donor co-ordination, or – better still – put its weight behind the Georgian Government's efforts to do this.

Performance management and reporting. The US performance management and reporting framework is thorough. As in Indonesia, there is significant scope for simplifying the system and strengthening links to strategic objectives (including those designed in Washington DC) to not only increase the value of the system as a management tool, but also to reduce administrative burdens. The tracking of results could be more efficient if it were done collaboratively with other donors for each sector and progressively integrated into the monitoring and evaluation systems of the national government. The Interagency Country Assistance Review, which involves all agencies implementing US assistance in Georgia, is a good instrument for taking a critical and global view of US foreign assistance and co-ordinating the US system as a whole.

Partnerships for effective development. There is a strong partnership approach in the United States programme in Georgia; USAID field implementers recognise the value of joining up with other donors. The US is encouraged to actively explore and promote all forms of partnership, including working through others to improve overall aid effectiveness and reduce transaction costs for the partner country. The US could play a special role by encouraging the Georgian Government to foster optimal partner collaboration.

NGOs. Despite strong early US support during the pre-Rose Revolution years, interest and funding for civil society organisations are now waning. The US could help Georgia to develop its own strategy towards this aspect of society. It should also reflect on its own use of NGOs in future development co-operation, making a distinction between advocacy and development NGOs. There is a case for supporting social NGOs as a complement to the private sector/growth approach adopted by the Georgian Government. With respect to the private sector, the US use of previously trained alumni and of training for long-term partnerships is highly appreciated.

MCC - A new player on the US chessboard. MCC has the potential to be an innovative partner in development co-operation. It is creative, strongly based on local ownership and it uses a criteria-based allocation system. Potential problems with the MCC include the layered institutional arrangement observed in Georgia (*e.g.* MCC-based Washington office, MCC-based Georgian office, Millennium Challenge Georgia-based office, various implementing and procurement agencies), a relatively narrow funding window of five years and weak links with direct poverty reduction. There is opportunity for this office to address rural poverty through its agricultural programme and to use local capacities efficiently. If positive, the experience possibly could serve as a model for broader US co-operation. If not, it could be viewed as an expensive parallel mechanism for US involvement and add to donor impositions on the partner country.

The US has accompanied Georgia's reform process with approximately USD 150 million annually from 2001 to 2005. Of this amount, USD 67 million (FY 2006), USD 86 million (FY 2005) and USD 72 million (FY 2004) have come under the Freedom Support Act Account for states in Europe and Eurasia**.** Currently, security-related accounts include USD 32 million for the Department of Defense, USD 12 million for the Foreign Military Finance account and USD 7.2 million for the Non-proliferation, Anti-Terrorism, Demining account. As of 2006, US assistance represented about 8% of the Georgian Government's national budget.

Field organisation and management

Inter-agency co-ordination has penetrated the US landscape

The organisational locus of US development assistance is USAID, which is represented in 69 countries. For security reasons US agencies represented overseas are generally housed in the US Embassy. This is already the case in Indonesia and will be so in Georgia within a couple of years.

Traditionally, US assistance programmes have been highly decentralised with significant authority and discretion delegated to USAID field missions and country teams who report to USAID in Washington. While USAID falls under the general oversight of the US Ambassador, senior staff (Mission Directors and principal officers) have considerable authority to develop country strategic plans; to co-ordinate with other US agencies; to waive source, origin and nationality requirements for procurement of goods and services; to negotiate and execute food aid agreements; and to implement food and credit programmes. In some cases USAID regional missions administer activities and provide services for several countries within the same region. These delegations may differ from time to time and among missions depending on the level and composition of staff and complexity of the programme. The changes implemented by the Office of the Director of Foreign Assistance will not alter this or the USAID field structure.

The US Ambassador is the country team co-ordinator for US agencies overseas. Inter-agency and inter-project co-ordination takes place through steering committees and task forces for activities that cut across agency responsibilities. In Georgia, the Freedom Support Act gives the USAID Mission Director a co-ordination role for all US assistance, while the Ambassador describes himself as the "Chief Executing Officer of US Inc.". This arrangement seems to work well in Georgia. In both Georgia and Indonesia, US agencies currently contribute to a Mission Performance Plan, which is a statement of country team strategy, submitted by the Ambassador to the Department of State for each fiscal year. In the new system all Department of State and USAID-managed assistance programmes will be guided by the integrated Five Year Strategic Plan with annual Operation Plans covering performance targets, indicators, resource requirements, etc.

Maintaining adequate levels of staff in overseas offices

The USAID operating philosophy for decades has been to adequately staff overseas offices so that accountability standards can be maintained. With numbers of professional staff falling and assistance flows growing, the result is an increased reliance on outsourcing. USAID technical staff located in Washington supports field missions with technical leadership and can also implement programmes with them.

The US has a capable and dedicated **work force** in both Indonesia and Georgia. USAID/Indonesia has grown as a result of world events and currently has 29 US direct-hire staff, 6 local "career" nationals, 126 local personal services contractors and 15 US/international personal

services contractors. USAID/Georgia, which also covers Azerbaijan, has 13 US direct-hire staff, 4 US personal services contractors, and 74 locally employed staff. Inter-agency working relationships are good in both locations, meetings are frequent and collaboration with local partners is active and widely appreciated. USAID staff operates with speed and flexibility and all stakeholders recognise the agency's professionalism and steady engagement with its development partners. The agency is also known to take calculated risks at the local level and to innovate through cross-fertilisation activities across sectors.

Within USAID **technical expertise** has been reduced in favour of general management skills, with a significant decline in economic analysis and programme evaluation capabilities (Brainard, 2006), although an effort is being made to compensate by hiring more local (Foreign Service National) expertise. Outsourcing also helps to compensate for lower levels of career staff, although increased reliance on third parties reduces the potential effectiveness of USAID's field presence, traditionally a key comparative advantage of the US approach. It can lead to a loss of institutional memory and exacerbate the gap between policy and firsthand understanding of the challenges and lessons associated with implementation. Core competencies in-house should be maintained and new ones should be built to ensure adequate participation in common approaches with other donors represented at field level. To be more consistent with the international aid effectiveness agenda (see below), foreign assistance programmes should be increasingly designed and managed by partner countries.

The special role of civil society organisations

USAID works in partnership with non-governmental organisation (NGOs) when the government is a less than optimal partner, or lacks capacity to implement programmes. It will also do so to build capacity of civil society in more favourable environments. USAID works to develop a sustainable civil society and private sector to balance the state. The USG believes that government should be the provider but not the producer of public goods and services.

In **Indonesia**, USAID works with 20 American NGOs to scale-up project activities in selected provinces. Local NGOs also play an important role in delivering high quality non-formal education services, particularly for out-of-school Indonesian youth. USAID has just completed 35 years of successful partnership with the National Family Planning Co-ordinating Board and the Muslim faith-based organisation *Muhammdiayh*. *Muhammdiayh* is now working with USAID to empower civil society, focusing on quality education, interfaith dialogue and strong community participation.

USAID provided assistance to **Georgia** through the Georgian Young Lawyers' Association to help implement the Administrative Code and its Freedom of Information clause as well as to provide free legal consultations for the public and increase citizen awareness of their constitutional rights. Given the large poor Georgian population, USAID could encourage the emergence of social development NGOs, as demand for such civil society actors is growing. Despite strong early US support during the pre-Rose Revolution years, US interest and funding for civil society organisations are now waning.

Implementing the international aid effectiveness agenda

The US response to the Paris Declaration

The US endorsed the 2005 Paris Declaration on Aid Effectiveness and strongly advocated for the inclusion of "managing for results" in the Declaration. Specifically, it endorsed all the commitments and the 12 global indicators of progress, but not the procurement and financial

management targets. The global approach of the Paris Declaration, which focuses on collective donor engagement in meeting the targets, allows the US to be flexible about how much it can contribute, depending on the target.

For the United States, "effective aid" is measured by results, as suggested by the elaborate tracking systems to measure the performance of US foreign assistance activities. The US also has successfully contributed to improving the performance of the multilateral development banks acting through the boards of these agencies. The recently-launched reform of transformational diplomacy and development is likely to improve US aid effectiveness through increased co-ordination across US agencies and funding accounts. Once completed, the reform should improve US internal policy coherence. It also has the potential to enhance the US ability to implement the international aid effectiveness agenda more fully. By acting as a single, internally co-ordinated donor the US can be expected to engage more effectively with other donors.

The US undertook a series of actions in 2005-06 to comply with the requirements of the Paris Declaration. It sent informal communications to field missions with updates on the Declaration's targets and monitoring plans, along with guidance tailored to local processes. The USAID Administrator directed field managers to be proactive in those processes in April 2005. Other encouraging signs are USAID's efforts to change procurement sourcing guidance, allowing local and developing country sources worldwide to compete for foreign aid procurements, with some exceptions, and stepping-up the implementation of the DAC Recommendation on Untying (Chapter 2). USAID also participates in common sector frameworks whenever possible, while mostly following the reporting and other requirements of the project approach. USAID uses national plans and strategies, including PRSPs, without losing sight of US foreign policy priorities. Joint activities with other donors are not yet commonplace but can be significant when used (*e.g.* the Multi-Donor Trust Fund for Aceh in Indonesia).

In the course of the field visits to both Indonesia and Georgia, the DAC Peer Review team did not note any significant move towards the full implementation of the Paris Declaration. There were no specific plans to translate the policy commitments of the Declaration into local implementation plans. There was, however, great interest by USAID staff to increase joint work with other donors. This was tempered by a realistic assessment of the ability of the system to change quickly given the complications represented by Congressional appropriation earmarks and committee report directives, as well as the recent proliferation of presidential initiatives lodged in new offices. Many critics contend that these are symptomatic of the failings of the partnership between Congress and the Executive Branch on foreign assistance in recent years.

The MCC is more responsive to the Paris Declaration than any other agency of the US system. It provides untied, multi-year grant assistance for programmes proposed by partner countries in line with their own development priorities. Projects are implemented through quasi-independent national project management units established in each country, *e.g.* the Millennium Challenge Georgia. This is positive from the point of view of local ownership, but may not be so effective in building the long-term financial, institutional and procurement capacity of partner governments. Unless there are clear efforts to co-ordinate and harmonise procedures and reporting requirements, MCC could be perceived as contributing to the proliferation of foreign aid projects in eligible recipient countries. This can be avoided by stepping up efforts to join with others, as appropriate, to finance comprehensive programmes. We also encourage MCC staff to consult directly with other donors so that co-ordination does occur at field level.

The limits imposed on the US system

Already noted elsewhere, one of the biggest constraints undermining the effectiveness of US aid programmes is the totality of binding Congressional earmarks, directives and oversight restrictions which prevent the US from using developing country management and procurement systems. A recent internal document prepared by USAID/Indonesia suggests that recent congressional earmarks on the use of development assistance funding and the Economic Support Fund have constrained USAID's ability to pursue the integrated democracy support programme. A combination of inadequate overall levels of funding and a heavily earmarked development assistance budget is leading to unfortunate cuts in the "water for the poor" programme which is much needed. By contrast, by making resources from all assistance programme budgets immediately available and due also to close collaboration between USAID and US military emergency response teams, the US was able to save thousands of lives in the immediate aftermath of the 2004 tsunami and helped avert a major public health crisis in the weeks that followed. In light of good practice, a foreign operations appropriations bill that did away with earmarks would be advisable.

A number of Presidential initiatives represent in some ways a move in the opposite direction of sector-wide and programme-based approaches. Congress insists that aid is spent on identifiable sets of measurable activities: this tends to favour projects over budget support. Finally, the specific reporting requirements and statutory limitations governing the US system restrict the extent to which field missions can participate in common approaches (*e.g.* pooled funding) with other donors. We recommend the US to step up its involvement in strengthening host government systems and procedures and avoid creating structures for day-to-day management and implementation of aid-financed projects and programmes (*e.g.* parallel implementation mechanisms). It should explore ways to channel more programme funds through other donors. Opportunities for working more with peers, *e.g.* for joint assessments, monitoring and evaluation within the same sector or theme, should be seized whenever possible.

The challenge of local ownership and capacity development

Technical co-operation is the major way the US delivers its assistance. It represents approximately 36% of bilateral aid. The US sees the purpose of technical co-operation as broadly supporting capacity and institutional development. Working at the micro (individual), meso (organisation) and macro (enabling environment) levels, the US seeks to improve the performance of specific government services and systems using a variety of financing and implementation instruments. These include grants, host country contracts, commodity assistance programmes and direct contracts with third parties. In many cases USAID gives large contracts for assistance work to consulting firms which then subcontract to other firms or NGOs, with few funds provided directly to the partner government. These packages generally contain most aspects of any given activity, be it technical assistance, training or procurement of goods and services. Because of the highly integrated nature of these packages, it is difficult for the US to report on the size of the technical assistance aspects alone.

US technical co-operation was well appreciated in both Indonesia and Georgia (Box 8 contains an example of US-financed technical co-operation). Given the breadth of the activities covered by its technical co-operation, the US could take a lead role in the search for a collective solution to acute institution and capacity-building shortages in its partner countries, working closely with governments and other donors. Good practice advocated in the DAC document *The Challenge of Capacity Development: Working Toward Good Practice* offers useful insights in this respect. Together with other donors the US could encourage the emergence of country-led,

demand-driven capacity strategies. A more strategic approach towards upgrading key public institutions and human capital could begin with a needs assessment by sector; the identification of expertise, including locally available expertise; joint training and sustained monitoring. The topic of parallel units or salary and compensation distortions should be discussed in this context, as well as options to retain and unleash existing capacities. Involving the recipient government more in the recruitment and evaluation of technical assistants and reporting processes would also improve the overall transparency, ownership and accountability of programmes which have a strong US technical co-operation component. Pooling arrangements, including for technical co-operation funding, should be encouraged in selected strategic sectors. Finally, the US should consider evaluating the effectiveness of technical co-operation in building local capacity in key strategic sectors (*e.g.* governance and health). This could contribute to a global approach to institution and capacity development and feed into decision-making on the appropriate use of technical co-operation. USAID plans to review its institution/capacity development activities soon are a step in the right direction.

All these measures could eventually bring about more effective technical co-operation, saving transaction costs in the long-run and making aid more effective. As for the other donors, the challenge remains for the US to align and harmonise support for institution and capacity development as well as to actively partake in the policy dialogue with the host government. This may require significant changes in the US "business approach" to development.

A cumbersome system for managing for results

As noted elsewhere, the United States defines and organises much of its work around the outcomes it seeks to achieve. Each USAID field mission defines and quantifies desired results for each programme contained in the Strategic Plan/Country Programme and measures the outcomes using performance indicators. Data for these indicators are collected by research institutes, embassies and international organisations. Success or failure in achieving targets is factored into budgets through the resource allocation process.

Some US foreign assistance practitioners believe that the emphasis on accountability has led to an approach to implementation management and performance tracking that is highly convergent and built around detailed results at every level. The reporting system focuses mainly on "physical deliverables" (*e.g.* numbers of schools, numbers of clinics, etc.). With the new orientation in US foreign policy, there is an opportunity to measure development assistance performance more in outcomes than in physical deliverables.

Box 8. The United Energy Distribution Company of Georgia

Following independence in 1991, Georgia was plunged into a deep and protracted energy crisis as the natural gas and district heating network collapsed throughout much of the country. The donors responded with emergency commodity support and engineering-based technical co-operation. At the same time, the World Bank, USAID, EBRD and KfW collaborated to encourage government reform and to create the United Energy Distribution Company (UEDC) as a way to consolidate the fragmented energy sector, gain efficiencies and concentrate management talent.

Serving 70% of Georgia's territory, the UEDC was known for corruption, excess of staff, an ineffective workforce and mismanagement, thus contributing further to Georgia's energy crisis. Donors asked USAID to step in. In 2003, USAID launched the Georgia Energy Security Initiative including a multi-year management contract for the UEDC through an American consulting firm. Within a few months it became a visibly more productive utility. Collection receipts went up 80%. Twenty-four hour supply of electricity was restored for the first time in a decade throughout the country. Staffing levels were reduced by 30%; payments for electricity supply improved and taxes and salaries were paid in full. Finally, investment in the company was more than in the past decade combined. In June 2006, the company was privatised and sold to a Czech firm for

USD 85 million, much higher than government expectations. USAID and the Government of Georgia won the Platinum Award at the annual Management Awards in London for their work in transforming the largest Georgian state-owned energy utility into a well performing company.

This experience is notable in that it permitted the convergence of donor and government efforts to allow the Georgian energy system to turn the corner. USAID financed the management team and provided critical commodity support (*e.g.* metering and computerisation). KfW is providing financing for a large Euro 25 million investment package for rehabilitation. The World Bank tied conditions for lending to various reform initiatives that supported the UEDC's reform efforts. The Government of Georgia provided investment and subsidy support throughout. But equally importantly, it threw its weight behind the reform programme and supported UEDC management.

Source: USAID presentation to the DAC Examining Team, July 2006.

Following our visits to Indonesia and Georgia, we suggest that the US moves progressively towards tracking project level results collaboratively with donors working in the same sectors (*e.g.* primary education, basic health services and decentralisation). With time, the US system could be integrated into the monitoring and evaluation systems of local and central government partners when these are considered to be effective. To reduce the administrative burden of the current US reporting system which requires multiple reports, the new joined-up approach to development should be used to produce only one common report for informing Washington if possible. The periodic mission performance plans may in time be combined, not only for the Department of State and USAID, as in Indonesia, but also for the US system as a whole. Finally, the yearly interagency country assistance reviews[15] could be adapted to serve as a platform for discussing the implementation of the Paris Declaration.

Next steps

The United States should review the key structural obstacles to the full implementation of the **Paris Declaration**, potentially through a panel of independent experts. The panel could focus on higher level legal and institutional constraints, as well as those related more to incentives and internal prioritisation. A key aspect of this will be trying to balance tensions between top-down priority setting and system and country level roles. It is essential that country teams and partners have an opportunity to influence planning, priorities and systems for reviewing and monitoring progress.

Future considerations

- The US should review the key structural impediments to the full implementation of the **Paris Declaration**, potentially through a panel of independent experts.

- The US should actively explore, promote and pursue approaches to improve its **aid effectiveness,** including the further untying of aid, collaborative strengthening of partner country accountability systems and procedures, and collaborative tracking of results.

- The US could make good use of technical co-operation to build country-led, demand-driven **capacity strategies** in its partner countries. A more strategic approach towards upgrading key public institutions and human capital would be needed.

15 . These ensure that all US foreign assistance resources are being targeted effectively and used strategically for all countries receiving assistance under the Support for East European Democracy Act and the Freedom Support Act.

- The government is encouraged to pursue its **collaboration** with other donors both at the level of headquarters and the field, including in joint programme planning, implementation, evaluation and impact measurement.

Annex A

Progress Against 2002 DAC Peer Review Recommendations

Issue	Concern expressed in 2002	Progress achieved to date
System co-ordination	Need to better assemble the multiple US actors around a common vision and framework of co-ordinated action.	The creation of the Office of the Director of Foreign Assistance lays the foundations of co-ordinated planning and a budget framework for US agencies with a stake in development.
International partnerships	Need for US to further seek out and reinforce international partnerships on key issues of development co-operation.	The Paris Declaration offers a good opportunity for the US to work jointly with other donors more in order to make its aid more effective. Guidance by the Office of the Director of Foreign Assistance and the creation of MCC should lead to further improvement in this regard.
Public awareness	US should seek to consolidate official and non-governmental support for development co-operation. Congress should re-evaluate the wisdom of specifically interdicting USAID advocacy of foreign assistance.	Higher levels of political support and perceptions of greater need for US assistance have generated more support for aid. The need for more effective alliances on public awareness with American partners is still evident. Congress still imposes restrictions on USAID advocacy.
Policy coherence	US should establish a strategy and plan of action in support of policy coherence for development.	A variety of standing committees and *ad hoc* efforts at co-ordination has helped improve policy coherence for development. A systematic strategy and plan still need to be put in place.
Tied aid	US is encouraged to increase its level of untied aid, consistent with the OECD recommendations.	MCC allows for experimenting untying of US aid and reconstruction assistance to Afghanistan was untied. With encouragement from the USAID Administrator, notifications to the DAC of untied aid have increased.

Empowering the field	USAID is encouraged to evaluate the range of limitations to its decentralisation policy with an eye to better empowering its field missions.	No evaluation of the limitations was undertaken. The Office of the Director of Foreign Assistance operational approach to foreign assistance is expected to be built on significant field leadership.
System efficiency	Government and Congress are urged to review current inefficient practices, including earmarking of funds, delivery of food aid and better matching of ODA with core priorities.	The Office of the Director of Foreign Assistance has shown a willingness to take on the earmarking issue. MCC was created by Congress without earmarks or tied aid and has no-year funds. The foreign assistance framework provides a useful tool for better matching funds with priorities.
Results-based management	USAID should more aggressively adopt results-based systems and join forces within the DAC to move the international agenda, as well.	The US system for foreign assistance is very results-oriented. USAID has resuscitated its use of evaluation as a tool for management change and learning. It has launched a major effort in knowledge management.
Human resources	USAID needs to reinforce its approach to human resources in the Agency and seek out new and creative skills for the future.	USAID still understaffed in relation to its importance and future role in overall US development and the implementation of the international aid effectiveness agenda.

Annex B

Foreign Assistance Framework (as of 12 october, 2006)

Goal		"Helping to build and sustain democratic, well-governed states that will respond to the needs of their people and conduct themselves responsibly in the international system."						
Objectives		**Peace and Security**	**Governing Justly and Democratically**	**Investing in People**	**Economic Growth**	**Humanitarian Assistance**	**End Goal of US Foreign Assistance**	**Graduation Trajectory**
Accounts within State/USAID		FMF, IMET, ESF, INCLE, NADR, PKO, ACI, FSA, SEED	DA, SEED, FSA, DF, ESF, INCLE, IO&P, ACI	DA, TI, CSH, ESF, IDFA, IO&P, FSA, SEED, GHAI, Title II	DA, TI, ESF, SEED, FSA, IO&P, Title II	IDFA, MRA, ERMA, Title II		
		Other USG Agency Contributions						
Foreign Assistance Program Areas		> Counter Terrorism > Combating WMD > Stabilization Operations and Defense Reform > Counternarcotics > Transnational Crime > Conflict Mitigation and Response	> Rule of Law and Human Rights > Good Governance > Political Competition and Consensus-Building > Civil Society	> Health > Education > Social Services and Protection for Vulnerable Populations	> Macroeconomic Foundation for Growth > Trade and Investment > Financial Sector > Infrastructure > Agriculture > Private Sector Competitiveness > Economic Opportunity > Environment	> Protection, Assistance and Solutions > Disaster Readiness > Migration Management		
	Category Definition							
Rebuilding Countries	States in or emerging from and rebuilding after internal or external conflict.	Prevent or mitigate state failure and/or violent conflict.	Assist in creating and/or stabilizing a legitimate and democratic government and a supportive environment for civil society and media.	Start or restart the delivery of critical social services, including health and educational facilities, and begin building or rebuilding institutional capacity.	Assist in the construction or reconstruction of key internal infrastructure and market mechanisms to stabilize the economy.	Address immediate needs of refugee, displaced, and other affected groups.	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.	Advance to the Developing or Transforming Category.
Developing Countries	States with low or lower-middle income, not yet meeting MCC performance criteria, and the criterion related to political rights.	Address key remaining challenges to security and law enforcement.	Support policies and programs that accelerate and strengthen public institutions and the creation of a more vibrant local government, civil society and media.	Encourage social policies that deepen the ability of institutions to establish appropriate roles for the public and private sector in service delivery.	Encourage economic policies and strengthen institutional capacity to promote broad-based growth.	Encourage reduced need for future HA by introducing prevention and mitigation strategies, while continuing to address emergency needs.	Continued progress in expanding and deepening democracy, strengthening public and private institutions, and supporting policies that promote economic growth and poverty reduction.	Advance to the Transforming Category.
Transforming Countries	States with low or lower-middle income, meeting MCC performance criteria, and the criterion related to political rights.	Nurture progress toward partnerships on security and law enforcement.	Provide limited resources and technical assistance to reinforce democratic institutions.	Provide financial resources and limited technical assistance to sustain improved livelihoods.	Provide financial resources and technical assistance to promote broad-based growth.	Address emergency needs on a short-term basis, as necessary.	Government, civil society and private sector institutions capable of sustaining development progress.	Advance to the Sustaining Partnership Category or graduate from foreign assistance.
Sustaining Partnership Countries	States with upper-middle income or greater for which U.S. support is provided to sustain partnerships, progress, and peace.	Support strategic partnerships addressing security, CT, WMD, and counter-narcotics.	Address issues of mutual interest.	Address issues of mutual interest.	Create and promote sustained partnerships on trade and investment.	Address emergency needs on a short-term basis, as necessary.	Continued partnership as strategically appropriate where U.S. support is necessary to maintain progress and peace.	Continue partnership or graduate from foreign assistance.
Restrictive Countries	States of concern where there are significant governance issues.	Prevent the acquisition/proliferation of WMD, support CT and counter narcotics.	Foster effective democracy and responsible sovereignty. Create local capacity for fortification of civil society and path to democratic governance.	Address humanitarian needs.	Promote a market-based economy.	Address emergency needs on a short-term basis, as necessary.	Civil society empowered to demand more effective democracies and states respectful of human dignity, accountable to their citizens, and responsible towards their neighbors.	Advance to other relevant foreign assistance category.
Global or Regional	Activities that advance the five objectives, transcend a single country's borders, and are addressed outside a country strategy.						Achievement of foreign assistance goal and objectives.	Determined based on criteria specific to the global or regional objective.

Annex C

OECD/DAC Standard Suite of Tables

Table C.1. Total financial flows

USD millions at current prices and exchange rates

Net disbursements

United States	1989-90	1994-95	2001	2002	2003	2004	2005
Total official flows	**9 063**	**9 817**	**12 185**	**13 517**	**17 388**	**19 025**	**26 575**
Official development assistance	**9 536**	**8 647**	**11 429**	**13 290**	**16 320**	**19 705**	**27 622**
Bilateral	7 597	6 449	8 284	10 570	14 659	16 250	25 279
Multilateral	1 939	2 198	3 145	2 720	1 661	3 455	2 343
Other official flows	**- 473**	**1 170**	**755**	**227**	**1 068**	**-679**	**-1048**
Bilateral	- 473	1 170	755	227	1 068	- 679	-1 048
Multilateral	-	-	-	-	-	-	-
Grants by NGOs	**2 191**	**2 558**	**4 569**	**5 720**	**6 326**	**6 792**	**8 629**
Private flows at market terms	**2 485**	**40 986**	**21 864**	**5 173**	**14 147**	**6 465**	**69 206**
Bilateral: *of which*	2 175	40 788	23 593	5 763	14 069	7 720	68 952
Direct investment	7 432	22 318	24 236	12 928	14 298	20 355	18 965
Export credits	-	- 390	1 130	765	- 6	- 293	- 104
Multilateral	310	198	-1 729	- 590	78	-1 255	255
Total flows	**13 738**	**53 361**	**38 618**	**24 410**	**37 860**	**32 283**	**104 410**
for reference:							
ODA (at constant 2004 USD million)	*12 949*	*10 363*	*12 177*	*13 917*	*16 749*	*19 705*	*26 888*
ODA (as a % of GNI)	*0.18*	*0.12*	*0.11*	*0.13*	*0.15*	*0.17*	*0.22*
Total flows (as a % of GNI) (a)	*0.26*	*0.75*	*0.38*	*0.23*	*0.34*	*0.28*	*0.84*

a. To countries eligible for ODA.

ODA net disbursements
At constant 2004 prices and exchange rates and as a share of GNI

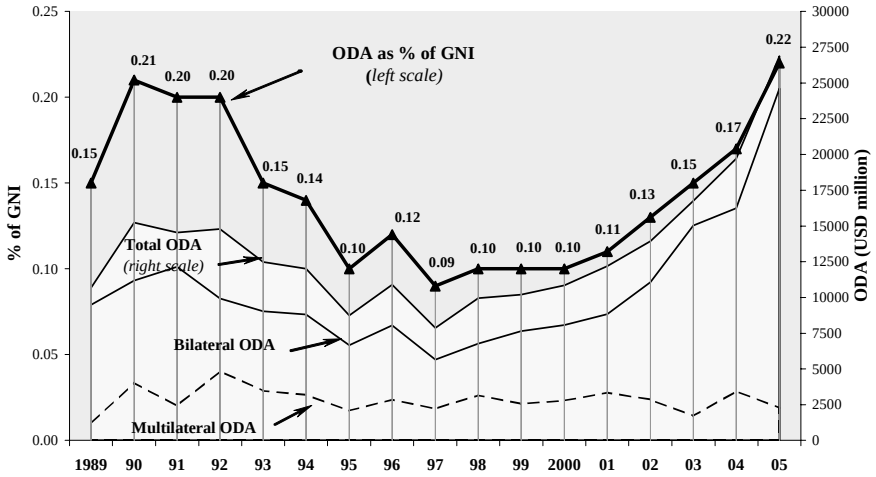


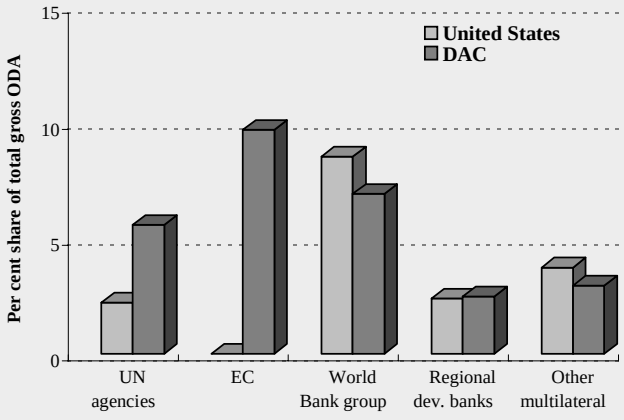
Table C.2. ODA by main categories

Disbursements

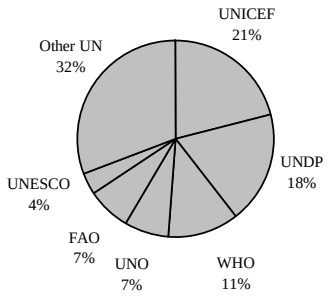
United States	Constant 2004 USD million					Per cent share of gross disbursements					Total DAC
	2001	2002	2003	2004	2005	2001	2002	2003	2004	2005	2004%
Gross Bilateral ODA	**9 748**	**11 979**	**17 023**	**17 138**	**25 391**	**74**	**81**	**91**	**83**	**92**	**72**
Grants	***9 540***	***11 781***	***16 789***	***17 027***	***25 349***	***73***	***79***	***90***	***83***	***92***	***62***
Project and programme aid	1 150	937	1 806	4 558	6 939	9	6	10	22	25	16
Technical co-operation	5 627	7 005	7 903	7 347	8 727	43	47	42	36	32	20
Developmental food aid	717	856	856	921	644	5	6	5	4	2	1
Humanitarian aid	721	1 296	2 544	2 483	3 358	5	9	14	12	12	6
Action relating to debt	42	457	2 469	143	4 084	0	3	13	1	15	8
Administrative costs	840	762	800	1 004	1 027	6	5	4	5	4	4
Other grants	443	468	413	572	569	3	3	2	3	2	7
Non-grant bilateral ODA	***207***	***198***	***234***	***111***	***42***	***2***	***1***	***1***	***1***	***0***	***10***
New development lending	-	-	-	-	-	-	-	-	-	-	8
Debt rescheduling	93	94	166	61	22	1	1	1	0	0	1
Acquisition of equity and other	114	104	68	50	19	1	1	0	0	0	1
Gross Multilateral ODA	**3 367**	**2 860**	**1 715**	**3 466**	**2 291**	**26**	**19**	**9**	**17**	**8**	**28**
UN agencies	1 669	1 055	961	455	682	13	7	5	2	2	6
EC	-	-	-	-	-	-	-	-	-	-	10
World Bank group	1 089	1 213	2	1 753	821	8	8	0	9	3	7
Regional development banks (a)	227	232	49	490	214	2	2	0	2	1	2
Other multilateral	381	360	703	767	574	3	2	4	4	2	3
Total gross ODA	**13 114**	**14 839**	**18 737**	**20 604**	**27 682**	**100**	**100**	**100**	**100**	**100**	**100**
Repayments and debt cancellation	**- 937**	**- 922**	**-1 989**	**- 899**	**- 794**						
Total net ODA	**12 177**	**13 917**	**16 749**	**19 705**	**26 888**						
For reference:											
Associated financing (b)	-	-	-	-	-						
ODA to and channelled through NGOs											
- In USD million	-	-	-	-	-						
- In percentage of total net ODA	-	-	-	-	-						
- Median DAC percentage of total net ODA	*8*	*8*	*8*	*8*	-						

a Excluding EBRD.
b. ODA grants and loans in associated financing packages.

ODA flows to multilateral agencies, 2004



Contributions to UN Agencies (2004-05 Average)



Contributions to Regional Development Banks (2004-05 Average)

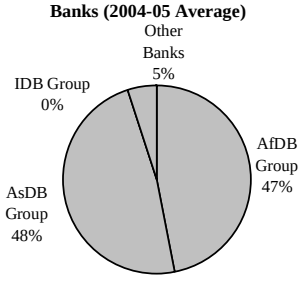
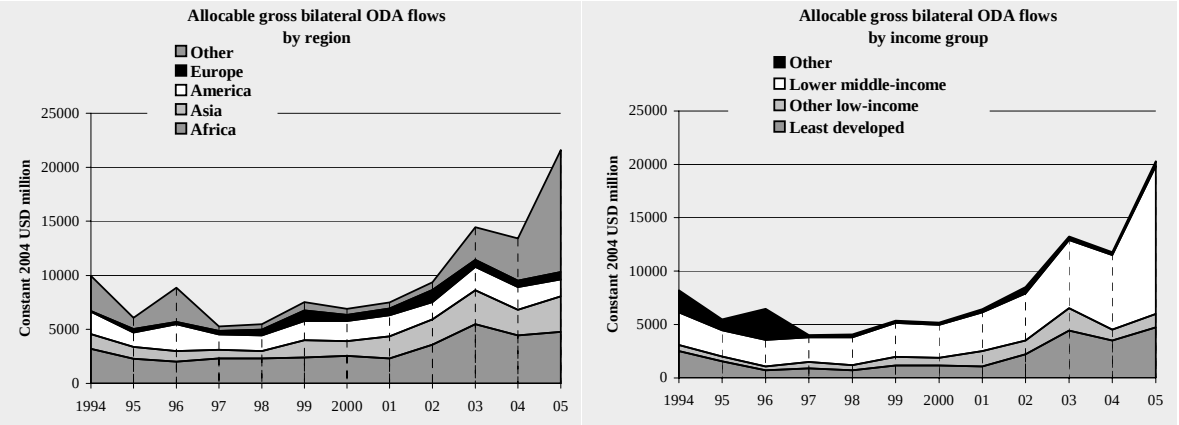


Table C.3. Bilateral ODA allocable by region and income group

Gross disbursements

United States	Constant 2004 USD million					Per cent share					Total DAC
	2001	2002	2003	2004	2005	2001	2002	2003	2004	2005	2004%
Africa	2 347	3 604	5 492	4 447	4 769	31	38	38	33	22	**41**
Sub-Saharan Africa	1 472	2 497	4 815	3 517	4 167	20	27	33	26	19	**34**
North Africa	876	1 106	677	930	601	12	12	5	7	3	**5**
Asia	2 017	2 327	3 144	2 384	3 331	27	25	22	18	15	**29**
South and Central Asia	1 547	1 576	2 545	1 863	2 685	21	17	18	14	12	**13**
Far East	352	664	595	518	630	5	7	4	4	3	**16**
America	1 954	1 594	2 170	2 080	1 534	26	17	15	15	7	**13**
North and Central America	864	650	646	679	766	12	7	4	5	4	**6**
South America	790	822	1 391	1 234	669	11	9	10	9	3	**7**
Middle East	352	526	2 842	3 760	11 131	5	6	20	28	52	**11**
Oceania	240	176	179	145	155	3	2	1	1	1	**2**
Europe	605	1 148	631	609	687	8	12	4	5	3	**4**
Total bilateral allocable by region	**7 515**	**9 375**	**14 458**	**13 424**	**21 605**	**100**	**100**	**100**	**100**	**100**	**100**
Least developed	1 083	2 226	4 434	3 480	4 762	17	26	33	29	23	**34**
Other low-income	1 431	1 275	2 096	1 046	1 246	22	15	16	9	6	**19**
Lower middle-income	3 636	4 431	6 388	6 972	13 838	56	52	48	59	68	**42**
Upper middle-income	294	571	346	301	427	5	7	3	3	2	**5**
More advanced developing countries	1	0	0	-	-	0	0	0	-	-	**0**
Total bilateral allocable by income	**6 445**	**8 503**	**13 265**	**11 800**	**20 273**	**100**	**100**	**100**	**100**	**100**	**100**
For reference:											
Total bilateral	9 748	11 979	17 023	17 138	25 391	*100*	*100*	*100*	*100*	*100*	***100***
of which: Unallocated by region	*2 233*	*2 604*	*2 565*	*3 714*	*3 786*	*23*	*22*	*15*	*22*	*15*	***18***
of which: Unallocated by income	3 303	3 475	3 758	5 338	5 118	*34*	*29*	*22*	*31*	*20*	***24***



1. Each region includes regional amounts which cannot be allocated by sub-region. The sum of the sub-regional amounts may therefore fall short of the regional total.

Table C.4. Main recipients of bilateral ODA

Gross disbursements, two-year averages

United States	1994-95			Memo:		1999-2000			Memo:		2004-05			Memo:
	Current USD million	Constant 2004 USD mn.	Per cent share	*DAC countries' median*		Current USD million	Constant 2004 USD mn.	Per cent share	*DAC countries' median*		Current USD million	Constant 2004 USD mn.	Per cent share	*DAC countries' median (2004)*
Israel	822	989	14		Egypt	799	881	17		Iraq	6 926	6 782	42	
Egypt	683	818	12		Indonesia	194	214	4		Afghanistan	1 060	1 042	6	
Haiti	474	568	8		Jordan	179	197	4		Egypt	750	742	5	
Jordan	206	247	4		Colombia	169	186	4		Sudan	575	564	4	
Somalia	202	244	4		Bosnia and Herzegovina	152	169	3		Ethiopia	552	543	3	
Top 5 recipients	**2 386**	**2 865**	**42**	**38**	**Top 5 recipients**	**1 493**	**1 648**	**31**	**34**	**Top 5 recipients**	**9 863**	**9 674**	**60**	**38**
Palau	162	194	3		India	148	163	3		Jordan	368	364	2	
Rwanda	148	177	3		Peru	136	150	3		Colombia	366	362	2	
Philippines	143	171	3		Bangladesh	110	121	2		Palestinian Adm. Areas	227	225	1	
India	142	170	2		Bolivia	106	117	2		Uganda	225	222	1	
Bolivia	137	164	2		Ethiopia	104	114	2		Pakistan	224	219	1	
Top 10 recipients	**3 117**	**3 740**	**55**	**57**	**Top 10 recipients**	**2 096**	**2 313**	**44**	**53**	**Top 10 recipients**	**11 274**	**11 065**	**69**	**59**
El Salvador	136	162	2		Honduras	98	108	2		Serbia & Montenegro	181	179	1	
Iraq	123	146	2		Philippines	96	106	2		Congo, Dem. Rep.	166	164	1	
Bangladesh	112	135	2		South Africa	95	105	2		India	164	162	1	
Peru	107	128	2		Mozambique	93	102	2		Indonesia	163	161	1	
Ethiopia	96	115	2		Haiti	92	101	2		Peru	153	151	1	
Top 15 recipients	**3 690**	**4 427**	**65**	**67**	**Top 15 recipients**	**2 570**	**2 836**	**54**	**65**	**Top 15 recipients**	**12 101**	**11 882**	**74**	**71**
South Africa	89	106	2		Micronesia,Fed. States	90	99	2		Kenya	139	138	1	
Mozambique	85	101	1		Pakistan	87	96	2		Haiti	123	121	1	
Turkey	83	98	1		Armenia	75	83	2		Nigeria	120	119	1	
Armenia	73	88	1		Guatemala	75	82	2		Eritrea	119	117	1	
Micronesia,Fed. States	68	81	1		Korea, Dem. Rep.	74	82	2		South Africa	116	114	1	
Top 20 recipients	**4 087**	**4 901**	**72**	**75**	**Top 20 recipients**	**2 971**	**3 278**	**62**	**75**	**Top 20 recipients**	**12 718**	**12 490**	**78**	**78**
Total (119 recipients)	**5 707**	**6 842**	**100**		**Total (135 recipients)**	**4 793**	**5 287**	**100**		**Total (137 recipients)**	**16 314**	**16 037**	**100**	
Unallocated	1 868	2 234			Unallocated	3 230	3 559			Unallocated	5 298	5 228		
Total bilateral gross	**7 574**	**9 075**			**Total bilateral gross**	**8 024**	**8 846**			**Total bilateral gross**	**21 611**	**21 265**		

Table C.5. Bilateral ODA by major purposes

at current prices and exchange rates

Commitments - Two-year averages

United States	1994-95		1999-2000		2004-05		2004
	USD million	Per cent	USD million	Per cent	USD million	Per cent	Total DAC per cent
Social infrastructure & services	**2 420**	**37**	**3 546**	**35**	**10 761**	**43**	**38**
Education	370	6	292	3	635	3	9
of which: basic education	71	1	155	2	499	2	3
Health	536	8	392	4	1 141	5	5
of which: basic health	205	3	331	3	998	4	3
Population & reproductive health	505	8	651	6	1 446	6	3
Water supply & sanitation	76	1	164	2	981	4	4
Government & civil society	430	7	602	6	4 871	20	13
Other social infrastructure & services	503	8	1 445	14	1 686	7	4
Economic infrastructure & services	**1 033**	**16**	**1 344**	**13**	**3 341**	**13**	**17**
Transport & storage	24	0	12	0	748	3	5
Communications	77	1	10	0	227	1	1
Energy	210	3	100	1	1 707	7	8
Banking & financial services	74	1	1	0	214	1	1
Business & other services	649	10	1 221	12	446	2	2
Production sectors	**982**	**15**	**368**	**4**	**1 500**	**6**	**6**
Agriculture, forestry & fishing	455	7	320	3	566	2	3
Industry, mining & construction	24	0	47	0	778	3	2
Trade & tourism	503	8	0	0	66	0	0
Other	-	-	-	-	90	0	0
Multisector	**67**	**1**	**1 017**	**10**	**1 272**	**5**	**7**
Commodity and programme aid	**980**	**15**	**1 127**	**11**	**1 034**	**4**	**3**
Action relating to debt	**-**	**-**	**102**	**1**	**2 211**	**9**	**11**
Humantarian aid	**463**	**7**	**1 610**	**16**	**3 279**	**13**	**7**
Administrative costs of donors	**525**	**8**	**702**	**7**	**1 040**	**4**	**5**
Core support to NGOs	**-**	**-**	**-**	**-**	**-**	**-**	**2**
Refugees in donor countries	**-**	**-**	**254**	**3**	**503**	**2**	**3**
Total bilateral allocable	**6 470**	**100**	**10 069**	**100**	**24 942**	**100**	**100**
For reference:							
Total bilateral	*8 028*	*79*	*10 085*	*80*	*24 942*	*90*	*76*
of which: Unallocated	*1 558*	*15*	*16*	*0*	-	-	*2*
Total multilateral	*2 196*	*21*	*2 449*	*20*	*2 898*	*10*	*24*
Total ODA	***10 224***	***100***	***12 534***	***100***	***27 840***	***100***	***100***

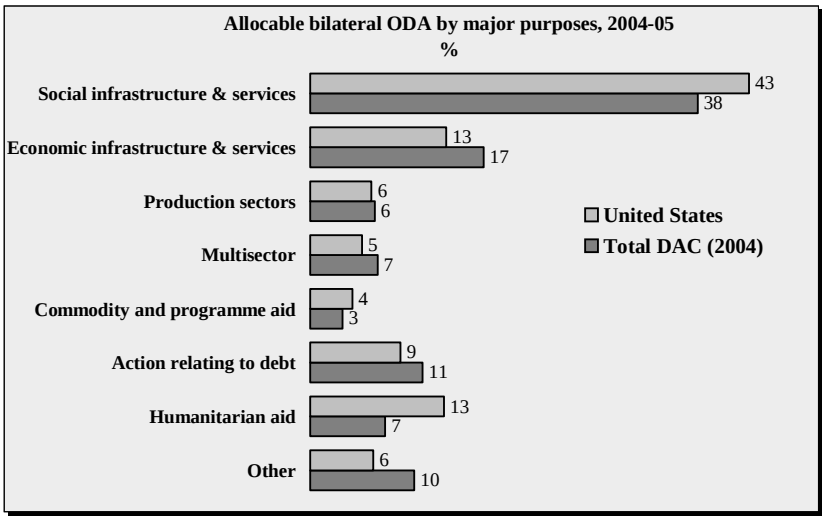


Table C.6. Comparative aid performance

Net disbursements

	Official development assistance			Grant element of ODA	Share of multilateral aid				ODA to LDCs Bilateral and through multilateral agencies		Official aid	
	2004		98-99 to 03-04 Ave. annual % change in real terms	(commitments) 2004	2004				2004		2004	
					% of ODA		% of GNI					
	USD million	% of GNI		% (a)	(b)	(c)	(b)	(c)	% of ODA	% of GNI	USD million	% of GNI
Australia	1 460	0.25	1.7	100.0	18.5		0.05		23.9	0.06	10	0.00
Austria	678	0.23	1.0	100.0	48.0	18.5	0.11	0.04	24.8	0.06	260	0.09
Belgium	1 463	0.41	11.4	99.8	38.3	15.5	0.16	0.06	44.1	0.18	190	0.05
Canada	2 599	0.27	1.7	100.0	23.4		0.06		27.0	0.07	93	0.01
Denmark	2 037	0.85	-2.0	100.0	41.0	32.2	0.35	0.27	36.1	0.31	140	0.06
Finland	655	0.35	5.0	99.8	44.8	24.5	0.16	0.09	23.3	0.08	92	0.05
France	8 473	0.41	3.3	95.4	34.3	12.3	0.14	0.05	37.4	0.15	2 358	0.11
Germany	7 534	0.28	2.5	96.2	49.3	24.3	0.14	0.07	30.7	0.08	1 434	0.05
Greece	465	0.23	12.2	100.0	34.6	3.7	0.08	0.01	14.1	0.03	131	0.06
Ireland	607	0.39	13.5	100.0	32.6	17.3	0.13	0.07	53.1	0.21	3	0.00
Italy	2 462	0.15	-0.6	99.6	71.4	23.2	0.11	0.03	32.0	0.05	664	0.04
Japan	8 906	0.19	-4.7	88.8	33.6		0.06		18.9	0.04	121	0.00
Luxembourg	236	0.83	8.8	100.0	27.4	18.7	0.23	0.16	36.9	0.31	15	0.05
Netherlands	4 204	0.73	0.7	100.0	36.5	27.4	0.27	0.20	34.6	0.25	222	0.04
New Zealand	212	0.23	1.7	100.0	25.0		0.06		30.9	0.07	1	0.00
Norway	2 199	0.87	2.5	100.0	30.1		0.26		38.1	0.33	45	0.02
Portugal	1 031	0.63	13.8	87.1	15.4	4.5	0.10	0.03	85.1	0.53	62	0.04
Spain	2 437	0.24	4.0	97.5	42.5	16.8	0.10	0.04	17.4	0.04	15	0.00
Sweden	2 722	0.78	7.0	100.0	23.7	15.5	0.18	0.12	28.0	0.22	123	0.04
Switzerland	1 545	0.41	4.7	100.0	23.2		0.10		25.8	0.11	100	0.03
United Kingdon	7 883	0.36	10.2	100.0	32.3	12.9	0.12	0.05	37.9	0.14	834	0.04
United States	19 705	0.17	12.7	99.9	17.5		0.03		22.9	0.04	1 605	0.01
Total DAC	79 512	0.26	4.3	97.5	31.6	20.4	0.08	0.05	29.5	0.08	8 519	0.03
Memo: Average country effort		0.42										

Notes:

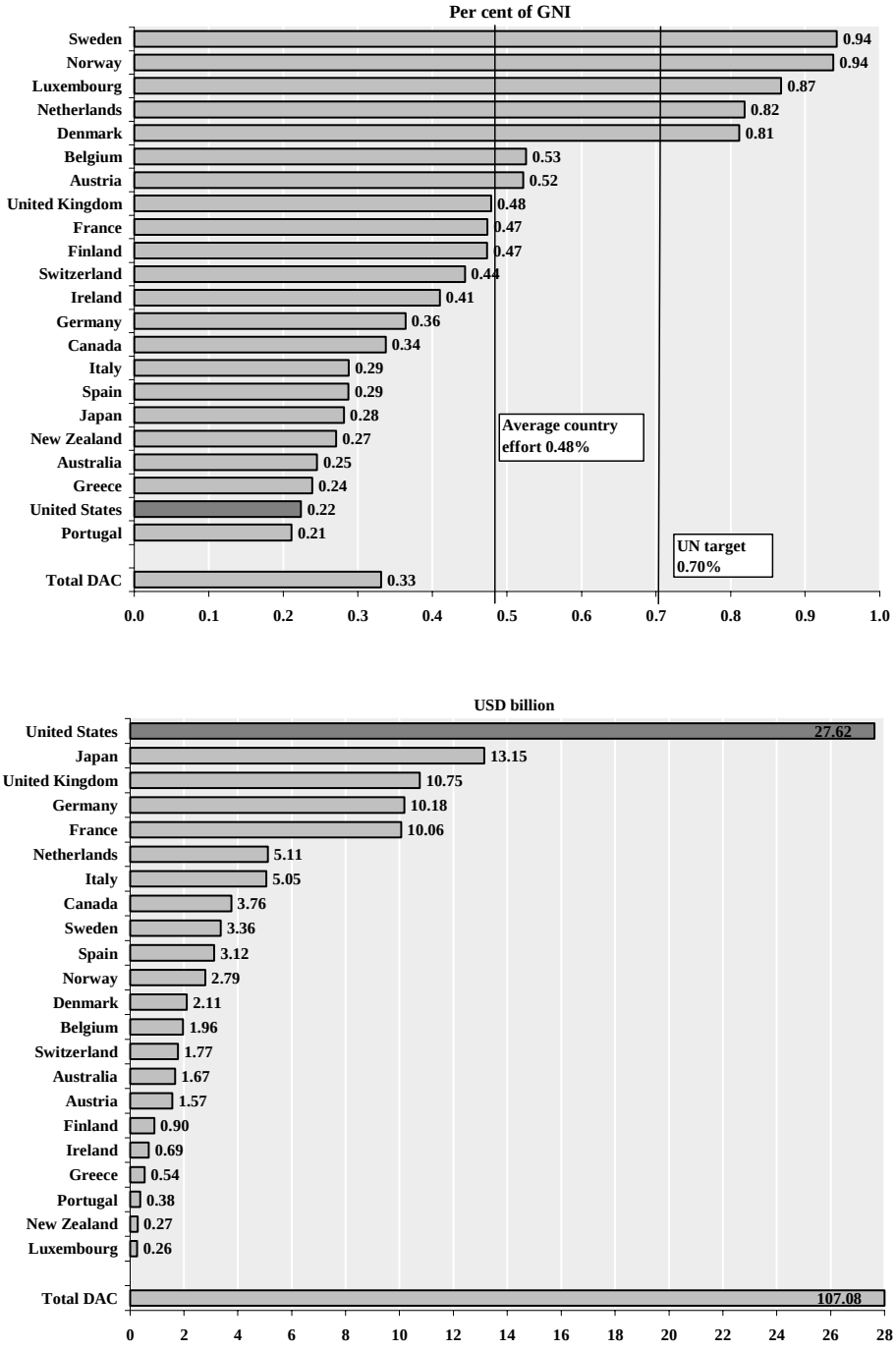
a. Excluding debt reorganisation.

b. Including EC.

c. Excluding EC.

.. Data not available.

Graph C.1. Net ODA from DAC countries in 2005 (preliminary data)



Annex D

Humanitarian Assistance

This annex assesses the humanitarian work of the United States in accordance with the *Assessment Framework for Coverage of Humanitarian Action in DAC Peer Reviews*. Based on the principles of Good Humanitarian Donorship (GHD)[16], it covers the following areas: 1) humanitarian policy and principles; 2) organisation and management; 3) volume and distribution; 4) policy coherence; and 5) future considerations.

Humanitarian policies and principles

The role and location of humanitarian aid in the ODA system

US humanitarian work has three main 'prongs' which together, and in partnership with numerous multilateral and NGO partners, provide humanitarian assistance to 80 countries.[17]

In USAID, the Bureau for Democracy, Conflict and Humanitarian Assistance (DCHA) houses two of these prongs. The first, The Office for Foreign Disaster Assistance (OFDA), is designated as the President's Special Coordinator for International Disaster Assistance. The bulk of its funds are channelled through NGOs. In the period 2000-05, OFDA annual spending averaged approximately USD 298 million.

The second DCHA prong is Food for Peace. The US Department of Agriculture funds Food for Peace to purchase US grown commodities and to distribute them in recipient countries.[18] Between 2001 and 2006, emergency food aid equivalent to an average of USD 1 455 million was made available annually. Linked to this food aid is the Bill Emerson Humanitarian Trust, a food reserve that can hold up to 4 million metric tons of US grain.[19] As of January 2006, the trust held about 915 000 metric tons of wheat and USD 107 million in cash. The cash can be used to administer activities or to purchase commodities not held in the trust (US Government, 2006a).

The third major prong of US humanitarian assistance is the Department of State Bureau of Population, Refugees and Migration (PRM). The legal basis for PRM is the Migration and Refugee

16 . The principles of Good Humanitarian Donorship were endorsed in Stockholm in 2003 by 16 bilateral donors (including the United States) and the European Commission. They were subsequently endorsed by the DAC in 2006.

17 . Number correct in 2005.

18 . This activity occurs under Title II of Public Law 480 (PL480). The 1990 Farm Bill stressed "enhancing food security in the developing world" as the overarching objective for PL480 assistance, a message reinforced in the 2002 Farm Bill. United States Agency for International Development (2006) *PL 480 Title II Program Policies and Proposal Guidelines.*

19 . The trust provided USD 175 million in 2002; USD 258.3 million in 2003; and USD 366 million in 2005.

Assistance Act of 1962.[20] PRM's mission is to: "provide protection, assistance and sustainable solutions for refugees and victims of conflict and to advance US population and migration policies". Most relevant to humanitarian action is PRM's work on refugee assistance and protection – activities that occur primarily through multilateral organisations. In 2005, PRM's overseas assistance budget was approximately USD 753 million.

Other government departments also have an interest in humanitarian assistance. The military holds a number of budget lines that can be used to support humanitarian activities. These include the Ocean Freight Reimbursement (FAA Section 123 [b]-[d]) and USC Section 2561 Overseas Humanitarian Disaster and Civic Aid (OHDACA). In 2005, these were the equivalent of USD 60 million, which the administration is seeking to increase. In addition, the Commander's Emergency Response Program (CERP) can fund humanitarian and reconstruction needs. Within the National Security Council there is a humanitarian adviser who reports to the President and facilitates cross-departmental dialogue on approaches to major crises.

Table D.1 summarises the main division of labour between USAID and the Department of State.

Table 3. Table D.1. Primary responsibilities of civilian components of USG for humanitarian action

State	**USAID – Bureau for Democracy, Conflict and Humanitarian assistance**	
PRM *(USD 793 million - operational budget in 2005)*	***OFDA*** *(USD 604 million – operational budget in 2005)*	***Food For Peace*** *(USD 1.425 billion - operational budget)*
Refugees Humanitarian diplomacy	Internally displaced persons	Chronically extremely poor; victims of natural disasters and complex emergencies
	Primary partners	
ICRC, UNHCR, IOM, UNWRA	NGOs, OCHA, UNICEF, WPF	World Food Programme and US NGOs

Source: Adapted from PRM presentation to DAC Peer Review team, June 19, 2006.

The United States is the single largest bilateral donor of official humanitarian assistance. This financial significance is complemented by strengths at field level, political influence and a capacity to support operations with military assets. Taken together, these dimensions make the US a highly respected humanitarian actor.

The legal and organisational foundations of US humanitarian assistance reflect the distinctive purpose and principles of humanitarian work. For example, the Office for Foreign Disaster Assistance (OFDA) has a separate legal framework which makes it exempt from many of the broad restrictions that govern development assistance. OFDA's distinct authority enables it to reach people living in countries whose governments do not otherwise receive US aid. The legal framework and mission statement of the government's specialised humanitarian components are designed to ensure that assistance is provided to people impartially, "without regard to political relations with their governments" (USAID, 2006b).

Humanitarian work enjoys a high level of support within Congress – the body that ultimately determines the terms and conditions under which this aid is provided. Humanitarian action is also

20 . PL-87-510, June 28, 1962, 76 STAT 121.

granted more flexible financing than other kinds of foreign assistance. This flexibility is critical both for ensuring that resource allocation reflects real needs and for protecting the independence and neutrality of key partners – particularly among multilateral and international organisations.

Situating humanitarian action in the new security framework

In common with many other donors, during the 1990s the United States began to revisit the relative separation of humanitarian assistance from other aspects of its foreign assistance and wider security goals. Like other donors, it has also been considering the relative merits of "traditional" as opposed to "activist" approaches to humanitarian action. Whereas the former emphasises neutrality and impartiality, the latter seeks to address underlying causes of humanitarian crises, such as conflict, and is prepared to take sides to achieve other goals, such as improving medium-term security.[21] The tensions between these two broad approaches have sharpened since the events of 11 September 2001 and the subsequent reappraisal of national security policy. In October 2001, for example, Secretary of State Powell publicly and controversially referred to NGOs in Afghanistan as working as a "force multiplier" for the US, and as part of the "combat team" (Powell 26/10/2001).[22]

The relationship between humanitarian assistance and US national security priorities is an ongoing debate (National Security Strategy 2002, 2006) in which the question of how to handle humanitarian principles in the new security environment has proved particularly challenging. This issue is particularly difficult in "grey zone" environments of protracted instability – such as Afghanistan and the Middle East – where the US has strong strategic interests and where the aim is to move away from addressing immediate humanitarian needs and towards state building and wider security objectives.

The US Administration is to be commended for recognising openly the significance of these tensions. For example, the 2002 White Paper *Foreign Aid in the National Interest* acknowledges that:

> The war on terrorism's long-term effects on humanitarian policies are not yet clear, but one can hope that it will generate more interest in addressing complex emergencies abroad, avoiding the use of humanitarian aid as a "fig leaf" covering the lack of political or military action. There is a danger, however, that the war on terrorism will bring the United States even deeper into the "politics over humanitarianism" realm. Sustained vigilance is now required on the part of US humanitarian officials to ensure that aid is based on need and that resources are not diverted from more acute but less visible emergencies to meet political ends elsewhere (page 26).

US humanitarian officials are strongly committed to defending humanitarian principles, and mission statements largely reflect this commitment.[23] However, while an understanding of these

21 . In the late 1990s, selective provision of aid to opposition-held municipalities in Serbia was considered. In 1999, a bill covering foreign operations explicitly permitted that US food aid be given to rebels in southern Sudan (H.R.2606, SEC 592), though it was never passed.

22 . Dearing T. "For aid workers a deadly blurring of lines", *Boston Globe*, 14 November, 2004; Woollacott M. "Humanitarians must avoid becoming tools of power", *The Guardian,* 2 April, 2004.

23 . For example, in their presentation to the DAC Peer Review team, the Heads of PRM and OFDA described the purpose of US humanitarian action as including: to save lives, alleviate suffering and maintain and protect human dignity and livelihoods during and in the aftermath of conflicts, human made crises and natural disasters. This was said to encompass the protection of civilians and those no longer taking part in hostilities and to be guided by the principles of universality, impartiality and independence. The Department of State and USAID *Strategic Plan Fiscal Years 2004-2009*, page 28,

principles by humanitarian officials continues to be crucial, there is now a broader range of actors working in crisis-affected countries and claiming a role in aid delivery. It is also important to ensure that they too are fully aware of the objectives and principles of humanitarian action.

Humanitarian assistance is one of the five core themes of the US's new framework for foreign assistance (Annex B). The aim of this assistance is to save lives, alleviate suffering and protect human dignity and livelihoods during and following conflicts, human-made crises and natural disasters. The development of this framework, and of the new organisational structure designed to deliver it, brings with it a number of important opportunities and challenges. One opportunity is to create better links between humanitarian work and longer-term developmental thinking, particularly in fragile states. Improving these linkages could draw on non-humanitarian budgets to promote more sustained investment in basic services and livelihoods support in protracted crises. The framework is also a chance to articulate the fit between the various components of the government's humanitarian work. A challenge will be to integrate humanitarian concerns into the framework's objectives of peace, security and the state-building.

The implications of this shift for humanitarian action are still unclear. This is particularly true for the role of the key players in Washington (the OFDA and the Department of State's Bureau for Population, Refugees and Migration – PRM) in determining the overall size and content of the humanitarian component of a recipient country's budget. Incentives will need to be in place to ensure the appropriate and adequate allocation of humanitarian resources at country level. Key humanitarian indicators, such as mortality and malnutrition rates, could be included in relevant country programmes to ensure that this core objective is being met.

A second concern will be to ensure that humanitarian considerations remain prominent as humanitarian actors become more engaged with US post-conflict recovery and stabilisation initiatives. The Office of the Coordinator for Reconstruction and Stabilisation (S/CRS) was created in 2005, largely to respond to the lessons of Iraq (US Government, 2005c). It aims to provide a whole-of-government approach that brings in non-traditional humanitarian assistance actors, including the US military, to areas recovering from conflict, to failed and failing states, and to complex emergencies. How far it remains a co-ordinating body rather than an active player in its own right hinges partly on whether Congress will provide the resources for S/CRS to develop its own Civilian Response Corps and Civilian Response Fund. Were this to happen, the co-ordination challenge with humanitarian organisations would increase significantly. The division of labour between the Deputy Secretary of State responsible for Foreign Assistance and the Coordinator for Reconstruction and Stabilisation is being clarified.

Humanitarian issues do not feature in the National Security Presidential Directive 44 or in subsequent S/CRS publications. Given the importance of humanitarian assistance in these difficult environments, and of ensuring that humanitarian protection and access are reflected in wider political processes, S/CRS work must take account of humanitarian priorities. US humanitarian officials must also be able to maintain an independent voice, distinct from the state stabilisation agenda, and to engage with external stakeholders such as the US military.

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outlines how the USAID and the department work together to "… uphold international standards. The Department and USAID will urge our partners to adhere to international law and principles, including neutrality in refugee camps and safe access for humanitarian workers, as well as minimum assistance standards". USAID's *Policy on Assistance to Internally Displaced People* (2004) also underscores the importance of adhering to international humanitarian law and principles.

The third dimension of the current reform initiative relates to the Department of Defense. The department is assuming an increasing role in delivering official development assistance in countries affected by active conflict and natural disasters. *Department of Defense Directive 3000.05* (US Government, 2005a), published in November 2005, states that where insecurity constrains civilian efforts, the military should expand its stabilisation role. The directive states that "… stability operations are a core US military mission [to be given] priority comparable to combat operations (paragraph 4.1)". Meeting humanitarian needs is seen as part of achieving this objective (paragraph 4.2).

This directive is largely the product of experiences in Iraq and the need to meet the full responsibilities of being an occupying power. Such reflection is important and timely to meet commitments under international humanitarian law. The OFDA, PRM and others, including the NGO community, have been working actively with colleagues in the Department of Defense to encourage compliance with internationally agreed guidelines on the use of military assets to support humanitarian operations.

The full implications of Directive 3000.05 for the government's humanitarian portfolio are not yet apparent, especially the extent to which the Department of Defense will get involved in stabilisation outside Afghanistan and Iraq. Lessons from these countries suggest that it will be important to maintain a firm distinction between efforts designed to "win hearts and minds" and independent humanitarian action. Provincial Reconstruction Teams (joint military-civilian teams used currently in countries like Afghanistan and Iraq) will need guidance on civilian versus military roles and responsibilities so that their military dimension does not restrict civilian input and decision-making. In turn, civilian departments and agencies will need to ensure that staff has the appropriate, skills, experience and support in order to become leaders of these teams.

The 2006 National Security Strategy provides a new framework for co-ordinating civilian and military branches of government. Within this framework, there are three key aspects which could affect the scope and shape of humanitarian action:

1. The division of labour between S/CRS and the leaders of the thematic groups under the foreign assistance framework.

2. The relationship between these civilian components and the Department of Defense.

3. The potential scope of military involvement in the delivery of humanitarian assistance in complex emergencies, particularly where the US is engaged in active combat.

The new framework for foreign assistance provides an important opportunity to reaffirm the US commitment to core humanitarian principles, and, specifically, to the principles of good humanitarian donorship. Consolidating this commitment in a single humanitarian policy framework would be a logical and welcome next step. Such policy guidance could be used to inform the development of the three main pillars of reform noted above, as well as to communicate to relevant actors the principles and priorities of humanitarian action.

Support for international policy

Since it signed the Principles of Good Humanitarian Donorship in 2003, the US has been actively engaged in the initiative, leading the group's work on defining indicators of progress, and supporting the country level pilot in the Democratic Republic of Congo. This leadership has not been fully

complemented, however, by efforts to improve knowledge of these principles, and US commitment to them, in the field.

As a primary financier of the international humanitarian system, the US is an active member of the governance bodies of multilateral and international humanitarian organisations. In this capacity, it has strongly promoted results-based management and has improved its tracking of the performance of key international partners.

At country level, understandable preoccupations with bilateral efficiency may cause the US to bypass opportunities for productive collective action with the broader donor community. Collective action could help the US to increase its impact through shared access to information, finance and operational capacity in order to improve the wider donor response. It should therefore continue to review options for broader international collaboration in the field to improve the collective efficiency and response of donors.

Organisation and management

The architecture of US humanitarian action

The complexity of the organisation of US humanitarian's assistance is striking. There have been attempts to rationalise it, notably in the aftermath of the Kosovo crisis in 1999. In 2000, an inter-agency review concluded that the government's ability to provide a single authoritative voice on humanitarian issues was compromised by the complexity of its organisational structures, the proliferation of mandates on humanitarian issues and the exclusion of civilian officials from military planning. It proposed three possible solutions: improve inter-agency coordination; designate a lead agency for each crisis; and consolidate OFDA and PRM. While a change of government precluded the possibility of the report having legislative consequences, much of its analysis and recommendations remain relevant.

Simplifying this organisation would reduce the cost of co-ordinating policy *within* the US Administration, both the real costs and the opportunity cost associated with weak inter-departmental coordination. For example, one constraining factor of the US influence on the recent international humanitarian reform agenda was its difficulty in agreeing its core tenets.[24] Also, the current set-up was designed to mirror that of the international system, which is now in a state of flux. One example of this is the protection of internally displaced persons. While the "cluster approach" means an increased role in this area for the United Nations High Commissioner for Refugees (UNHCR), the US set-up gives PRM the lead role for dealing with internally displaced persons, rather than UNHCR and USAID. Finally, the high number of US agencies that mobilise staff on the ground potentially increases the costs of field level co-ordination.

There is no immediate appetite for enacting legislation to consolidate the humanitarian set-up. Rather, the current approach is to strengthen co-ordination by establishing shared objectives and building in incentives for cross-government staff liaison. For example, the Joint Policy Council on Humanitarian Response was established to facilitate senior management co-ordination between USAID and the Department of State. This framework helped provide a forum to address common concerns like internally displaced persons (US Government, 2006b). It also encouraged regular and productive meetings between DCHA and RPM staff. Under the new foreign assistance framework, the joint policy council structure has been superseded by the thematic policy group, co-chaired by the

24 . It was not until January 2006 that the US issued its position on humanitarian reforms, whilst much of the agenda for these reforms was set early in 2005.

Heads of DCHA and PRM. This group is an important first step towards developing more streamlined approaches to policy.

At an operational level, there is a recognised need to be more dynamic in establishing common cross-agency positions. For example, PRM staff are now regularly included in the OFDA-led Disaster Assistance Response Team. Linking this joint planning into shared monitoring, evaluation and reporting processes would consolidate such approaches and increase cross-departmental staff co-operation.

Success in delivering a more co-ordinated approach through improved inter-departmental management may pave the way for legislative changes to consolidate this greater cohesion.

Emergency food aid

The US is the world's single largest provider of emergency food aid, having provided an average of USD 1 billion annually between 2000 and 2005. The amounts rose sharply in the past two years (USD 1.2 billion in 2004 and USD 1.6 billion in 2005). Financed by Congress through the US Department of Agriculture, the bulk of this food is disbursed by Food For Peace, which prioritises allocating food to emergencies.

Internationally, there has been a variety of concerns raised about the provision of such large amounts of food aid. This includes the risk of undermining local production, the high cost (particularly shipping costs), and the perception that it is inspired more by the needs of US farmers than recipients. In recent years there have been three major changes in the funding and management of Food For Peace. These changes are partly due to changes within the US administration and, in particular, stem from the desire to simplify the use of food aid, improve efficiency and better respond to changing humanitarian food aid needs (USAID, 2005).

First, in 2001 it was agreed that the administration would no longer make active use of the surplus disposal mechanism through the Department of Agriculture. Instead, it would increase the budget for the USAID programme by an amount roughly equivalent to the average of surpluses used in the prior years. This allowed USAID to buy any US-grown commodities and so US emergency food aid is no longer constrained by whatever commodities are in surplus.

Second, until 2005, the strategic framework that governed Food For Peace had separate objectives for humanitarian and developmental work. Significantly, the new Food For Peace strategic plan for 2006-2010 focuses instead on a single objective: "food insecurity in vulnerable populations reduced". The focus on vulnerability aims to help emergency programmes address the underlying causes of vulnerability and risk and to encourage development programmes to strengthen the capacity of vulnerable people to prevent and cope with emergencies (USAID, 2005). This has led the US to use food to support the multi-use Productive Safety Nets Programme in chronically vulnerable countries such as Ethiopia. Importantly, this work is increasingly aligned with broader efforts to reduce poverty and hunger, including through the Comprehensive African Agricultural Plan.

In 2005, the President requested that USD 300 million of the FY 2006 PL480 Title II budget be allocated in cash through the International Disaster and Famine Assistance Account to purchase food aid regionally and locally. This request was turned down by Congress. For FY 2007, the President has made a similar request, asking for the authority to use up to 25% of appropriated Title II funds for local or regional food purchase and distribution.

The US approach to food aid has been the subject of debate during the current World Trade Organisation Doha Round. Within the US there is support for excluding emergency food aid from the wider trade discipline. It is argued that US support for food aid is not fungible, since its financial and political support derives from the Department of Agriculture and Congressional committees. In other words, the option is not between in-kind food aid or cash, but rather between food aid or no food aid. The US maintains that donors should be able to respond to human suffering as they are able. In some circumstances, in-kind food aid is most appropriate. In others, local procurement is a viable response. The US has maintained that regardless where it comes from, food aid provision should ensure no harm is done to local producers or low-income consumers.

Country operations

The US's generosity in financing humanitarian action is matched by its unparalleled field presence. OFDA's humanitarian response uses systems and procedures drawn from the Incident Command System,[25] first used by the US Forest Service.[26] At field level, the primary mechanism for response is the OFDA-led Disaster Assistance Response Teams, who respond to sudden natural disasters and new complex emergencies. In Washington, OFDA's Response Management Team provides the counterpart to the OFDA Disaster Assistance Response Team. OFDA can draw on a significant range of specialised staff to provide logistical, technical and geographical expertise.

In addition, both OFDA and PRM maintain a sustained field presence in regions and countries at risk. OFDA has six regional offices,[27] as well as a sustained presence in protracted crises such as Sudan and the Democratic Republic of the Congo. PRM's Refugee Coordinators are present in 14 countries. This presence has three main functions: to be the eyes and ears of government humanitarian decision-makers in Washington; to co-ordinate response and monitor performance, both in terms of assistance and relationships with other actors, including the military; and to contribute to funding and funding decisions.

The US believes that it must maintain a bilateral capacity to analyse a given situation, over and above the assessments made by its operational partners. This bilateral analysis informs US programming and, crucially, informs Congress of requirements. Gathering field-based evidence is seen as integral to maintaining impartiality, not least as a counter-weight to special interest groups' lobbying of Congress. The ability of the US humanitarian system to deploy staff to the field quickly is extremely impressive. Following the tsunami in Aceh Province in Indonesia, for example, the US Disaster Assistance Response Team was in place before the UN team (Box 9); it facilitated an inter-agency assessment of health needs and was integral in shaping the US's effective response.

The level of co-ordination at field level varies according to the context. Refugee Coordinators are proactive in examining refugee conditions in terms of, for example, health, gender, protection and capacity-building. Where necessary, their monitoring informs the significant humanitarian diplomacy undertaken among UNHCR, the host government, the Red Cross movement and other partners. The OFDA mandate means that it has a strong capacity to mobilise material to support humanitarian operations. Disaster Assistance Response Teams help co-ordinate different components of the US response, including the military.

25 Incident Command System (2005) *Review Materials.* The Incident Command System is used across government and is a feature of the National Incident Management System.

26 The US Forest Service provides sustained support to OFDA through training and facilitating post-crisis evaluation and lesson learning exercises.

27 . These are in Bangkok, Dakar, Kathmandu, Nairobi, Pretoria and San José.

Disaster Assistance Response Teams also play an important role in funding humanitarian work. Warranted contracting officers with the authority to spend up to USD 100 000 (or more, subject to Washington's approval) are often part of the team. Funding agreements are managed both from the field and through headquarters.

Box 9 summarises how these systems worked during the tsunami relief effort.

Box 9. Responding to the tsunami: US Government response in Aceh, Indonesia

On 26 December 2004, an earthquake of a magnitude of 9.3 on the Richter scale struck off the south east coast of Banda Aceh, Indonesia, generating two large tsunamis. Over 175 000 people were killed and 1.3 million people in seven countries were displaced. Indonesia, the country worst affected by the disaster, is also seen by the US as a front-line in the global war on terror. Aceh, the most devastated region in Indonesia, was also subject to a vicious civil war and martial law, and there was little international presence there before the tsunami.

In Washington, OFDA led the US response to the disaster, with the US Ambassador to Indonesia leading efforts at country level. As the scale of the disaster was revealed, an Operational Center, led by the Disaster Management Team, was established within USAID to link the Departments of State and Defense and the National Security Council during the aid response. The team was active until 23 February 2005.

At field level, the Senior Regional OFDA Adviser in Bangkok led the overall relief response. In Indonesia, the US Ambassador played a critical role, triggering the US emergency response, calling for the deployment of US military assets and liaising with the newly elected government. On a day-to-day basis the US humanitarian assistance effort was led by the OFDA Disaster Assistance Response Team, working closely with the Mission Disaster Relief Officer, a USAID funded position, based at the Embassy in Jakarta.

USAID was among the few donors to have been able to maintain a programme in Aceh while martial law was in place. This, combined with the US's unique political position within Indonesia, enabled it to disburse funds quickly through trusted partners, and to secure early access for its team. In contrast, the UN's ability to deploy quickly was hampered by the government's suspicion of the organisation following the independence of East Timor.

Despite the large size of its field operations, USAID found it difficult to formulate a robust and rapid needs assessment. In a context of generous private funding, its NGO partners had little incentive to share their data on need. This, combined with the decision not to prioritise needs assessment tasks in the briefing for the military, meant that the response was less driven by evidence than might have been the case. The US was not alone in this,[1] but it was uniquely positioned to have helped to address this problem.

Overall, the US relief operation was highly effective. Its conduct in the region was highly appreciated within Indonesia, helping to address a climate of hostile public opinion. The deployment of the military ship USS Abraham Lincoln and specifically the deployment of 32 helicopters, was critical in increasing accessibility and boosting logistics capacity. The US military worked under the command of the Indonesian army, and co-ordinated well with civilian branches of US Government, although some areas for improvement were subsequently identified.[2] The overall volume of funds available for the response was disproportionately larger than the need for funds, however, particularly for rehabilitation. This raises the question of how to manage public and Congressional expectations in high profile and politically sensitive crises.

1. De Ville de Goyet (2006) TEC Study on Needs assessment.
2. USAID (2005) *December 2004 Indian Earthquake and Tsunami – USAID/DCHA/OFDA After Action Review Workshop Report*. May 4-5 2005. June, Washington, DC.

The US could increase its impact if other donors and actors were better co-ordinated in the field. The US is well-positioned to increase the coherence of the overall donor response and also to support multilateral efforts to improve needs assessment and response design.

The quality of the US humanitarian response depends on its strong staff. The administration is investing in building a group of staff skilled in humanitarian, diplomatic, military and developmental aspects of working in unstable environments. This approach is likely to be of interest to all donors wanting to build their capacity to work in fragile states. But in humanitarian assistance, relatively few OFDA staff members are on permanent contract. The lack of an established career ladder may constrain the retention of experienced staff for humanitarian work. Certain US partners have voiced concern about this, a point echoed in the tsunami after-action review.[28]

Promoting learning and accountability

The US administration places considerable emphasis on ensuring that humanitarian action is effective and that its partners can demonstrate progress against agreed benchmarks and standards.

For example, the US leads the donor community in its commitment to translating "Sphere" guidelines into practice. Alongside the adoption of these guidelines in the Field Operations Guide, PRM and OFDA have invested heavily in new methodologies to measure and track progress against core humanitarian indicators. These are used to inform the Department of State and the USAID annual *Performance and Accountability Report* to Congress. The US innovation in this area is notable. While there is scope for improvement, particularly in terms of defining coverage, greater sharing of this approach within the donor community and more broadly ought to be welcomed.

Evaluation and lesson-learning are core components of the OFDA Critical Incident Management approach. As part of its contract with the Forest Service, after-action reviews are carried out following a major response (USAID, 2005).[29] While very useful in highlighting management and organisational issues, the methodology of the review may not raise core strategic questions. For example, the After Action Review of the US response to the tsunami did not raise the issues of proportionality of assistance and of the performance of key partners. However, there is much in this process likely to be of interest to other donors. The US has also been active in supporting joint evaluations, including the Real Time Evaluation in Pakistan and the Tsunami Evaluation Coalition.

As yet, however, the US administration's indicators do not fully reflect its commitments under the GHD initiative, despite the US's leading role in drafting the principles of Good Humanitarian Donorship. Nor are there established indicators or procedures for deepening the involvement of beneficiaries in humanitarian action.

Humanitarian officials acknowledge the need to review critically the human resources required for monitoring and evaluation. While the reporting requirements placed by the US on the organisations it supports are quite stringent, particularly with regard to NGOs, the administration's capacity to interrogate and analyse these data is limited. OFDA is planning to recruit a full time Monitoring and Evaluation Officer to address this issue. Equally PRM is developing new systems to monitor multilateral effectiveness at field level. In developing new tools, it will be important to consult other donors and to support harmonised approaches to monitoring multilateral performance. This should

28 . *USAID, Indian Ocean Earthquake and Tsunami Humanitarian Response.* After Action Review Workshop Report, May 4-5, 2005, Bureau for Democracy, Conflict and Humanitarian Assistance/OFDA, Washington (page 8).

29 . *USAID, Indian Ocean Earthquake and Tsunami Humanitarian Response.* After Action Review Workshop Report, May 4-5, 2005, Bureau for Democracy, Conflict and Humanitarian Assistance/OFDA, Washington, DC.

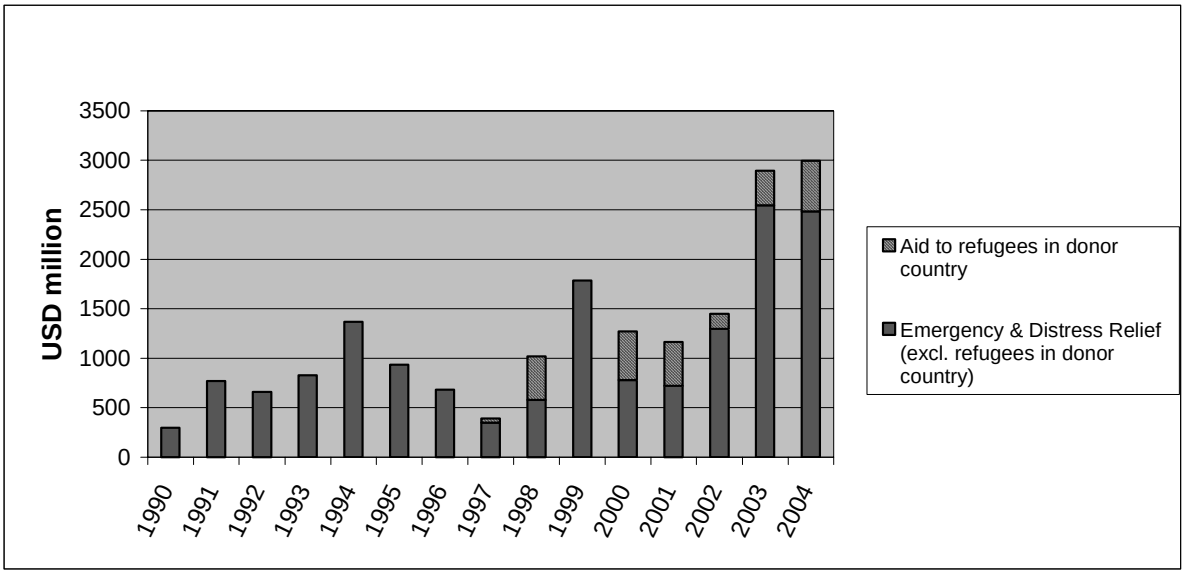
help to reduce collective donor transaction costs and to encourage more consistent and useful feedback for individual agencies.

Volume and distribution

A key donor in volume and through implementation

The US is by far the largest single bilateral donor of humanitarian assistance, spending close to USD 3 billion on emergency and distress relief (including spending on domestic refugee resettlement) in 2004. This represented 41% of total humanitarian assistance spent by the DAC. The European Humanitarian Office is the next largest donor body, but nearest bilateral donors are Japan and the UK, although their volume is much lower (USD 657 million and USD 523 million respectively). Figure D.1 shows US spending on humanitarian assistance in the period 1990-2004.

Figure 4. Figure D.1. US spending on humanitarian assistance in the period 1990-2004



US spending on emergency and distress relief has increased sharply over the past five years, both in absolute terms and as a proportion of ODA. In the period 1994-2004, an average of 9.66% of ODA was used to support emergency and distress relief spending (excluding spending on domestic refugees). In the period 1990-94, humanitarian spending averaged approximately USD 780 million annually, compared with USD 1 974 million for the period 1999-2004 (in real prices), an increase of 40%. Final data for 2005 were not available at the time of writing.

The upward trend may not be sustained; core budgets appear to be declining.[30] For example, PRM funding in financial year 2006 is well below that of 2005, with significant cuts (USD 190 million) affecting overseas assistance. Equally, in the period 2002-05, the OFDA basic appropriation remained static at around USD 235 million per annum.

30 . Data from the OCHA Financial Tracking Service confirm the importance of the US in supporting UN consolidated appeals. In 2004, for example, the US provided 33% of all contributions to UN Consolidated Appeals.

The impact of cross-governmental budget cuts on humanitarian assistance spending is being partially off-set by the use of supplemental budgets. Since 1999, supplemental funds have become increasingly important for humanitarian financing. These supplemental funds are the US's contingency mechanism enabling additional resources to be secured to respond to some crises. However, use of supplemental budgets may exacerbate uneven resource allocation by favouring high profile crises (such as the tsunami), and crises that are of greater strategic importance. The inclusion of resource mobilisation for humanitarian assistance under a supplemental directed towards the global war on terror is also notable.[31]

Although the process of negotiating supplemental funds is much quicker than that of the core budget round (3-6 months as opposed to 18-24), securing them nonetheless takes time. While Congressional approval is being sought, money must come from commitments elsewhere within the aid sector, potentially creating instability and compounding the existing problem of short-term budget cycles. It is felt that protecting core budgets can be key to ensuring rapid, timely and equitable humanitarian response. The US is encouraged to open a dialogue with Congress on the potential drawbacks of a growing reliance on supplemental funding. Further ways of front loading of funds through such as mechanisms as the Commander's Emergency Response Fund and standing agreements with NGO and multilateral partners might also be considered.

Distribution and channels

Some two-thirds of US humanitarian assistance is spent in Africa. Within Africa, Sudan heavily dominated US allocations (over 11% of total flows) in 2004, with Ethiopia coming a close second. The relatively low volume of funds to Democratic Republic of the Congo (1.8% of funding) are notable, despite its large population and acute humanitarian vulnerability. Outside Africa, other large recipients are: Iraq (USD 107 million or 3.5% of total humanitarian aid spending); Afghanistan (USD 74.6 million or 2.5% of total spending); and the Palestinian Administered Areas (3.5% or USD 107 million).

Overall, analysis suggests that US humanitarian assistance is likely to become less predictable. While volume may be sustained, this is likely to come through supplementary appropriations as core budgets reduce. Efficiency gains could be made if the comparatively high costs of in-kind tied food aid were to be reduced through increased local purchase, thereby avoiding long-distance transportation costs.

Given the increasingly tight resources, and a new framework to encourage greater linkages with long-term development, it is worth considering whether other areas of US aid could manage some of the humanitarian caseload. For example, productive safety nets, properly funded from development budgets; or more sustained financing for basic services for chronically extremely poor populations; could reduce pressure on humanitarian assistance budgets, enabling them to concentrate on the most extreme threats to lives and livelihoods. Maintaining capacity to monitor the ability of humanitarian assistance to meet the most urgent needs will be important to demonstrate a maintained commitment to impartial resource allocation.

31 . For 2006, for example, much of the finance for Darfur will come through "Emergency Supplemental Appropriations Act For Defense, The Global War on Terror and Hurricane Recovery" (H.R.4939 Conference Report, p. 98). The associated Whitehouse statements concerning H.R.4939: http://www.whitehouse.gov/omb/legislative/sap/109-2/hr4939sap-s.pdf and http://www.whitehouse.gov/news/releases/2006/06/20060615-15.html.

Policy coherence

Protection of civilians

The protection of civilians, especially refugees, has always been at the core of the PRM mandate. More recently, USAID, led by the OFDA and the Office of Transition Initiatives, published a policy on internal displacement (USAID, 2004b), together with an internal implementation plan (USAID, undated). These are rare and commendable examples of a donor agency developing a full statement on this difficult issue. Within USAID, the policy's publication has coincided with a much greater emphasis by senior management on protection issues. This is reflected in its new *Field Operations Guidelines.*[32]

In implementing this new policy, USAID will want to continue to work closely with PRM. Ensuring that protection issues feature prominently in the work of S/CRS, as well as in the governance and peace and security themes, should be a priority, particularly in the most fragile states. Key to this will be developing further the capacity of staff, across government, to represent this difficult policy area, as well as working with specialised partners.

As with PRM protection work, strengthening the protection of civilians will rely in part upon support from other government departments, including the DOD. The scope for advocacy on these issues clearly varies considerably in different contexts and over time. In 2005, PRM reported successes, for example, in protecting Uzbek refugees in Kyrgyzstan (the situation has since deteriorated). Monitoring administration performance on protection remains difficult because of the confidential nature of much of the lobbying and advocacy in this area. The impact of the war on terror on the ability and willingness of government to raise concerns regarding protection is difficult to gauge. In the case of Indonesia, overall aid flows to the country increased significantly after 11 September 2001 (from USD 141 million in 2001, to USD 225 million and USD 210 million in 2002 and 2003 respectively), despite a worsening of human rights abuses in Aceh and other regions.

Links with the military

There are efforts across the US administration to better link civilian and military responses. In the case of humanitarian action, the most notable structure includes S/CRS (discussed above) and the recently formed Office of Military Affairs. The latter constitutes part of the USAID Bureau for Conflict, Democracy and Humanitarian Assistance and was established in March 2005 by the former USAID Administrator to formalise the relationship between USAID, DOD and other foreign military. The office was also created to address concerns that in Iraq and Afghanistan, USAID had been insufficiently represented in governmental planning, particularly post-regime change. In addition, OFDA maintains an on-going programme of training and exercising with the military. Both these units work to formalise working arrangements with military actors, in particular the Department of Defense. More widely, a number of military staff is seconded into civilian posts and *vice versa*. For example, USAID now have representatives advising on development issues in all Combatant Commands.

The perception, both within the US Government and of US NGOs, is that progress has been made over the past five years towards strengthening the US military's awareness of humanitarian issues. However, there remain significant tensions around whether and how the military should be involved in

32 . Chapter III, "Field Operations Guide for Disaster Assessment and Response" USAID, November 2005, Washington DC. For the first time the guide has a section on protection. It states that: "… OFDA seeks to apply a 'protection mindset' to its assessments, strategies, monitoring and evaluation of assistance programs".

delivering humanitarian assistance. Some see the provision of impartial assistance as playing an important role in winning hearts and minds and thus contributing to force protection and stabilisation. Others, however, resist associating the security agenda with independent humanitarian action, fearing that the former will compromise the latter. Still others argue, however, that the withdrawal of civilian basic service providers from the most difficult environments leaves no option other than for the military to fill the gap.

It is too early to tell the extent to which the Department of Defense will become a major financier and/or provider of basic services in conflict environments outside its current major areas of activity in Iraq and Afghanistan. While acknowledging the genuine difficulty of responding in areas of high insecurity, empirical evidence is required on the cost-effectiveness and expertise of military-led humanitarian operations when compared with civilian operations, as well as their impact on security.

Future considerations

The United States may wish to consider the following:

- As the US develops its framework for foreign assistance, the publication of a humanitarian policy statement in line with the principles of Good Humanitarian Donorship would be timely.

- Links between humanitarian and developmental elements of US foreign assistance could be strengthened in ways that respect core humanitarian principles. The scope for adopting multi-year support for basic services in fragile states through non-humanitarian aid instruments should be explored. Equally, investment in longer-term safety nets to address extreme and chronic poverty should be encouraged. This would free humanitarian assistance to concentrate on the most urgent and extreme need.

- Securing Congressional support to untie a proportion of the Food For Peace budget, and to support cash-based approaches, would improve the efficiency and effectiveness of the humanitarian assistance budget.

- Core humanitarian aid budgets are critical to ensuring the predictability and equity of US humanitarian assistance. Supplemental funds can provide additional resources for new crises. It will be important, however, to ensure that this funding is secured in a way that promotes equitable and proportionate assistance.

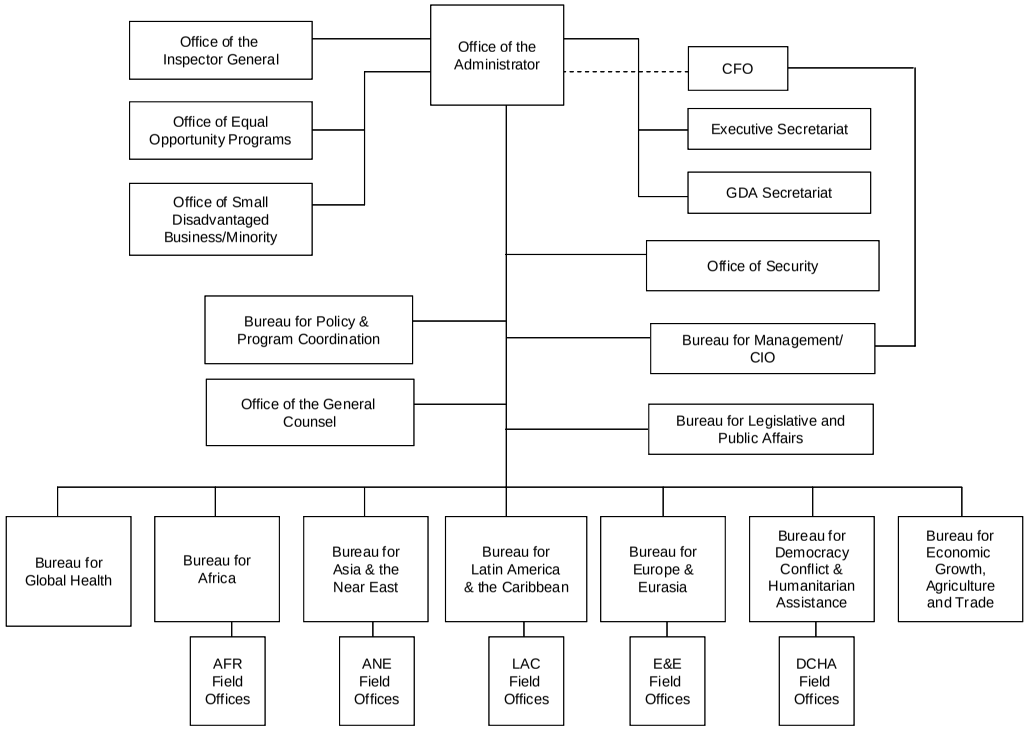
- The operational role of the military in the disbursement of ODA needs greater clarity. As part of the implementation of Directive 3000.05 and of the work of S/CRS and the new foreign assistance framework, guidelines could be produced to clarify further the division of responsibility within the Administration to deliver humanitarian assistance. This guidance should comply with international standards, including Oslo and Military and Civil Defence Assets guidelines.

- Greater internal co-ordination of US humanitarian work could enable greater leadership of the international humanitarian effort, both in the field and globally.

Annex E

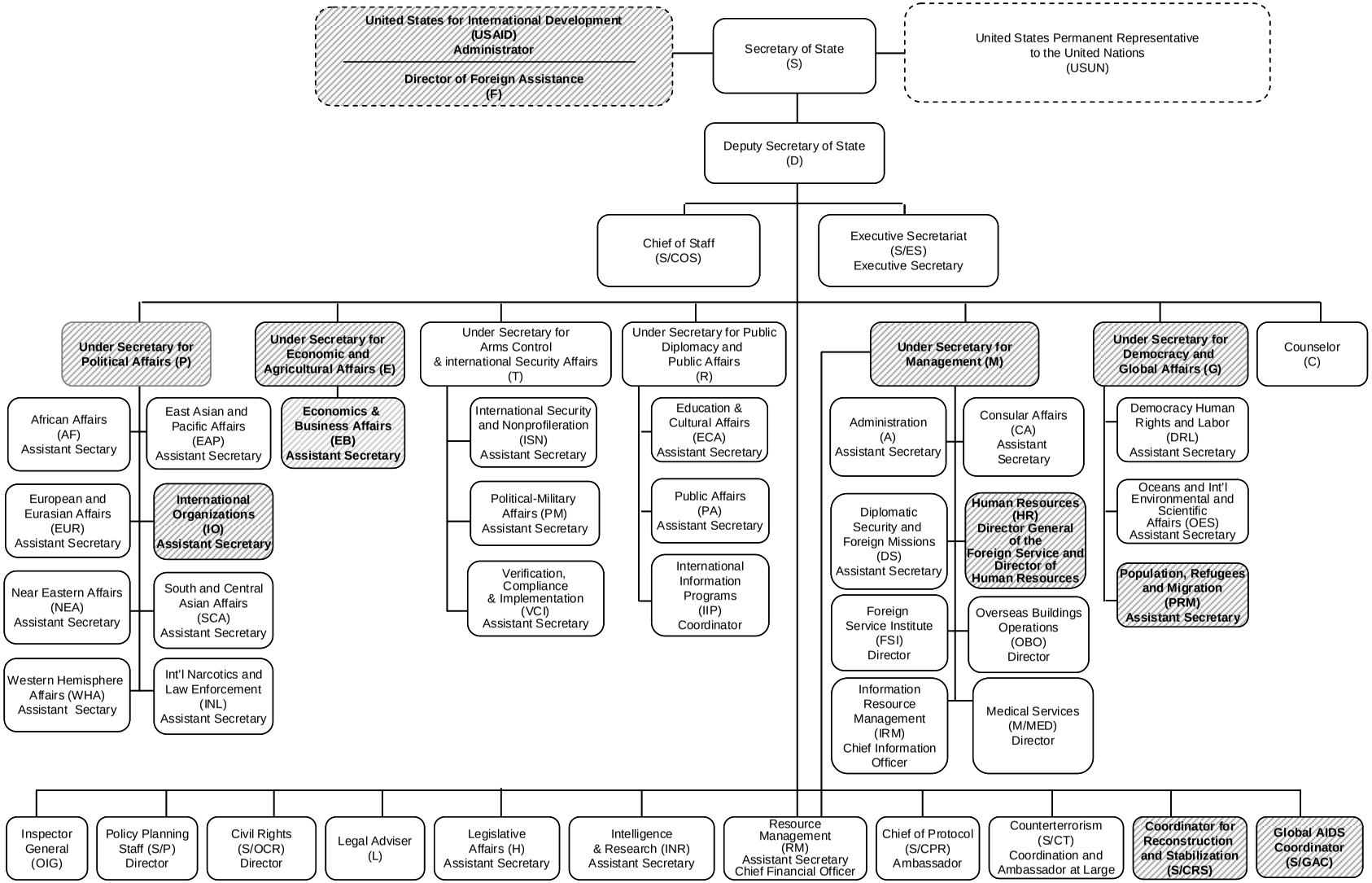
Organigrammes

Chart E.1. United States Agency for International Development (USAID)



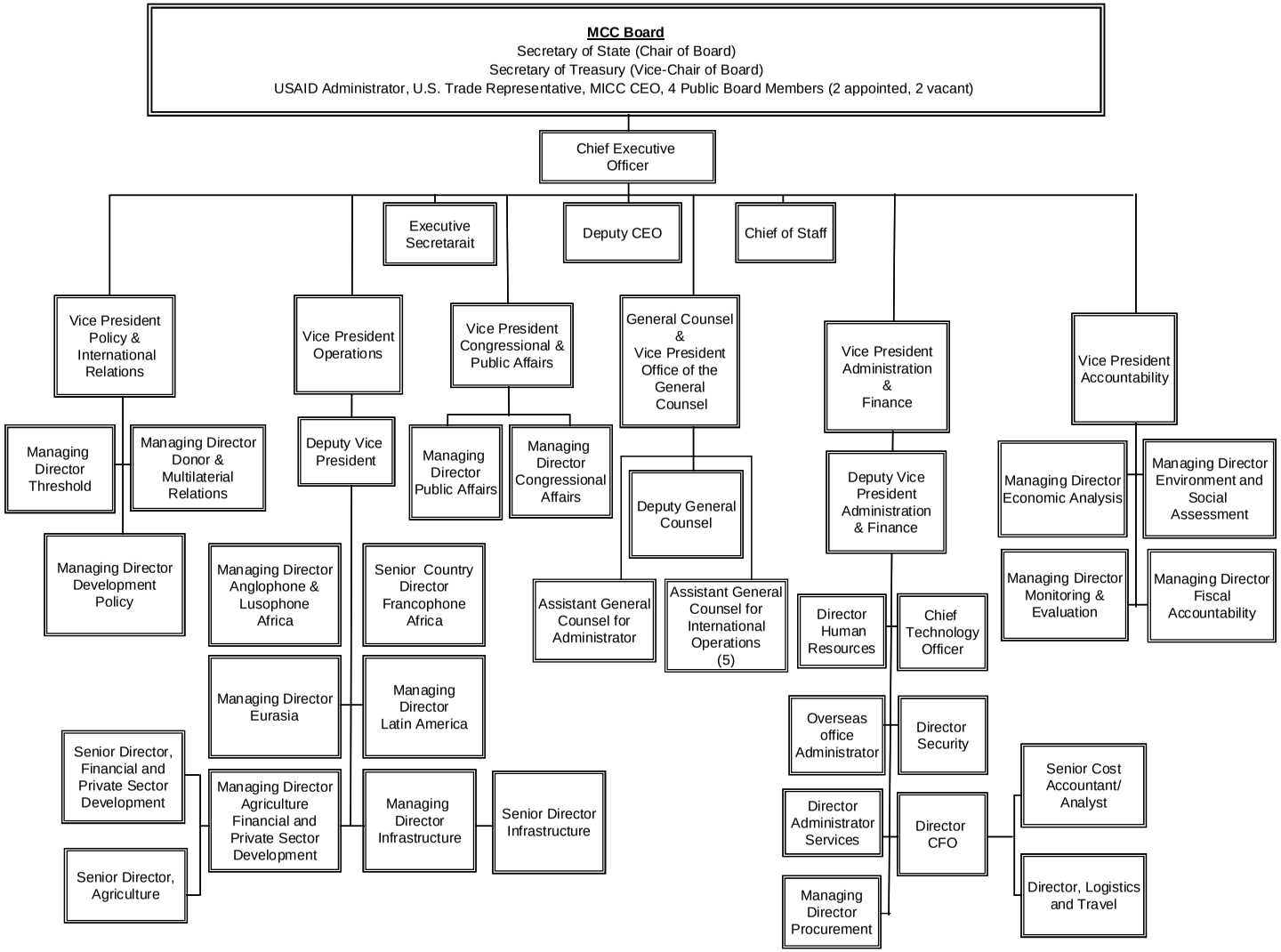
Source: USAID.

Chart E.2. United States Department of State



Source: US Department of State.

Chart E.3. Millennium Challenge Corporation (MCC)



Source: MCC.

Description of Key Terms

The following brief descriptions of the main development co-operation terms used in this publication are provided for general background information.[33]

ASSOCIATED FINANCING: The combination of official development assistance, whether grants or loans, with other official or private funding to form finance packages.

AVERAGE COUNTRY EFFORT: The unweighted average ODA/GNI ratio of DAC members, *i.e*. the average of the ratios themselves, not the ratio of total ODA to total GNI (cf. ODA/GNI ratio).

DAC (DEVELOPMENT ASSISTANCE COMMITTEE): The committee of the OECD which deals with development co-operation matters. A description of its aims and a list of its members are given at the front of this volume.

DAC LIST OF AID RECIPIENTS: The DAC uses a List of Aid Recipients which it revises every three years. From 1 January 2000, Part I of the List is presented in the following categories (the word "countries" includes territories):

LDCs: Least Developed Countries. Group established by the United Nations. To be classified as an LDC, countries must fall below thresholds established for income, economic diversification and social development. The DAC List is updated immediately to reflect any change in the LDC group.

Other LICs: Other Low-Income Countries. Includes all non-LDC countries with per capita GNI USD 745 or less in 2001 (World Bank Atlas basis).

LMICs: Lower Middle-Income Countries, *i.e.* with GNI per capita (Atlas basis) between USD 746 and USD 2 975 in 2001. LDCs which are also LMICs are only shown as LDCs – not as LMICs.

UMICs: Upper Middle-Income Countries, *i.e.* with GNI per capita (Atlas basis) between USD 2 976 and USD 9 205 in 2001.

HICs: High-Income Countries, *i.e.* with GNI per capita (Atlas basis) more than USD 9 206 in 2001.

Part II of the List comprises "Countries in Transition". These comprise i) more advanced central and eastern European countries and New Independent States of the former Soviet Union; and ii) more advanced developing countries.

DEBT REORGANISATION (ALSO RESTRUCTURING): Any action officially agreed between creditor and debtor that alters the terms previously established for repayment. This may include forgiveness, or rescheduling or refinancing.

DIRECT INVESTMENT: Investment made to acquire or add to a lasting interest in an enterprise in a country on the DAC List of Aid Recipients. In practice it is recorded as the change in the net worth of a subsidiary in a recipient country to the parent company, as shown in the books of the latter.

33.. For a full description of these terms, see the *Development Co-operation Report 2005*, Volume 7, No. 1.

DISBURSEMENT: The release of funds to, or the purchase of goods or services for a recipient; by extension, the amount thus spent. Disbursements may be recorded **gross** (the total amount disbursed over a given accounting period) or **net** (the gross amount less any repayments of loan principal or recoveries of grants received during the same period).

EXPORT CREDITS: Loans for the purpose of trade and which are not represented by a negotiable instrument. They may be extended by the official or the private sector. If extended by the private sector, they may be supported by official guarantees.

GRANTS: Transfers made in cash, goods or services for which no repayment is required.

GRANT ELEMENT: Reflects the financial terms of a commitment: interest rate, maturity and grace period (interval to the first repayment of capital). It measures the concessionality of a LOAN, expressed as the percentage by which the present value of the expected stream of repayments falls short of the repayments that would have been generated at a given reference rate of interest. The reference rate is 10% in DAC statistics. This rate was selected as a proxy for the marginal efficiency of domestic investment, *i.e.* an indication of the opportunity cost to the donor of making the funds available. Thus, the grant element is nil for a loan carrying an interest rate of 10%; it is 100% for a grant; and it lies between these two limits for a loan at less than 10% interest.

LOANS: Transfers for which repayment is required. Data on net loan flows include deductions for repayments of principal (but not payment of interest) on earlier loans.

OFFICIAL AID (OA): Flows which meet the conditions of eligibility for inclusion in official development assistance, except that the recipients are on Part II of the DAC List of Aid Recipients.

OFFICIAL DEVELOPMENT ASSISTANCE (ODA): Grants or loans to countries and territories on Part I of the DAC List of Aid Recipients (developing countries) and multilateral agencies active in development that are: undertaken by the official sector; with the promotion of economic development and welfare as the main objective; at concessional financial terms (if a loan, having a grant element of at least 25%).

ODA/GNI RATIO: To compare members' ODA efforts, it is useful to show them as a share of gross national income (GNI). "Total DAC" ODA/GNI is the sum of members' ODA divided by the sum of the GNI, *i.e*. the weighted ODA/GNI ratio of DAC members (cf. Average country effort).

OTHER OFFICIAL FLOWS (OOF): Developmentally relevant transactions by the official sector with countries on the DAC List of Aid Recipients which do not meet the conditions for eligibility as official development assistance or official aid.

TECHNICAL CO-OPERATION: Includes both a) grants to nationals of aid recipient countries receiving education or training at home or abroad, and b) payments to consultants, advisers and similar personnel as well as teachers and administrators serving in recipient countries.

TIED AID: Official grants or loans where procurement of the goods or services involved is limited to the donor country or to a group of countries which does not include substantially all aid recipient countries.

VOLUME (real terms): The flow data are expressed in United States dollars (USD). To give a truer idea of the volume of flows over time, some data are presented in constant prices and exchange rates, with a reference year specified. This means that adjustment has been made to cover both inflation in the donor's currency between the year in question and the reference year, and changes in the exchange rate between that currency and the United States dollar over the same period.

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