The White House and the World

Practical Proposals on Global Development for the Next US President

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The White House and the World: Practical Proposals on Global Development for the Next US President

Nancy Birdsall and Ben Leo

SUMMARY

The United States has been the leader of the free world for decades, championing a liberalized open global economy, the modernization of states, and a system of global institutions and rules that has lifted millions out of poverty. However, US development policy has remained narrowly focused on aid as the major tool for building prosperous societies abroad—even as the rise of China and other emerging markets and the dramatic increase in private capital and remittance flows are putting a growing premium on other, underexploited US tools for encouraging growth in the developing world.

In this series, we present more than a dozen concrete and practical policy proposals—ranging across trade, energy, migration, investment, and climate policy, as well as greater effectiveness of US foreign aid programs—that will promote growth and reduce poverty abroad.

Each can make a difference at virtually no incremental cost to US taxpayers. Together they can help secure America's preeminence as a development and security power and partner.

Why What Happens Abroad Matters at Home

Effective global development policies are central to maintaining America's stabilizing leadership in the world, improving Americans' livelihoods, and growing America's markets overseas for the coming decade. With responsibility to protect the American people and promote their prosperity, the next US president must develop and promote a unifying strategy that addresses vexing global threats while also advancing US commercial and foreign policy interests. Such a strategy must deploy the full range of military, diplomatic, and development tools available to the US government in a coordinated and cohesive manner. In this century, global development policy—and one that includes trade, investment, and migration as well as foreign aid—is no longer just the right thing to do. It is a sound investment in America's long-term security.

Many of the security threats that imperil Americans have arisen in settings where democracy and development have never taken root—or were stalled or reversed before they were consolidated. Destructive and destabilizing conflicts are raging in Syria, Iraq, Libya, and Yemen. Afghanistan faces a highly uncertain transition as US troops withdraw and the foreign engagement–led boom declines. Weak or failed states—such as Somalia—remain a haven for armed groups that destabilize and undermine development progress in their neighbors. Religious extremism in Nigeria, the Sahel, and the Middle East puts democracy and human freedoms in fledgling economies at risk. These freedoms appear fragile, or even on the retreat, in Egypt, Myanmar, and a number of Sub-Saharan African nations.

Other global and regional challenges also undermine progress in poor countries and threaten Americans' own future. The Ebola crisis in West Africa—exacerbated by weak health systems and the lack of a timely global response mechanism—was a frightening reminder of the risks of global pandemics. Gender discrimination, corruption, lack of opportunity, and repressive governments in many parts of the developing world are an affront to universal values. America is often the only actor capable of marshaling the resources, political capital, and technical know-how required to address these tough issues.

In addition to security threats, the US economy and the American workforce are more reliant than ever on developing-country markets. US exports to developing countries have grown by more than 400 percent over the last 20 years. Today, they total more than $600 billion annually and are greater than US exports to China, Europe, and Japan combined (figure 1). Brazil, Colombia, India, Korea, Malaysia, Turkey, and other countries are leading markets for US exports. Three decades ago, these were relatively poor countries that offered limited US export potential. Populous countries like Bangladesh, Ethiopia, and Nigeria have the potential to be the next wave of emerging markets. It makes strategic sense to further advance America's global prosperity agenda, thereby helping to grow middle-class societies that drive democratic change, promote peace with their neighbors, and reliably purchase US products and services.

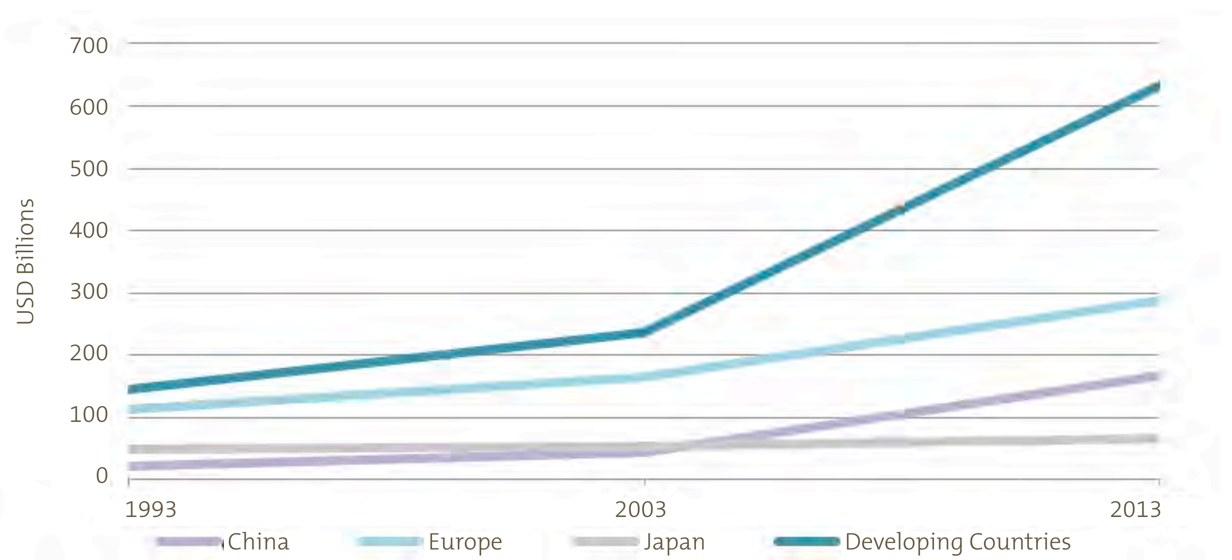
While the list of challenges is long, US global leadership has contributed to tremendous progress throughout much of the world. Over the last 25 years, health and education outcomes have improved at a pace previously unknown in human history. Life expectancy has increased by nearly a decade in poor countries. Child mortality has nearly halved. Girls in poor countries are almost two times more likely to complete secondary schooling. Seemingly intractable conflicts in Africa and other regions have been contained. Democratic freedoms are demonstrably higher than during the Cold War era. US engagement and leadership has played a critical role in helping to achieve these remarkable gains in human well-being and in greater long-term security for people around the world, as well as for Americans.

US Development Policies Must Reflect Rapidly Changing Global Dynamics

At the same time, the world has changed significantly over the last few decades and US development strategy and programs have been slow to respond.[1] The world has become much more multipolar. China and emerging regional powers—such as Brazil, India, and Turkey—continue expanding engagement and influence with poorer and smaller countries. This heightened engagement provides developing countries with more options for strategic partners, commercial relationships, and financing for major public investments.

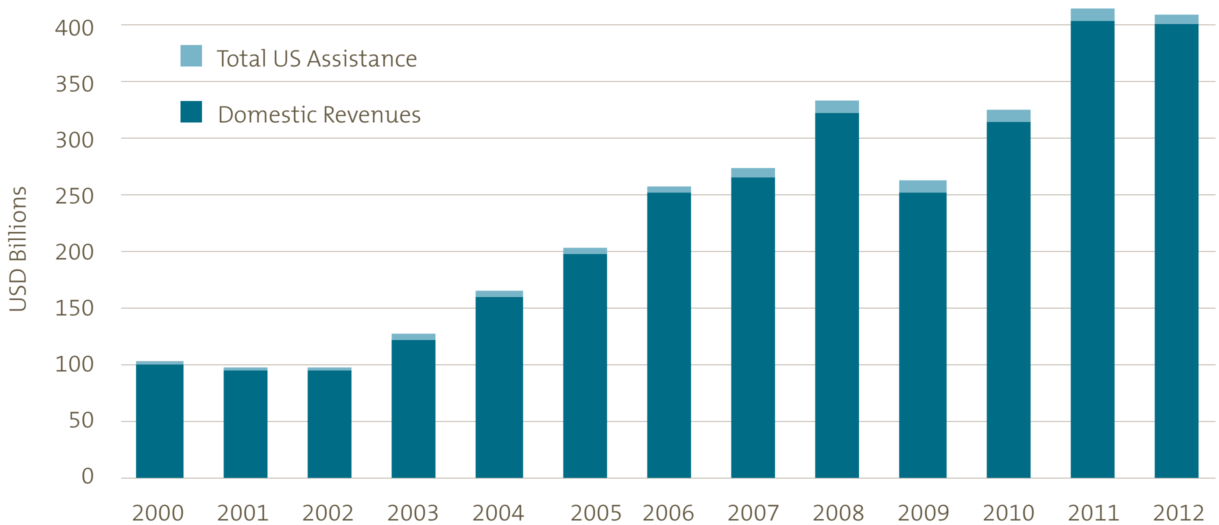
For instance, China will provide most of the capital for the new $100 billion Asian Infrastructure Investment Bank (AIIB). The AIIB will be the first global financial institution in which the United States lacks any formal involvement. Its creation was partly driven by emerging markets' frustration with America's blockage

Figure 1 US Exports to Select Countries, 1993–2013



Source: Afrobarometer, Latinbarometer, and authors' calculations

Figure 2 Domestic Revenues Now Dwarf Total US Aid to Sub-Saharan Africa



Sources: International Monetary Fund; Organisation for Economic Co-operation and Development's Development Assistance Committee (OECD-DAC).

Note: In this instance, aid is defined as official development assistance and other official flows as reported to the Organisation for Economic Co-operation and Development's Development Assistance Committee. World Bank aid figures include both concessional and nonconcessional commitments by the International Development Association and the International Bank for Reconstruction and Development.

of reforms to the existing multilateral financial system. Congress has repeatedly failed to approve an International Monetary Fund reform package and has resisted further reforms of the World Bank's and regional development banks' cumbersome processes and governance structures. With more than 50 other founding countries (including major US allies despite White House resistance), the AIIB's existence is a sign of changing times. It also could have dramatic implications for the US-led global financial and trading system that was developed after the Second World War. Indeed, the majority of people in the Middle East, Latin America, and Europe now believe that China will surpass the United States as the world's superpower.[2] In addition, more than half of Americans believe that US global power and influence is less than it was a decade ago.[3]

Within this changing landscape, aid continues to be the US development policy tool that receives the most attention. Yet foreign aid money is now only one of many tools for fostering development. By illustration, whereas US aid disbursements totaled $31 billion in 2012, remittances from America to developing countries were four times larger ($123 billion).[4] Moreover, in all but the poorest developing countries, government revenues far exceed foreign aid, as do remittances and foreign direct investment. By illustration, revenues have increased sixfold in developing countries since 2000, including a fourfold expansion in Sub-Saharan Africa (see figure 2).

These changes in the mix of development resources have major implications for the future role of aid. Instead of directly financing the delivery of social services, aid should increasingly focus on catalyzing and testing new ideas, crowding in local and foreign investment, and promoting and supporting underfunded global public goods (e.g., energy, agricultural, and health technologies), which no single country has the incentive to finance alone.[5] In short, global financial and political changes call for continuous adaptation and reforms in US foreign assistance programs, along with America's role within traditional US-backed multilateral institutions.

At the same time, some poor countries—like Liberia and Afghanistan—will continue to rely upon foreign aid flows to address pressing needs, such as social services delivery, physical infrastructure, and job creation. Others will look to the United States for emergency relief and humanitarian services—as in post-earthquake Nepal and in the Syrian refugee camps. The next presidential administration will need to thoughtfully adjust the deployment of US aid, and of other development tools as well, to reflect these changing needs and dynamics.

Imperative for an Ambitious Global Prosperity and Security Strategy

These challenges *and* opportunities create an imperative for the next US president to advance an ambitious American strategy for promoting shared global prosperity and security. He or she will be building on a set of programs, policies, and reforms—particularly with respect to aid approaches initiated by the Bush and Obama administrations over the last 16 years. President Bush created the Millennium Challenge Corporation (MCC) and the President's Emergency Plan for AIDS Relief (PEPFAR). President Obama launched new initiatives such as Power Africa and Feed the Future, which aim to leverage private investment with aid-based technical assistance and policy reforms in recipient countries.

The next president therefore has a sound basis for building a more ambitious strategy that employs more tools and extends beyond the traditional focus on grant-based aid. Of course, the next administration may well encounter a skeptical American public and a hesitant Congress when it comes to a broader and deeper development strategy. Most Americans think first and foremost about kitchen table issues, and conflate development with "foreign aid." Sizable pluralities consistently state that the United States should mind its own business internationally.[6] Very few Americans understand the Overseas Private Investment Corporation (OPIC), or the relevance of multilateral trade relations to opportunities for poor workers in Africa and Bangladesh, or the dynamics of the US economy that make more open immigration policies a win for both the United States and developing-world emigrants. On the other hand, young Americans in particular have a growing sense of connection with the broader world and appreciation that their well-being and security are directly tied to it. For instance, more than two-thirds of Americans believe that greater US involvement in the global economy opens up new markets and growth opportunities.[7]

The White House and the World—Practical Proposals for a Global Prosperity Agenda

Against this backdrop, we summarize a series of practical proposals for the next US president's global development agenda. These are based on separate and detailed policy papers, each of which is supported by analysis and research produced at the Center for Global Development and other research institutions.[8] These ideas are selective in scope and are not meant to be exhaustive. During the next presidential administration, there are bound to be new ideas and proposals as the world changes further and the United States adapts its diplomatic, security, and development program tools. However, as a group, the proposals reflect a broad range of targeted, practical actions for initiating and adjusting policies that matter for developing countries and for America's own long-run prosperity and security.

The policy proposals fall into three general categories:

1. Harnessing US business and trade advantages

2. Leading on global and regional development challenges that transcend borders

3. Ensuring US development institutions stay fit for purpose, and reinvigorating the US role in multilateral institutions

A focus on global development will require political leadership, not billions of dollars of additional US taxpayer resources. Most of the proposals focus on *policies*, not *programs* that require budgets. Several actually would reduce budget outlays while improving outcomes through modest reforms of existing programs and initiatives. We believe that each agenda item can secure broad, bipartisan support from the US Congress, the general public, and the business community.

1. Beyond Aid: Harnessing US Business and Trade Advantages

America's greatest strengths—its $17 trillion economy, innovative businesses, risk capital, and world-class research institutions—provide an unparalleled foundation for promoting global development objectives. The United States remains among the most innovative economies in the world, whether measured in terms of research and development (R&D) spending, new patents, or other metrics. It has a successful entrepreneurial culture that bridges both private and public priorities. The United States also has the deepest and most liquid financial markets in the world. How might the next US president harness these assets to raise living standards in the developing world while advancing US strategic interests? We outline four specific proposals:

Establish a US development finance corporation to encourage private investment in developing countries.

Existing US development finance programs, the largest of which is OPIC, cannot fully exploit growing demand for foreign direct investment in developing-country markets. Fragmented US government programs and tools also often place US investors at a disadvantage compared with their European, Chinese, and other emerging-market peers that benefit from new or reformed investment promotion agencies. To address this, the US government should update OPIC's authorities, allocate sufficient staff resources, and consolidate and reform investment promotion tools that are spread across numerous US government agencies. Among our specific recommendations:

- Establish a full-service, self-sustaining US Development Finance Corporation that delivers development results, advances US foreign and commercial policy objectives, consolidates OPIC and other smaller related programs and facilities, and reduces the federal deficit through modest operating profits.

Manage immigration to help reduce poverty in the developing world.

Migration is one of the most potent development tools in the US government's policy toolkit. The evidence is incontrovertible: immigrants to the United States escape poverty at home and help their families and their countries with remittances (that now far exceed foreign aid in many low-income countries) and investments; immigration is good for the US economy as well. Contentious political debate over the appropriate amount of immigration need not obscure the opportunities for managing immigration to benefit immigrants and their families, the United States, and their home countries. A good example relates to better management of temporary migration. One recommendation is that the next US president:

- Work closely with Congress to negotiate a US-Mexico bilateral labor agreement that would regularize low-skilled labor mobility from Mexico to the United States, for the benefit of migrants and of US agricultural and other businesses.

Ensure US trade policies are development friendly.

The free flow of goods and services in a rules-based global trading system is a core US national interest and has been a key contributor to economic growth in the developing world for decades. For low-income countries in particular, US trade policy could contribute to development objectives more effectively. A key recommendation is that the next president:

- Make US unilateral preference programs meaningful for all of the world's least developed countries and ensure that bilateral and plurilateral agreements to which the United States is a party are fully consistent with today's rules-based, multilateral trading system.

Put US technological leadership to work for development.

The United States, with its combination of leadership in basic science research, incentives for innovative applications, and venture capital, leads the world in the development of new technologies that have spurred growth and improved, indeed saved, lives throughout the world. The next administration can exploit these US assets more fully in the cause of global poverty reduction and development—by investing more at home in the R&D of global public goods such as new agricultural and clean energy technologies that are particularly relevant for developing countries. Another recommendation is:

- Sponsor new "advance market commitments" that would encourage US corporate investment in development-relevant clean energy, drought-resistant agricultural technologies, and new vaccines and drugs.

2. Leading on Global and Regional Development Challenges That Transcend Borders

The United States remains an essential actor for addressing many global and regional challenges, even with the rise of China and other emerging markets. In some cases, the US government is the only actor capable of marshaling the resources and technical know-how required to combat challenges that transcend national borders. This is most obvious in the case of crises; it is the United States that is best able to catalyze a global response and bring along other major powers to shift their prevailing policy stance. Historical examples include helping spawn the Green Revolution that dramatically reduced global hunger; incorporating former Communist bloc countries into the global rules-based marketplace after the fall of the Berlin Wall; and combatting the global AIDS epidemic. Here are our proposals to renew America's tradition of leadership on global and regional issues:

Promote tax, budget, and contract transparency at home and abroad.

Improving global governance and enforcing global rules and norms can help reduce corruption and inequality in developing countries. A necessary if not sufficient step is the sunshine requirement to reduce tax evasion of high-income individuals and corporations through globally agreed-upon rules by making related tax payments transparent. A key recommendation is:

- Join, and enforce at home, the OECD Common Reporting Standard for the international automatic exchange of tax information and help ensure that developing countries have meaningful access to that information.

Use new tools to further advance a women-and-girls development agenda.

Around the world, hundreds of millions of women are denied the right to work, to move, and to hold or manage property. Women are vulnerable to becoming stateless in the 60 countries that do not permit them to acquire, change, or retain nationality in the same way as men. Moreover, domestic violence—overwhelmingly against women—is the most common form of violence in the world. The United States can do more to address these problems, even given the cultural and political limits to change within many countries. One key recommendation is:

- Revise US migration and refugee policies first to clarify that women from countries where the right to free movement or employment is expressly and egregiously limited by law are potentially eligible for asylum and refugee status and, second, to provide a mechanism for stateless persons to obtain residency and eventually citizenship.

Focus on forests to minimize climate change.

The US political landscape may still, in early 2017, be sharply divided over the appropriate response to climate change and climatic volatility, whether at home or abroad. Yet at least one area exists that can command bipartisan support at home and is increasingly a priority in Brazil, Indonesia, and other developing countries whose forests are vulnerable to unsustainable commercial exploitation: *protecting those forests*. The next US president should significantly expand US support for market-based and public transfers to reduce deforestation. A key recommendation is:

- Provide political, financial, and technical support for "pay-for-performance" agreements under which tropical countries in the developing world receive private or public transfers for independently verified reductions in deforestation.

Fight Africa's energy poverty.

In Sub-Saharan Africa, about 600 million people live without access to basic electricity. This energy poverty has far-reaching and deadly consequences, affecting health, education, and economic outcomes. Under President Obama, the United States launched the Power Africa initiative, a multiyear effort to dramatically expand access to affordable and reliable electricity by catalyzing private investment and regulatory reforms. The next US president should build upon this solid foundation. One recommendation is:

- Request a multiyear congressional authorization with clear authorities to expand the Power Africa program and multiyear targets for adequate access using a realistic definition of access in terms of annual kilowatt-hours per person.

Deliver global public goods through multilateral action.

The United States is uniquely positioned to address a growing list of global challenges that pose risks to America and developing countries alike—such as health pandemics, peace and security, climate change, and global financial integrity. This includes providing greater public and private investment at home (as referenced above) and using its influence in the traditional multilateral institutions and programs as well as collaboration with new institutions, such as the AIIB. One recommendation is:

- Collaborate with emerging and advanced member states in the establishment of a new, well-capitalized window at the World Bank to support grant and other financing of underfunded global public goods—from the research, development, and diffusion of new public health, agriculture, and clean energy technologies to weather monitoring, disease surveillance, and public-private partnerships for cross-border infrastructure.

3. Ensuring US Development Institutions Stay Fit for Purpose, and Reinvigorating the US Role in Multilateral Institutions

To complement a reinvigorated approach to multilateralism, the next US president will want to ensure that America's own key development institutions for delivering foreign assistance and encouraging US private investment remain fit for purpose, with the culture and capability to adjust and adapt to changing demands in the next decade. Key US development institutions include OPIC, the US Agency for International Development (USAID), and the MCC. Over the last decade, each has instituted noteworthy internal reforms. However, remaining limitations in their authorities, instruments, and ability to work seamlessly with the two dozen other US agencies with overlapping development responsibilities constrain their impact and the overall effectiveness of US foreign assistance. The next US president should work closely with Congress to tackle these limitations head-on—at no additional direct cost to US taxpayers.

Institute a top-to-bottom USAID review.

Over the last 50 years, USAID has expanded to cover nearly every development challenge, stretching its operations over 125 countries and 36 different program areas. At the same time, the needs and priorities of aid-recipient countries have changed dramatically. Both the Bush and Obama administrations instituted key management, staffing, and program reforms at USAID. The start of a new administration is a good moment for USAID leadership to do a systematic evaluation of the agency's role and programmatic effectiveness, the first in nearly three decades. Our recommendations include:

- Implement a top-to-bottom review by USAID of its sector- and country-based activities based on USAID's comparative advantages compared to other grant aid agencies, alignment with recipient country priorities, and development effectiveness; and commit to implement changes based upon the findings of that review.

Protect and deepen the Millennium Challenge Corporation model.

The MCC is a relatively small agency, spending less than $1 billion annually. Its singular mission—reducing poverty through economic growth—allows it to pursue development objectives in a highly targeted way. Its assistance goes to relatively well-governed countries, whose governments sponsor projects selected based on the basis of adequate economic returns. The MCC has become a recognized leader in transparency and is committed to independently evaluating more of its programs than any other development agency globally. The next administration should:

- Champion the agency's proven model of aid effectiveness in well-governed developing countries and work with Congress to apply its aid-effectiveness principles to other US development agencies, such as increasing the proportion of flexible funding that is not subject to congressional directives or administration initiatives.

Upgrade further US leadership on AIDS and related diseases.

Through PEPFAR and the Global Fund to Fight AIDS, Tuberculosis and Malaria, US efforts to combat AIDS globally have achieved historic progress over the last decade. However, achieving an AIDS-free generation will require greater in-country ownership with increased attention on HIV prevention. Absent this, the burden of HIV/AIDS in hard-hit, low-income countries will consume an ever-increasing share of national health spending, perpetuate dependency on foreign donors, and still leave untreated people living with AIDS, thereby indefinitely postponing the achievement of an AIDS-free generation. One among several recommendations is:

- Measure what matters—new infections and AIDS-related mortality—to achieve maximum value for spending through better targeting and alignment of financial support with countries' own financial commitments and progress on prevention and treatment.

Organize more impressive US global health efforts.

The United States has become the world's de facto first and biggest responder for tackling chronic global health challenges and crises, such as HIV/AIDS, malaria, and Ebola. Although the United States has the right combination of technical know-how, resources, and political support to lead others on global health challenges, US programs are stovepiped by disease, based on outdated models of engagement with recipient countries, and have sometimes suffered because of multiple and fragmented federal agency involvement in the face of crises. Among several proposals to take full advantage of US leadership and taxpayer money in global health is that the next president should:

- Appoint a White House global health coordinator with the mandate, budget alignment, and political support to enforce interagency collaboration.

Take the lead on outcome-based aid models.

US foreign aid has come under fire for failing to achieve measurable results while discouraging local initiative and innovation in getting results. A shift within US aid agencies away from input-driven models (e.g., training teachers and agricultural extension workers) toward financing verified outcomes (e.g., children's gains in learning or increased agricultural income) would both give ownership and responsibility for progress to recipient countries and clarify for US taxpayers the link between funding and real progress on the ground. One proposal is:

- Establish a development impact fund at USAID and at the MCC to pilot outcome-based aid models with at least 10 percent of existing development agency programmatic budgets.

Revisit the US approach to foreign assistance in the Middle East and North Africa.

US strategic interests in the Middle East and North Africa are enormous and enduring. The United States has provided, and continues to provide, tremendous amounts of foreign assistance to the region. However, to secure our near- and long-term interests, US assistance strategies must respond to the tectonic changes confronting the region along with unmet popular demands for greater economic opportunity, impartial governments, and institutions that serve the needs of the people. Together with incorporating a stronger focus on reform, results, and responsiveness across all assistance programs, the next president should:

- Establish a $1 billion Middle East and North Africa incentive fund focused on economic opportunity for ordinary citizens through financial backing of country-led regulatory, competition, and other reforms and on commitment by countries' governments to transparency and citizen engagement.

Leverage better US engagement in multilateral institutions and agencies.

US leadership in multilateral development institutions—such as the World Bank and regional development banks—is flagging, and US support for UN and other multilateral programs—from the World Health Organization to the new Green Climate Fund—is heavily constrained by the very small multilateral share of the foreign assistance budget. The development banks are rated as some of the most effective actors globally and provide clear US advantages in terms of geostrategic interests, cost-effectiveness, and results on the ground. UN and other agencies and programs such as the new Green Climate Fund can benefit from US support that is substantial enough to ensure influence, as in the case of the Global Fund to Fight AIDS, Tuberculosis and Malaria (as referenced above). The next president can reverse America's declining role in multilateral development programs of all types. One proposal is:

- Increase the multilateral share of the foreign assistance budget and institute a coherent interagency decision-making mechanism on multilateral funding levels; and reallocate scarce budgetary resources to more effective institutions on the basis of periodic multilateral aid reviews.

Conclusion

The next US president will inherit the responsibility to protect the American people and promote their prosperity. Global development policies necessarily will play a significant role in his or her ability to meet that charge. To do so, US development policy must go beyond the traditional focus on grant-based foreign aid—in a changing and increasingly multipolar world. The United States has notable strengths on which to call: its entrepreneurial and technological dominance, its relatively open trade and investment policies, and its nonpartisan business and civil society advocates for more transparent and development-friendly tax and climate policies. In this *White House and the World* series, we present more than a dozen concrete policy proposals that would more effectively exploit these US assets—at little additional cost to US taxpayers. Each of them can make a difference. Together, as part of a broader strategic vision of prosperity abroad as a foreign policy priority, they can deliver a more secure future both for Americans and for the world's most vulnerable people.

Notes

[1] The lack of any single agency outside the White House having an overall "development policy and strategy" mandate is a fundamental challenge. For additional information, see Sheila Herrling and Steve Radelet, "U.S. Foreign Assistance for the Twenty-first Century," CGD Policy Brief (Washington: Center for Global Development, 2008) and Nancy Birdsall, "Why Global Development Matters and What the Next U.S. President Should Do About It," CGD Policy Brief (Washington: Center for Global Development, 2008).

[2] Pew Research Center, Spring 2014 Global Attitudes survey. For additional details, see www.pewglobal.org/2014/07/14/chapter-3-balance-of-power-u-s-vs-china/.

[3] Pew Research Center, "As New Dangers Loom, More Think the U.S. Does 'Too Little' to Solve World Problems," August 28, 2014, www.people-press.org/2014/08/28/as-new-dangers-loom-more-think-the-u-s-does-too-little-to-solve-world-problems/.

[4] Pew Research Center, "Remittance Flows Worldwide in 2012," February 20, 2014, www.pewsocialtrends.org/2014/02/20/remittance-map/.

[5] The Global Development Council, an external advisory body to the Obama White House, has recommended a series of reforms and initiatives—both incremental and systemic in nature—that would advance US efforts in each of these areas. For additional information, see "Beyond Business As Usual," President's Global Development Council Report, April 14, 2014, www.usaid.gov/sites/default/files/gdc_memo_for_the_president_final.pdf, and "Modernizing Development," President's Global Development Council Report, May 15, 2015, www.usaid.gov/sites/default/files/documents/1872/GlobalDevelopmentCouncilReportModernizingDevelopment.pdf.

[6] Pew Research Center, "Public Sees U.S. Power Declining as Support for Global Engagement Slips," December 3, 2013, http://www.people-press.org/2013/12/03/public-sees-u-s-power-declining-as-support-for-global-engagement-slips/.

[7] Ibid.

[8] These policy papers contain citations to the relevant literature and source materials that underpin each of the practical ideas.

[9] Advance Market Commitment Working Group, *Making Markets for Vaccines: Ideas to Action* (Washington: Center for Global Development, 2005).

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Bringing US Development Finance into the 21st Century

Ben Leo and Todd Moss

Introduction

The future of development policy is in development finance. Developing countries need aid less and less as their incomes rise and economies grow. What they need now is private investment and finance. US development policy, however, has failed to bring its development finance tools in line with this reality. Related US efforts have not been deployed in an efficient or strategic manner because authorities are outdated, staff resources are insufficient, and tools are dispersed across multiple agencies.

Other players are doing more. Well-established European development finance institutions (DFIs) are providing integrated services for businesses, and these services cover debt and equity financing, risk mitigation, and technical assistance. Moreover, emerging-market actors—including China, India, Brazil, and Malaysia—have dramatically increased financing activities in developing regions such as Latin America and Sub-Saharan Africa.

As the needs of developing countries have changed, so has the political and economic environment in the United States. First, traditional development dynamics are shifting rapidly from a donor-recipient aid relationship to win-win partnerships involving public and private actors. Second, most US aid agencies typically are not positioned to address many pressing development priorities, such as expanding economic opportunities in frontier markets. Third, the US development assistance budget has become increasingly constrained, with growing pressure to cut programs.

Within this context, we assess the need for a modern, full-service US Development Finance Corporation (USDFC) and provide a series of options for how the next US president could structure such an institution consistent with bipartisan congressional support and budgetary realities.

POLICY RECOMMENDATIONS

- Establish a full-service, self-sustaining US Development Finance Corporation (USDFC) that delivers development results, advances US foreign and commercial policy objectives, and reduces the federal deficit through modest operating profits.
- Implement reforms to ensure that the USDFC crowds in private capital and demonstrates clear development impact and market additionality.

For such a USDFC, we propose below potential products, services, and tools; size, scale, and staffing requirements; governance structures and oversight functions; performance metrics; and capital structure models. We conclude with a notional implementation road map that includes the required US executive and legislative actions.

Responding to the New Development Finance Landscape

The strategic imperative for US development finance has increased tremendously. First, citizens in Latin America, Africa, and other regions are most concerned about employment and economic opportunities. According to representative surveys, more than two-thirds of African citizens cite employment, infrastructure (e.g., electricity, roads, water and sanitation), inequality, and economic and financial policies as the most pressing problems facing their nations (see figure 1).[1] In Latin America, roughly 60 percent of survey respondents cite employment, economic, and financial policy issues, as well as crime and security concerns. In contrast, only 20 percent of Africans and Latin Americans are most worried about health, education, food security, or environmental issues—the issues that existing US development policy targets the most.

Second, businesses in emerging and frontier markets are most constrained by inadequate access to capital, unreliable electricity, burdensome tax policies, and unstable political systems. Access to finance and reliable electricity are the most frequently cited issues in almost half of the 81 surveyed developing countries, and these issues negatively impact firms in all developing regions.[2] To illustrate, roughly two-thirds of surveyed Nigerian and Pakistani firms cite unreliable electricity as their biggest constraint, and nearly half of all firms surveyed in Côte d'Ivoire, Indonesia, and Zimbabwe cite access to finance as their biggest challenge.

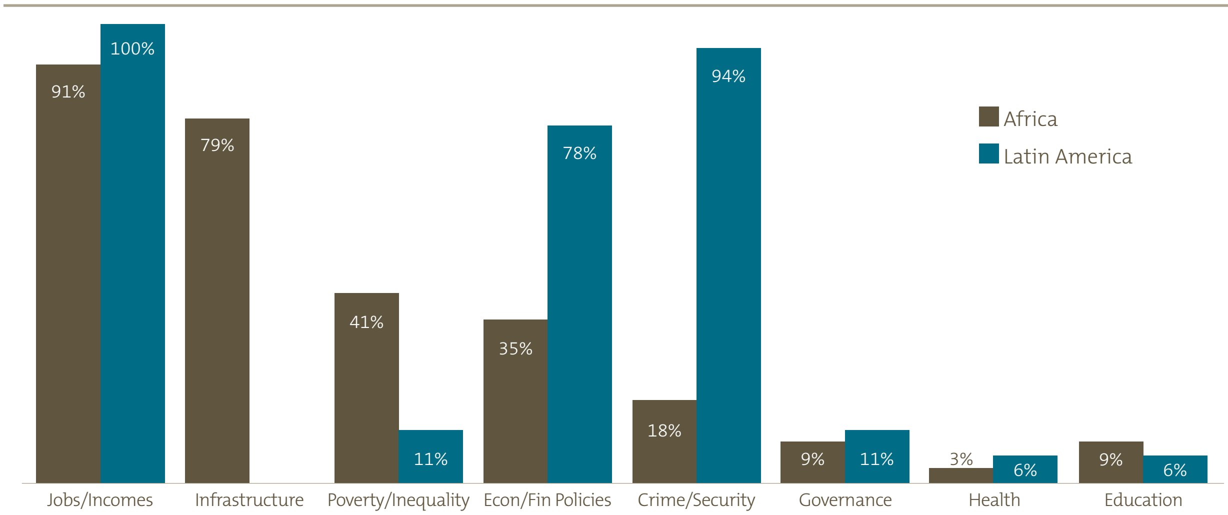
Third, the relative and absolute importance of foreign aid has declined significantly over the past two decades. In 1990, aid exceeded 20 percent of gross national income in 13 developing countries (out of 120 examined countries).[3] That figure had fallen to only four developing countries in 2012 (Afghanistan, Burundi, Liberia, and Malawi), despite a doubling of total global aid during the same period from $59 billion to $133 billion. The exponential increase in government revenues, driven by both economic growth and improved tax administration, has been even more striking (see figure 2).[4]

Fourth, foreign government partners are increasingly focused on attracting private investment, especially in infrastructure and productive sectors. Nearly every national development strategy emphasizes attracting private investment for physical infrastructure (e.g., electricity and transport) and labor-intensive sectors (e.g., agriculture, services, and manufacturing), reflecting the political imperative of establishing more inclusive economic opportunities in the near and medium term for the rapidly expanding working-age populations in many regions.

At the same time, the development finance landscape has changed dramatically with the entry of several emerging-market actors. The China Development Bank and the Export-Import Bank of China were established in 1994. Both now have major financing portfolios throughout the world, particularly in Latin America and Sub-Saharan Africa. China is far from the only emerging-market actor in developing countries. India, Malaysia, Turkey, Brazil, and other countries now have public entities that provide project and trade finance, as well as guarantees.

Finally, many well-established organizations in traditional donor capitals now provide integrated services for businesses that cover financing, risk mitigation, and technical assistance. These organizations

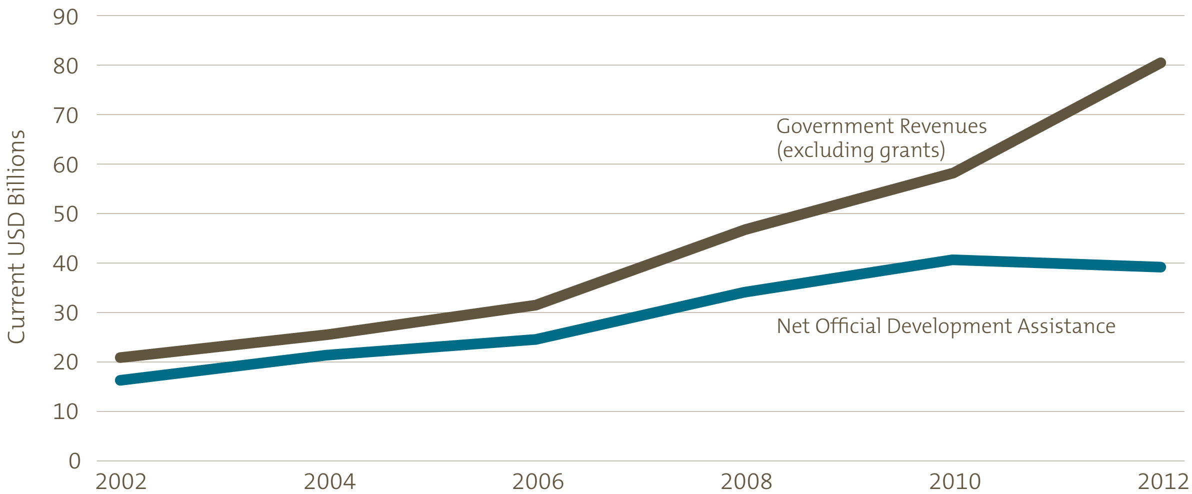
Figure 1 African and Latin American Development Priorities Are in Areas US Development Policy Targets the Least



Note: Figures represent the percentage of surveyed respondents citing the issue as a top three national problem.

Source: Afrobarometer, Latinbarometer, and authors' calculations

Figure 2 Government Revenue Has Outpaced Net Aid Received in Low-Income Countries



Source: World Bank and authors' calculations

include FMO (Netherlands), DEG (Germany), PROPARCO (France), and the International Finance Corporation (IFC, the private-sector arm of the World Bank Group). This model has streamlined available private sector–based development tools under one institutional structure, thereby enhancing efficiency and effectiveness.

Adjusting to US Political and Budgetary Realities

The political and economic environment within the United States has also changed dramatically, particularly over the past five years. First, development dynamics are shifting rapidly from a traditional donor-recipient aid relationship to mutually beneficial partnerships involving public and private actors. An illustration of this trend is the Obama administration's Power Africa initiative, which uses a three-pronged approach involving (1) country government reforms; (2) private-sector investments; and (3) US government cofinancing, risk mitigation, and technical assistance.

Second, most US aid agencies typically are not positioned to address many pressing development priorities, such as expanding economic opportunities in frontier markets. In such places, the focus should be on promoting greater engagement by private investors and businesses, as noted earlier. This focus involves using non-aid agencies like the Overseas Private Investment Corporation (OPIC) and the private-sector windows of the multilateral development banks. The Millennium Challenge Corporation (MCC) is the noteworthy exception to this aid agency dynamic. However, MCC is not scalable because of its grant-based model and its need for congressional appropriations, as well as its ability to work in a limited number of countries.

Third, the US development assistance budget has become increasingly constrained, with growing pressure to cut programs. At the same time, domestic political constituencies have remained strong for many social-sector issues, such as combating infectious diseases (e.g., HIV/AIDS, malaria) and promoting access to education. This suggests that any future budgetary cuts will likely be focused on program areas that lack such vocal constituencies, such as economic development programs outside of frontline states. Collectively, this also means that the next US president will be highly constrained in promoting private sector–based development models through traditional development assistance budgets.

Existing US Private Sector–Based Development Programs

The US government's primary development finance vehicle is OPIC, an independent government agency that mobilizes private capital in emerging and frontier economies to address development challenges and to advance US foreign policy objectives. OPIC provides US investors with debt financing, loan guarantees, political risk insurance, and support for private-equity investment funds. It operates on a self-sustaining basis and has provided positive net transfers to the US Treasury for nearly 40 consecutive years. Since its inception, OPIC has helped mobilize more than $200 billion of US investment through more than 4,000 development-related projects.

With few exceptions, OPIC has not evolved since it was first established in 1971. The most significant exception relates to debt seed capital for private-equity funds, which OPIC began providing in 1987. OPIC remains highly constrained by inadequate staff and outdated authorities. For instance, it must rely on congressional appropriations to cover annual administrative expenses (e.g., salaries, travel, and office space) despite generating significant profits on a consistent basis. This de facto constraint, driven by congressional unwillingness to expand the number of staff, has prevented OPIC from fully leveraging its existing capital base.

Other programs within US agencies that promote private sector–led development approaches are spread across multiple agencies, resulting in redundancies, inefficiencies, and, frequently, a lack of coherence.

- The US Agency for International Development's Development Credit Authority (DCA): USAID's DCA provides partial risk guarantees to unlock private financing in support of US development priorities. In 2013, DCA approved 26 new partial credit guarantees in 19 countries, which may mobilize nearly $500 million in private capital over time.[5]

- USAID Enterprise Funds: Since 1989, Congress has appropriated resources for a range of enterprise funds, which are capitalized either entirely or partially by USAID grants. This program, which has a mixed track record,[6] originally began with a focus on promoting private enterprise in former Eastern Bloc countries. Similar funds have been launched in other countries since then, such as in Egypt and Tunisia.

- US Trade and Development Agency (USTDA): This small, autonomous agency is primarily focused on connecting US businesses to export opportunities in developing countries. However, it also promotes private sector–based development through small-scale financing for feasibility studies and technical assistance programs.

- Economic Growth-Related Grant Operations: The US Government also supports large-scale grant operations through the US State Department and USAID that help address a broad range of private sector-based development issues, such as infrastructure and business climate reforms. For example, USAID has a range of grant-based programs within its Bureau for Economic Growth, Education, and Environment that promote private enterprise in developing countries. These programs focus largely on four key areas: (1) building skills and management capacity, (2) deepening access to finance, (3) supporting business climate reforms, and (4) establishing linkages with US businesses and organizations.[7]

Proposal for a Modern Scaled-Up US Development Finance Corporation

A modern, scaled-up USDFC would promote US policy objectives by harnessing America's three greatest strengths—innovation and technology, entrepreneurship, and a deep capital base—at no additional cost to US taxpayers. It also would make a serious contribution to US foreign policy goals by aligning strongly with developing countries' most pressing priorities (e.g., employment and economic opportunities). Lastly, the proposed USDFC would promote America's commercial policy objectives by facilitating investment and business opportunities in the next wave of emerging markets but is structured to prevent "corporate welfare" by requiring market additionality.

Products, Services, and Tools

Almost all major DFIs have become full-service institutions that promote private sector–based development (see table 1). As with other institutions, the USDFC would offer a full suite of products, services, and tools to promote such development approaches. Currently, OPIC can offer direct loans, loan guarantees, risk insurance, and seed financing for independently managed investment funds. A full suite would add advisory services, feasibility studies, direct investments including equity, and technical assistance for business-climate reforms, which other US agencies such as USAID, the State Department, and USTDA have the authority to support. The USDFC would include these

Table 1 Development Finance Institutions, Product and Service Coverage (2013)

Institution	Equity Authority	Technical Assistance	Grants Window	First-Loss Funding	Equity (Percentage of Revenues)
OPIC (US)	No	No	No	No	0
FMO (Netherlands)	Yes	Yes	Yes	Yes	17
PROPARCO (France)	Yes	Yes	Yes	Yes	9
CDC Group (UK)	Yes	No	No	Yes, for some impact funds	95
DEG (Germany)	Yes	Yes, including via BMZ	Yes, feasibility studies	Yes	28
IFC (World Bank)	Yes	Yes	Yes	Yes	36

Source: DFI annual reports

authorities and programs within a single, efficient, market-based institution. This change would require congressional authorization.

The USDFC also should have the authority to support non-US investors in certain circumstances. OPIC currently can only support firms or investors with significant American ownership or operational control. No other major DFI ties their financial engagement to national firms. This flexibility enables other DFIs to promote economic growth and job creation through local businesses in developing countries. This restriction has prevented OPIC from supporting strategic objectives where US investors are not active or prospective participants in a given country's market or sector. The expanded authority could allow any investor to compete for OPIC support, with the notable exception of state-owned enterprises. Alternatively, a more modest adjustment could be limited to low-income countries and local firms domiciled in the respective developing country. In this instance, firms from developed or middle-income countries, along with their respective subsidiaries, could remain ineligible for USDFC operations unless there were highly compelling benefits to US development or other foreign policy objectives.

Size, Scale, and Staffing

The USDFC's size and scale should be determined by the combination of market demand, the ability to demonstrate clear "additionality" (see further details below), and the maintenance of rigorous credit-quality standards and oversight. In addition, it must demonstrate tangible development results throughout its portfolio. As a result, *there should not be an ex ante target size*. Instead, the USDFC should have the ability to access significant sources of capital to respond to market dynamics and US development objectives, with appropriate oversight by the US Congress and the Office of Management and Budget. Currently, OPIC has legislative authority to support a $29 billion portfolio of loans, guarantees, and insurance.[8] As of 2015, roughly $9 billion of this capacity was un-deployed because of insufficient staff and constrained authorities.

Existing bilateral DFIs provide a rough benchmark when considering the USDFC's potential scale. Their portfolios range from 0.15 percent of gross domestic product (GDP) in the United Kingdom to more than 1 percent in the Netherlands. If these same simplistic ratios were applied to the United States, the USDFC could have a total portfolio ranging between OPIC's current statutory authority of $29 billion and $180 billion.

The USDFC's staffing size and administrative expenses also should reflect its operational requirements and objectives. Currently, OPIC has nearly 230 employees and an operating budget of $67 million.[10] The average OPIC employee is responsible for approximately $8 million in portfolio exposure. If OPIC's existing portfolio-to-employee ratio remained constant, then the USDFC could require between 370 and 2,200 employees, depending on its portfolio size. This increase would entail an annual operating budget of between $110 million and $665 million, which would be self-financed through the partial retention of USDFC profits (see figure 3).[11] By comparison, the current staffing size of peer DFIs is as follows: 4,000 in the World Bank's IFC, 499 in Germany's DEG, 336 in the Netherlands' FMO, 177 in France's PROPARCO, and 102 in the United Kingdom's CDC.

Governance Structure

The USDFC would be an independent government agency led by a management team appointed by the White House and overseen by a board of directors that includes both government and private-sector representatives. In this manner, the board would reflect the Corporation's development and foreign policy objectives, as well as serve as a model for promoting private sector–based development. The Corporation also should include an equal number of public-sector representatives from each major political party. This would promote greater strategic continuity and help minimize short-term political pressures. Moreover, the board's composition should seek to ensure coverage of several core competencies, such as international development, risk management, human resources and legal matters, global financial institutions, and specific priority sectors (e.g., power and transportation).

Requiring Transparency and Stoplight Screens for Market and Development Additionality

The USDFC should establish a performance measurement system that is modeled on global best practices, with a strong emphasis on transparency.[11] OPIC currently uses a Development Impact Matrix to evaluate and monitor both prospective and approved investment projects; however, the information is not reported publicly. The USDFC's performance measurement system should expand upon OPIC's existing approach by measuring, considering, and reporting on the "additionality" of its operations. This would require both ensuring that the institution is prioritizing development impact and does not compete with private sources of investment capital, while maintaining appropriate financial performance within its portfolio. We suggest a "Stoplight Screen" to monitor prospective projects' (1) development impact and (2) market additionality, requiring increasing levels of board scrutiny from green to yellow to red.[12] Lastly, the USDFC would collect and publicly report on a series of institutional efficiency and performance metrics, such as financial performance, operating budget ratios, and average investment transaction review time.[13]

Across its operations, the USDFC should have a presumption of public disclosure and have a high bar for withholding information in deference to commercial confidentiality concerns. At a minimum, this would include all project description summaries and Development Impact Matrix scores (at the time of project approval). Moreover, the Corporation should publish project-level development performance data on an annual basis.

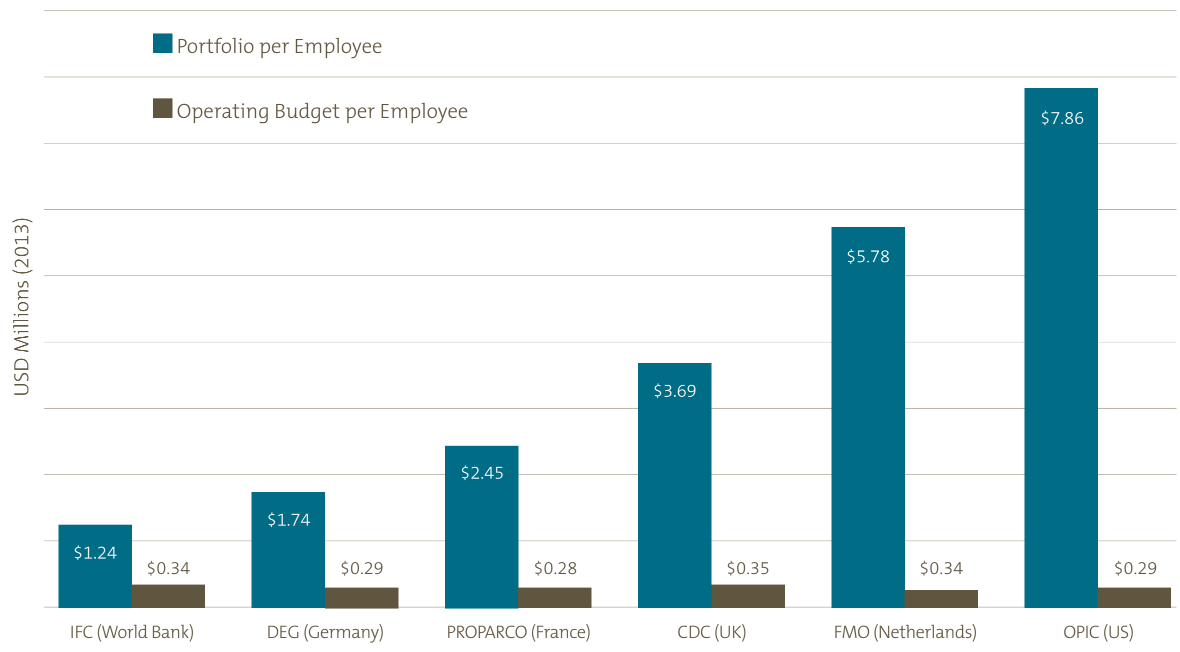
Capital Structure

The USDFC's capital structure should reflect its desired scale, comparative advantage, and role within the US government's development and foreign policy toolkit. In particular, the structure should only represent the Corporation's potential maximum portfolio size. The actual size, as measured by total contingent liabilities, must reflect the institution's ability to support individual transactions with strong development impact, prudently manage financial risks, and consistently demonstrate strong "additionality" vis-à-vis private-sector alternatives.

- Status Quo Structure: Under this option, the USDFC would rely upon OPIC's existing maximum contingent liability limit of $29 billion.[14] This limit has not been changed since 1998, when it was increased from $23 billion. Future adjustments to the USDFC's contingent liability limit would be considered on an ad hoc basis. Advisory services and technical assistance activities would be financed out of retained earnings at no additional cost to taxpayers.

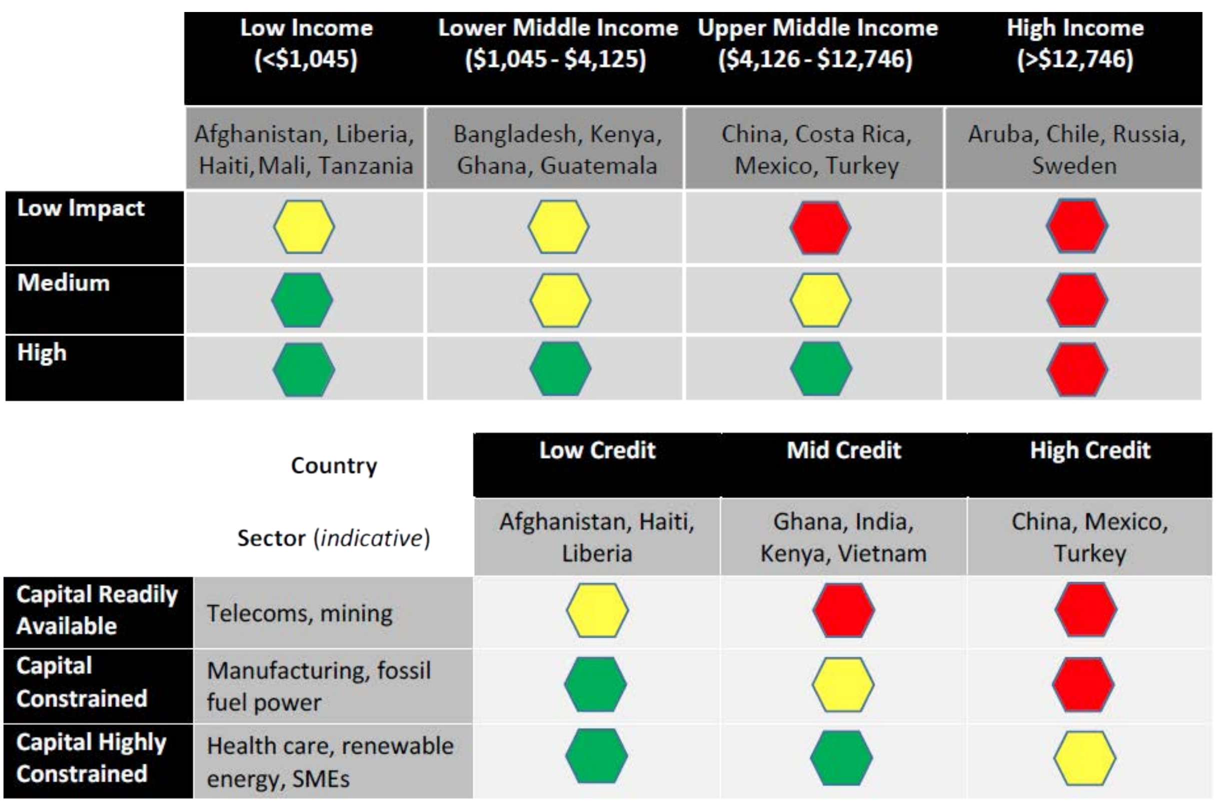
- Revised OPIC Contingent Liability Limit: Under this option, the USDFC would rely upon an updated version of OPIC's existing contingent liability. This limit would be adjusted upward to roughly $42 billion, thereby converting the current exposure limit from 1998 dollars to 2014 dollars.[15] Going forward, the maximum contingent liability limit would be inflation adjusted, which would prevent the erosion of the USDFC's potential portfolio size in real terms. It would likely be many years, if ever, before that limit is approached. However, setting this limit would provide the USDFC with adequate flexibility to execute scaled private sector–based development approaches, while simultaneously ensuring proper portfolio risk management and oversight.

Figure 3 OPIC Outperforms Other DFIs on Portfolio Size and Operating Budget Per Employee



Source: DFI annual reports and authors' calculations

Figure 4 OPIC Stoplight Screens



Policy Recommendations and Implementation Road Map

The implementation road map for the proposed USDFC will require actions by the US executive and legislative branches. These actions include the following:

1 The next US president should put forward a proposal to establish a consolidated US Development Finance Corporation, along with template legislation.

This should take place within the first 100 days in office. Such action would instill an appropriate level of political commitment and help build momentum within Congress. This proposal would be further fleshed out and amended as appropriate in close partnership with Congress.

2 The US Congress should pass legislation that will establish a USDFC to function as the premier development agency focused on private sector–based approaches.

At a minimum, the legislation should address the following components: products, services, and tools; size, scale, and staffing requirements; governance structures and oversight functions; performance metrics which include stringent additionality and development impact requirements; and capital structure models.

Further Reading

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US National Advisory Board on Impact Investing. Private Capital, Public Good: How Smart Federal Policy Can Galvanize Impact Investing—and Why It's Urgent. Washington: US National Advisory Board on Impact Investing, 2014.

Ben Leo and Todd Moss. "Bringing US Development Finance into the 21st Century: Proposal for a Self-Sustaining, Full-Service USDFC." Washington: Center for Global Development, 2015.

Notes

[1] Benjamin Leo, "Is Anyone Listening? Does US Foreign Assistance Target People's Most Pressing Priorities?" CGD Working Paper 348, Center for Global Development, Washington, 2013.

[2] These figures cover 81 low- and lower middle-income countries with recent completed World Bank enterprise surveys. For details, see the enterprise surveys at www.enterprisesurveys.org/data.

[3] World Bank, World Development Indicators data set, 2014, http://data.worldbank.org/data-catalog/world-development-indicators.

[4] Excluding the BRICS (Brazil, Russia, India, China, and South Africa), government revenues quadrupled from roughly $600 billion in 2000 to $2.6 trillion in 2012. This trend has been equally as striking in low-income countries, which experienced a fourfold increase in government revenues between 2002 and 2012. Source: World Bank, World Development Indicators, 2014.

[5] For additional details, see USAID, "USAID Development Credit Authority Activity in 2013," www.usaid.gov/sites/default/files/documents/2155/2013_Deals_Public_SummaryFinal.pdf.

[6] Government Accountability Office, Enterprise Funds' Contributions to Private Sector Development Vary, GAO/ails, see MCC, "About MCC," www.mcc.gov/pages/about.

[7] For additional details, see USAID, "Supporting Private Enterprise," www.usaid.gov/what-we-do/economic-growth-and-trade/supporting-private-enterprise.

[8] This authority is detailed in Section 235(1)(a) of the Foreign Assistance Act.

[9] This figure includes salaries, benefits, travel, contractual services, and other general administrative expenses. Source: OPIC, Annual Report 2013 (Washington: OPIC, 2013).

[10] These administrative budget estimates assume that OPIC's current cost structure would remain unchanged. This is likely a conservative assumption given the potential for greater efficiencies due to economies of scale.

[11] Reporting practices include performance metrics and requirements that are regularly and prominently included in organizations' annual reports or development impact reports.

[12] This would include the time required for each stage of transaction process. This information would be reported at the project and portfolio level.

[13] For additional details, see Ben Leo and Todd Moss. How Does OPIC Balance Risks, Additionality, and Development? Proposals for Greater Transparency and Stoplight Filters. CGD Policy Paper. Washington: Center for Global Development, 2016. http://www.cgdev.org/publication/how-does-opic-balance-risks-additionality-and-development-proposals-greater-transparency.

[14] This limit is outlined in Section 235(a)(1) of the Foreign Assistance Act of 1961. The relevant language was last revised through Section 581(a) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1998 (Public Law 105–118).

[15] This figure is calculated using the US Bureau of Labor Statistics CPI Calculator tool, which is available at http://data.bls.gov/cgi-bin/cpicalc.pl. The adjustment could be based off of alternative methodologies as well, such as the cost of capital.

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Modernizing US Migration Policy for Domestic and Development Gains

Michael Clemens and Nabil Hashmi

Introduction

US development policy was built for a world that no longer exists. When the US Agency for International Development (USAID) was created in 1961, foreign aid was by far the most important flow of resources to developing countries. Today, aid is a relative sideshow. International migrants send roughly four times more money home to developing countries (close to $500 billion per year) than all donors disburse in global aid (roughly $130 billion per year). Remittances sent from the United States to Latin America and the Caribbean ($32 billion per year) are more than five times the combined US economic and military assistance to the same countries (less than $6 billion per year). Individuals earn much more in the United States than in their home countries, and they develop valuable skills through migration, often transmitting useful ideas and technologies back to their home countries.

POLICY RECOMMENDATIONS

- **Negotiate a US-Mexico bilateral labor agreement to manage low-skill migration.**
- **Appoint a US government lead for advancing labor mobility as a development tool.**
- **Launch a Global Skills Partnership pilot that addresses US skill shortages and expands trained workforces in developing countries.**

But US policies and institutions have not kept up with these trends. The US government employs thousands of people to shape foreign aid policy for development. Yet, it employs almost no one to shape migration policy for development. In other words, everyone's guiding the sailboat, but the supertanker is adrift.

This large imbalance offers a major opportunity to the next US president, who can leave an important legacy by rebuilding US development policy for this new century. But to do so requires serious engagement with the economic forces that now affect global development much more than foreign aid. And that means creating new policies and institutions in which migration and development intersect.

This discussion is not a call to replace aid. Instead, it is a call to complement US assistance and foreign policy efforts with new policies that will shape the terms on which migration happens and advance US development policy goals in a cost-effective and politically sensible way. Among all of the development policy options the US government has, shaping international migration can produce the biggest development impact for the least fiscal cost.

Unlike foreign aid, foreign workers do not reduce the availability of taxpayer resources in net terms. Instead, they create new revenue through tax payments. The Organisation for Economic Co-operation and Development (OECD) estimates that US immigrant households—including ones composed of irregular migrants—pay more than $8,000 per year more in taxes and social security contributions than they receive in social transfers.[1] Indirectly, immigrant workers create additional tax revenue by fueling the economy. Not only do they make US capital more productive, but they also typically raise the earnings of average US workers, since immigrants and natives often specialize in different, complementary tasks.[2]

While migration generates benefits for the US economy, immigrants also benefit on a massive scale by moving to the United States. They earn more, they send money back to their home countries, and they develop skills that can be transferred to their home countries.

Migration should therefore be a part of any sensible economic policy and a key part of any development agenda. The United States needs to play a more proactive role in the nexus between migration and development. Ignoring migration simply is not an option even though it is a controversial political issue at home. As it has for more than two centuries, the United States will remain an attractive destination for people around the world, especially those from developing countries. US policymakers can take steps on a number of fronts to simultaneously make the US economy stronger and make US development policy more effective. What follows is an outline of a few of the best options for modernizing US migration policy.

First, the United States needs to take a more sensible approach to Mexican migration. Unauthorized immigration is an issue that can only be resolved if both the United States and Mexico acknowledge that migration between the two countries is going to happen, no matter how much America spends on enforcement. US and Mexican policymakers should create a bilateral agreement to lawfully manage the low-skill labor flows that inevitably arise from the needs of the US economy and the two countries' shared geographic destiny.

Second, the US government needs an agency, with dedicated human resources, to craft a modern and effective migration and development policy. Other developed-country governments, such as Australia and Germany, have created bureaus dedicated to formulating and implementing these win-win policies. But the US government has no lead agency, bureau, office, or staff with the primary responsibility of shaping migration flows for development impact.

Finally, US migration policy should be used as a tool for human capital creation. The US economy faces shortages of skilled workers in a number of fields. These shortages hold back American businesses, harm American consumers, and do not pose aggregate risks for out-of-work Americans. Many developing countries also have skill shortages, often more dire than our own. US policymakers need to think creatively about interventions that can generate human capital to meet the needs of our economy, as well as those of much poorer economies around the world.

The Case for Modernizing US Migration Policy

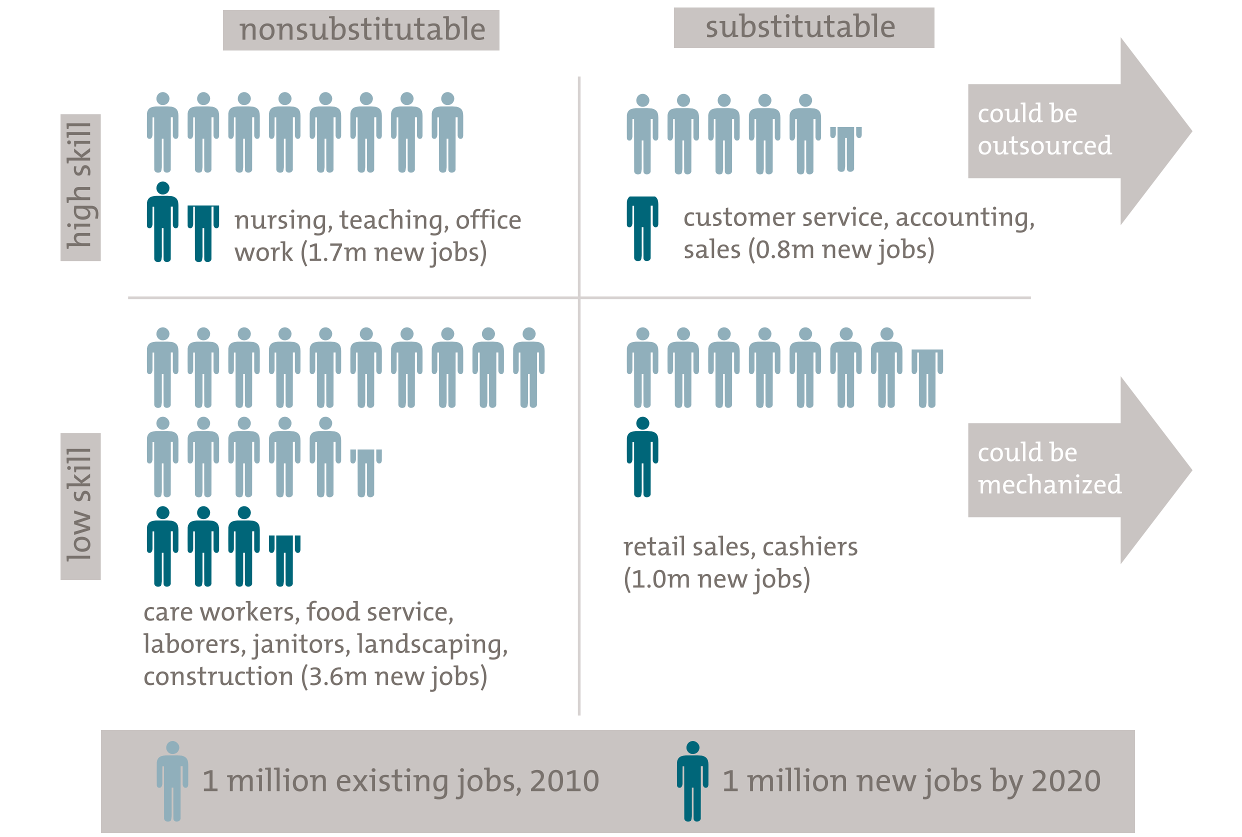
A case in point on the need for modernizing US migration policy is the US-Mexico relationship. Mexican development and stability directly benefit the United States. Mexico is the second-largest buyer of US exports and the largest supplier of labor to the US economy. But US development cooperation with Mexico is focused mostly on aid money for security programs. In 2012, the United States disbursed $212 million in official development assistance to Mexico, while US remittances to Mexico were more than 10 times greater.[3] There is almost no bilateral cooperation to shape regional labor mobility in ways that benefit regional development.

Forces on both sides of the border encourage immigration. The difference in per capita gross domestic product between the United States and Mexico is the largest at any land border on earth. The United States demands large quantities of low-skill labor, and this demand will not subside anytime soon. Most of the US jobs that will be created between now and 2020 will be in low-skill work that cannot be offshored or mechanized,[1] such as care and custodial work that the country does not have enough willing and available American workers to fill (see figure 1).

Furthermore, extensive economic evidence demonstrates that immigrants increase the productivity of not only their labor but also the labor of the Americans they work with.[5] The availability of low-skill labor enables American workers to spend less time doing low-productivity work and more time doing skill-intensive work. For example, a highly educated woman might be unable to join the labor force because she has to spend time at home doing domestic work and child care. If she could hire a low-skill worker to do the same work, she could then join the labor force and produce at a much higher level. Low-skill labor allows Americans to specialize more—and therefore produce more.

Mexican workers often have much better job prospects on the US side of the border. Mexican farmworkers make about $10 per day in Mexico. In the United States, the same people on temporary farmwork visas earn about that much per *hour*. Workers often send much of that income to their family in the form of remittances. Households in Mexico then have much more income that they can spend on better nutrition, education, and health care.

Figure 1 Most New US Jobs Will Be in Low-Skill Work That Cannot Be Offshored or Mechanized, but Fewer and Fewer Americans Want Those Jobs



Source: Bureau of Labor Statistics, "Occupational Outlook Handbook: Projections Overview," www.bls.gov/ooh/about/projections-overview.htm

Labor agreements to manage low-skill flows can be a three-way win: American firms get the labor they need, American workers are made more productive,[6] and Mexican migrants and their families earn much more money than they could have otherwise. Moreover, previous agreements have dramatically reduced unauthorized immigration. During the peak years of the Bracero program, a US guest-worker arrangement that existed from 1942 until 1964, irregular migration dropped sharply. As soon as the program expired, unauthorized migration dramatically rose and has remained persistently high.[7]

The Need for a US-Mexico Low-Skill Labor Agreement

The existing US immigration system neither adequately manages these forces nor harnesses the development power of low-skill migration. Existing legislation provides few opportunities for authorized low-skill migration from Mexico. The result—huge numbers of unauthorized immigrants—is untenable. Some of the most credible recent research on irregular migration estimates that six million unauthorized Mexican immigrants lived in the United States as of 2012.[8] In addition to the large unauthorized population, many people who would benefit greatly from migrating are denied this opportunity under existing laws. Instead of earning higher wages in the United States, making US workers more productive, and sending money to Mexico to support their families, many prospective migrants must stay in Mexico, remaining unemployed or earning very low wages.

A bilateral labor agreement between the United States and Mexico could help solve these problems. In 2001, US President George W. Bush and Mexican President Vicente Fox began an unprecedented dialogue to establish a bilateral migration regime agreement that strategically and realistically addressed both countries' needs regarding temporary and permanent migration. Following their conversation, the two presidents released a joint statement outlining five principles as the basis for a bilateral agreement:[9]

1. Matching workers with employers
2. Serving the social and economic needs of both countries
3. Respecting the human dignity of all migrants
4. Recognizing the contribution that migrants make to both countries
5. Sharing responsibility for ensuring that migration is safe and legal

Both Democrats and Republicans can find common ground in such principles. An agreement would promote enforcement and reduce unauthorized migration by channeling existing unauthorized flows through legal, regulated modes of immigration. A bilateral agreement could also promote better working conditions and protect migrants' health if it ensured that all temporary migrants have safe living and working quarters. Policymakers on both sides of the aisle would find much to like in an agreement that made it easier for American companies to meet their workforce needs more reliably.

This first round of negotiations took place between February 21 and September 7, 2001. Despite progress in these talks and momentum on both sides, the conversation broke down in the aftermath of the 9/11 attacks. The inevitable consequence was that the millions of Mexican workers who arrived to fuel the US economic boom of 2002–2007 had no legal status. Now, more than a decade later, it is time for the United States and Mexico to return to this important conversation and forge ahead with a bilateral low-skill labor agreement. A bilateral agreement for labor mobility between the United States and Mexico would normalize the migration relationship between the two countries and benefit both economies.

Creating a Dedicated Migration and Development Policy Entity

Another way to leverage migration for development would be to task a US government entity with the responsibility of enhancing the welfare impacts of migration. There currently exists no office, bureau, or agency with the responsibility of creating policy, designing projects, or executing programs related to migration and development. Although some programs do engage with diaspora communities, no initiatives exist that facilitate labor mobility for development.

The US government should support the creation of such an office because it is smart migration policy and smart development policy. As noted previously, migration is among the best options for many people living in the developing world to increase their incomes, but it is ignored as a development tool. Take Haiti as an example: Security and political interests drove US policy toward Haiti for many years in a country where US involvement has stretched back more than 100 years. US Marines occupied Haiti from 1915 to 1934 to protect US assets and solidify US security interests in the Caribbean. During the 1980s and 1990s, political concerns motivated multiple interventions. The United States also played a development role, contributing billions in assistance leading up to the 2010 earthquake.

Since that tragedy, the United States has spent billions of dollars more on disaster recovery, but none of this funding has gone toward fostering labor mobility. Approximately 100,000 people who were born in Haiti and who still live there—about 1 percent of the population—live on more than $10 per day. Eighty-two percent of the Haitian-born people living above this threshold (about 500,000 people) reside in the United States. Although US development funding has not targeted migration, one result is clear: most of the Haitians who have escaped poverty have done so by migrating.[10]

The US government ought to think about migration as a tool for development, as other rich countries have done. For instance, Australia and Germany have dedicated parts of their respective aid apparatuses toward formulating and implementing policies to leverage the power of migration. An official and dedicated migration and development entity (e.g., an agency bureau or office) should focus on regularizing migration, helping migrants develop the skills that the United States needs, and solving problems (such as making it easier and cheaper to send remittances). Evidence suggests that migration can help reform origin-country governing institutions, meaning that a migration agency could support other US foreign policy objectives.[11] This US government entity would not be focused on allowing more immigration overall; instead, its mission would be solely focused on how to maximize the development benefits from official migration flows. There are many options for where such an entity might be housed under existing US laws and mandates, including the following:

- **US Agency for International Development:** Foreign aid professionals in Australia and New Zealand have led the creation of highly successful labor mobility partnerships with their developing neighbors. One evaluation of such a program rated it among "one of the most effective development interventions for which rigorous evaluations are available."[12] USAID has no group designated to work on such partnerships.

- **US State Department Bureau of Population, Refugees, and Migration (PRM):** This bureau coordinates much of US assistance and protection to refugees and internally displaced victims of conflict. A migration and development office could complement the work that PRM and the State Department already indirectly pursue on migration policy.

- **Departments of Labor and Homeland Security:** These two US agencies manage existing temporary worker programs. Their roles could be expanded to accommodate other migration and development policies.

Establishing Global Skill Partnership Agreements

The United States, among other rich countries, faces critical shortages in occupations such as engineering and nursing. Worker shortages in these sectors harm American businesses and consumers alike. Meanwhile, many developing countries face skill shortages in the same sectors.

We propose a concrete, results-focused approach to address both of these shortages simultaneously through a bilateral labor agreement called a Global Skill Partnership. Such an agreement would facilitate training of skilled workers in developing countries, some of whom would eventually migrate to the United States. Those who migrate typically earn much more than those who do not because the economic productivity of the former would be significantly higher than in their country of origin.

While destination-country wages would be higher, origin-country training costs would be much lower. Channeling a modest portion of this dual-arbitrage opportunity could finance training for migrants *and* nonmigrants (see table 1). For example, take two low-income individuals from a developing country who train as registered nurses. One plans to work in his or her home country; the other, in America. Nurse training is too expensive for them to afford, but it is much cheaper than nurse training in the United States. A US hospital group would finance all of the training for the nurse who would migrate and half of the training for the nurse who plans to stay in the host country. In return, the migrant nurse commits to work in the US hospital network for at least four years. With just a small percentage of his or her earnings over that period, the nurse can pay back the entire cost of training, while the training subsidy could cover half the cost of training the other nurse.[13]

In this instance, the United States would gain a qualified, licensed nurse whose net earnings are many times higher than what he or she could have earned in the developing country. The US hospital group employer gains a profitable employee trained to US standards, while the developing country gains an additional nurse with a sizable free scholarship (half of the training costs). As a result, two low-income individuals would gain access to professional careers that are otherwise currently inaccessible. In addition, the developing country expands the capacity and quality of its nurse training facilities, creating benefits that spill over into the rest of the health sector. Finally, there is no cost to either government. Instead, their roles are focused on connecting the US private employer to prospective trainees and ensuring that US licensing standards are upheld. Beyond this, other benefits could arise if the migrant nurse chose to remit some earnings home or to return one day to work in the origin country to provide additional health services to the local population.

Policy Recommendations and Next Steps

The US government should modernize its approach to migration and development despite the broader controversial domestic politics of immigration policies. The next US president should pursue a number of bipartisan actions in order to improve both development outcomes abroad and economic dynamics at home. None of these steps requires a proactive pro-immigration policy. Instead they simply seek to shape the terms on which *existing* migration flows happen—under the rule of law—so that they reduce unauthorized immigration, serve US economic interests, and are more development friendly.

Specifically, the next US president should pursue three actionable approaches that would harness the intersection of migration and development policies in an increasingly mobile world:

Table 1 Global Skill Partnerships Unlock Benefits to US Taxpayers and Employers at No Additional Cost

	Financial Costs	Benefits
Migrating Student	Modest percentage of earnings for a few years after migration to repay training costs	US-quality technical education and massive increase in income
Nonmigrating Student	Half of typical training cost	US-quality technical education, which will likely lead to greater professional opportunities at home
US Employer	None	Profitable employee trained to employer's standards
US Government	None	Increased labor supply in a sector with critical shortages
Partner Government	None	Increased labor supply in a sector with critical shortages; improved training facilities

Source: authors

1 Work with Mexico to create a bilateral labor agreement to manage low-skill migration more effectively.

The US immigration system is not adequately equipped to handle either US employers' demand for low-skill Mexican labor or prospective immigrants' interest in pursuing opportunities in the United States. A practical plan for meeting US labor needs, based on sound economics, is the long-term solution to mass illegal immigration. Economically sound regulation of these labor flows will benefit the United States, which currently loses from mass unauthorized immigration, and would be one of the most powerful single steps the United States could take for development in the region.

2 Appoint a US government agency or bureau to leverage migration for development.

The next US president, working closely with respective congressional committees, should establish a lead entity (either a bureau or office) for migration and development policy at an existing US agency. Countries such as Germany and Australia already have demonstrated strong results through similar efforts, thereby creating some of the most effective development interventions anywhere in the world. Creating such an agency would deliver unparalleled development returns, with only minimal US budgetary outlays.[14]

3 Launch a Global Skill Partnership pilot.

To address US and developing-country skill shortages, the next US president should instruct the US Department of Labor to coordinate a Global Skill Partnership initiative. This program could be pursued within existing budgetary outlays and could use official migration flows to expand much-needed human capital.

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Taking the Lead on Trade and Development

Kimberly Ann Elliott

Introduction

American presidents, beginning with Harry S. Truman, have led the way in creating a rules-based trade system to avoid tit-for-tat trade wars like those that deepened the Great Depression. That system has overseen a remarkable reduction in trade barriers around the world, and while it did not prevent every beggar-thy-neighbor response during this century's Great Recession, it has largely held. Another remarkable feature of this system is that it has become truly global over the years. The General Agreement on Tariffs and Trade began in 1948 with 23 countries; its successor, the World Trade Organization (WTO), now has 160 members.

The WTO's core mission is to promote open and nondiscriminatory markets, and it is the *only* protection against predatory trade practices that smaller, poorer countries have. The system is under considerable stress, however, and developing countries are particularly vulnerable to its erosion. The WTO's core mission is to promote open and nondiscriminatory markets, and it is the only protection against predatory trade practices that smaller, poorer countries have. Yet, since 2008 when the latest round of WTO negotiations stalled out, 70 new regional trade agreements have come into force. The global total was nearly 230 as of early September 2014.[1] Frustration with the long-stalled Doha Round is understandable, but the proliferation of these regional trade agreements is worrisome. They are diverting negotiating attention and resources away from the WTO and making the global system more, rather than less, complex.

American negotiators are also increasingly focused on regional initiatives, notably the Trans-Pacific Partnership (TPP) with 11 other countries and the Transatlantic Trade and Investment Partnership (TTIP) with the European Union. Unlike multilateral agreements, the terms of these regional and bilateral agreements are typically set by the larger, richer partners involved. As a result, key provisions often ignore the concerns of developing countries.

There are other ways that the United States is not using trade as effectively as it might to promote development. The executive and legislative branches of the US government have long recognized that trade can be an important tool to help poorer countries generate resources, create jobs, and reduce poverty. They also recognize that growth in developing countries contributes to global prosperity and growing markets for US exporters as well. Despite that, the few significant US trade barriers that remain often target agricultural and labor-intensive products in which developing countries have a comparative advantage.

POLICY RECOMMENDATIONS

- Reinvigorate the multilateral rules-based trading system.
- Ensure that regional trade agreements explicitly support development outcomes.
- Strengthen unilateral trade preference programs for poor countries.
- Create a Joint Trade Policy Unit to address the nexus of trade and development.

Challenge 1: Fraying Multilateralism

The United States did not join the trend of negotiating trade agreements outside the multilateral system until 1984. That first agreement, with Israel, was more about foreign policy than economics. The next US negotiations were with neighboring Canada (1988) and Mexico (the tripartite North American Free Trade Agreement in 1994). The number of bilateral trade agreements then surged (figure 1). After a review and some tweaking, President Barack Obama submitted agreements negotiated by President George W. Bush with Colombia, Panama, and Korea for Congress's approval in 2011. President Obama also decided to continue with negotiations launched by the Bush administration for the TPP among 12 nations (including Japan).[2] And in 2013, US and EU policymakers launched talks aimed at establishing the TTIP.

The two "mega-regional" agreements, if concluded, would be the first wherein large, advanced economies have negotiated preferentially with one another. That would take regionalism to a new level, and it could pose significant new risks for the multilateral system if the result is reduced commitment to the WTO. These agreements also exclude the large, and rapidly growing, emerging markets (Brazil, China, India), and there is a risk of ending up with competing trade blocs that increase trade frictions and even exacerbate political tensions. Ensuring that these agreements remain embedded in a strong multilateral system would mitigate those risks.

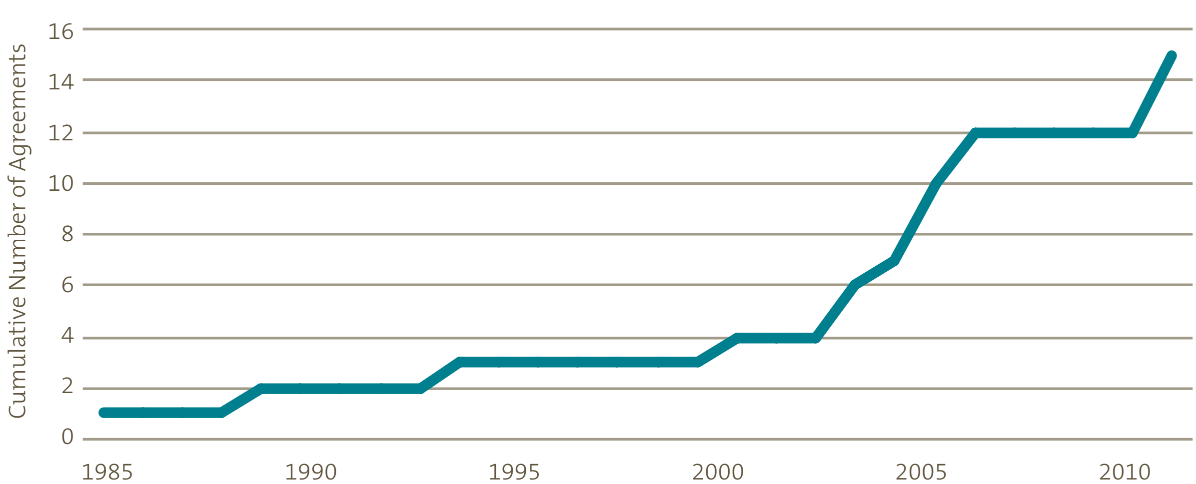
Challenge 2: Development-Unfriendly Provisions in Regional Trade Agreements

Whatever happens multilaterally, or with the TPP or TTIP, it is too late to put the regionalism genie back in the bottle. Thus, it is important to examine the specific features of US regional and bilateral trade agreements that pose risks for developing countries. This discussion would apply to the TPP and TTIP negotiations, if they are still ongoing in 2017, as well as any new regional negotiations the next president may choose to undertake.

For developing countries negotiating with the United States, key provisions in the current trade agreement template that raise concerns include the following:

- protections for foreign investors that constrain the use of capital controls and an investor-state dispute settlement process that some firms have used to challenge nondiscriminatory health and environmental regulations[3]
- WTO+ protections for intellectual property, including drug patents
- liberalization of certain service sectors, for example finance, where governments may lack the capacity for appropriate oversight and regulation
- complex rules of origin that often restrict the market access that would otherwise be provided via tariff cuts

Figure 1 US Regional Trade Agreements Have Surged Since the 1990s



Source: Author's calculations from World Trade Organization, Regional Trade Agreements Information System, online at http://rtais.wto.org/UI/PublicAllRTAList.aspx. Accessed September 9, 2014

The US Trade Representative's job is to promote and protect US interests in trade negotiations, not to promote development. US trade negotiators may genuinely believe that stronger intellectual property protections are good for development, or they may believe that these protections are necessary to get trade agreements through Congress, or both. But there is substantive, as well as political, disagreement over these provisions and whether countries at very different levels of development should have to adhere to universal standards in these areas.

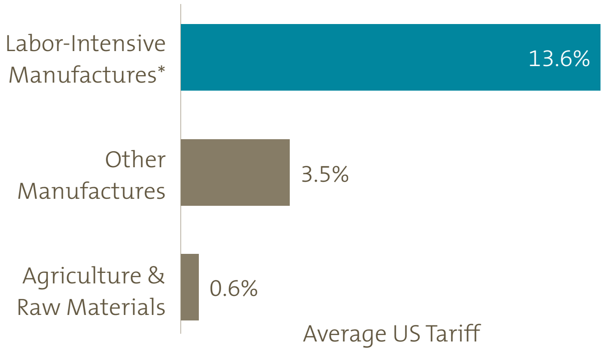
For the majority of developing countries that are excluded from regional trade agreements, the key concern is how the discrimination that results will affect them. While preferential trade agreements can lead to overall net trade creation, they often divert some trade and investment to insiders at the expense of outsiders. The risk that TTIP tariff reductions would divert trade away from poor countries is probably not large. Both the US and EU markets are relatively open and their export baskets are quite different from those of poor developing countries. In contrast, if the United States and Japan agree to open their markets for footwear, apparel, and agricultural products as part of the TPP, Vietnam could benefit greatly, but partly at the expense of poorer countries in the region.

In addition to the potential for traditional trade diversion, regulatory cooperation measures could put outsiders at an additional competitive disadvantage. In this area, it is the TTIP that poses greater risks. Traditional US and EU trade barriers are already low, so regulatory cooperation is a more central element in the TTIP negotiations. If US and EU negotiators agree to harmonize regulations in some sectors, that could be a benefit for developing countries because they would no longer have to comply with two different sets of standards. Alternatively, negotiators might agree to recognize the equivalence of one another's standards in certain sectors. That type of agreement would not necessarily be open to outsiders, and it could put those countries' exporters at an additional competitive disadvantage.

Challenge 3: Weaknesses in Unilateral Preference Programs

Finally, the United States lags most other advanced economies in its openness to imports from the poorest countries. Developing countries tend to be competitive in labor-intensive manufactured goods (textiles, apparel, footwear, and travel goods). Those are also the sectors in which US tariffs tend to be the highest (figure 2). Even when average tariff rates are low, as in the case of most agricultural products, poor countries can face quantitative restrictions on their exports to the US market. Sugar, dairy, and peanuts are notable examples.

Figure 2 US Tariff Rates Burden Labor-Intensive Goods from Poor Countries



*Textiles, apparel, footwear, and travel goods (Standard International Trade Classification categories 65, 83, 84, and 85)

Source: United States International Trade Commission's Trade Dataweb http://dataweb.usitc.gov/

The United States has programs that provide preferential access for developing countries by waiving some import duties. But these programs only partially mitigate the regressive profile of US trade policy because they often exclude those goods with the highest barriers. The US preference program with the broadest access is through the African Growth and Opportunity Act (AGOA). AGOA includes apparel and covers 98 percent of potential exports overall, but even it restricts key agricultural commodities.

The relatively brief statutory life of preference programs further undermines their development potential by increasing uncertainty and discouraging long-term investments. Congress has to reauthorize these programs every few years and is often tardy in doing so. In a stark example of the problem, the Generalized System of Preferences program, which applies to all developing countries, expired in July 2013 and had not been renewed as of mid-2015.[4] The AGOA program expires in September 2015 and, while key policymakers have been talking about a "seamless renewal" for months, there have been no concrete signs of that, as of the time of writing.

Most other rich countries provide duty-free, quota-free market access for most or all products exported by all UN-designated least developed countries (LDCs). Moreover, these preference programs are authorized for much longer periods, thereby reducing uncertainty. For example, the EU's Everything But Arms program lifted restrictions on all LDC imports indefinitely. In addition, after criticism that the rules of origin were too restrictive, EU policymakers simplified them for key products, including apparel.[5]

Concerns about US job losses drive most of the limitations in trade preference programs. Moreover, the traditionally protectionist textile industry receives important political cover from the few African countries that are exporting apparel under AGOA. Those countries oppose duty-free, quota-free access for other LDCs because it could erode the value of the preferences they currently receive. Given that US imports from LDCs constitute less than 1 percent of total US imports, the job concerns seem exaggerated. Empirical research supports that conclusion.[6]

Four Steps toward a Coherent Trade and Development Policy

Here are four things the next US president could do to address the challenges posed above. Taking these steps would support American interests in a strong multilateral trading system and make trade policy a more effective tool for development and global prosperity. Modifying the process by which the executive branch develops trade-for-development strategies would also help to make policy more coherent.

❶ Revive multilateralism.

The WTO will need to undergo institutional reform if it hopes to remain a credible force for trade liberalization in the 21st century, and US leadership will be critical. Reform will take time, however. In the interim, WTO members should work to revive the negotiating function that has lagged so badly in recent years. The current US position seems to be to stick with the Doha Round's negotiating agenda as it is, while negotiating separately with self-selected WTO members to liberalize trade in services, information technology, and environmental goods and services. But the Doha Round approach is not working, and sticking with it is blocking negotiations in other areas of more interest to developing countries.

It is past time to bury the Doha Round once and for all. That does not mean that members can simply forget about the issues it aimed to address, however. Over at least the next year, WTO members will attempt to negotiate a narrow agreement on food security. The impetus is India's concern that another WTO member will challenge its public stockholding scheme as a violation of international rules.[7] Whatever happens with those discussions, the next president should ask the US Trade Representative's office to take a fresh look at negotiating a broader food security package that includes both old and new issues:

- commitments to further reduce and bind trade-distorting subsidies and import barriers in advanced economies that undermine incentives to invest in developing-country agriculture and contribute to global food price volatility

- provisions that clarify the scope for developing countries to protect food security, including via public stocks, while channeling *producer* subsidies toward less distorting investments in infrastructure and rural public goods, such as roads, (sustainable) irrigation, and extension services

- disciplines on export competition that eliminate export subsidies, reform in-kind food aid, and create ground rules that minimize the costs to others when developing countries feel compelled to use export restrictions.

❷ Ensure that regional agreements support both trade and development priorities.

It is unclear whether US negotiators will conclude the TPP or TTIP talks by the end of 2016. If there are ongoing negotiations that involve developing countries, the next US president should ensure that

- efforts to protect American investors and intellectual-property owners are not at the expense of developing-country needs to protect public health, financial stability, or other key priorities;

- the template is relaxed when regional trade agreements involve developing countries, and all provisions are appropriate for the partner countries' level of development;

- countries can effectively regulate tobacco for public health purposes and that nondiscriminatory tobacco control measures are explicitly exempt from challenge;[8] and,

- rules of origin are reformed so they are less complex and less restrictive.

On intellectual property rights, the 2008 book *The White House and the World* offered recommendations for US trade agreements that are still relevant.[9] The recommendations called on the US government to respect the more flexible rules for developing countries embedded in the WTO agreement on trade-related intellectual property, to initiate a dialogue on fair burden sharing for global innovation, and to support research and development into remedies for developing-country diseases.

The next US president should also order a White House study to examine how US negotiators approach trade and development issues in trade agreements and to ensure they reinforce one another. For example, is the language allowing regional trade agreement parties to restrict capital flows for prudential reasons sufficiently flexible for developing countries to protect themselves from financial instability? Do provisions for investor-state dispute settlement under international auspices promote or undermine improvements in rule of law?

❸ Make unilateral preferences meaningful for all poor countries.

The next US president, working closely with Congress, should strengthen trade preferences by means including the following:

- extending duty-free, quota-free market access to all LDCs, but with narrowly drawn exceptions for competitive LDC exporters[10]
- renewing and extending the Generalized System of Preferences; AGOA; special preferences for Haiti; and the new duty-free, quota-free provisions for at least a decade
- providing specific quota allocations for AGOA-eligible exporters of restricted agricultural products when full market access is not politically possible[11]

❹ Change the process to promote policy coherence.

Finally, the next president should consider creating something like the United Kingdom's Joint Trade Policy Unit. This unit brings together policymakers from the Department for International Development and the Department for Business, Innovation, and Skills to address the nexus of issues related to trade and development. Similar to the way this unit operates in the United Kingdom, the US Trade Representative would still negotiate international trade agreements, but with higher-level and more regular input from the US Agency for International Development. The new unit would take the lead when it comes to implementing unilateral preference programs that do not involve negotiations.

Conclusion

The world has changed enormously since 1948 when the United States launched the General Agreement on Tariffs and Trade with 22 other countries. With the rise of global value chains, production is more fragmented and the rules-based global trading system is more important than ever, especially for developing countries. At the same time, regional trade agreements are here to stay. The next US president should ensure that regional and bilateral agreements remain embedded in a multilateral framework and that any new agreements balance narrow trade interests with the broader US development and foreign policy interest in having more prosperous and politically stable trading partners. Moreover, the next president should work with Congress to make unilateral trade policies toward poor countries more effective in promoting development. US presidents have long supported trade as a tool of development, at least rhetorically. The next president can contribute to a more stable and prosperous world by matching rhetoric with reality.

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[2] In addition to the United States and Japan, the TPP also includes Australia, Brunei, Canada, Chile, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam.

[3] Even when not successful, these challenges raise the costs of regulating and could deter some poorer developing countries from doing so in some cases.

[4] In expectation that Congress will eventually renew the program, importers must post a deposit but they do not have to pay the full amount of the tariff that would be owed without the Generalized System of Preferences.

[5] The report of the Center for Global Development's Global Trade Preference Reform Working Group (see Global Trade Preference Reform Working Group 2010 in further reading) called for EU rules-of-origin reform, among other things. See also Kimberly Ann Elliott, "Why Is Opening the US Market to Poor Countries So Hard?" CGD Note, Center for Global Development, Washington, 2012.

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[7] Under the program, India buys grain (mainly rice) from farmers at guaranteed prices and then sells or distributes those stocks at subsidized prices to poor consumers. WTO rules permit public stockholding for food security purposes, but the amount of subsidy for farmers is capped. See also Kimberly Ann Elliott, "Food Security in Developing Countries: Is there a Role for the WTO?" CGD Essay, Center for Global Development, Washington, 2015.

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Promoting the Development Power of Economic Transparency

Owen Barder

Introduction

Weak institutions are both a cause and a consequence of underdevelopment. Improving governance is widely regarded as critical to accelerating economic opportunities, democracy, and security. This is especially important for fragile states and countries emerging from conflict. Despite this, the United States and other donor governments have few financial tools that are demonstrably effective at stimulating and delivering improved governance.

Transparency and openness can help accelerate reforms in developing countries in situations in which foreign aid and other US programmatic and diplomatic efforts will have less potency and influence. With effectively designed and executed approaches, transparency can serve as a powerful sanitizing driver of development and accountable governance. Moreover, it can promote responsible practices that directly and indirectly support a broad range of US policy objectives, such as (1) exposing government corruption, (2) reducing the scope for government revenues to be siphoned offshore, (3) increasing collection of domestic tax revenues, (4) increasing the accountability and effectiveness of government spending (including aid), (5) reducing dependency on foreign aid, and (6) helping to prevent money laundering and terrorist finance.

As the world's leading economic power, the United States has a key role in helping to shape and promote standards of economic openness, especially in the realms of company ownership, international tax, cross-border payments, and foreign aid. The next US president, working closely with Congress, should advance a multipronged agenda that would advance America's development, national security, and foreign policy interests, as well as strengthen economic systems in the United States. Such an agenda should focus on the following six areas:

POLICY RECOMMENDATIONS

- Protect and increase tax revenues by implementing multilateral automatic information exchange.
- Tackle money laundering and corruption by requiring public registries of corporate beneficial ownership.
- Support good governance in developing countries by implementing Dodd-Frank Act Section 1504.
- Continue to lead by implementing the recommendations of the International Aid Transparency Initiative, Open Government Partnership, and adopt open contracting standards.

1. **Automatic tax information exchange:** Protect and increase tax revenues by implementing the Organisation for Economic Co-operation and Development (OECD) Common Reporting Standard for multilateral automatic information exchange on tax and ensure that developing countries have meaningful access to this information.

2. **Tackle crime and protect tax revenues:** Clamp down on money laundering and corruption by requiring public registries of beneficial ownership, thereby shedding light on the actual parties that own or control private entities' investments and companies in developing countries.

3. **Prevent government resource theft and stop the resource curse:** Implement existing US legislative directives that require listed companies to report payments to foreign governments for extractive resources.

4. **Improve US foreign assistance:** Ensure that Congress, US taxpayers, and developing-country governments and stakeholders have access to information about foreign assistance programs (e.g., budgets, project spending, locations, and results) in a highly transparent, internationally comparable, and user-friendly format.

5. **Support open and accountable government practices:** Help spread the norm of open, accountable government by providing continued leadership in the Open Government Partnership (OGP), which the US government helped to build and expand across the developed and developing world.

6. **Make government procurement more efficient:** Implement the global principles for open contracting and the open contracting data standard, which will help make the hundreds of billions of US and developing-country taxpayers' spending less susceptible to corrupt practices.

US Economic Transparency Efforts: Past, Present, and Future

US government policies affecting economic transparency and open government have far-ranging implications for developing countries. First, information held in one country is substantially more valuable when linked to information held elsewhere. For example, such linking would allow parties to assess the true value of tax liabilities by comparing the reported values of exports and declared imports. Second, cross-border payments from one country to another, such as foreign assistance or payments for mineral rights, are more likely to be put to good use and less likely to cause a resource curse if the payments are transparent and open to the general public. Third, international open data standards significantly increase the usefulness of information while also reducing the transaction costs of publishing it for governments and firms. Fourth, the establishment and promotion of international norms about openness—such as open contracting by governments and transparency about the ownership of firms—can help these values spread more rapidly.

The United States has promoted economic transparency on a bipartisan basis for many years, spanning the past several presidential administrations and congresses. The United States played a central role in establishing and promoting the OGP and driving transparency of payments in extractive industries. Those industries are not only crucial to the economies of many developing countries but can also inspire and fuel conflict and may inhibit democratic progress.[1] Congress recently supported, on a bipartisan basis, the Digital Accountability and Transparency Act, the Foreign Aid Transparency and Accountability Act, and the Cardin-Lugar Amendment (Section 1504) to the Dodd-Frank Wall Street Reform and Consumer Protection Act (2010; Pub.L. 111–203, H.R. 4173), which obliges all extractive companies to publish the payments they make to US and foreign governments in the countries where they operate.

Yet, this political commitment is broad rather than deep. Currently, the United States is not leading global efforts to promote openness and sound, responsible governance, mainly because of bureaucratic indifference and resistance by individuals and firms that benefit from secrecy. As a result, the US government has abdicated the global leadership mantle—and much of the current momentum on setting the international agenda—to European countries that are acutely concerned about addressing tax avoidance and illicit financial flows. Given similar and widespread concerns among US policymakers, there is a concrete opportunity to drive the economic transparency agenda and mobilize broad multilateral support behind US objectives. Ultimately, this effort would require negligible US budgetary costs and would contribute to reducing corruption and waste in the developing world, increasing the availability of development resources for public services, and making developing-country governments more accountable and effective.

Why Openness and Accountability Matter for Development

Underdeveloped countries are characterized by "extractive institutions" that prevent political and economic competition and that enrich a narrow political and business elite at the expense of the broader population.[2] These institutions are not the result of ignorance or lack of capacity to improve them; instead, they persist because they serve the interests of political and economic incumbents.[3]

Donor governments, including the United States, have long recognized the importance of better institutions for development. However, efforts to deliver concrete improvements have typically had little impact. Technical assistance and capacity building will have little effect as long as extractive institutions serve the interest of powerful elites. Nor can aid conditionality create sufficient leverage to persuade elites to give up their privileges. Societies tend to change course through moments of upheaval, which have been described as "critical junctures"; it is internal rather than external forces that shift the political and economic system onto an inclusive development path.[4]

Greater transparency and openness improve domestic revenue collection and facilitate greater accountability of governments, firms, and institutions to their citizens. Openness, on its own, is rarely sufficient to bring about transformative change, but open and transparent public institutions can help create the conditions for a shift in the balance of power and thus accelerate the emergence of inclusive political and economic institutions. Open and accountable institutions are also more likely to be able to adapt and evolve, thereby generating locally relevant and effective solutions to complex problems.

Why Cross-Border Transparency and US Government Action Matter

Transparency and openness are transboundary issues in at least four respects.

First, some or all of the information needed to reduce corruption, protect revenues, and increase accountability may be held in another jurisdiction. By illustration, if a developing country awards a public-works contract to a company registered in the Cayman Islands, citizens should be able to identify the beneficial owner of the contracting company. Citizens would more critically judge and indeed question the integrity of the public procurement process if they were to learn that the owner of the winning company is a close relative of the minister of public works who approves the tender. Moreover, detailed company accounts reported in one country may contain material information for revenue collection in another country; public access to some or all of this information is necessary to hold tax authorities accountable for fair and effective enforcement. The need to share information across borders is already a widely accepted principle. For example, the United States requires other jurisdictions to provide information in the Foreign Account Tax Compliance Act (FATCA). By extension, other jurisdictions similarly need limited information about American corporations and individuals held by US authorities. Therefore, secrecy in one jurisdiction inevitably has negative consequences on other countries and ultimately can contribute to political instability, fomentation of terrorist groups, human trafficking, and other threats to US national security and development objectives.

Second, transparency makes cross-border payments less susceptible to corruption and waste and helps reduce the resource curse. This principle underpins the Extractive Industries Transparency Initiative (EITI), which was established in 2002 and now includes 48 developed and developing countries (including the United States). This principle also guides new rules being introduced in the United States, Europe, and Canada that require oil, gas, and mining companies to disclose their payments to host-country governments. If payments for mineral concessions can be publicly scrutinized, then it is more likely that citizens can hold their governments accountable for how those revenues are ultimately used and less likely that the revenues can be siphoned off into private accounts. Similarly, the International Aid Transparency Initiative (IATI), to which the United States is a signatory, recognizes that when foreign assistance is transparent, citizens are more likely to hold their authorities accountable for how those resources are used and for the development outcomes they deliver. Evidence indicates that a resource curse, in which governments are able to raise money through the sale of oil or other minerals or are heavily dependent on foreign aid, can undermine the social contract between the government and its own citizens.[5] This effect can be reduced, though not necessarily eliminated altogether, when citizens are allowed to observe how these revenues are used and then utilize that information to hold their governments accountable.

Third, international cooperation on global open data standards makes the related information more useful and reduces the costs of publishing it for both governments and firms. Standardized international data standards are relevant across numerous areas, ranging from accounting practices to meteorological information. For instance, investors require common accounting definitions for making informed choices; firms would encounter prohibitive compliance costs if they were required to report their accounts in a range of different formats. This issue is directly relevant for extractive industry transparency, as well as for other forms of economic transparency. Section 1504 of the Dodd-Frank Act requires companies registered with the Securities and Exchange Commission (SEC) to report publicly how much they pay governments for access to oil, gas, and minerals. Similarly, Chapter 10 of the 2013 EU Accounting Directive requires companies listed in Europe to report these payments.[6] Companies are reasonably concerned that they will face burdensome and unnecessary financial costs for providing similar information in different formats and under different definitions. At the same time, inconsistent reporting rules would significantly decrease the utility of the related information for civil-society organizations, which are primarily interested in assessing the complete picture of financial payments. Common standards reduce the costs of reporting and increase the value of the information.

Fourth, international transparency norms can help these values spread more rapidly. The past century has seen huge improvements in the quality of life for most people around the world, driven by the spread of norms and values, such as human rights, behavior in war, gender equality, and hygiene practices.[7] The United States has played an important role in establishing and nurturing the OGP, which is a multilateral, voluntary initiative that secures concrete commitments from participating governments to promote transparency, citizen empowerment, anticorruption efforts, and strengthened governance through new technologies. In practical terms, the OGP has encouraged and supported government reformers globally and has helped establish international benchmarks for openness and accountability.

Relatedly, individual countries' actions can have powerful demonstration effects for other nations. For example, global public-sector procurement totals nearly $10 trillion a year. If the US government committed to open contracting processes, such action would not only improve cost effectiveness of US spending but could also encourage other governments to follow suit. As a result, US leadership at home could help increase the effectiveness of public spending around the world. Conversely, maintaining secrecy in the United States gives succor to those in other countries who prefer to keep information hidden.

For these reasons, the US government's approach to transparency and open governance has powerful and far-ranging implications for developing countries, particularly in relation to citizen accountability and a country's ability to collect revenues and use those resources more effectively.

Policy Recommendations and Implementation Road Map

As the world's leading economic power, the United States plays a key role in helping to shape and promote standards of economic openness, especially in the realms of company ownership, international taxation, cross-border payments, and foreign aid. The next US president should advance this agenda in six specific, mutually reinforcing areas. These actions would promote core US objectives for development, foreign policy, and national security. Moreover, they would help turbocharge efforts around the globe, including in developing countries.

1 Protect tax revenues through a system of multilateral automatic information exchange.

The OECD has reached agreement on a Common Reporting Standards (CRS) system to implement automatic information exchange across borders.[8] This initiative is an indirect consequence of FATCA, which fundamentally changed the global debate on the automatic exchange of information. Although far from perfect, this system, which incorporates many of the technical characteristics of FATCA, is an important step forward. The European Union is already incorporating these technical standards into law. In contrast, the United States has backed away from its May 2014 commitment to implement a new global standard on a reciprocal basis.[9] As of March 2015, the US government stated that "it will be undertaking automatic information exchanges pursuant to FATCA from 2015 and has entered into intergovernmental agreements with other jurisdictions to do so."[10] Regrettably, this is a major step away from a global mechanism for automatic information exchange.

The next presidential administration, led by the White House and the US Treasury Secretary, should use its powers under the Bank Secrecy Act[11] to produce due-diligence rules for US financial institutions. These rules should require compliance with the multilateral information exchange system as detailed in the OECD's CRS. The Treasury Department's Financial Crimes Enforcement Network would enforce these rules. Furthermore, the United States should work closely with other OECD countries to ensure that developing countries have ready access to the information they need to enforce their tax laws, even if they are not yet ready to participate in the system on a fully reciprocal basis.

2 Tackle money laundering and corruption and protect tax revenues and market integrity through public beneficial ownership registries.

Publicly identifying the owners of private entities (e.g., companies, foundations, and trusts) is essential for combatting corruption, money laundering, and tax evasion. Businesses also need to know with whom they are doing business, similar to the way in which banks do with know-your-customer requirements. Anonymity, by contrast, feeds market manipulation, circumvention of antitrust rules, and political conflicts of interest. The US government has twice included a commitment to a public registry of beneficial ownership in its OGP national action plan. However, these commitments have not been implemented to date. One proposal under consideration is a *private* registry of beneficial ownership, which the Internal Revenue Service would oversee. Such an approach is not sufficient to address the problems of secretive company ownership. Simply put, sharing information privately with the authorities of another country is not useful if those authorities are part of the problem. Unless ownership information is publicly available, citizens have no way of establishing whether mineral rights sales or public procurement contracts have been corruptly organized to benefit a company owned by a public official.

The next presidential administration should work closely with Congress to require that states collect information about the beneficial owners of companies registered in their jurisdiction and publish this information in a common, machine-readable format. America's closest ally, the United Kingdom, has already committed to implement a public registry of beneficial ownership,[12] which will provide lessons for US government efforts. In addition, the Treasury Department, working closely with other relevant US regulators, should move quickly to finalize a related rule that strengthens know-your-customer procedures for financial institutions and real estate agents.

3 Prevent theft of state resources and stop the resource curse by implementing Section 1504 of the Dodd-Frank Act.

The Cardin-Lugar Amendment (Section 1504) of the Dodd-Frank Act requires companies registered with the SEC to publicly report how much they pay governments for access to oil, gas, and minerals. In 2013, EU member countries followed suit by introducing rules that require publicly traded and private EU companies to disclose payments to governments made in exchange for oil, gas, mineral, and forest resources. This information must be published on a country-by-country and project-by-project basis.[13] EU member states are now implementing these requirements through such regulations as the United Kingdom's Reports on Payments to Governments Regulations 2014. While the United States originally led this global effort, it has since fallen far behind. The SEC has said in court filings that rules on how companies should disclose payments may not be issued before spring 2016.

The next presidential administration should publicly encourage a final, formal SEC ruling on Section 1504 of the Dodd-Frank legislation, thereby requiring companies to disclose payments on a country-by-country and project-by-project basis according to open data standards that are consistent with those in Europe and other countries. Moreover, the administration should work with its European partners and other stakeholders to ensure that citizens of developing countries have readily available access to both aggregated and disaggregated data.

4 Improve US foreign assistance by making It more transparent and accountable.

The US government is the largest provider of foreign assistance in the world. It has been a member of the IATI since November 2011. Despite highly uneven implementation of IATI, there have been positive developments. The Foreign Assistance Dashboard has (belatedly) adopted IATI standards with a bespoke US extension, which will lead to significant improvements in data quality and usability by interested stakeholders. The Millennium Challenge Corporation, already a leader in publishing high-quality data, is taking important steps toward better data use by its staff and extending IATI publication in-country. The President's Emergency Plan for AIDS Relief, though late to these efforts, is now also publishing high-quality data and is starting to use local-level results data to allocate scarce programmatic resources across its focus countries. In addition, the US Agency for International Development has recently developed a management plan to identify the publication gaps and the resources and timelines necessary to meet its IATI commitments.

Despite these modest advances, US foreign assistance transparency remains disappointing, with negative implications for effectiveness and public accountability both at home and abroad. The relative lack of high-level political direction has contributed to these challenges. Dedicated Foreign Assistance Dashboard staff have essentially been left on their own to implement the ambitious and difficult goal of meeting US aid transparency commitments. Of the 22 US agencies providing foreign assistance today, about half have published some information to the dashboard. But even where some information is published, it is not timely, and much of it is missing basic information, such as dates, project descriptions, titles, and the names of implementing organizations. Leading US aid agencies, such as the State Department, lack plans to identify the data gaps and to find the necessary resources to meet existing US aid transparency commitment.

The next presidential administration should outline a concrete action plan for dramatically improving aid transparency and publishing all related information through IATI and the Foreign Assistance Dashboard. This plan should cover all 22 US aid agencies and all aid contractors, including for-profit and not-for-profit organizations. Meeting these international open data standards would enable Congress and the general public, as well as citizens in developing countries, to "follow the money" through the entire aid delivery chain. Lastly, the White House should hold all US aid agency leaders accountable for delivering demonstrable results. Rigorous impact evaluations of aid programs should be made available in both donor and recipient countries. These measures, if implemented using the agreed-upon global data standards, would help support a data revolution in foreign assistance and contribute to improved development results, improved government accountability in developing countries, and US taxpayer value.[14]

5 Provide continued global leadership in the open government partnership.

The United States played a central role in developing and launching the OGP, while also being careful not to dominate it. The next presidential administration should continue this important governance initiative. More specifically, it should continue to provide leadership in the OGP, support the secretariat, set stretching goals for the US National Action Plan, and then make much more convincing efforts to achieve them, including through improved engagement by government agencies with civil society. This step includes delivering on its past commitment to provide public registries for beneficial ownership and implementation of the EITI.

6 Promote open contracting.

There is a growing international movement toward increased disclosure of, and participation in, public-sector contracting, including tendering, performance, and completion. Such efforts cover all government contracting, whether the specific efforts are funded by developing-country governments, private sources, or donor organizations. The United States has made progress through the introduction of USAspending.gov, which is a powerful tool that allows citizens to track where federal dollars are spent and who wins contracts. The next presidential administration should adopt and implement the Global Principles for Open Contracting and adopt the Open Contracting Data Standard.

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Advancing a Gender-Based Development Agenda

Charles Kenny and Sarah Dykstra

Introduction

Gender issues are increasingly recognized as a central plank of the global human rights agenda and as a development priority. Around the world, hundreds of millions of women are denied the right to work as they wish, to move, and to make choices about issues ranging from fertility to managing property. Domestic violence—overwhelmingly against women—is the most common form of violence in the world. The World Bank suggests that about 350 million women across the planet have suffered severe physical violence from their spouse, including attempts at strangulation, burnings, and threats of or actual violence using a weapon.[1] Moreover, 125 million women worldwide have been subject to genital mutilation.[2] Sex-selective abortion is replacing infant neglect as the tool of choice among families around the globe who want boys not girls, with somewhere between 4 and 12 million sex-selective abortions performed in India alone over the past three decades.[3]

The impact of gender-based inequality on economic and social development is considerable: women are less likely to be employed in the formal sector than men, and when they do work, they are more likely to be stuck in low-productivity, low-pay jobs. Between 1980 and 2009, global labor-force participation for women increased marginally from 50 percent to 52 percent. Although men's labor-force participation actually declined from 82 percent to 78 percent during that same period,[4] those numbers still suggest a significant gap. Women constitute 38 percent of the labor force in Sub-Saharan Africa, and women employed in the formal sector are only 5 percent of the respective labor force, compared to a 14 percent share for men. In the Middle East and North Africa, women only account for 17 percent of the labor force.[5]

Despite these major challenges, there are positive signs of improvements in global gender equality.

POLICY RECOMMENDATIONS

- **Direct USAID to pilot micro-incentive programs targeted to improve the condition of women.**
- **Use trade and investment agreements to promote gender equality in the workplace.**
- **Revise US migration and refugee policy to address the challenges of statelessness and gross discrimination.**

Take education: In Sub-Saharan Africa, net primary enrollment climbed from 57 to 75 percent for girls between 2000 and 2011, compared to an increase from 64 to 80 percent for boys. Gender gaps in primary schooling completion rates across the region are small compared to gaps across income groups within countries or gaps across countries. And in some countries, such as Bhutan, the Republic of the Congo, and Senegal, girls actually have higher primary schooling completion rates. At the tertiary level, female enrollment is actually higher than male enrollment in Europe and Asia and roughly equal in the Middle East. However, women still lag men in postsecondary enrollment rates in Sub-Saharan Africa and South Asia.

There is also a growing global consensus in favor of advancing gender equality. The UN Convention on the Elimination of All Forms of Discrimination against Women (CEDAW), which was drafted in 1965, now has 188 parties.[6] Although the United States has signed this agreement, the US Senate has not ratified it yet. Signatories commit to incorporating the principle of equality of men and women in their legal system, abolishing all discriminatory laws, adopting legislation prohibiting discrimination against women, and establishing institutions to ensure the effective protection of women against discrimination. The time is right for global leadership to bolster the growing consensus that gender equality is a moral imperative and a development priority.

Domestically, there is also bipartisan agreement on the importance of gender equality to US foreign policy goals. In 2007, Secretary Condoleezza Rice suggested:

> The same ideals that guided America's earliest women of courage now lead our country into the world to combat the dehumanization of women in every form. We will not accept that women and girls are sold into modern-day slavery. We will not accept that women and girls are denied an education. We will not accept so-called honor killings, and we'll do everything that we can to end forced early marriages. And we will work to improve healthcare opportunities for all women so that they can help to build a more hopeful future for themselves and for their own children.[7]

In 2013, President Obama issued a memorandum stating:

> Promoting gender equality and advancing the status of all women and girls around the world remains one of the greatest unmet challenges of our time. . . . Ensuring that women and girls, including those most marginalized, are able to participate fully in public life, are free from violence, and have equal access to education, economic opportunity, and healthcare increases broader economic prosperity, as well as political stability and security.[8]

The United States has played an important role in championing women's rights in international agreements, as well as supporting programs aimed at mitigating and reducing discrimination against women through diplomacy and aid programs. The world's remaining superpower can make (and has made) a large difference by promoting the norm of gender equality. With a relatively small financial and diplomatic investment, the United States could make a significantly greater impact. The next US president should bolster the US role by strategically using foreign assistance, as well as migration, trade, and investment tools, to signal that continuing injustices faced by women around the world are unacceptable and to act to mitigate and alleviate the impact of such injustices on their victims.

The Role of Local Norms and Institutions

Local norms and national institutions are two leading factors in the continuing inequities faced by women. These norms include attitudes about the place of women in the family and society, as well as the laws that frequently reflect such attitudes. With regard to violence, approximately one-quarter of women worldwide suggest that wife beating can be justified if she does something like argue with her husband or burn dinner. Women who agree with any justification for wife beating are at a considerably higher risk of violence than those who do not.[9]

Formal institutions both reflect and reinforce these attitudes. Nearly 100 countries allow girls to marry before the age of 18 with parental consent, and 54 countries permit girls to marry at ages between one and three years younger than boys.[10] Being married before the age of 18 is associated with an increased risk of violence, whereas completing secondary education is associated with a one-third reduction in risk.

Norms can change, however—not least through the use of monetary and social incentives to adopt different behaviors. And for all that institutions tend to reflect local norms, legal change can be a force to change both those norms and the behaviors that result. While the link between passing a law against child marriage and reductions in actual child marriage appears at best partial in many countries, it is an important step in changing behaviors over time.[11]

In 1989, only three countries worldwide had legislation against domestic violence; today, that number is 76. In the surveyed developing countries with such legislation, 40 percent of women accept domestic violence as justifiable, compared with 57 percent in the sample countries without legislation. Moreover, each additional year that a country has domestic violence legislation in place is associated with a reduced prevalence of about two percentage points.

It is a similar story with regard to jobs around the world—norms surely influence the shape of laws, but norms can change, and legal reform can foster changes in both attitudes and behaviors. Many men and women across the world think it is more important that men get jobs. The World Values Survey asks respondents around the world: "Do you think that when jobs are scarce, men have more right to a job than women?" In the United States, 6 percent agree with that idea; in Spain, it is 12 percent. In the Philippines, Algeria, Morocco, and Turkey, it is over half, and in Nigeria, Egypt, Jordan, and Pakistan, it is above two-thirds.

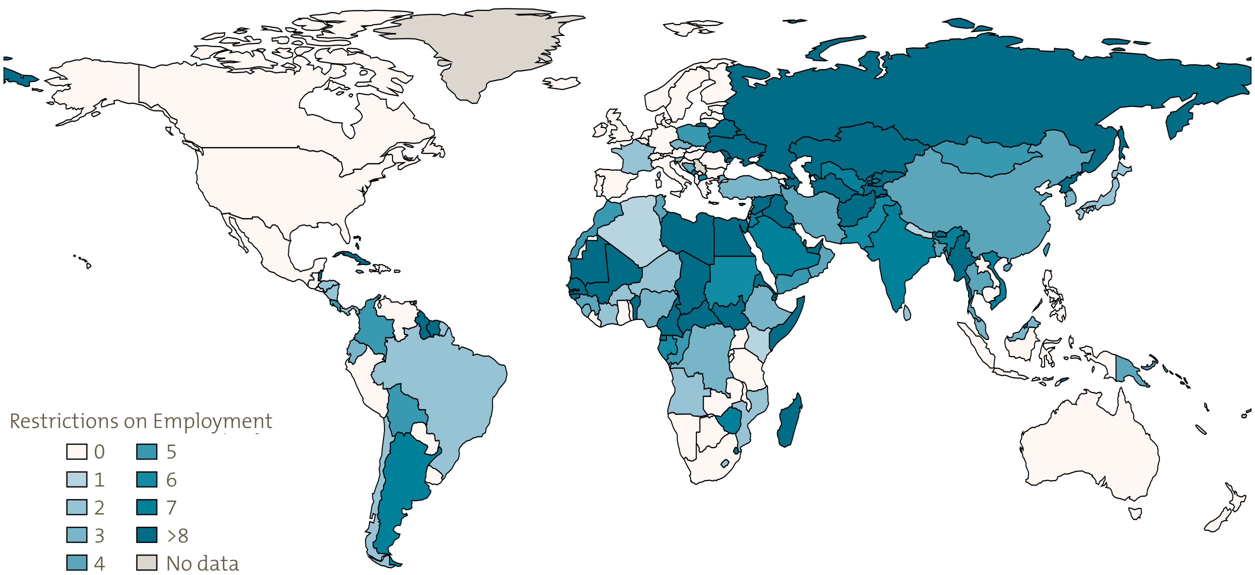
Because of views about "proper" jobs for women, many countries still have laws on the books that ban them from specific positions. In Russia, for example, women are barred from working as freight train conductors, sailors, high-antenna installers, or drivers of loading machines. And Russia is hardly alone: 79 different countries restrict the type of jobs women can perform solely on the grounds of their sex. Meanwhile, 15 countries, including Bolivia, Cameroon, Jordan, and Sudan, allow husbands to prevent their wives from accepting jobs.[12] Figure 1 color-codes countries based on the number of restrictions they place on women's employment, from none to many. Unsurprisingly, countries that impose work hour or industry restrictions have lower female labor force participation rates (45 percent compared to 60 percent in countries with no restrictions).[13]

At the same time, the World Bank's Women, Business, and the Law Survey suggests that for the measures for which historical data are available, more than half of the restrictions on women's economic activities that were in place in 1960 had been removed by 2010. Greater gender parity in legal rights is associated with higher female participation in the labor force, ownership of firms, and income equality.

Local norms surrounding women's identity in the family are also reflected in nationality laws. Article 9 of CEDAW recognizes the right of women to confer nationality to their children; however, this provision has been weakened by the number of states that have entered reservations or caveats to this article.[15] Even now, 27 countries prevent women from passing their nationality onto their children. This gender discrimination results in statelessness among children in cases where the father is without a nationality or when he is unable (or unwilling) to pass his nationality onto his children under the law of his state. Women are also vulnerable to becoming stateless in the 60 countries that do not permit women to acquire, change, or retain nationality in the same way as men.[16]

The impact is severe for the estimated 12 million stateless persons around the world.[17] Stateless individuals have no rights to participate in political processes and are often prevented from owning property. Depending on their country of residence, they may be prevented from registering births or marriages, working legally, or accessing education and health systems. Stateless people are at risk of protracted periods of detention during deportation proceedings.

Figure 1 Laws against Women Working[14]



Source: Authors' calculations using the World Bank's Women, Business, and the Law database

Stateless women and children are also at a higher risk of abuse and exploitation, including human trafficking.

As with child marriage, domestic violence, and labor force participation, significant progress has been made in reforming discriminatory nationality laws. Sixty years ago, a majority of countries prevented women from conferring nationality to their children. Most countries have already removed these restrictions, including 11 countries during the past decade. Currently, several more countries are considering reforms.[11]

Existing US Programs and Initiatives

US diplomacy and policy aim to play an important role in shifting norms and legislation in developing countries. In 2009, President Barack Obama established an Office of Global Women's Issues within the State Department. This office, headed by an ambassador at large and with a fiscal year 2014 budget of $20 million, works to ensure that women's rights are a central element of US foreign policy and monitors human trafficking worldwide. Together, the US Agency for International Development (USAID) and the State Department have developed a strategy focused on preventing gender-based violence. [18] To date, however, the United States has largely used the bully pulpit to advance gender equality, while committing minimal resources to programs with this aim and eschewing use of trade, investment, and migration tools.

USAID is a significant global funder of family planning and reproductive health, directing about $500 million a year to programs in this area. In addition, programs such as the President's Emergency Plan for AIDS Relief (PEPFAR) have pregnant women as priority recipients for assistance. USAID also supports activities that promote women's leadership and empowerment (budgeted at $65 million over four years), prevent and respond to gender-based violence, and encourage women's inclusion in peace building. It integrates gender equality across sectors strategies, project design, and monitoring and evaluation activities.[19] In terms of specific programs, the agency highlights the example of $30 million in funding directed to support women's leadership across the world—in particular, "supporting women's direct participation in peace negotiations, humanitarian and post-conflict donor conferences, and government and political transitions."[20] USAID also allocated $32 million in 2010 to prevent and respond to gender-based violence in the Democratic Republic of Congo through access to health care, legal services, and police training.[21]

However, specific gender and development projects are relatively rare in USAID (a fact reflected in the lack of aggregate data on projects with the primary aim of increasing women's empowerment), and some of the most effective approaches have not been tried. Other governments and donor agencies have made effective use of conditional cash transfers to influence health behaviors and norms around the world. Often, these transfers have been directed toward women.[22] New research shows that small incentives can help women and girls overcome barriers by creating space for them to make better choices for their health and well-being. For instance, cash transfer programs funded by the World Bank were shown to keep girls in school and avoid early marriage in Bangladesh and to effectively prevent HIV and early pregnancies in Malawi.[24] USAID has yet to fund such an initiative.

Outside of USAID, the State Department's Gender-Based Violence Emergency Response and Protection Initiative will support local nongovernment organizations working to address this issue and will give grants of up to $5,000 to victims. However, this initiative received roughly $500,000 for its first year in 2014,[25] suggesting (again) limited financial commitment.

The US government secured a UN Human Rights Council resolution on women's and children's right to a nationality. The resolution urged countries "to refrain from enacting or maintaining discriminatory nationality legislation and to reform nationality laws that discriminate against women."[26] In 2011, the Department of State launched the Women's Nationality Initiative to help address the issue of statelessness caused by gender discrimination in Benin, Nepal, and Qatar.[27] While the goal of the initiative is commendable, there is currently little information in the public domain about the activities carried out or what their impact might be.

With regard to the tool of refugee status, fear of female genital mutilation has been a grounds for granting asylum in specific cases since 1996. In a landmark ruling in August 2014, the US Justice Department's Board of Immigration Appeals concluded that married women in Guatemala who cannot escape their spouses were potentially deserving of refugee status because of the risk of violence they face and the limited likelihood of government protection. This ruling considerably expands the potential opportunity to use refugee status not only as a tool to protect women from violence and discrimination but also for the United States to signal country cases where women are subject to treatment significantly outside international norms.

However, the United States does not currently use migration policy as a tool to address gender discrimination in nationality laws around the world. Under current law, it is nearly impossible for stateless individuals to obtain residency, asylum, or citizenship in the United States, because they have no recognized legal status.

Two proposed bills aim to remedy this situation, which is often a result of gender discrimination.[28] Both of these bills propose to provide new protections for stateless persons by authorizing the secretary of Homeland Security or the US attorney general to grant conditional lawful status to certain groups of stateless persons already residing in the United States. This status would allow stateless individuals to work in the United States and provides a path to permanent residence after one year.

Policy Recommendations

The next US president, working closely with Congress, should build on existing State Department and USAID efforts to expand the US government's ambitions to improve gender equality throughout the world. This would include pursuing a balanced mix of targeted aid programs to change local norms, as well as using trade, investment, and migration policy tools to foster change in legal barriers to gender equality.

❶ Use US assistance to foster changes in norms and behavior at the local level.

The next presidential administration should press for USAID pilots that incorporate micro-incentive programs to create favorable conditions for women's empowerment, including the prevention of gender-based violence and early marriage and the improvement of girls' school completion rates. This would require a change in USAID priorities but no change in national laws in recipient countries. The average disbursement in a recent Malawian conditional cash transfer program targeting girls' education and HIV status was $10 per month per family during the school year, or about $100 per year, with $3 per month going to the girls themselves.[29] Program participants were three to four times more likely to be in school at the end of the year than nonparticipants and had an HIV prevalence that was 60 percent lower than the control group. A similar program could be scaled to cover 600,000 girls (approximately the population of 15- to 19-year-old females in a country like Rwanda) at a total cost of $60 million per year.

❷ Use US trade and investment treaties to foster greater gender equality in the workplace.

US bilateral trade and investment treaties frequently contain language about labor laws and working conditions. For instance, US bilateral investment treaties include standard language that neither party shall weaken labor standards in an effort to attract investment. In addition, there is standard language mandating that neither party may restrict senior management positions on the basis of any particular nationality.[30] Some trade pacts include specific mention of gender issues. For instance, the Peru Free Trade Agreement includes a labor cooperation and capacity-building mechanism for pursuing bilateral or regional cooperation activities on labor issues, such as "development of programs on gender issues, including the elimination of discrimination in respect of employment and occupation."[31]

The next US president could instruct the US Trade Representative (USTR) to include support in future trade and investment treaties to pursue cooperation activities focused on the elimination of gender discrimination. In addition, future trade and investment treaties could also mandate that "neither party may require that an enterprise of that party that is a covered investment deny employment on the grounds of race, religion, gender, or sexual orientation." Such action would not require changes to existing US legislation; instead, it would simply require that the USTR prioritize these requirements in future negotiations.

❸ Use US migration and refugee policy to highlight and respond to the challenges of statelessness and gross discrimination.

While the recent expansion of asylum status for married women from Guatemala who cannot escape their spouses is a welcome step, the guidelines and regulations on asylum and refugee status of women facing human rights abuses remain patchy and limited. The next US president should instruct the attorney general, in conjunction with the secretary of the Department of Homeland Security, to promulgate rules and regulations clarifying that women from countries where the right to free movement or employment is expressly and egregiously limited by law form part of a particular social grouping potentially eligible for asylum and refugee status. Asylum seekers who have attempted to exercise that right and been prevented under the auspices of the law would have potential eligibility for asylum.

In December 2011, then Secretary of State Hilary Clinton pledged to work with Congress to introduce legislation that provides a mechanism for stateless persons to obtain residency and eventually citizenship.[32] While no mechanism currently exists, previously introduced legislation includes provisions that would fulfill this pledge. The next presidential administration, led by the secretary of Homeland Security and attorney general, should work closely with Congress to enact legislation that provides the stateless with a path to citizenship.

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Protecting Tropical Forests, Global Prosperity, and Climatic Stability

Frances Seymour

Introduction

Climate change is a threat not only to prosperity in the United States but also to national security, foreign policy, and development objectives throughout the world. Hurricane Sandy served as a reminder of the destruction to life and property from extreme weather events, which are likely to become more frequent and severe. Likewise, extended drought in the Southwest illustrates how climate change could affect agriculture, energy, recreation, and other major sectors of the US economy.[1]

The implications of climate change for the development prospects of poor countries are even worse. Lacking infrastructure, financial assets, insurance mechanisms, or strong institutions to cushion the impacts, developing societies remain highly vulnerable to natural disasters, including those resulting from increasingly irregular climatic conditions. The poorest households are most vulnerable—their houses often perch on steep, landslide-prone hillsides around cities or in coastal floodplains, and smallholder farmers lack irrigation and depend on increasingly erratic seasonal rains.

US politics remain sharply divided over the appropriate responses to address climate change and climatic volatility, whether at home or abroad. Yet within the broader set of policy options, at least one area presents the opportunity for timely, strong bipartisan support—*protecting tropical forests*. Helping developing countries protect their tropical forests addresses both climate change and development objectives in ways that create benefits for the United States and poor countries alike.

POLICY RECOMMENDATIONS

- Implement pay-for-performance financing models that reward successful efforts to reduce deforestation.
- Encourage state-level innovation within existing regulatory systems.
- Advance targeted policies that support existing private sector–led initiatives.

1. **Tropical forests make many, often invisible, contributions to developing economies.** The World Bank estimates that some 350 million people live in and around tropical forests.[2] On average, such households derive more than one-fifth of their income from the harvest of products such as fuelwood, bushmeat, and medicinal plants.[3] In addition, ecosystem services, such as the provision of clean and reliable water supplies, make important contributions to health, energy, and food-security outcomes. Forests also provide resilience to climate change impacts: undisturbed forests are more resistant to fire, forested hillsides help mitigate landslides and flooding, and mangrove forests attenuate waves from coastal storms.[4] Reforms necessary to protect tropical forests are aligned with those needed to fight corruption, respect human rights, and promote the rule of law.[5]

2. **Conserving tropical forests is a big part of the solution to climate change, in which everyone has an interest.** Healthy, growing forests act as a safe and natural carbon capture and storage system. When forests are destroyed, the carbon accumulated in trees and soils is released into the atmosphere. The latest research indicates that halting tropical deforestation and allowing degraded forests to recover could mitigate 24–30 percent of current global greenhouse gas emissions.[6]

3. **Forest-rich countries and the private sector are on board.** Roughly 50 developing countries, including Brazil, Indonesia, and the Democratic Republic of the Congo, have stepped forward to cooperate in efforts to reduce deforestation under internationally negotiated rules to ensure that such efforts are environmentally effective and socially sound. In addition, an increasing number of international companies, including Walmart, Cargill, and Kellogg, have committed to eliminating deforestation (which often stems from production of soybeans, beef, or palm oil) from their supply chains within the next five years.

Historically, the United States has provided political and financial leadership to global efforts to halt tropical deforestation. The United States has been a leading funder of initiatives to conserve biological diversity, such as improving management of conservation areas in the Congo Basin, fighting wildlife poaching in Nepal, and establishing a payment for environmental services program in Ecuador.[7] In addition, it has executed 19 debt-for-nature swaps in 14 countries and has linked forest conservation to its bilateral trade agreement with Peru.[8]

With strong bipartisan support, tropical forests were a significant part of the 2009 cap-and-trade legislation that passed in the House but failed in the Senate. Most recently, the United States convened the Tropical Forest Alliance (TFA) 2020, a partnership to support implementation of zero-deforestation corporate commitments for commodities such as beef, soybeans, palm oil, and pulp and paper.[9]

The next US president should significantly expand efforts to halt deforestation by working closely with the US Congress, tropical countries, and private corporations. In doing so, he or she should actively pursue performance-based financing models to reward successful efforts, in combination with diplomacy and targeted policies that support private-sector initiatives.

Why Forests and Why Now?

Tropical forests contribute directly to development outcomes and maintaining them is a near-term solution to climate change. Everything but scaled-up finance is in place to make it happen.

Tropical Forests Contribute Directly to Development Outcomes

Because of the variety of forest goods and services that support livelihoods and economic opportunities, conserving tropical forests is sound development policy above and beyond its role as a low-cost approach to reducing carbon emissions. Forest fruits, nuts, and bushmeat contribute to food security; fuelwood supports energy security, and medicinal plants promote better health. On average, these and other forest products account for 21 percent of the incomes for tens of millions of families that live in and around forests.[10]

Less visible, but perhaps more important than forest products, are the contributions of forest-based ecosystem services to developing economies.

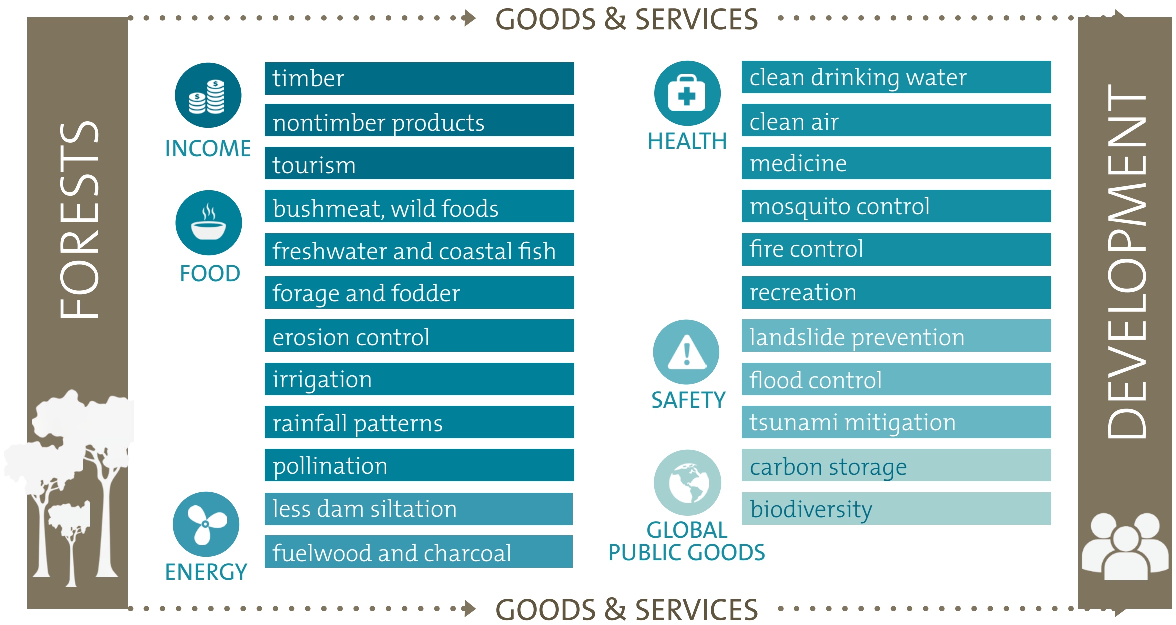
- **Food Security:** Forests provide the ecological infrastructure that supports agricultural productivity, regulating water quality and availability by filtering, reducing runoff, and facilitating water recycling.[11] Rigorous new studies suggest that forests play a much greater role in driving the water cycle at broader scales than previously thought, carrying moisture from oceans into continental interiors and essentially driving the rainfall patterns that support inland agriculture in tropical geographies.[12]

- **Energy Security:** Forested watersheds supply water to reservoirs behind hydroelectric dams and to irrigation systems. They also protect against the erosion and sedimentation that shorten the useful life of such infrastructure. A recent study calculated that cloud forests, though covering only a relatively small area of relevant watersheds (roughly 4 percent), supply more than 20 percent of the surface water to the reservoirs above dams in the tropics.[13]

- **Health:** Recent research in Indonesia suggests that deforestation significantly increases the risk of malaria outbreaks.[14] Maintaining intact forests also provides an important benefit to respiratory health by reducing smoke pollution caused by intentional burning to clear land and vulnerability to wildfires.[15]

- **Human Safety:** Intact forests increase resilience to other extreme events besides forest fires. Complex root systems increase water infiltration and prevent erosion, helping to reduce both landslides and flooding following periods of heavy rain. One reason that Hurricane Mitch caused so much destruction when it hit Central America in 1998 was that there were few trees to slow the heavy rainfall dumped on deforested hillsides.[16] For coastal communities, mangrove forests intercept wave energy, providing much-needed protection against storms and tsunamis.[17]

Figure 1 Tropical Forests' Goods and Services Contribute to Development



Source: Frances Seymour and Jonah Busch, "Why Forests? Why Now? A Preview of the Science, Economics, and Politics of Tropical Forests and Climate Change" (Washington: Center for Global Development, 2014), http://www.cgdev.org/publication/ft/why-forests-why-now-preview-science-economics-politics-tropical-forests-climate-change.

Furthermore, efforts to protect tropical forests can also promote good governance and the rule of law. Recent estimates suggest that nearly half of recent deforestation is the result of illegal clearing for commercial agriculture.[18] Initiatives to clarify and strengthen property rights and address corruption can simultaneously reduce deforestation while providing broader development benefits.

Maintaining Tropical Forests Is a Near-Term Solution to Climate Change

Tropical deforestation is a major source of the greenhouse gas emissions that cause climate change, with net emissions from forest loss constituting around one-tenth of current global emissions. If deforestation were a country, it would be among the world's largest source of emissions, ranking between the European Union and China.[19] As a result, no global climate protection strategy is complete without a focus on maintaining the world's remaining tropical forests.

Nonetheless, net emissions from forests as a share of total emissions understate the actual mitigation potential of tropical forests. If we stopped gross emissions by reversing deforestation and supported the carbon capture and storage function provided by forest regrowth, forests could mitigate up to 30 percent of current overall emissions.

Reducing emissions from tropical forests is cheaper than nearly every alternative mitigation strategy. New analysis suggests that payments for reducing deforestation would constitute more than one-quarter of the low-cost opportunities to decrease carbon emissions in the developing world outside of China.[20] Providing assistance to developing countries to reduce emissions from deforestation enables a higher level of ambition overall. Such reductions are available now and are 15–30 times cheaper than the cost of relying on carbon capture and storage technology to reduce fossil fuel emissions.

Yet forests continue to be lost at an alarmingly high or even increasing rate in most tropical countries.[21] Every year, more than 35,000 square miles of tropical forests are cleared—an area the size of Maine—while less than one-quarter of that area is allowed to grow back.[22]

Commercial agriculture is the most important driver of deforestation. In fact, clearing land to produce just four globally traded commodities—beef, soy, palm oil, and pulp and paper—in only eight countries accounted for fully one-third of tropical deforestation in 2009 and no doubt even more today.[23] Finding a way to redirect expanded agricultural production to low-carbon landscapes would make a globally significant dent in emissions.

Slowing Tropical Deforestation Is Achievable

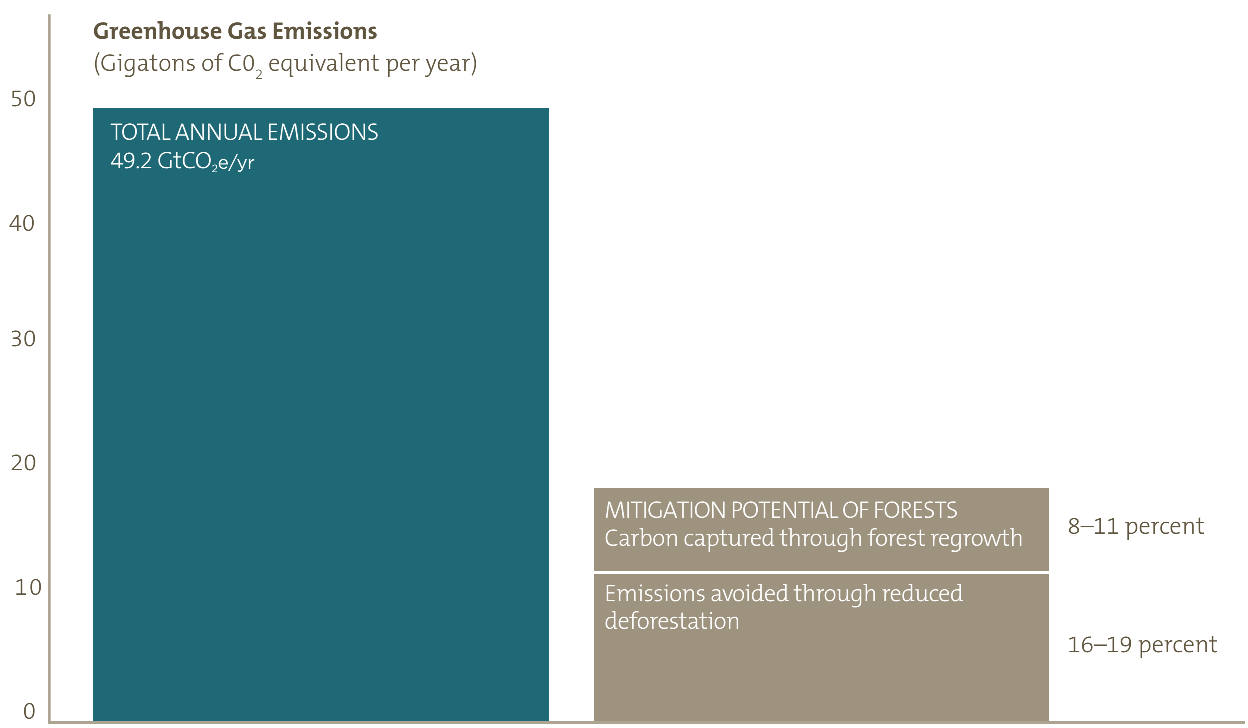
The good news is that slowing tropical deforestation is possible. All of the essential elements of a successful strategy—except scaled-up finance—are in place. Brazil's dramatic reduction in Amazonian deforestation over the past decade provides proof-of-concept and shows what policies work. Extraordinary advances in remote-sensing technologies now make it possible to monitor deforestation over large areas cheaply and in real time.

In addition, international consensus has been reached on a mechanism for rich countries to provide performance-based finance for reduced deforestation. Forest-rich countries have signaled their willingness to increase their level of ambition with additional finance, and significant private-sector actors have committed to transition to deforestation-free production practices. These factors have set the table for an initiative to tackle tropical deforestation that is worthy of a presidential legacy.

- **Proof of Concept:** Much is known about what drives deforestation and which policy tools can be deployed to reduce it.[24] Forest protection is associated with the establishment of protected areas, targeted law enforcement efforts, and the presence of indigenous peoples. Economic "carrots," such as payments for reducing deforestation, and "sticks," such as withholding access to credit and markets from high-deforestation jurisdictions and companies, can also provide incentives for change. Brazil has demonstrated the effectiveness of these approaches, reducing deforestation by approximately 80 percent over the past decade, even while significantly increasing agricultural production.

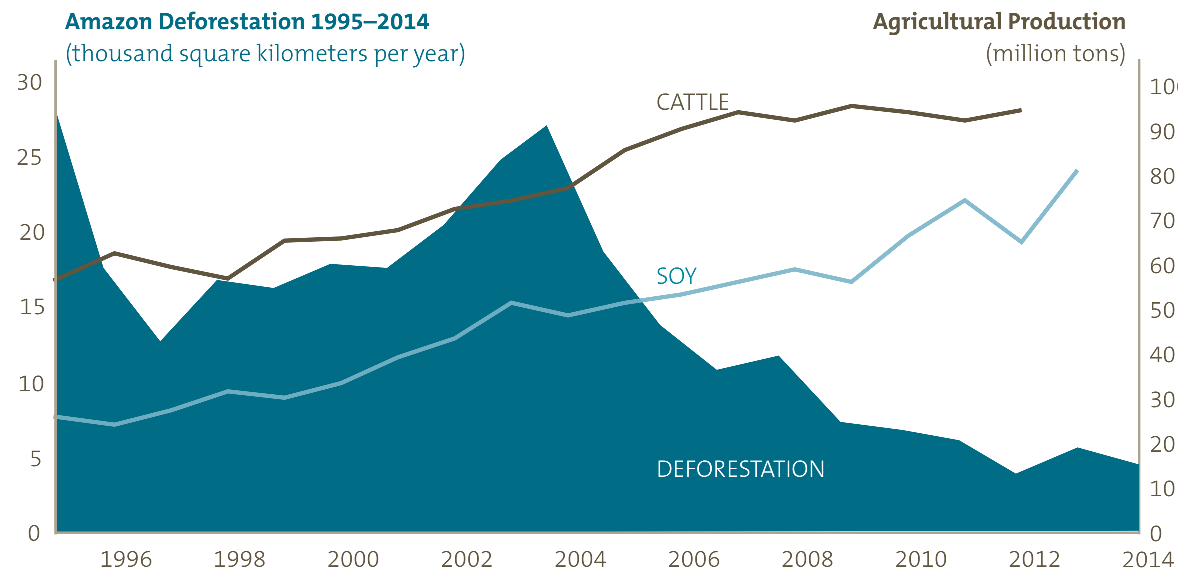
- **Technology:** Advances in remote-sensing technology have been a key factor supporting Brazil's success story. High-frequency satellite-based monitoring of deforestation "hot spots"—often suggesting illegal

Figure 2 Tropical Forests Offer up to 30 Percent of Mitigation Potential



Source: IPCC WGIII (2014); Pan et al. (2009)

Figure 3 Brazil Reduced Deforestation and Increased Food Production at the Same Time



Source: PRODES, FAOSTAT

clearing and burning—empowers governments and activists to pinpoint deforestation and respond with law enforcement efforts and market campaigns. Thanks to a revolution in satellite imagery resolution, it is now possible to measure forest cover change and carbon density with a high degree of accuracy, providing an objective basis for financial rewards to countries that have reduced deforestation.[25]

- **International Consensus:** Over the last decade, Reducing Emissions from Deforestation and Forest Degradation (REDD+)[26] has been one of the most productive areas of negotiation under the United Nations Framework Convention on Climate Change (UNFCCC).[27] As a mechanism under which rich countries provide performance-based finance to tropical forest countries for reducing forest-based emissions, REDD+ has enjoyed an unusual degree of consensus across both developed and developing countries. The mechanism includes rules to ensure that emission reductions are real and that the interests of indigenous and other communities are protected. But finance is needed to give meaning to the agreement.

- **Forest-Rich Countries Are on Board:** The forest-rich countries themselves are on board with the REDD+ agenda. As of 2014, some 50 countries were participating in one or more of the international programs designed to help them prepare to receive performance-based finance for reducing deforestation. In addition, a number of states and provinces in Brazil, Indonesia, Mexico, Nigeria, and Peru participate in the Governors' Climate and Forests Task Force, originally convened by Governor Arnold Schwarzenegger of California. At their meeting in Rio Branco, Brazil, in August 2014, 22 participating jurisdictions reaffirmed their commitments "to reduce tropical deforestation, protect the global climate system, improve rural livelihoods, and reduce poverty in our jurisdictions."[28]

- **New Private-Sector Constituencies:** As mentioned earlier, clearing forests to produce globally traded commodities such as beef, soy, palm oil, and pulp and paper is a significant driver of deforestation. Over the past two years, a growing number of companies that produce, trade, or purchase "forest-risk" commodities have committed to deforestation-free supply chains. In September 2014, 34 companies, including US corporate giants such as Cargill, McDonalds, and Walmart, joined the United States and 26 other governments in signing on to the New York Declaration on Forests, committing themselves to halving deforestation by 2020 and ending natural forest loss by 2030.[29]

Realizing that the success of their commitments depends on policy reforms in forest-rich countries, as well as on finance from abroad, these companies now constitute an important constituency for tropical forest conservation.[30] In June 2014, the board of the Consumer Goods Forum—representing some 400 consumer-facing manufacturers and retailers—called on governments to make REDD+ a priority, "supporting it with local and national policies that can protect forests and support livelihoods."[31]

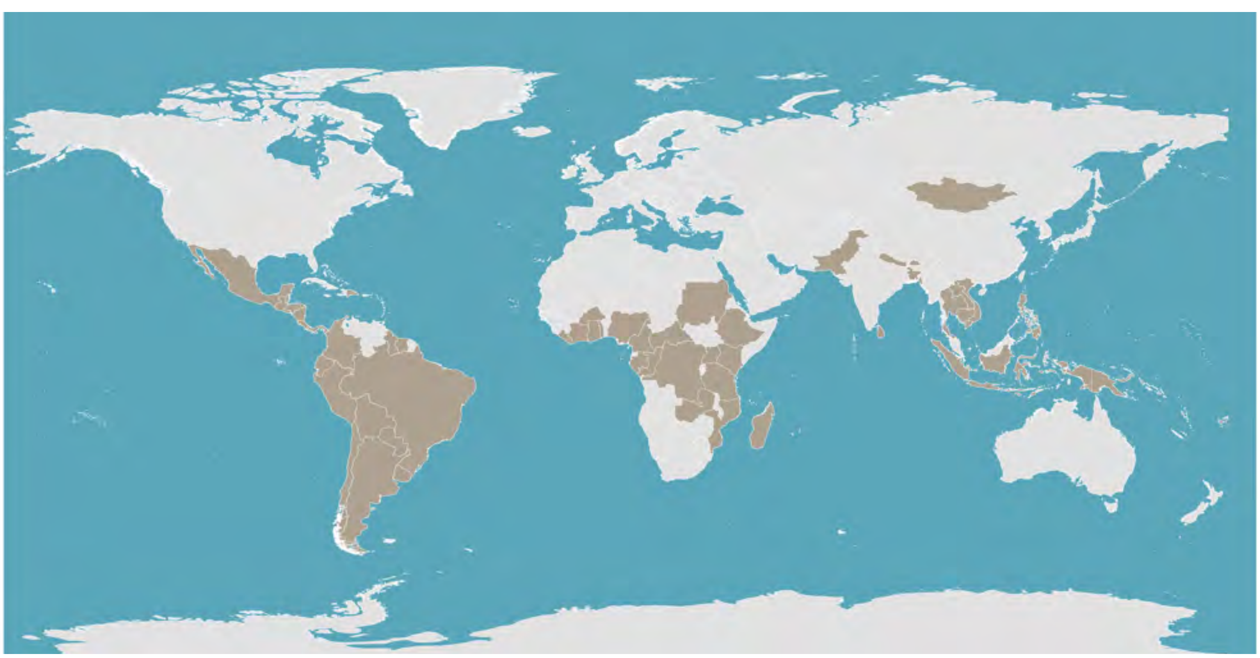
Policy Recommendations: A Road Map for US Presidential Leadership

The United States has long been a global leader in protecting tropical forests and has supported the role that forests can play in mitigating climate change both domestically and abroad.[32] The United States was among the top five bilateral donors for international forestry prior to the linkage of deforestation to climate change, and it has maintained that position in pledging funds for REDD+.[33]

Nevertheless, a significant gap remains between the level of funds currently available and what is needed to incentivize more ambitious efforts by forest-rich countries to address the drivers of deforestation. Compliance markets for emission reductions,[34] under discussion in the late 2000s, would have generated large demand for forest carbon "offsets" and significant funding for tropical forest protection. In fact, the ultimately unsuccessful American Clean Energy and Security Act of 2009 (known as the Waxman-Markey bill) alone would have created demand for about one-fifth of annual global emissions from land use and land use change and, through a separate mechanism, would have provided an additional $3 billion annually for forest protection.[35] Because compliance markets have been slow to materialize, government leaders and private-sector entrepreneurs who invested political and financial capital in REDD+ initiatives have been faced with limited demand for the results of their efforts. Because the volume of forest carbon offsets available on the voluntary market exceeds demand, their average price has been decreasing.[36]

Scaled-up finance from compliance markets or multilateral funding efforts are unlikely to generate sufficient finance prior to 2020 at the earliest, when pledges made by governments in 2015, ahead of the climate negotiations in December in Paris, are scheduled to come into effect. As a result, significant funding is needed now to create demand for reduced deforestation

Figure 4 Countries Participating in REDD+ Programs



Source: Data from Forest Carbon Partnership Facility (https://www.forestcarbonpartnership.org/redd-countries-1, UN-REDD (http://www.un-redd.org/partner_countries/tabid/102663/default.aspx), Climate Investment Funds FIP (http://www.climateinvestmentfunds.org/cif/node/5) to bridge the gap until substantial market-based sources of finance are in place, in addition to ensuring that post-2020 pledges are sufficiently ambitious.

The next US president should complement the US commitment to domestic climate mitigation expected to be included in the Paris agreement with an additional pledge to reward forest-rich countries for reducing their emissions (including, but not limited to, those from deforestation), taking effect before the 2020 goals come into force and ramping up afterward. This "international mitigation pledge"[37]—quantified as a percentage of US emissions in addition to domestic emissions cuts—would have a powerful leveraging effect on the actions of other countries. Such a pledge would likely prompt similar commitments from other industrialized nations and increase ambition in tropical countries to accelerate implementation of REDD+ initiatives.

To take advantage of this opportunity to address existing impediments to more ambitious global efforts to fight deforestation, the next US president should pursue a three-pronged approach. Such an approach would (1) increase performance-based assistance immediately, (2) implement regulatory changes to generate more finance in the medium term, and (3) take diplomatic and trade-related actions that support private sector–led initiatives focused on deforestation-free supply chains.

❶ Increase performance-based assistance for tropical forests.

In the near term, countries that have already initiated programs to reduce deforestation and have offered to do more with international support require increased and more targeted bilateral and multilateral assistance. Currently, related US investments total roughly $250 million annually; however, these investments are spread over several agencies and a large number of countries, vehicles, and approaches. The disparate efforts—led by USAID, the Millennium Challenge Corporation (MCC), the State Department, and Treasury Department—should be better coordinated and concentrated on a limited number of countries that drive global deforestation and are strategic US partners. In addition, these programs should pilot payment-for-performance approaches, thereby generating bigger bang for scarce US taxpayer resources.[38]

Payment-for-performance financing is a "no regrets" approach with bipartisan appeal. If emissions from deforestation are not reduced, then the US government would not disburse any funds. Put differently, US taxpayer resources would only be provided for independently verified results compared to benchmarks agreed-upon beforehand. Such approaches will also generate lessons learned on what works when "cash-on-delivery" aid principles[39] are applied to reducing forest carbon emissions. Acting on these lessons to improve performance will then strengthen the case for finance through compliance markets in the future. The United States already provides a modest level of performance-based finance through its contribution to the World Bank's Forest Carbon Partnership Facility Carbon Fund. At the same time, increasing the envelope of forest-related funding would have even greater impact. If the next US president were to announce a bold pledge of at least $1 billion per year until 2020, it would send a strong signal to forest-rich countries to continue and improve their efforts and would leverage increased contributions from other donors. The $1 billion figure is within reach through a combination of targeted USAID funding, Millennium Challenge Corporation (MCC) compacts, Overseas Private Investment Corporation (OPIC) investments, and earmarked contributions through the Green Climate Fund. And yet it is sufficiently large to signal serious intent to tropical forest countries. REDD+ experience to date has shown that international partnerships of this magnitude can fortify or catalyze action even in middle-income countries such as Brazil and Indonesia.[40]

❷ Use regulatory approaches to encourage state-level innovation.

In the absence of a carbon tax or cap-and-trade system at the federal level, the Environmental Protection Agency's (EPA's) existing Clean Air Act regulatory authority offers the best way to mobilize additional funding for reducing emissions from tropical deforestation. The next presidential administration should encourage states to mirror the proposed international mitigation pledge by going beyond compliance with the rules currently being finalized for power plant emissions to also create demand for forest offsets.

For instance, California is considering how to include such offsets in its cap-and-trade program and is making progress in developing a set of rules to ensure that such offsets are "real, additional, quantifiable, permanent, verifiable, and enforceable."[41] The EPA should encourage other states to adopt cap-and-trade models, facilitate participation in regional compliance mechanisms (that is, allow collective compliance across states through markets for emission reductions), and serve as a broker for states willing to top up mandated cuts with international forest carbon offsets.

The potential for marshaling such demand for forest carbon offsets in the fight against tropical deforestation was the impetus behind the formation of the Governors' Climate and Forests Task Force mentioned earlier. Indeed, the prospect of such demand provided important early stimulus to efforts to reduce emissions from deforestation in Brazil, Indonesia, Mexico, Nigeria, and Peru, and states and provinces participating in the task force have offered to cut emissions 80 percent by 2020 if matched with performance-based finance.[42] But as revenue to reward reduced emissions from deforestation has not yet materialized, initiatives taken by political leaders in those countries are at risk.

❸ Support private-sector supply-chain initiatives.

Through their supply-chain commitments related to the sourcing of paper, palm oil, and other commodities, private companies ranging from Disney to Dunkin' Donuts have stepped forward to be part of the solution to deforestation. But their initiatives will not succeed without government action in both producer and consumer countries. As long as producer companies are freely allowed to continue to deforest and can find international markets for their products, progressive companies will be disadvantaged even while their commitments to reduce deforestation are undercut. By providing complementary support to enhance the feasibility of implementing deforestation-free supply-chain commitments, increased REDD+ finance, combined with US diplomatic and trade efforts to transform commodity markets overall, would likely fuel more interest and commitments from additional companies in the United States and elsewhere. In a virtuous circle, new private-sector constituencies and market signals that reward reduced deforestation would in turn motivate governments in producer countries, such as Indonesia, to enact necessary legal and regulatory reforms and provide incentives for improved performance to private companies.

With the TFA, the United States has already established a public-private partnership dedicated to reducing tropical deforestation associated with global commodities such as beef, soy, palm oil, and pulp and paper.[43] The TFA would get a big lift from presidential-level endorsement of clear goals and deadlines and the convening of a White House task force to coordinate activities across agencies.[44]

With leadership from the State Department, the next administration should also expend more diplomatic capital in convening governments and corporations from both producer and consumer countries to make and implement commitments to deforestation-free supply chains. A "Palm Oil Pledge"—brokered by the US Embassy in Jakarta in September 2014—brought together key companies associated with the palm oil industry in Indonesia, demonstrating the potential catalytic role of US initiative.[45]

In addition, the United States should take specific measures to ensure that access to the $17 trillion US economy rewards exporters of "forest-risk" commodities that are legally produced and punishes those responsible for illegal deforestation. Illegal timber harvest deprives producer countries of tax revenue and depresses prices of domestically produced timber in consumer countries, including the United States, with annual losses estimated to be up to $1 billion.[46]

The next US president should request increased funding to implement the 2008 amendments to the Lacey Act, which were designed to prevent the import of illegal timber into the United States.[47] In 2012, funding appropriated to federal agencies to enforce the law and conduct outreach to affected companies was a mere $13.5 million;[48] increased funding could enable greater impact. For example, enforcement actions should be extended to cover timber produced when forests are illegally cleared for agricultural commodity production. The next US president should also work with businesses, nongovernmental organizations, and forest countries alike to advance similar legal frameworks that apply to the other products that drive global deforestation, thus creating and supporting a global norm that trade in the products of illegal deforestation is unacceptable to both importer and exporter nations.

Protecting tropical forests is a sound investment in US and global prosperity, national security, and US commercial interests. Reducing deforestation is a significant, low-cost portion of the overall solution to climate change and supports the achievement of development goals. Effective policy tools exist today, and success has been demonstrated. International consensus has been reached, with forest-rich countries ready to act. Major US and global corporations are on board. The missing ingredient for breakthrough progress is US presidential leadership that would mobilize performance-based financing models, complemented by diplomacy and demand-side policies.

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Powering Up US Policy to Promote Energy Access

Todd Moss and Madeleine Gleave

POLICY RECOMMENDATIONS

- Strengthen the Power Africa Initiative through a multiyear congressional authorization with clear authorities.
- Reform the Overseas Private Investment Corporation (OPIC) or establish a modernized US Development Finance Corporation to catalyze and harness private capital for energy development (see related proposal—Bringing US Development Finance into the 21st Century).
- Ease restrictions on countries that are most energy poor but least responsible for global emissions.
- Upgrade to a realistic definition of modern energy access.

Introduction

As late as 1930, only 1 in 10 rural Americans had access to electricity. In subsequent years, rapidly increasing power generation and growing the electrical grid across the country became major pillars of the American battle against domestic poverty and a foundation for decades of economic growth and wealth creation. Today, energy access is universal in the United States. Reliable and affordable electricity is considered a basic necessity of life, an indispensable input to almost every aspect of modern living.

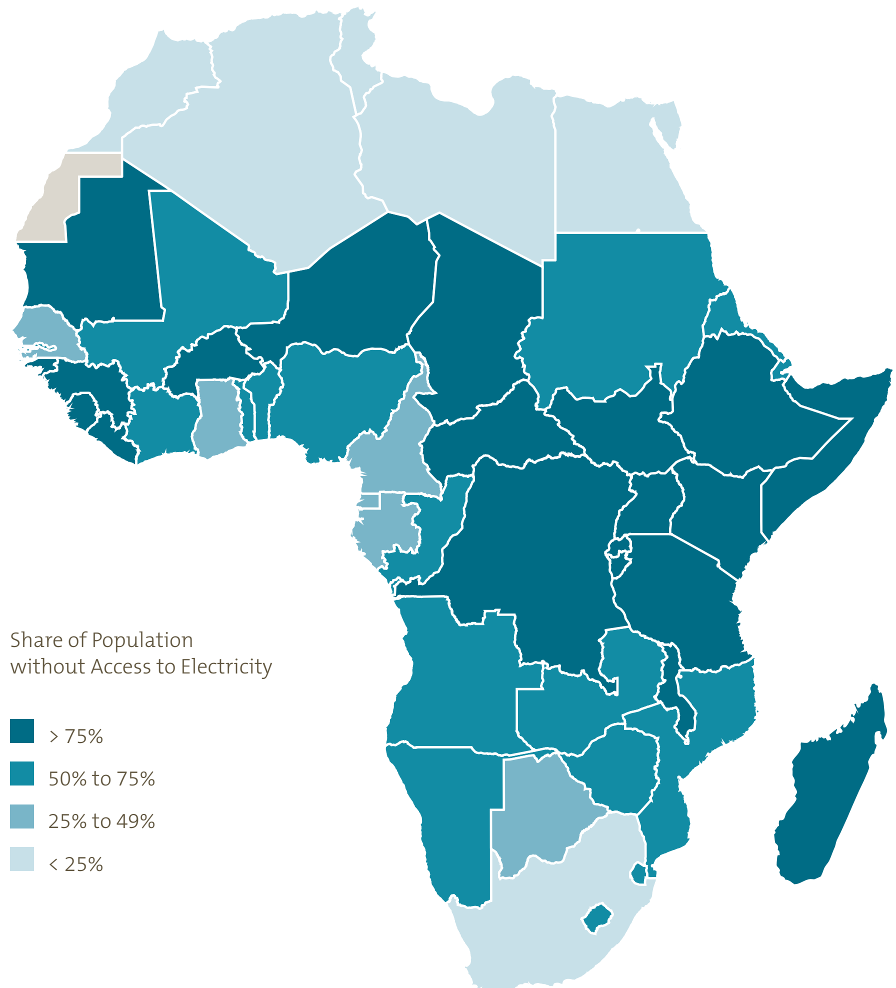
That same transformation is possible today in large parts of the developing world, where lack of access to modern energy harms quality of life and constrains economic growth. A concerted policy effort by the United States could help unleash tremendous human and market potential around the world. Pushing to promote electricity generation and access could significantly contribute to doing good in developing countries—and doing well for the United States.

The Challenge and Impact of Energy Poverty

Energy poverty is endemic in most developing countries, especially in Sub-Saharan Africa. The International Energy Agency (IEA) estimates that nearly 1.3 billion people globally lack access to electricity, and about half of these people live in Africa. Sub-Saharan Africa is particularly energy poor: only 32 percent of the total population has "modern energy access," according to even the most minimal definition. While rates vary between and within countries, in at least 37 Sub-Saharan countries, less than half the population has electricity. In extremely poor and post-conflict countries—such as Liberia, South Sudan, and Sierra Leone—rates are less than 5 percent. In these countries, electricity is a luxury available for only a handful of elites (see figure 1).

While these statistics tell a disheartening story, the reality on the ground is even worse. For those technically with "access"—that is, those whose homes or businesses are hooked up to a power grid—the actual flow of electricity is both sporadic and costly. Brownouts and electricity rationing are the norm, with even South Africa experiencing rolling scheduled blackouts in 2014. In

Figure 1 Over 620 Million People Lack Access to Electricity in Africa



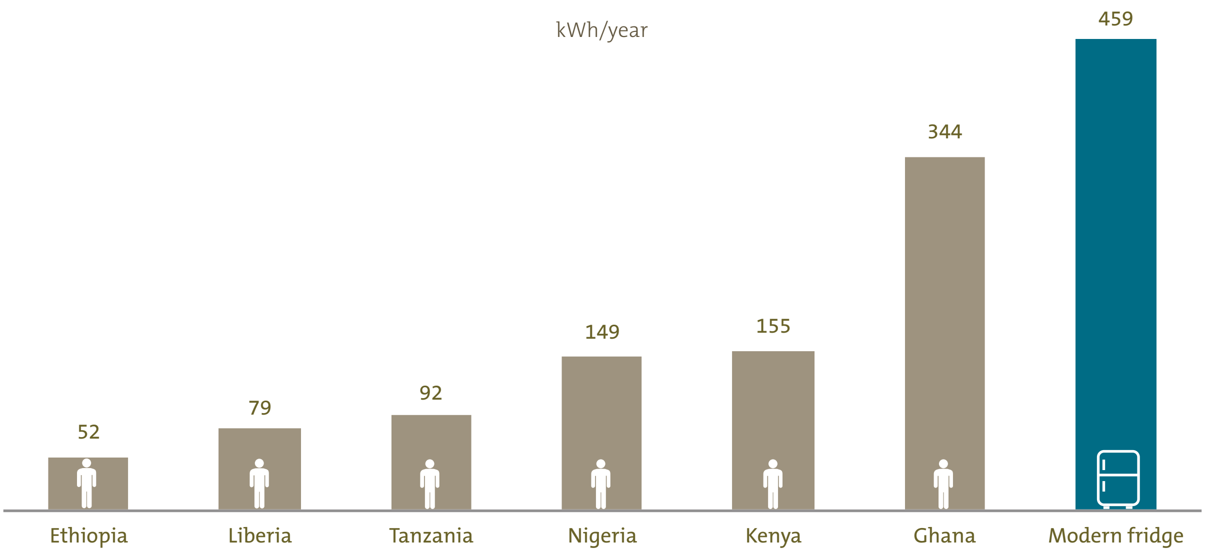
Source: IEA Africa Energy Outlook, 2014

Nigeria, a 2014 poll indicated that nearly two-thirds of citizens with an electrical connection received fewer than five hours of continuous power supply on a daily basis.[1]

Countries simply do not generate enough electricity to meet growing demand with outdated and insufficient infrastructure. Excluding South Africa, installed generation capacity in Sub-Saharan Africa is only 45 gigawatts (GW).[2] This is equivalent to the installed capacity in the state of Illinois.[3] Nigeria (population 174 million) has 23 power plants connected to the national grid with a generating capacity of roughly six 6 GW, which is roughly the same as North Dakota (population 723,000).[4] Liberia has zero large-scale power plants. Unsurprisingly, a recent detailed analysis of the Liberian economy highlighted electricity (as well as roads) as the top binding constraint on growth.[5]

Not only is power in short supply, but it is also extremely costly. According to the World Bank, power prices are up to three times more expensive in Sub-Saharan Africa than in most developing countries ($0.13 per kilowatt hour [kWh] versus $0.04–$0.08/kWh).[6] Liberia has the world's highest power prices at $0.57/kWh, while the cost of generating power is $0.77/kWh.[7] With 84 percent of Liberians (and 47 percent of Sub-Saharan Africans overall) living on less than $1.25 per day, affordable electricity is simply out of reach for most people.

Figure 2 A Typical US Refrigerator Uses Nine Times More Electricity than the Average Ethiopian Citizen



Source: IEA, 2011

High costs and low supply contribute to extremely low electricity consumption, even for people with "access." By illustration, the average American uses about 13,200 kWh per year, or nearly 100 times that of the average Nigerian. Most African citizens consume less power per year than what a typical modern refrigerator uses (see figure 2).

Energy poverty has far-reaching and deadly consequences. The lack of electricity and clean fuels means there is little or no access to electric cooking and heating, which are safer and healthier. Indoor air pollution caused by burning biomass fuels (such as wood and charcoal) causes an estimated 3.5 million premature deaths globally a year, more than AIDS and malaria combined.[8] Moreover, some 60 percent of refrigerators used in health clinics have unreliable electricity, compromising the effectiveness of vaccines and pharmaceuticals to fight preventable diseases.[9] Living without power also harms education, preventing students from studying at night and limiting technologies that schools can use for teaching.

Energy shortages are a massive drag on economic growth and job creation. While recent growth rates of African economies have been impressive, World Bank enterprise surveys have consistently pointed to the lack of reliable, affordable electricity as a top constraint to business expansion.[10] For instance, 76 percent of firms in Nigeria cite electricity as the biggest constraint to their operations. This is not surprising because they lose 9 percent of annual sales to electricity outages, which occur 302 days a year.[11] And with 12 million African young adults entering the job market each year facing staggering unemployment and demanding better economic opportunities, these constraints have implications for US national security and commercial interests.[12] The IEA calls energy poverty a "brake" on development and growth, one that must be released to build modern economies and raise living standards.[13]

However, energy access in Africa is not a global climate issue. Across the Power Africa countries, average per capita CO_2 emissions are a mere 0.3 tons per year—almost 20 times less than the global average, and 60 times less than the United States (see figure 3). Africa is responsible for only 2.5 percent of global cumulative emissions since 1980, despite being home to nearly 15 percent of the world's population.[14] African countries are going to require a range of technologies and fuels to close the energy gap, but with such a low starting benchmark, even better-than-expected increases in African energy consumption would have a negligible impact on the broader climate challenge. At the same time, increased energy access would have a hugely beneficial impact on African development and growth.

Initial Global Response: Progress and Gaps

Now is a critical moment to alleviate energy poverty. Global leaders have increasingly called for a more intensive focus to close the growing energy access gap. The post-2015 Sustainable Development Goals (the guiding global development agenda intended to succeed the Millennium Development Goals) are likely to include an energy goal, with initial drafts aiming to "ensure access to affordable, reliable, sustainable, and modern energy for all."[15] The World Bank and United Nations have launched their Sustainable Energy for All initiative, which aims to bring universal access by 2030. And at the African Development Bank, the regional bank most engaged on the front lines of energy poverty, power projects are the second highest sector in the portfolio.[16]

These multilateral commitments to energy are matched by, and partly in response to, strong prioritization of energy among governments and citizens of developing countries. Infrastructure investment, especially in the power sectors, is consistently among the top priorities for African governments and in public opinion surveys.[17] Public demands are especially high given the large number of new natural resource windfalls. Huge recent discoveries have revealed a total of 256 trillion cubic feet of proven gas reserves in 20 Sub-Saharan African countries (by comparison, the United States has 323 trillion), with several more countries in the exploration stage.[18] Local citizens understandably expect some of these resources to be used to address long-standing electricity challenges rather than have all oil and gas production exported to wealthier trading partners. Governments, too, are eager to capitalize on this potential boon to energy access. Tanzania, for example, states in its National Natural Gas Policy that "facilitating wide domestic utilization of this indigenous resource [is] an important element of the country's strategies for achieving rapid broad-based growth and socioeconomic transformation."[19]

The increasingly dire situation of African energy poverty comes at the same time as burgeoning private-sector interest and opportunity in the region. Emerging and frontier markets are demonstrating growing demand for energy, and private investors are beginning to respond. In 2013, more than one-fifth of foreign direct investment inflows to Africa were for energy-sector projects, and new investment partnerships between some of America's largest private-equity firms and major African infrastructure companies signal a deliberate pivot toward the continent.[20,21] This shift creates an opportunity for the US government to leverage business engagement and help build the next generation of emerging markets, with only a modest budgetary impact.

Time for US Action

The current global economic and political agendas are more aligned than ever to fight energy poverty. The intersection of multilateral agency, bilateral government, and citizen and business attention offers unique traction for strategic partnerships for the United States—with potential economic, political, and diplomatic dividends.

The United States should build on the momentum from Power Africa. The US government has already emerged as a leader on the energy poverty agenda through the Power Africa initiative. Launched by President Barack Obama in June 2013 and expanded in 2014, the effort aims to boost generation by 30 GW and provide access to 60 million homes or businesses through a mix of public- and private-sector tools. These highly ambitious goals translate into covering roughly 300 million Africans, or roughly half of those currently living without electricity. Initial public resource commitments total $7.3 billion (principally from the US Export-Import Bank and the Overseas Private Investment Corporation [OPIC], plus some US Agency for International Development technical assistance), as well as $20 billion in private capital from power development companies and investors. The initiative has also leveraged additional interest and investment from other multilateral and bilateral actors, such as $5 billion from the World Bank and $1 billion from Sweden.[22] Further US government leadership in pushing the energy poverty agenda forward will likely bring even more partners into the mix.

Power Africa provides a useful framework to accelerate US policy for energy access over the next decade. As home to some of the world's largest energy-sector firms and largest pools of private capital, the United States has a particular advantage in encouraging private-sector involvement. The US government already has agencies, such as OPIC, that can help link these firms to commercially viable energy projects. Likewise, the United States has a unique capacity for sharing energy technology expertise, stemming both from private-sector experience and from public research and development labs. Power Africa also has significant potential to establish modernized engagement models between the United States and developing countries;

these models are based on partnership and mutual interests rather than on the increasingly outdated donor-recipient model. While Power Africa is promising, its future is far from guaranteed because constraints hold the United States from achieving its potential.

Misguided investment regulations are a constraint. In response to interest group concerns about global carbon dioxide emissions, the US Congress has hamstrung US development finance tools. Yet, these restrictions have little impact on global climate change objectives, while causing significant harm to poor people in developing countries. For instance, a carbon emissions cap on OPIC's portfolio has effectively pushed it out of nearly all natural gas power projects in the world's poorest countries. Meanwhile, these same countries are developing their own natural gas resources, which can fuel affordable electricity at home.[23] This strategy is not only preventing US investment in potential power plants, but it is also ineffective as a carbon mitigation response. The poorest countries produce almost no carbon emissions; all of Sub-Saharan Africa accounts for only about 2 percent of current global emissions. In other words, even if all African countries adopted zero-carbon strategies, it would make virtually no difference to global targets. Yet, blocking finance for natural gas projects in poor countries will cause certain harm by denying electricity to millions of people.[24] Moreover, the current approach is blatantly inconsistent with the long-established "all of the above" domestic energy strategy.

The existing definition of *modern energy access* is far too low. The commonly used IEA standard is a consumption level of 250 kWh per year (or roughly 50 kWh/person/year) in rural areas and 500 kWh per year (100 kWh/person/year) in urban areas. By comparison, an average of 100 kWh/year is the equivalent of powering a single 60-watt lightbulb for five hours per day. This is closer to a definition of energy poverty than anything remotely close to a dignified, modern standard of living.[25]

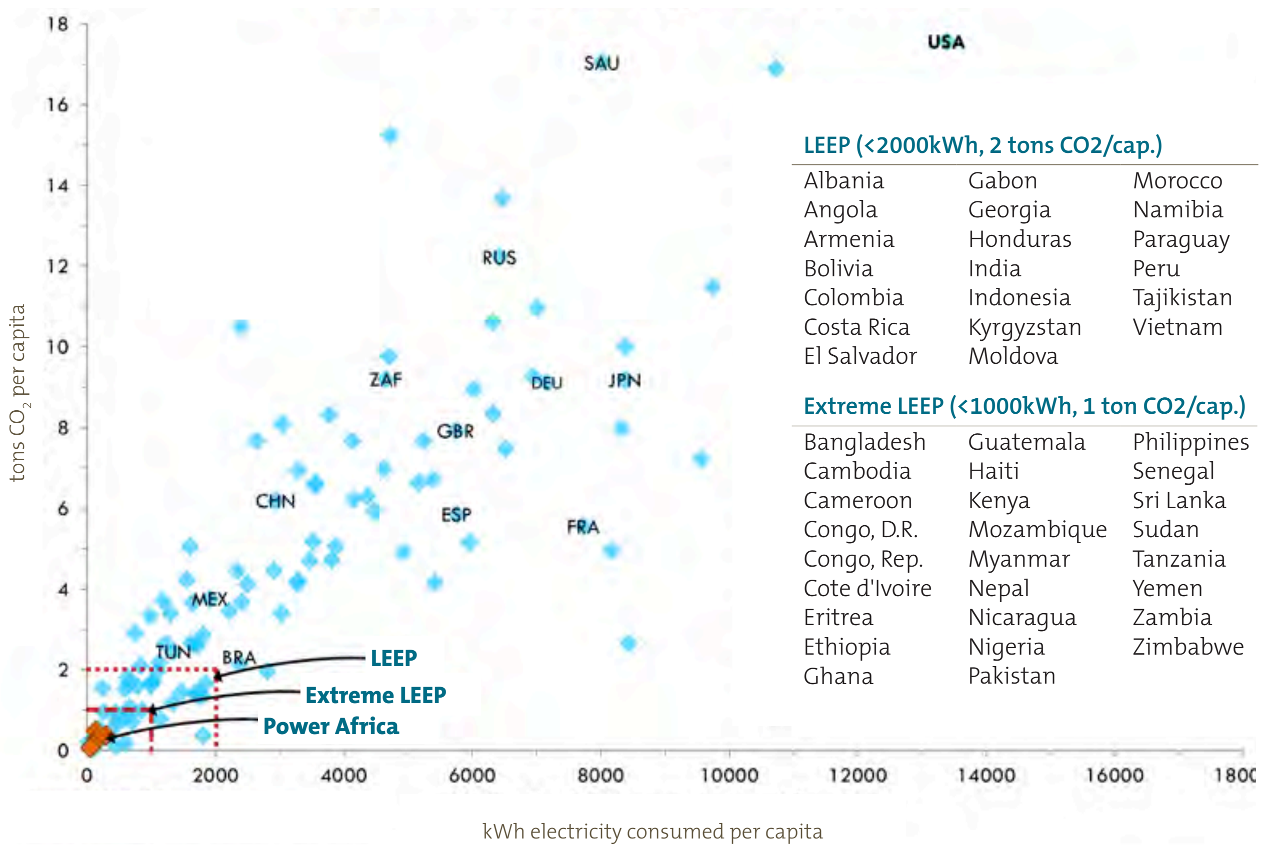
We propose four additional steps that would build on recent progress and overcome remaining barriers to powering up US policy in the fight against energy poverty.

Table 1 Global Energy Access

	Electricity Consumption (per capita kWh/year)	Access to Electricity (% of population)	Population without Electricity (millions)
United States	13,395	100%	0.0
Europe, Average	7,062	100%	0.1
South Africa	4,654	85%	7.6
China	2,944	100%	4.0
Tunisia	1,350	100%	0.1
India	641	75%	297.8
Ghana	299	72%	6.8
Kenya	155	19%	33.1
Nigeria	135	48%	83.0
IEA Urban Threshold	*100*		
Tanzania	91	15%	38.3
Liberia	79	0%	3.9
Ethiopia	51	23%	66.8

Source: IEA, World Bank

Figure 3 The US Should Boost, Not Restrict, Energy Investment for Low-Emitting, Energy Poor (LEEP) Countries



Source: World Bank World Development Indicators for 2010

Policy Recommendations

The next US president, in close partnership with the US Congress, should pursue four concrete actions that would both solidify and improve the impact of existing efforts to address African energy poverty.

1 Strengthen and formalize Power Africa through authorizing legislation and clearer authorities.

The greatest risk with Power Africa is that, like other presidential initiatives, it will fade away after the founding administration leaves office. Energy poverty is too long term and too critical an issue to allow that to happen. Legislation like the Electrify Africa Act, which the House of Representatives passed in May 2014 on a bipartisan basis, and the Energize Africa Act, now being considered in the Senate, would keep Power Africa and its programs going beyond 2016. More important, it would provide a clear bipartisan signal of political support to ensure that the effort continues. Previous development legacies—such as President Clinton's African Growth and Opportunity Act, President Bush's PEPFAR (President's Emergency Plan for AIDS Relief), and the Millennium Challenge Corporation—have enjoyed support from Congress. As a result, each of these legacy initiatives is still with us today. Successfully passing authorization legislation for Power Africa will make it a durable US development effort and ensure that energy poverty remains at the top of the US-Africa agenda. This legislation could improve the Power Africa initiative by establishing (1) clear executive branch authorities and responsibilities beyond ad hoc interagency arrangements that are heavily reliant on White House staff; (2) transparent performance metrics for tracking progress and holding US agencies accountable; and, (3) country-eligibility benchmarks for guiding the expansion of Power Africa beyond the original six focus countries (Ethiopia, Ghana, Kenya, Liberia, Nigeria, and Tanzania)."

❷ Reform OPIC or create a wholly modern US Development Finance Corporation.

Since private firms will provide the bulk of the investment for the power sector, the US government needs a modern agency that can help catalyze and harness private capital. OPIC is a small, high-performing federal agency that remains hamstrung by outdated authorities and rules. Reforms that could enable OPIC to better fulfill its core development mission to build markets abroad and play a more active role in the power sector include multiyear authorization; allowing direct investments in limited instances, rather than only loans and guarantees; retaining a modest share of annual profits to invest in a slightly larger staff; and playing a clearer lead role within the interagency structure.

A more ambitious option would be to turn OPIC into a modern, full-service US development finance corporation. At no additional budgetary cost to US taxpayers, this would enable US tools to compete with its peers and to better support US commercial, developmental, and foreign policy objectives abroad. Additional details on this proposal can be found in "Bringing US Development Finance into the 21st Century."

❸ Ensure that environmental regulations do not deny energy access for low-emitting poor countries.

For practical and ethical reasons, the United States should align its domestic and global energy policies by easing restrictions on those countries that need energy the most and are least responsible for the global emissions. The fiscal year 2014 Consolidated Appropriations Bill temporarily lifted the OPIC carbon cap using World Bank eligibility, which is based principally on average national income. An alternative long-term solution would be to link regulatory constraints to actual emissions and energy needs. In this manner, OPIC would be able to support natural gas projects in low-emitting and energy poor countries, while the carbon cap would remain in place for all other developing countries.

❹ Establish a meaningful definition of modern energy access.

The United States should encourage the IEA, the United Nations, or the World Bank to establish a more reasonable and dignified energy access target. This could take several forms. They could simply use a higher per capita threshold (e.g., Tunisia's 1,300 kWh or South Africa's 4,600 kWh). They could adopt a multi-tier index of access, such as the Global Tracking Framework the World Bank is developing. Alternatively, these global bodies could base the benchmark level on a more reasonable estimate of daily energy requirements, which would reflect a basket of basic services needed for modern life. The purpose would be to affirm that access to affordable, safe, and clean energy is a worthwhile goal and potentially a post-2015 global development goal.

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Modernizing US Security and Development Assistance in the Middle East

Nazanin Ash and Allison Grossman

Introduction

The United States has significant and enduring strategic interests in the Middle East and North Africa (MENA). Preventing the proliferation of weapons of mass destruction, combating terrorism, ensuring the free flow of energy and commerce, and securing Middle East peace are paramount national security objectives, with stability in the region a prerequisite for their achievement. The United States is willing to expend tremendous financial and human capital to secure these interests. The US Congress appropriated $7 billion for foreign aid to the region in fiscal year 2015 alone; appropriations since 1978 amount to more the $304 billion, exceeding assistance for any other region.[1] Most significantly, the human and financial costs of US wars in the region have been immense: 4,489 American lives lost and $2.2 trillion spent since the 2003 invasion of Iraq.[2]

In broad terms, however, US strategy in the region has not changed in the past 40 years, favoring security approaches over political and economic development, narrow partnerships with select regime elements over broader engagement with governments and people, and short-term responses and interventions over long-term vision. Symptomatic of this strategy is the fact that US security assistance vastly outstrips economic assistance. Since 1978, barely one-third of assistance has been allocated to economic support, and since 2009, despite a long period of economic decline in the region, economic assistance has not accounted for more than 10 percent of total combined military and economic aid. The majority of assistance is allocated directly to regimes as cash transfers and foreign military financing. For example more than 80 percent of aid to Egypt, a top recipient of US assistance, has been provided as cash transfers or military financing, while support for political and institutional reform accounts for the smallest portion of aid.[3] Subsumed for decades in favor of security concerns, assistance for regional reform efforts has atrophied even further under pressure from regimes, with just 6 percent dedicated to political reform in FY2015.[4] (See figure 1.)

US security alliances, financial assistance to regimes, and military interventions were intended protect against threats to US interests. Yet, over the past decade, it has become clear that the US approach has failed to secure regional stability or other core US objectives. The past four decades have seen more than 60 episodes of regional conflict and violent regime change. Four regimes (Egypt, Libya, Tunisia, and Yemen) fell in the revolutions of 2011, while others unleashed violence against their populations to maintain power. Resurgent violence in Iraq and an increase in terrorist attacks across the region (from approximately 1,500 attacks in 2010 to nearly 7,000

POLICY RECOMMENDATIONS

- Reform US security assistance to target challenges identified by regular threat assessments, incorporate partner commitments to institutional reform, and promote civilian oversight through increased transparency.
- Establish a Middle East and North Africa Fund to address constraints to economic growth in countries that demonstrate a willingness to tackle reform.
- Elevate and amplify local voices pushing for reform in the region by mobilizing international support, sharing technology, and supporting a marketplace to connect activists with lawyers, strategists, and other service providers.

attacks in 2014)[5] have led the United States to return troops to the region, where, in many countries, security forces are struggling to maintain internal order and to deal effectively with terrorist and other threats, despite the billions of dollars in US financial assistance, training, and equipment. From the Syrian civil war that has claimed more than 230,000 lives, to struggles for power in Iraq, Libya, and Yemen, to citizen resistance in Bahrain and Egypt, to the march of the Islamic State of Iraq and al-Sham (ISIS), the region today is engulfed in violent conflict and instability. The consequences are increasingly reaching beyond the region, as indicated by the current mass migration of refugees to Europe, fleeing conflict at home and sparking political crises abroad. Conflict in MENA has spurred the largest displacement of people on record, with the largest portion of the world's displaced originating from the region.[6]

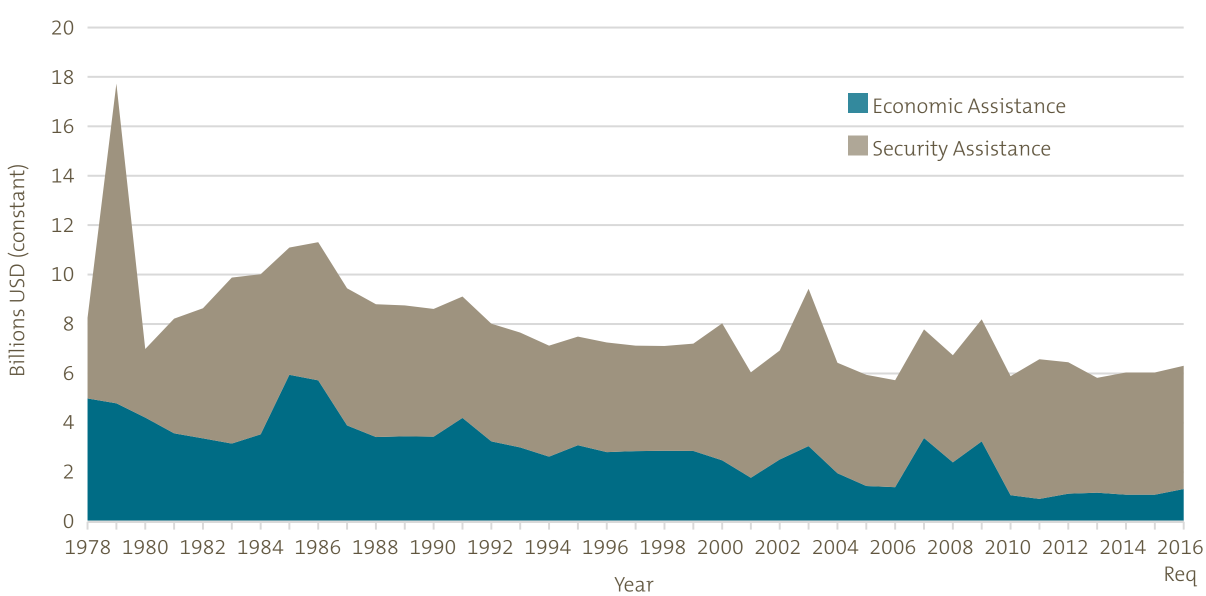
These outcomes indicate that the United States must reorient its strategy or face ongoing threats to its interests, including stability and subduing terrorist threats and organizations. Although the conflict and security threats currently gripping the region demand an increase again in security responses and cooperation, the roots of the region's instability are political and cyclical. US strategy must address these roots directly and aggressively.

Three Challenges US Assistance Must Address

MENA countries have long traded political freedom for social protections. Poor governance, institutional corruption, and rent seeking by elites, however, have hollowed out social services and locked populations out of economic opportunity. Security forces and judicial institutions have been appropriated for regime and elite interests, reinforcing the disenfranchisement of ordinary citizens and failing to provide basic justice and security. As populations have grown, social contracts have frayed and citizens have chafed against closed economies and corrupt regimes, leading to widespread revolts across the region.

The solutions to these problems are domestic and political: regional leaders must be more responsive to popular demands for shared power, prosperity, and just rule. The strategic question for the United States is how to best help catalyze such transformations. To achieve its national security objectives, the United States must bring its tools to bear on three dangerous contradictions that constrain political and economic development in the region: injustice and security, closed economies and ascendant youth, and closed politics and political reform.

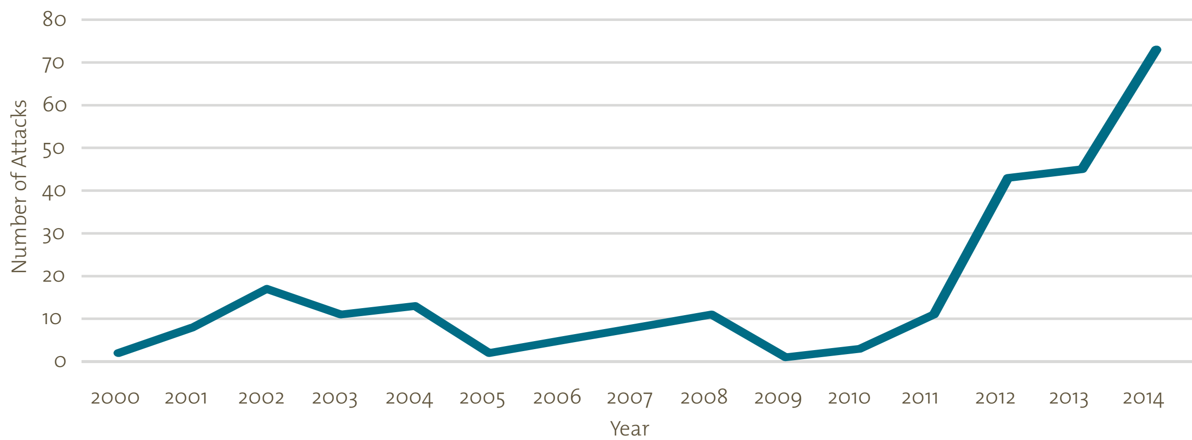
Figure 1 Most US Aid to the Middle East and North Africa is for Security Assistance



Note: Economic assistance includes economic support funds; security assistance includes foreign military financing and international narcotics control and law enforcement funds.

Sources: *US Overseas Loans and Grants*, Greenbook 2015; Congressional Budget Justification, State and Foreign Operations, FY2016.

Figure 2 Suicide Attacks against Security Forces in the Middle East Have Risen Sharply



Note: Includes attacks in Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestinian Territory, Saudi Arabia, Syria, Tunisia, and Yemen.

Source: Chicago Project on Security and Terrorism (CPOST) Suicide Attack Database

Injustice and Security

Across MENA, security forces fuel grievances among disenfranchised populations. In addition to security duties, many of the region's internal security forces operate as the primary instruments through which regimes dominate populations and protect those in power,vii targeting political opposition and regime dissenters, employing violent tactics and torture, and operating with impunity. The actions of security forces were part and parcel of the corruption, indignity, and injustice that sparked the 2011 uprisings.viii The renewed ascendancy of security forces is due not only to amplified efforts to counter growing insecurity and terrorism, but also to renewed efforts to eliminate political opposition and to consolidate regime power.[A] (See figure 2.)

Strong-arm security tactics against citizens and the lack of due process have serious implications for counterterrorism efforts. Whether it's the radicalization of Egyptian, Algerian, and other groups over the past half-century or more recent experiences in Iraq and Syria, violent crackdowns on opposition groups have bred cyclical violence and instability. Over the past three years, as regimes have responded to uprisings in the region with increasing force, attacks against security forces have also increased.[9]

The United States is associated with regional security forces and the staying power of regimes. For decades, it has provided the region's security umbrella, a commitment recently renewed by the Barack Obama administration and enforced by the presence of US troops and military bases in or bordering nearly every MENA country. Saudi Arabia and the United Arab Emirates are top clients of the US Foreign Military Sales program; and Egyptian, Iraqi, and Jordanian security forces are top recipients of US security assistance and training, with US security assets and contributions to the region vastly outpacing that of any other nation.[10]

With the exception of very few countries, however, US investment in regional security institutions has failed to produce capable allies along dimensions that matter to US interests. Instead, US support has implicated the country in internal political and sectarian conflicts and placed a thumb on the scale in support of security institutions. In Egypt, for example, US assistance has unintentionally contributed to the entrenchment of the Egyptian Armed Forces (EAF) in economic and political spheres—or at least it has not been shaped to minimize the Egyptian military's grip on the country's economy.[11] In Iraq, billions in US assistance were used by a corrupt regime to build a sectarian army that exploited the fault lines of Iraqi instability and proved incapable against ISIS. In Yemen and Bahrain, the long-standing US security

[A] For example, Egypt's National Council for Human Rights reports that at least 1,800 civilians have been killed by security forces since July 2013, when General Abdel Fattah al-Sisi, now Egypt's president, ousted Egypt's first democratically elected president. More than 40,000 political prisoners are held in Egypt's jails,1 and mass trials, mass sentencing, and a sharp increase in the number of civilians tried in military courts reveal politicized judicial systems complicit in regime efforts to eliminate opposition. Similar tactics are on the rise in Bahrain, Saudi Arabia, and the United Arab cooperation with Saudi Arabia has implicated the United States in the Saudi's deeply contested military campaigns in those countries.

In the eyes of regional populations, these actions have made the United States complicit in the ongoing disenfranchisement of millions; they also place the United States in extremists' crosshairs. To achieve its own interests, the United States must modernize its security approaches to support the emergence of professionalized, neutral institutions operating under the rule of law—otherwise, the United States will face rising terrorism and instability.

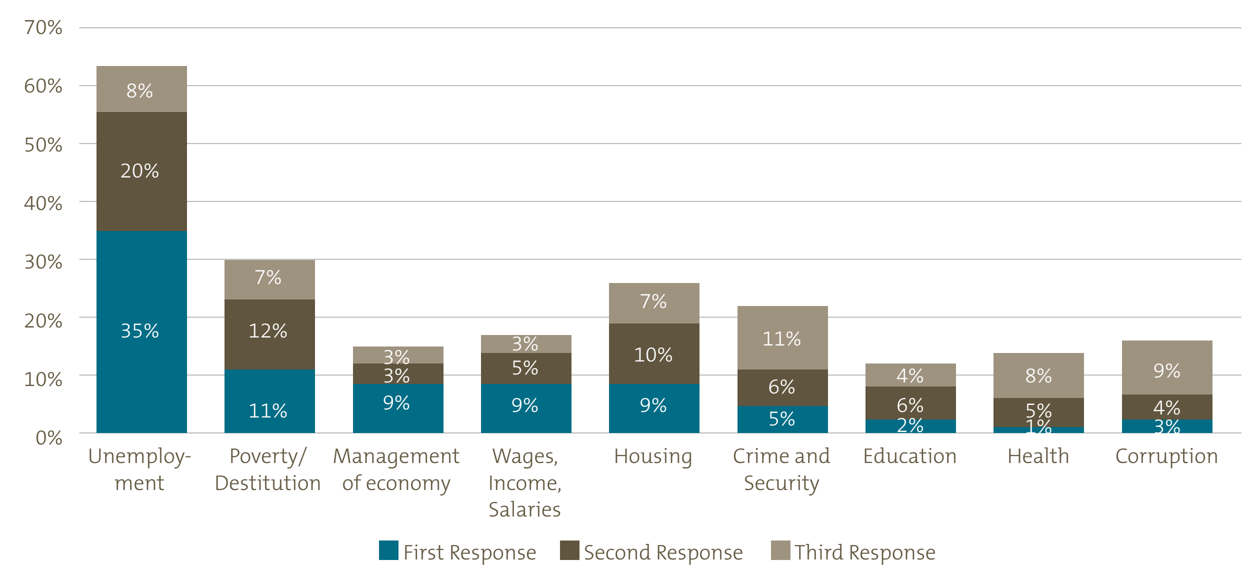
Closed Economies and Ascendant Youth

The Middle East faces a combustible mix of shrinking economic opportunities and rapidly growing youth populations. Across MENA, 60 percent of the population is younger than 30 years old.[12] More than a quarter of those younger than 25 years old are unemployed. This problem is particularly acute among highly educated youth: more than 30 percent of Egyptian, Tunisian, and Jordanian youth with university educations are unemployed.[13] In addition, more than 60 percent of those surveyed by Afrobarometer listed unemployment among their top three responses for problems that government should address. Joblessness, lack of opportunity, and institutional corruption are key underpinnings of conflict, instability, and motivations to join extremist groups.[14](See figure 3.)

Egypt provides a stark example of economic and political capture. The military, from which Egypt's current president hails, benefits from US and Gulf financial support.[15] It also has preferential access to commercial projects, controls all undeveloped agricultural land, is exempt from taxation, has access to labor at below-market costs, controls nontransparent procurement practices, implements massive development projects, and deploys military officials across all levels of government and industries.[16] These economic privileges and those of other regime-connected elites make it hard for new private-sector actors to compete, spawning a massive informal sector of insecure jobs and micro-enterprises that never grow to scale.[17] The picture is better in countries like Jordan, Tunisia, and Morocco, but regime elites dominate those economies as well.[18] At the same time, coveted public-sector jobs have diminished as countries facing economic crises reign in public spending. The lack of well-paying jobs, together with the inequality of opportunity and economic capture by elites, confronts a youth population with more education, greater global connectivity, and higher expectations than that of previous generations.

Despite these imperatives, regional governments have been slow to respond to the challenge. Technical answers to the region's economic problems are clear. First, governments need to reduce regressive subsidies and modernize tax policy and collection to reduce deficits and strengthen macroeconomic stability.[19] Second, they must increase transparency in the financial sector

Figure 3 Survey Respondents in Algeria, Morocco, Tunisia, and Egypt Cite Unemployment as Top Problem



Source: Afrobarometer data, Algeria, Morocco, Tunisia, Egypt, Round 5, 2013, available at http://www.afrobarometer.org.

and strengthen the rule of law. Lastly, governments must streamline business regulations and remove trade barriers to support entrepreneurship, innovation, competition, and regional trade. The international community has long pressed for these economic reforms, and countries have developed plans in conjunction with regional and international financial institutions. But although technical solutions may be clear, political barriers to implementation are high. The diverse range of stakeholders—from elites benefiting from the region's crony capitalism to populations benefiting from subsidies to organized interest groups resisting labor or other reforms—has dampened meaningful reform efforts.

Closed Politics and Political Reform

Efforts to enable urgent economic and security reforms are hamstrung by closed political systems and institutions shielded from public scrutiny and accountability. Institutional quality in the region ranks among the lowest in the world, with tremendous effects on development progress and citizen satisfaction. Most countries rank in the bottom quintile globally on measures of institutional quality, accountability, and management.[20] Not surprisingly, the region also ranks lowest in the world on measures of voice and accountability, freedom of speech, and protection of civil society. MENA countries' average freedom rating (Freedom House's measure of political rights and civil liberties) is 5.4, with a score of 7.0 indicating the lowest degree of freedom. Five countries in the region posted the biggest declines in freedom globally in 2014: Bahrain, Egypt, Iraq, Libya, and Syria.

Elites' control over political systems is a central constraint to reform, be it of economic policies, security institutions, or social services. Without freedoms of speech, association, assembly, and information, citizens have few avenues to contest state policies. And without inclusive and participatory governance and accountability structures, elites face few threats to their reign and little pressure to change. Furthermore, closed, centralized state systems cannot determine and respond to the diverse needs of entire populations, nor can they spread the political costs of reform across multiple stakeholders. These factors help explain why, despite billions of dollars of donor assistance in health, education, water, and other infrastructure, millions of citizens remain underserved, thereby deepening grievances against the state.[21]

The centrality of citizen movements to political and economic reform is evidenced by the priority that regimes have placed on closing civic space and denying fundamental rights and freedoms in the aftermath of the Arab Spring. Regimes have also focused explicitly on reducing the ability of independent civil society organizations to receive foreign funding and partner with international organizations. These restrictions have struck at the heart of US government models of supporting local organizations. Together with aggressive and unprecedented actions against US organizations and even US government entities and diplomats, such actions against civil society, in the absence of aggressive and sustained pushback from the United States, have effectively constrained US support for political reforms and its ability to engage with a broad range of political stakeholders in many countries.

It is tempting to believe (as US policy often reflects) that security interests, economic progress, human rights, and democratic reforms can be sequenced one after the other. They are not, however, separate objectives subject to trade-offs; rather, each depends on the others. The pursuit of political reform and the protection of fundamental freedoms are not only values to promote when convenient but also interests that the United States must elevate and sustain in its pursuit of reform and regional stability.

Policy Recommendations

The United States must recognize that the constraints to reform in MENA are political problems, not technical or financial challenges. Although progress depends primarily on the actions of regional political leaders, the United States can devise strategies to influence the choices of those leaders. Whether or not the United States has leverage in the region is hotly debated, especially with respect to economic assistance, but the United States does remain a crucial arbiter of international legitimacy and has unparalleled convening authority, both regionally and internationally. Most significantly, the United States is uncontested in providing the region's security umbrella, a mutual interest grounded in an unequal partnership. Security partners in the Middle East should not expect the United States to offer its support—measured in US lives and treasure—in the absence of actions on their part to eliminate the underlying drivers of violence and unrest. The United States underestimates its leverage, compromises its interests, and devalues the lives of American troops when it trades essential reform priorities for near-term security outcomes.

To achieve its national security objectives, then, the United States must seek greater balance between its near-term security priorities and the longer-term political and economic development outcomes that will undergird the region's stability. The United States must (1) remodel security assistance to focus on US interests, institutional reform, and civilian oversight; (2) increase economic engagement and restructure US economic assistance to focus on promoting accountability of recipient governments to their own people and on concrete development outcomes; and (3) elevate political reform, reformers, and universal rights.

1 Remodel Security Assistance to Focus on US Interests, Institutional Reform, and Civilian Oversight

First, US security assistance requires a structural overhaul premised on mutual interest undergirded by mutual responsibility, with the United States providing assistance and countries shouldering reforms. In the aftermath of a nuclear deal with Iran, the United States is poised to increase security assistance and cooperation with many regional allies. In doing so, it must avoid the pitfalls of the past. To do so, the United States should:

- **Focus assistance on US security priorities and external threats to allies**, including counterterrorism, border security, maritime security, and effective internal policing. The United States should reduce funding for weapons systems and capabilities irrelevant to US security priorities and current challenges. Budgets should be driven not by multiyear commitments and de facto budget support to military institutions, but by regular assessments of the threat environment and the capabilities required to respond. The US Departments of State and Defense should conduct these assessments in concert with country partners.

- **Make institutional reform a priority** by providing US security assistance and military sales within mutually agreed compacts that include commitments from partners for the appropriate use of security aid. Compacts should include clear use agreements and objectives based on the assessments noted above, with measures to evaluate outcomes. They should also include institutional reform plans—and the assistance and training to support them—to ensure that the assets and security institutions that deploy them align more closely with international norms. Finally, they should include clear and enforceable actions to halt security assistance if partners fail to comply with compact terms. The United States should eliminate practices such as cash flow financing,[22] as such arrangements limit US flexibility to exert its leverage or execute changes in security assistance in accordance with changing priorities or regime relationships.

- **Encourage civilian oversight** by increasing transparency; by including the amount, purpose, and requirements for the use of assistance and equipment; and by engaging appropriate civilian leadership and institutions in compact development, implementation, and compliance monitoring.

2 Increase Economic Engagement and Restructure US Economic Assistance

Second, the United States must increase economic assistance to the region. Given the costs of repeated military deployments and the resurgence of conflicts over time, rebalancing regional assistance to include a robust focus on long-term economic development and institutional reform puts the United States on a more durable path to peace and stability in the region and offers better bang for the buck. As with security assistance, however, the US government must deploy its economic assistance with conditions that encourage necessary political and economic reforms. It must establish itself as partner of the people, responding to high-priority needs of populations. It must eliminate ways in which US assistance reinforces elite privileges, as it does now by working almost exclusively through governments and in the industries and communities dominated by regime elites. And it must build durable partnerships around shared objectives with other donors in the region, including Gulf allies, international financial institutions, and the European Union—all of whom share an interest in the region's stability and economic prosperity. With these aims in mind, the United States should:

- **Establish a $1 billion Middle East and North Africa Fund** that is focused on specific constraints to expanding economic opportunity. The Fund would model the responsiveness, transparency, and public accountability desired of public institutions. Similar to Millennium Challenge Corporation (MCC) compacts, the Fund would (1) assess each country's growth constraints through an analysis conducted jointly by the United States and the partner country; (2) finance joint projects that address the most significant constraints and demonstrate strong projected benefits and economic returns; (3) secure commitments from government partners to undertake necessary policy, regulatory, and institutional reforms; (4) include clear and transparent outcome measures and performance benchmarks; and (5) engage broad constituencies inside and outside of government on all aspects of compact development. Separate from traditional bilateral assistance, Fund resources would be available only to countries or ministries that demonstrate a clear willingness to reform; these resources could also support regional projects focused on trade integration. Critically, the United States should seek and include partners such as Gulf allies, the European Union, and international and regional financial institutions at every stage of the process.

An interagency board similar to that of the MCC should manage the Fund, with the US Secretary of State as chair. An interagency team, led by experts from the MCC, should facilitate compact development, with the interagency board approving compacts. Finally, the Fund should include new economic tools and authorities, such as loan guarantees, risk insurance, and equity investments. In an era of budget constraints and declining significance of foreign assistance (as private-sector flows and domestic resources increase), such tools can vastly amplify the impact of limited amounts of scarce US taxpayer resources and are much more responsive to demands from partner governments for capital and sustained private investment, thereby strengthening US leverage for reforms.

Tunisia: An Opportunity to Avoid the Pitfalls of the Past?

Tunisia is the brightest hope to emerge from the Arab Spring, and the Obama administration has responded by significantly increasing US assistance to Tunisia in the 2016 budget request. The United States also has the opportunity to heed the lessons of its decades-long engagement with the region and ensure that support for short-term security gains does not undermine reforms necessary for long-term security and stability.

The Obama administration's FY2016 request doubles economic assistance from $25 million in FY2014 to $55 million in FY2016; triples foreign military funding from $19.9 million to $62.5 million; and increases support for security and judicial institutions from $9 million to $12 million. Used well, these resources could prove catalytic as Tunisia seeks to address critical economic and security challenges, few of which are characterized by capital constraints.

First, the United States must be careful not to overemphasize security at the expense of other reform priorities. The FY2016 security assistance requests outpace economic assistance by more than 30 percent, which is understandable given Tunisia's recent terrorist attacks. But fulfilling Tunisia's promise also relies on greater access to economic opportunity and justice for all, and US support must target these outcomes. Further, the United States must ensure that its security assistance is deployed in a manner that is consistent with international norms and that does not empower security forces at the expense of Tunisians' legitimate demands for just and accountable security institutions. Second, to ensure effective spending of economic support, the United States must work with Tunisians to leverage these resources against the real constraints to inclusive growth: ineffective, unaccountable, nontransparent financing and judicial institutions and labor policies that engender high costs, high risks, and high barriers to market entry for nonelites. Real progress on inclusive economic growth means confronting the political elites who are the main beneficiaries of current economic structures.

The Tunisian government knows that these are the most central issues holding back its economy; in fact, the Tunisian government co-authored a 2013 constraints analysis, together with the US government and the African Development Bank. But the nation needs technical assistance, incentives, and leverage to persuade resistant elites. An ambitious package that couples critical economic reforms with US loan guarantees and assistance from international development banks could help smooth short-term reform challenges and illuminate a clear path to sustainable, shared prosperity for all Tunisians.

Finally, in providing its support, the United States must take care to be transparent and engage broad constituencies in the allocation of its security and economic assistance. The formation of a broad, multiparty governing coalition suggests a hopeful new direction for Tunisia. The United States must be especially careful not to disturb this new, fragile equilibrium with its aid. It must engage transparently and broadly, building relationships with all credible, nonviolent elements of Tunisia's new political order; addressing economic priorities that are widely shared among Tunisians; and undertaking new efforts to share, justify, and allow citizen monitoring of US assistance.

These conditions, new economic tools, and process requirements should be codified in the Fund's authorization by Congress. The Obama administration's previous attempts at establishing a Fund failed, in part, because of a reluctance to define an explicit management structure and specific criteria and constraints on the use of funds. Given the history of assistance engagement in the region, however, binding process and criteria constraints on a small portion of regional assistance are critical to shifting strategic approaches.

- **Convene Gulf and European allies and international financial institutions around a shared economic reform agenda.** The United States must recognize that its greatest leverage is not in its economic assistance per se, which pales in comparison to Gulf assistance and that of the international financial institutions, but in how the United States uses its global leadership to convene and partner with other actors in the region. Absent a coordinated strategy to press for reforms, governments will continue to pursue a divide-and-conquer strategy among financing partners, sidestepping those with tough reform conditions in favor of those without. Regional and international financial institutions, including the International Monetary Fund, the World Bank, African and Islamic development banks, and the European Bank for Reconstruction and Development, are natural allies and have vast technical knowledge and expertise to offer beyond financing. US and Gulf interests often diverge, but Gulf allies share concerns about the weak performance of regional economies, poor development progress, and unmet demands of regional populations. Gulf allies have signaled that they are unlikely to continue the same level of financial support given increasing demands at home, falling oil prices, and lackluster efforts on the part of recipient governments to implement economic reforms.[23] The United States should use its convening authority to bring financial institutions and other partners together under shared, country-specific reform agendas to which entities can contribute their financial and technical assets.

❸ Elevate Political Reform, Reformers, and Universal Rights

Third, the United States must elevate local voices pressing for reform and help protect the space for them to do so. Indigenous reformers, inside and outside of government, hold the key to regional transformation. In countries with closed political systems, local civil society movements are often the only legitimate force pressing for public accountability. Enabling and amplifying such movements are critical for reform.[24] However, civil society organizations and citizen movements are stifled by increasing restrictions on fundamental freedoms of speech, assembly, association, and external funding. The US model of training and support of local organizations (largely through international organizations) is insufficient, not only because of restrictions imposed, but because change movements are increasingly driven by spontaneous events and more diffuse networks of stakeholders[25]

The United States must lead and help coordinate the international community in holding countries accountable to international treaties and standards. It must elevate political reform in its bilateral diplomacy, commensurate with its central role in achieving US objectives. In addition to protecting the legal and civic space for local advocates, the United States must find creative ways to give reformers the tools they need. Such tools should include technologies and services that allow citizens to communicate and organize locally and connect to regional and international support, as well as platforms to aggregate and amplify citizen voices, such as online citizen accountability mechanisms like IPaidABribe.com or others that allow citizens to report on the performance of public institutions. Finally, recognizing the need for greater flexibility and responsiveness to local solutions and movements, the United States should help establish a multilateral marketplace for professional service providers (e.g., constitutional lawyers, pollsters, technology experts, and communications strategists) to support activist organizations and citizen movements. The latter service arrangements can circumvent the increasingly difficult legal environment for local nongovernmental organizations partnering with or receiving aid from US-based and other international organizations. A multilateral marketplace could be established with a \$25–\$50 million founding US contribution, drawing from resources the United States has been unable to deploy within countries due to restrictions on associations with foreign entities.

Collectively, these priorities will require concerted effort from the next White House, working closely with Congress; the Departments of State, Treasury, and Defense; and the US Agency for International Development and other trade and development agencies. Strong policy coordination from the National Security Council will be essential to deliver the proposed, concrete changes in long-standing agency practices.

Conclusion

Going forward, the next presidential administration must deploy a modernized regional strategy, predicated on the pursuit of democratic values and economic freedoms, institutional reform, and engagement, that reaches beyond regimes to help mobilize the citizen-led forces that can help shape countries and governments in the region. These shifts will face resistance from regional partners who have chafed at international interference in domestic affairs; they will therefore incur risks at a time of uncertainty in the region. But the far greater risk is in pursuing past strategies and expecting a different outcome. In the absence of sustained and substantive progress on inclusive growth and good and accountable governance, no amount of military engagement and security interventions will eliminate the conflict, extremism, instability, and terrorism that threaten the region, European allies, and the American homeland itself. These transformations will generate lasting security and prosperity for the region and thus secure US interests for the long term.

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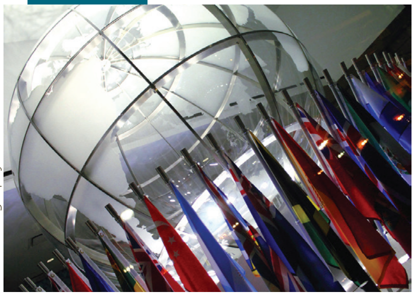

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Global Public Goods That Matter for Development: A Path for US Leadership

Nancy Birdsall and Anna Diofasi[1]

For more than six decades after the end of World War II, the United States took the leading role in the free world in establishing and managing the institutions and rules that make up today's global architecture of international cooperation and multilateral collective action—most notably the World Trade Organization, the World Bank and International Monetary Fund, and the United Nations and its various agencies. These are complemented today by hundreds of other official and independent global and regional networks, mixed coalitions, and clubs of business, professional, and nongovernmental organizations that together constitute a global institutional system.[2] The global economic and political "system" the United States has championed has provided the open trading environment and the security umbrella for global growth that has delivered millions from poverty in the last 30 years.

Today, the resilience of this global system is being tested by the growing number and intensity of cross-border risks—risks that pose a common threat to Americans and the world's poorest people. These risks include nonstate terrorism, climate change, pandemic diseases, cybercrime, microbial resistance to antibiotics, and more. The development challenge—of reducing poverty and inequality and raising living standards everywhere lies increasingly in managing these global risks and in broadening access to the new knowledge and opportunities that also transcend borders, from vaccines to renewable energy sources and Internet-based information technologies. Some of the risks, such as Ebola and terrorism, are rooted in the fragility of the world's poorest countries. Others, including tropical deforestation and increasing greenhouse gases in emerging markets, are worsened because carbon and other pollutants are underpriced given the damage they cause, and due to the lack of agreed global rules and appropriate financial and technological transfers from richer to poorer countries. The same can be said of unexploited opportunities at the global level.

POLICY RECOMMENDATIONS

- Increase domestic investment in research and development (R&D) for renewable energy, agriculture, and health.
- Track and publish federal spending on development-relevant global public goods.
- Establish a target share of foreign assistance spending to be directed toward development-related global public goods.
- Use US leadership role in the World Bank to champion creation of a global public goods lending window.

In short, today as perhaps never before, there is a commanding logic to increasing the provision of what can be called development-relevant global public goods (DR-GPGs) and to strengthening the institutions of collective global action for doing so and doing so more effectively.[3] The traditional country-focused model of development assistance can no longer address the global challenges that arise from our ever more interconnected world. Moreover, as a large number of developing countries increase their capacity for domestic financing of public services, the United States will need to refocus its foreign assistance program toward those global priority areas that supplement rather than supplant countries' domestic resources.

The United States has been at the forefront of providing several DR-GPGs, including peace and security via its contributions to international peacekeeping, the monitoring of international sea trade routes, its engagement in forums such as the Financial Action Task Force to stem flows of funding to terrorist organizations, and more.[4] Yet it has not fully capitalized on its comparative advantage in research and development at home that matters especially for the world's poor, or on its opportunities for globally transformative investments abroad in such areas as clean power and disease surveillance.

Global public goods are institutions, mechanisms, and outcomes that provide quasi-universal benefits to more than one group of countries, extending to both current and future generations. They are nonrival and nonexcludable: one country's enjoyment of the good does not affect (or reduce) its enjoyment by others, and once the good becomes available, no country can be excluded from sharing its benefits. We define development-relevant global public goods (and "bads") as those global threats (climate change, disease pandemics) and opportunities (cheaper solar energy technologies, new vaccines), of particular relevance for the world's poor and vulnerable concentrated in developing countries, for which the benefits of investments by or in one single country (the United States, for example) cannot be fully captured by that country; some of the benefits will be available to other countries.

What role should the United States take in shaping an agenda to create and share DR-GPGs? We propose two areas in which the United States has a strong comparative advantage and where its leadership is in our view indispensable.[5]

1. **Invest in research and development at home. Increase US domestic investment in the research, development, and deployment of DR-GPGs** from our rough estimate of $14.6 billion per year to $20 billion by 2020, especially in agriculture and renewable energy in light of a climate-challenged world.

2. **Make investments abroad go further. Ensure that US foreign assistance locks in long-term, global benefits by supporting the creation and access to DR-GPGs in the developing world in two ways:**

   a) Define a target for increasing the share of total US foreign assistance that finances DR-GPGs (e.g., to 20 percent from our current estimate of less than 10 percent); financing could go to DR-GPG-generating US bilateral aid programs—for example, to support reducing deforestation in Indonesia, or to multilateral programs such as the Clean Technology Fund, managed by the multilateral development banks, that subsidize the incremental cost of clean energy. (See Table 1.)

   b) Take leadership in enabling the World Bank and the major regional development banks (the multilateral development banks) to increase their own engagement in the financing and management of DR-GPGs—an activity for which the multilateral development banks now have no clear mandate and only limited resources.

Table 1 Examples of avenues for US DR-GPG investment

	DR-GPG generation via investment in one country	Non-country-specific DR-GPG investment
Via direct US (bilateral) financing of programs	US agreement with Indonesia to finance the preservation of its tropical forests	US contributions to CGIAR that go toward agricultural research and development
Via multilateral agencies/programs	US contributions to the Clean Technology Fund that go toward developing a solar energy plant in Morocco	US contributions to the World Health Organization that go toward global infectious disease surveillance

Table 2 Estimated domestic spending on DR-GPG R&D: Health, renewable energy, and agriculture areas (2013)

Category of contribution	Associated DR-GPG spending (in $ millions)
Health (select NIH and CDC spending[6])	10,629
Renewable energy (select DOE spending[7])	2,019
Agriculture (select USDA spending on ARS,[8] NIFA[9])	2,120
Total	14,622

Investing at Home: US R&D in DR-GPGs

Solutions to many global challenges begin at home. In addition to proven leadership and unparalleled influence in the global economic and political arena, the United States has another overlooked asset for accelerating global progress in health, agriculture, energy, and other global public goods: impressive public and private research and development (R&D) systems that have transformed the development landscape. Domestic public investment in particular drives innovation that enables more effective provision of DR-GPGs.

Consider health. US resources and research and technical capacity committed to health are unparalleled. Total US public spending on medical research and development equals that of all other nations combined. Over many decades, a good proportion of this spending has gone toward the prevention and control of diseases most prevalent in developing countries. Scientists at the publicly funded National Institutes of Health (NIH) helped develop antiretroviral drugs to treat HIV/AIDS and to prevent mother-to-child transmission during birth, saving lives at home and across the developing world. The NIH's Vaccine Research Center is at the forefront of developing new vaccines for some of the most dangerous diseases, such as swine flu and Ebola. The Centers for Disease Control and Prevention (CDC) leads efforts to monitor, isolate, and treat infectious diseases, protecting the health of Americans as well as people around the globe.

These impressive advances have been financed by a relatively modest share of public health R&D funds. We estimate that the NIH spends about $10 billion, or around 30 percent of its annual budget, on health problems that are prevalent in developing countries, including vaccine development for AIDS, tuberculosis, and malaria. The CDC budgeted $483 million for "global health" (6 percent of its total budget) in 2014. These are only rough estimates, however, as neither the United States nor any other advanced economy or international organization has defined and published data on its contributions to DR-GPGs. (See Table 2.)

While the United States remains the largest funder of health R&D globally, with a strong track record on development-relevant health discoveries, funding for health has stagnated overall (NIH funding reached its peak in 2003, at $35 billion). There is now bipartisan support in the House of Representatives for increasing NIH funding; some of this funding is likely to benefit, at least indirectly, disease control and management in developing countries.[10]

Investing at Home: R&D in Renewable Energy and Agriculture

The greatest future opportunities for the United States to champion healthier and more prosperous societies (abroad and in the United States) lie in renewable energy generation and more sustainable and productive agriculture. Both types of investments promote resilience to future economic shocks and adaptation to a changing resource landscape and to other global and national challenges as a result of climate change. US investment in the development of new technologies to mitigate the negative consequences of climate change benefits all of us, but it is vital for the citizens of the poorest nations who, with little or no personal savings and weak or nonexistent social safety nets and government emergency assistance programs to fall back on, are the most vulnerable to the coming shocks. Given its expansive R&D infrastructure, the United States has a comparative advantage in revolutionizing these sectors.

Take the recent advances in energy exploration and agricultural innovation. Massive hydraulic fracturing (fracking)—the technology behind the current "shale gas revolution"—had its origins in a Department of Energy–led gas exploration project.[11] Patents for new drilling technologies and advanced drill parts were developed by government engineers and supported by public funds. With a similar commitment to renewable energy sources, the global energy landscape could be transformed. Early US public R&D investments in renewable energy, such as the creation of the Department of Energy's Wind Program in 1975, have played an integral part in kick-starting innovation in wind technologies and making the United States a world leader in wind energy patents.[12]

At the same time, progress in renewable energy and fuels in both Europe and China has outpaced that of the United States in the last five years. China is currently the global leader in total renewable energy generation capacity, while the top five countries in terms of renewable energy generation per capita are all European nations.[13] In 2013, almost 22 percent of global electricity came from renewable energy sources. In the United States, the share of renewables in electricity generation has been growing but was below the global average in 2014, with just over 14 percent. The share of funds committed to energy efficiency and renewable energy R&D within the Department of Energy remains under 10 percent (around 7.4 percent in 2014). The share of energy in total public R&D spending is at a historical low, at $2.4 billion out of the $61 billion federal nondefense R&D budget in 2014, of which commitments to renewables represent an even smaller fraction. In comparison, federal spending on energy R&D was close to $9 billion in 1980.[14]

Domestic public investments in agriculture go back more than 150 years, to when the first land-grant universities were established by Congress with an express mandate to educate citizens about agriculture (as well as "military tactics" and "mechanic arts"). Federal funds were used in 1887 to establish agricultural experiment stations at land-grant colleges to investigate crop variations, soil properties, and other matters crucial to food production. Since then, public funding has been instrumental in the exponential growth of US agricultural productivity. A recent study of agricultural productivity between 1949 and 2002 in the 48 contiguous US states found that each state-specific agricultural research investment dollar generated national benefits averaging $32.[15] If we took into account the benefits to agricultural productivity in the rest of the world through spillovers from new technology and know-how, the returns on domestic investment would be even greater.

Despite these sizable returns to agricultural R&D and its ever-growing importance for poverty reduction, public investment is in decline. Real growth in public agricultural R&D spending has slowed considerably in the last decade, from over 3.5 percent in the 1950s and 1960s to 0.99 percent in the decades after 1990.[16] The share of funding going toward maintaining and improving farm productivity—the most important area for feeding a growing global population—declined from 66 percent to 57 percent over the last 30 years. US Department of Agriculture estimates suggest that even small commitments could secure the growth needed in agricultural output—that raising public funding for R&D by 3.73 percent annually until 2050 could result in a 73 percent increase in US production, in line with anticipated global needs.[17]

In addition to increasing the availability of financial resources for development-relevant R&D, the United States can also improve its innovation capacity by ensuring that it is an attractive place for researchers to live and work.[18] Immigration policies should foster international research collaborations, through making both more long-term visas and more opportunities for short-term visits available to highly qualified individuals abroad.[19]

Investing Abroad: Assistance to Global Programs and to Developing Countries for Investments in DR-GPGs

In an ever more prosperous and interconnected world, traditional bilateral foreign aid's role as the primary US development policy tool is diminishing. Foreign direct investment, remittances, and governments' own revenues in developing countries now provide the bulk of development resources. At the same time, security and health threats from fragile and failed states that create large negative spillovers for the United States are on the rise. Diminished availability and access to resources fundamental to sustaining human life, such as water, land, and forests, in one part of the world have wide-ranging implications for America through their effect on migration, trade, and violent conflict. For instance, global food production will need to increase by at least 70 percent to meet the needs of a global population projected to reach 9 billion by 2050. Crops will need to produce higher yields while also being more resilient in what is likely to be a rapidly changing environment as a result of climate change.[20] These

Table 3 Estimated US contributions to DR-GPG transfers (2013)

Item	Total expenditure (in $ millions)	Estimated DR-GPG share [21]	Contributions to DR-GPGs (in $ millions)
Contributions to international organizations			
UN regular budget	568.0	40%	227.2
Food and Agriculture Organization of the United Nations	113.6	35%	39.8
International Atomic Energy Agency	106.9	100%	106.9
World Health Organization	109.9	55%	60.4
World Meteorological Organization	15.2	100%	15.2
Organisation for the Prohibition of Chemical Weapons	20.1	100%	20.1
International Renewable Energy Agency	3.6	100%	3.6
International Tropical Timber Organization	0.3	100%	0.3
Contributions for international peacekeeping activities			
International peacekeeping activities	1,913.8	100%	1,913.8
Bilateral economic assistance			
Global health programs	8,065.9	5%[22]	365.0
Feed the Future	1,000.0	15%[23]	150.0
Multilateral assistance			
Global Environment Facility	124.8	53%[24]	66.1
Clean Technology Fund	175.3	100%	175.3
Strategic Climate Fund	47.4	100%	47.4
Total	12,264.8		3,191.1

Source:

shifting global dynamics warrant a new look at the allocation of foreign assistance.

Compared to aid to developing countries for country-specific programs, development-relevant spending directed to international institutions and to countries that are producing DR-GPGs is small. We estimate that in 2013 about $3.2 billion of the State Department's budget—which includes contributions to international organizations as well as USAID (US Agency for International Development) and State Department–led development assistance—went toward providing global public goods (Table 3). This is equivalent to about 10 percent of US spending of just over $30 billion on official development assistance in the same year (and represents only about 6.5 percent of the State Department's total budget).

Yet, the United States has an important role to play in enabling low-emission development in poor countries and in safeguarding natural resources of global importance. Reducing tropical deforestation is an ideal starting point for US investment: it has cross-cutting benefits for global health and food security as well as renewable energy generation and complements domestic US investment in renewable energy R&D. The United States could negotiate its own performance-based agreements with developing countries, in which actual transfers would be based on verified reductions in rates of deforestation.[25] The recently launched Green Climate Fund offers further opportunities for the United States to invest in DR-GPGs: funds go toward supporting developing-country projects in energy efficiency, testing and implementation of renewable energy technologies, and many other climate-relevant operations.

The United States must also do more, both in terms of direct commitments and through its influence at multilateral institutions, to address the nutritional needs of future generations. At the World Bank, an institution that in principle could take leadership in financing the dissemination of DR-GPGs,[26] limited grant funding for such organizations and programs as CGIAR and the Global Development Network (which supports creation of research capacity in developing countries) is declining. CGIAR—which faces a 6 percent decrease in funds from the bank in 2015[27]—has been at the forefront of agriculture R&D to improve crops and agricultural technologies in developing countries today and to meet the needs of future generations. Its 15 global research centers released 44 new rice varieties in 2013 alone, including new flood-, drought-, and salt-tolerant varieties, each adapted to the specific conditions faced by farmers in different developing countries.[28] R&D spillovers from US (and multilateral) investments in these international research centers benefit both US and developing country producers. For example, wheat varieties developed by the CGIAR-affiliated International Maize and Wheat Improvement Center were identified as the "ancestors" in about one-fifth of total US wheat acreage by the early 1990s.[29] Despite the proven successes, the financial stability of CGIAR and development-relevant agricultural R&D is not guaranteed. Additional World Bank support to DR-GPGs comes through such donor-financed trust funds as the Climate Investment Facilities. However, this support is ad hoc to the extent that it depends on individual donor initiatives and is not "owned" by the World Bank's borrowing countries. In effect the bank operates through these trust funds as an agent, and its operations are vulnerable to shifts in donor preferences.[30] Faltering US leadership at multinationals, also evidenced by US resistance to a large World Bank recapitalization in 2010, has contributed to the bank's limited ability and willingness to address global issues.

Overall funding for DR-GPGs from the multilateral banks and the many UN agencies that work on development programs is relatively small. A large share of funding from the World Health Organization for health and from the Food and Agriculture Organization for agriculture programs supports country programs with local or national impact; the same is true for the Global Fund to Fight AIDS, Tuberculosis and Malaria ($3.9 billion in 2013) and for the Global Partnership for Education ($742 million in 2014). These are important programs, of course, but they are not in the category of global public goods, as virtually all the benefits of those programs are captured by the countries that receive them.

The Data Problem: Counting What Counts

The challenge of global public goods provision is exacerbated by a lack of reporting by individual countries and international organizations. Neither the United States nor any of the major institutions with a global mission, such as the World Bank or the United Nations, report on the funds or programs they dedicate to global public goods. Nations spearheading the effort for global prosperity have not agreed on any standard definition of global public goods, nor do they report systematically on their own spending (according to their own definition) on global public goods.

As a global advocate for transparency and accountability in government and a member of the International Aid Transparency Initiative, the United States should be at the forefront of making domestic as well as foreign public goods spending visible and trackable. The definition and measurement of international transfers for DR-GPGs will also allow the United States to report transfers for DR-GPGS under either traditional overseas development assistance (ODA), which counts foreign assistance to low-income countries, or as "total official support for sustainable development" (TODS), which is a category that can reflect transfers for DR-GPGs that go to middle-income countries not eligible for ODA, including Peru, Brazil, Indonesia, South Africa, and others. The US definition and reporting on DR-GPGs could rely on existing efforts to develop a new measure of donor funding for global functions. A new indicator for health global public goods recently published in *The Lancet* combines globally relevant ODA with donor spending on development-relevant health R&D.[31] Such a measure would allow the United States to highlight its contributions to DR-GPGs via its domestic investments while enabling better priority setting for global assistance.

Policy Recommendations

The next US president, working closely with Congress, has an opportunity and a responsibility to revitalize the nation's leadership in the creation and provision of global public goods that are critical to global development. We have four specific recommendations to increase the impact of US public spending both via investments at home and via those abroad.

1 Increase domestic public investment in R&D for renewable energy, agriculture, and health.

The Unites States has unmatched capacity for scientific research and innovation through its outstanding private and public R&D systems. Renewable energy sources make a logical priority investment given the projected negative consequences of climate change for growth, production, and livelihoods. A recent report by the American Energy Innovation Council, endorsed by US industry leaders such as Bill Gates, Jeff Immelt, and Ursula Burns, suggests that $16 billion a year should be invested in clean energy innovation.[32] The additional funding would easily be absorbed by the R&D community and would enable US scientists and research centers to develop affordable alternative energy sources for households and industries in both the developed and developing world[33] Even relatively small increases in fuel taxes to reflect the negative externalities (congestion, emissions, health costs of local pollution) associated with fuel use would provide the majority of the funding needed.[34]

In light of the need for rapid advances in agricultural productivity, scaling up R&D in agriculture at home and abroad is one of the highest-return investments the United States could make in sustainable development for the future. The returns to development-relevant agricultural research are particularly impressive: CGIAR estimates that every dollar invested in the CGIAR Fund results in about nine dollars in increased productivity in developing countries. Overall, an $8 billion increase in global spending in agricultural R&D is predicted to reduce the prevalence of hunger by 63 percent by 2050.[35]

While the bipartisan support for increased funding for the NIH is a welcome development, it is important to ensure that, beyond 2018, funding keeps pace with historical growth rates, which averaged 2.9 percent between 1977 and 2010.[36] A large share of additional funding should be directed toward pandemics and global health threats that originate in the poorest nations, where health systems are often too fragile to contain spillovers to other countries.

2 Develop standards for measuring national spending on DR-GPGs and publish information on US funds dedicated to them annually.

We propose that the president charge the Office of Management and Budget with defining and developing standards for measuring domestic public investment in DR-GPGs. All US government agencies should monitor and publish the size and share of funds they spend on DR-GPGs, both in terms of funds invested domestically, such as those going toward development-relevant R&D, and funds invested abroad via multilaterals, international organizations, and country-specific global projects, such as those aimed at reducing deforestation. This will both highlight US leadership in providing global public goods through public investment at home and show how US foreign assistance and other spending abroad benefit the global community—including those living in the United States. Development of reporting protocols and standards should take place in coordination with the measures and reporting standards of the OECD (Organisation for Economic Co-operation and Development).[37]

3 Shift from ad hoc to more strategic and leveraged allocation of US foreign assistance: provide a modest increase in the proportion of total assistance that goes toward global public goods, with a target of 20 percent over eight years. Focus contributions to DR-GPGs on agriculture, forests, and renewable energies in light of the growing challenges arising from climate change.

Given the diminishing importance of traditional bilateral aid among development resources and the growing number of global threats to US and worldwide prosperity, we propose that over the first four years of the presidential term, the next president support the (re)allocation of a substantial amount of US foreign assistance toward DR-GPGs.

Public investment by the United States can also be leveraged to crowd in private-sector investment and skills through targeted incentives. Publicly guaranteed markets for vaccines in poor countries through advance market commitments,[38] for example, can encourage private entities to develop marketable products to address low-income country needs. The Overseas Private Investment Corporation can also help leverage private investments for clean energy in developing and middle-income countries, which would serve traditional developmental objectives such as reducing energy poverty while encouraging the provision of DR-GPGs.[39]

4 Champion the idea of a DR-GPG window at the World Bank to better leverage limited resources over the long term.

The next president should use US leverage and influence among World Bank shareholders to provide the bank with a mandate for the support of DR-GPGs, along with some grant financing to support that mandate. As part of this mandate, the next president should champion the creation of a new global public goods window (Global Window) at the World Bank to support investments and programs such as basic agricultural and health research in developing countries; to mainstream subsidies to cover the incremental costs of low-carbon transport, power, and urban housing projects; to perform research and provide policy guidance on making a market for climate-related financing; and to fund the licensing of proprietary technologies for poor countries, among other functions. The United States should use its leadership and influence within the World Bank to give it an explicit global public goods mandate, along with the necessary grant funding, to provide strategic and collective action in response to global demands.[40]

Additional Reading

Nancy Birdsall. *The World Bank and Global Climate Change: Forever a Big Fish in a Small Pond?* CGD Policy Paper 007. Washington, DC: Center for Global Development, 2012. www.cgdev.org/content/publications/detail/1426335.

Nancy Birdsall and Anna Diofasi. "Global Public Goods for Development: How Much and What For." CGD Note, May 18, 2015. www.cgdev.org/publication/global-public-goods-development-how-much-and-what.

Nancy Birdsall and Alexis Sowa. *The United States: From Multilateral Champion to Handicapped Donor...and Back Again?* CGD Policy Paper 030. Washington DC: Center for Global Development, 2013. www.cgdev.org/publication/united-states-multilateral-champion-handicapped-donor-and-back-again.

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Philip G. Pardey and Julian M. Alston. 2010. *U.S. Agricultural Research in a Global Food Security Setting*. Washington: Center for Strategic and International Studies. http://csis.org/files/publication/100111_Pardey_USAgriRes_Web.pdf.

Notes

[1] We are grateful to Shanta Devarajan, Alan Gelb, and Ben Leo for their insight and comments on this brief.

[2] On global networks and mixed coalitions of official and civil organizations, see William Savedoff, "Global Government, Mixed Coalitions, and the Future of International Cooperation," and Nancy Birdsall, "Global Markets, Global Citizens, and Global Governance in the Twenty-First Century," in *Towards a Better Global Economy*, ed. Franklin Allen, Jere R. Behrman, Nancy Birdsall, Shahrokh Fardoust, Dani Rodrik, Andrew Steer, and Arvind Subramanian (Oxford, UK: Oxford University Press, 2014). The Birdsall chapter is also available at www.cgdev.org/publication/global-markets-global-citizens-and-global-governance-21st-century-working-paper-329-0.

[3] As far as we know, the term "DR-GPGs" was first used by us in Nancy Birdsall and Anna Diofasi, "Global Public Goods for Development: How Much and What For," CGD Note, May 18, 2015, www.cgdev.org/publication/global-public-goods-development-how-much-and-what.

[4] This engagement in global security is also reflected in the US score on the security component of CGD's Commitment to Development Index, where the United States ranks higher than the OECD average and where it also scores considerably higher than its overall score across all components. See www.cgdev.org/initiative/commitment-development-index/index.

[5] It is often remarked that the United States is the "indispensable" nation to global security. Birdsall and Sowa (2013) argue that it has been indispensable to the creation of a development-friendly system of global governance based on international institutions and rules, and that its faltering leadership and the growing skepticism about its growth model, especially since the global financial crisis starting in 2008, puts the overall system at risk (Nancy Birdsall and Alexis Sowa, "The United States: From Multilateral Champion to Handicapped Donor ... and Back Again?" CGD Policy Paper 29, Washington, Center for Global Development [2013]). On the latter, see also Nancy Birdsall and Francis Fukuyama, "The Post-Washington Consensus: Development after the Crisis," *Foreign Affairs* 90, no. 2 (2011): 8.

[6] Includes NIH spending on research related to global warming / climate change; hepatitis A, B, and C; HIV/AIDS (80 percent of total); immunization (70 percent of total); infectious diseases (70 percent of total); malaria; malaria vaccine; tuberculosis; tuberculosis vaccine; vaccine-related research (including AIDS); vector-borne diseases; and the West Nile virus. CDC spending counted here is that on "global programs." For the breakdown of the NIH's budget by spending category, see http://report.nih.gov/categorical_spending.aspx.

[7] The US Department of Energy's Energy Efficiency and Renewable Energy Program and ARPA-E.

[8] The US Department of Agriculture's Agricultural Research Service: all spending on research programs counted.

[9] National Institute of Food and Agriculture: research and education activities, extension activities, and integrated activities.

[10] The potential returns on health R&D are considerable. Devoting an additional $100 million directly to HIV vaccine R&D has been estimated to generate returns of 600 percent. See Dean T. Jamison, Prabhat Jha, Ramanan Laxminarayan, and Toby Ord, *Infectious Disease, Injury, and Reproductive Health*, 2012 Global Copenhagen Consensus Challenger Paper, www.copenhagenconsensus.com/sites/default/files/infectiousdisease.pdf.

[11] Michael Shellenberger, Ted Nordhaus, Alex Trembath, and Jesse Jenkins, *Where the Shale Gas Revolution Came From* (Oakland, CA: Breakthrough Institute, 2012), http://thebreakthrough.org/images/main_image/Where_the_Shale_Gas_Revolution_Came_From2.pdf.

[12] A Department of Energy evaluation of its wind energy R&D program found that a quarter of the 695 wind energy patent families assigned to leading innovators in wind energy were linked to earlier DOE-supported wind energy patents. See Thomas M. Pelsoci, *Retrospective Benefit-Cost Evaluation of U.S. DOE Wind Energy R&D Program* (Washington: US Department of Energy, 2010), http://energy.gov/sites/prod/files/2015/05/f22/wind_bc_report10-14-10.pdf.

[13] REN21, *Renewables 2014: Global Status Report* (Paris: REN21, 2014), www.ren21.net/Portals/0/documents/Resources/GSR/2014/GSR2014_KeyFindings_low%20res.pdf.

[14] For more detailed graphs and tables on historical US energy spending, see the American Association for the Advancement of Science, "Historical Trends in R&D," R&D Budget and Policy Program website, www.aaas.org/page/historical-trends-federal-rd.

[15] J.M. Alston, M.A. Andersen, J.S. James, and G.P. Pardey, *Persistence Pays: U.S. Agricultural Productivity Growth and the Benefits from Public R&D Spending* (New York: Springer, 2010).

[16] P.G. Pardey and J.M. Alston, *U.S. Agricultural Research in a Global Food Security Setting* (Washington: Center for Strategic and International Studies, 2010).

[17] See Paul Heisey, Sun Ling Wang, and Keith Fuglie, *Public Agricultural Research Spending and Future U.S. Agricultural Productivity Growth: Scenarios for 2010–2050* (Washington: US Department of Agriculture, 2011), www.ers.usda.gov/media/118663/eb17.pdf. Of course, private US agrifirms could and do also finance R&D. However, the proprietary nature of most privately developed innovations could limit their affordability to people in developing countries. There is also the risk that increases in US productivity could make agriculture in the poorest countries less competitive in some crops. Still, in the long run, more knowledge of productivity-increasing farming techniques and crop varieties will generate benefits for developing countries, whether in the form of lower food prices or higher productivity in their own agriculture.

[18] Committee for Economic Development, *America's Basic Research: Prosperity through Discovery* (Washington: Committee for Economic Development, 1998), https://www.ced.org/pdf/Americas-Basic-Research.pdf.

[19] For further recommendations on US immigration policy, see Michael Clemens and Nabil Hashmi, "Modernizing US Migration Policy for Domestic and Development Gains," Chapter B in *The White House and the World: Practical Proposals on Global Development for the Next US President* (Washington: Center for Global Development, 2015).

[20] William Cline, *Global Warming and Agriculture: Impact Estimates by Country* (Washington: Center for Global Development, 2007).

[21] These shares are our best estimates given the limited information available on spending by international organizations. For a detailed discussion on which programs are counted, see Nancy Birdsall and Anna Diofasi, "Global Public Goods for Development: How Much and What For," CGD Note, May 18, 2015,

www.cgdev.org/publication/global-public-goods-development-how-much-and-what.

[22] Funds going toward combatting infectious diseases are considered to be DR-GPG transfers.

[23] Funds going toward agricultural R&D are considered to be DR-GPG transfers.

[24] Funds going toward the climate change, international waters, and chemicals focal areas are considered to be DR-GPG transfers. Data on fund allocation is based on the Global Environment Facility's 2014 cohort.

[25] These could be modeled on agreements Norway has made with Brazil, Indonesia, Guyana, and other forested countries. See, for example, Jonah Busch and Nancy Birdsall's assessment of the Guyana-Norway agreement: "Assessing Performance-Based Payments for Forest Conservation: Six Successes, Four Worries, and Six Possibilities to Explore of the Guyana-Norway Agreement," CGD Note, April 7, 2014, www.cgdev.org/publication/assessing-performance-based-payments-forest-conservation-six-successes-four-worries-and. For more details, see the White House and the World brief "Protecting Tropical Forests, Global Prosperity, and Climatic Stability" by Frances Seymour. "Shifting the Foreign Aid Paradigm—Paying for Outcomes" by William Savedoff, Rita Perakis, and Beth Schwanke provides a number of implementation strategies for a diverse range of projects. Both are available at www.cgdev.org/whitehousedev.

[26] Nancy Birdsall, *The World Bank and Global Climate Change: Forever a Big Fish in a Small Pond?* CGD Policy Paper (Washington: Center for Global Development, 2012), www.cgdev.org/content/publications/detail/1426335.

[27] See FY15 World Bank Budget, http://goo.gl/L66faE. The Development Grants Facility has been financed from the annual administrative budget of the World Bank, which is in turn financed by the bank's net income.

[28] Overall, the benefits of CGIAR research are estimated at $10.8 billion a year for rice, $2.5 billion for wheat, and $0.8 billion for maize in Asia alone.

[29] P.G. Pardey and J.M. Beddow, *Agricultural Innovation: The United States in a Changing Global Reality* (Chicago: Chicago Council on Global Affairs, 2013), www.thechicagocouncil.org/sites/default/files/Agricultural_Innovation_Final%281%29.pdf.

[30] Nancy Birdsall, *The World Bank and Global Climate Change: Forever a Big Fish in a Small Pond?* CGD Policy Paper (Washington: Center for Global Development, 2012), www.cgdev.org/content/publications/detail/1426335. See also Nancy Birdsall and Devesh Kapur, *The Hardest Job in the World: Five Crucial Tasks for the New President of the World Bank* (Washington: Center for Global Development, 2005), www.cgdev.org/content/publications/detail/2868, for an earlier recommendation that the World Bank concentrate more on global public goods.

[31] Marco Schäfferhoff, Sara Fewer, Jessica Kraus, Emil Richter, Lawrence H. Summers, Jesper Sundewall, Gavin Yamey, and Dan T. Jamison, "How Much Donor Financing for Health Is Channeled to Global versus Country-Specific Aid Functions?" *The Lancet* online ahead of print, July 12, 2015, www.thelancet.com/pdfs/journals/lancet/PIIS0140-6736(15)61161-8.pdf.

[32] For the full report, see American Energy Innovation Council, *A Business Plan for America's Energy Future,* (Washington: American Energy Innovation Council, 2010), www.americanenergyinnovation.org/wp-content/uploads/2012/04/AEIC_The_Business_Plan_2010.pdf.

[33] Developed country adoption of clean energy sources implies lowering the global risks associated with continued high levels of fossil fuel use and its impact on global climate. For developing countries, there is a difficult trade-off in the short term between the energy poverty of the poor and increasing fossil fuel consumption. Nevertheless, all countries and people will benefit from a technological breakthrough in renewable energy. See Todd Moss, Roger Pielke Jr., and Morgan Bazilian, *Balancing Energy Access and Environmental Goals in Development Finance: The Case of the OPIC Carbon Cap,* CGD Policy Paper 038 (Washington: Center for Global Development, 2014), www.cgdev.org/sites/default/files/balancing-energy-access-case-opic-carbon-cap_0.pdf.

[34] At a yearly US gasoline consumption of 137 billion gallons, a 10-cents-per-gallon increase would provide an additional $13.7 billion in government revenue. For an analysis on the corrective taxes needed to eliminate negative externalities from fossil fuels and the associated gains, see David Coady, Ian Parry, Louis Sears, and Baoping Shang, *How Large Are Global Energy Subsidies?* IMF Working Paper (Washington: International Monetary Fund, 2015), www.imf.org/external/pubs/ft/wp/2015/wp15105.pdf.

[35] The Copenhagen Consensus Expert Panel report estimates that the internal rate of return to increased investments in agricultural R&D is 61 percent with a benefit-cost ratio of 16.1. For more details, see John Hoddinott, Mark Rosegrant, and Maximo Torero, *Investment to Reduce Hunger and Malnutrition*, 2012 Global Copenhagen Consensus Challenge Paper, www.copenhagenconsensus.com/sites/default/files/hungerandmalnutrition.pdf.

[36] Kwame Boadi, *Erosion of Funding for the National Institutes of Health Threatens U.S. Leadership in Biomedical Research* (Washington: Center for American Progress, 2014), https://www.americanprogress.org/issues/economy/report/2014/03/25/86369/erosion-of-funding-for-the-national-institutes-of-health-threatens-u-s-leadership-in-biomedical-research/.

[37] For more details, see OECD, "Measuring Total Official Support for Sustainable Development," July 2015, www.oecd.org/dac/financing-sustainable-development/Addis%20flyer%20-%20TOSSD.pdf.

[38] An advance market commitment is a legally binding agreement for an amount of funds to subsidize the purchase, at a given price, of an as yet unavailable vaccine against a specific disease causing high morbidity and mortality in developing countries. For more details, see Owen Barder, *Making Markets for Vaccines—Ideas to Action*, CGD Policy Brief (Washington: Center for Global Development, 2005), www.cgdev.org/sites/default/files/2792_file_Making_Markets_Brief.pdf.

[39] Todd Moss and Benjamin Leo, "Let There Be Light: Washington's Ambitious Plan to Help Africa Generate Electricity," *Foreign Affairs*, September 2, 2014.

[40] See also Nancy Birdsall and Devesh Kapur, *The Hardest Job in the World: Five Crucial Tasks for the New President of the World Bank* (Washington: Center for Global Development, 2005), www.cgdev.org/content/publications/detail/2868.

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Making USAID Fit for Purpose—A Proposal for a Top-to-Bottom Program Review

Casey Dunning and Ben Leo

Introduction

Since its establishment more than 50 years ago, the US Agency for International Development (USAID) has become a $17-billion-a-year agency stretched across the globe, operating in 125 countries and 36 different program areas. It covers nearly every development challenge, including those surrounding health, food security, microfinance, governance, counterterrorism, macroeconomic stability, trade, and transnational crime.

But USAID, the largest bilateral provider of development assistance in the world in absolute terms, could better maximize its development impact. It has been three decades since a US president instructed the agency to conduct a comprehensive top-to-bottom review of its programs. This is despite dramatic changes in basic development challenges around the world and in the broad economic and political landscape within which the agency operates.

This paper offers a blueprint for an agency-wide review of USAID's strengths and weaknesses. The proposal recognizes that a modernized USAID should position itself to better complement the additional estimated $116 billion in global development assistance from other countries and multilateral institutions, as well as private investment, remittances, and recipient countries' domestic revenues. The assessment must also contend with two constraints on USAID programs: congressional directives and ongoing US presidential initiatives. The proposed review would lay the analytical foundation for driving future reform efforts and for ensuring that USAID remains fit for purpose, maximizes development impact, and delivers strong US taxpayer value over the coming decade.

POLICY RECOMMENDATIONS

- Institute a top-to-bottom review of USAID's sector- and country-based activities based upon program effectiveness, allocation of USAID resources, alignment with partner priorities, and national security implications.
- Commit to implement a comprehensive reform agenda based upon the review's findings.
- Provide USAID budgetary and policy primacy over areas in which the agency demonstrates efficacy and focuses its programmatic and staff resources.

The Changing Global Development Landscape

Several changes and trends on the macro level have important implications for where and how USAID operates. These trends include (1) a declining number of poor, developing countries; (2) the availability of other development resources; and (3) the importance placed upon private investment.

First, there are significantly fewer poor countries globally. In 1995, there were more than 120 low-income or lower-middle-income countries in the world. Today, that number has fallen to slightly more than 80 countries.[1] In addition, natural resource discoveries and windfalls may lead to further declines in the number of poor countries over the next decade.[2]

Second, government revenues have increased sixfold in developing countries since 2000, including a fourfold expansion in Sub-Saharan Africa from $87 billion to more than $350 billion (see figure 1). This increase has greatly expanded partner countries' ability to invest in social-service delivery, public security, and physical infrastructure. Moreover, USAID assistance is increasingly dwarfed by private remittances, foreign direct investment, and philanthropic flows from the United States and other countries. Despite this, several poor countries, such as Liberia and Afghanistan, will continue to rely on foreign aid to address pressing needs.

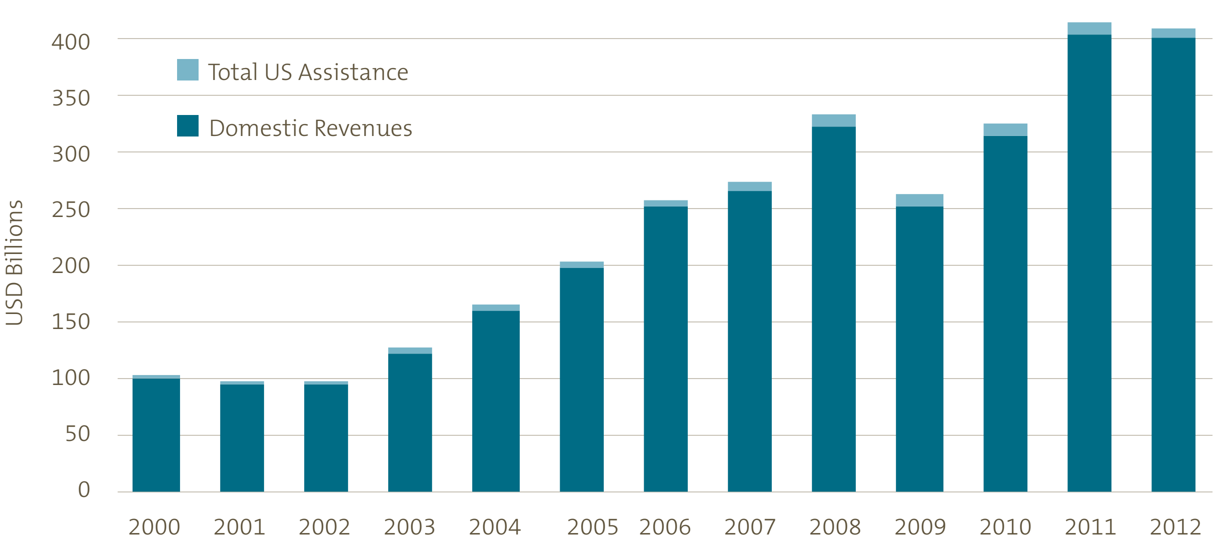
Despite the increase in revenues, revenue mobilization ratios in several large US foreign aid recipients remain woefully low. For instance, Nigeria has the fourth lowest revenue base in the developing world (11 percent of gross domestic product), followed by Bangladesh (11 percent), Pakistan (13 percent), and Ethiopia (16 percent).[3] These four countries alone could generate nearly $150 billion in additional government revenues if their collection rates matched the developing country median, which is 56 times more than the total US aid to these countries in 2012 ($2.6 billion).[4] This finding demonstrates the potential upside of providing targeted assistance to help countries improve their tax administration regimes and strengthen citizen-government social contracts over time, as opposed to using US taxpayer resources for direct service delivery.

Third, foreign government partners are increasingly focused on attracting private investment, especially in infrastructure and productive sectors. Nearly every national development strategy includes a strong emphasis on attracting private investment for physical infrastructure (e.g., electricity and transport) or labor-intensive sectors such as agriculture, services, and manufacturing.[5] This reflects the political imperative of establishing more inclusive economic opportunities in the near and medium term for rapidly expanding working-age populations in many regions.

Historical USAID Reviews

The rapid pace of global change raises the question: are USAID's programs fit to address today's development challenges and promote US strategic priorities? This question has long sparked contentious debate. If we assume that the answer is no, a more interesting dichotomy emerges. Should a new administration and Congress work to reform USAID into a development agency for the 21st century? Or should they simply focus the agency on emergency response and humanitarian

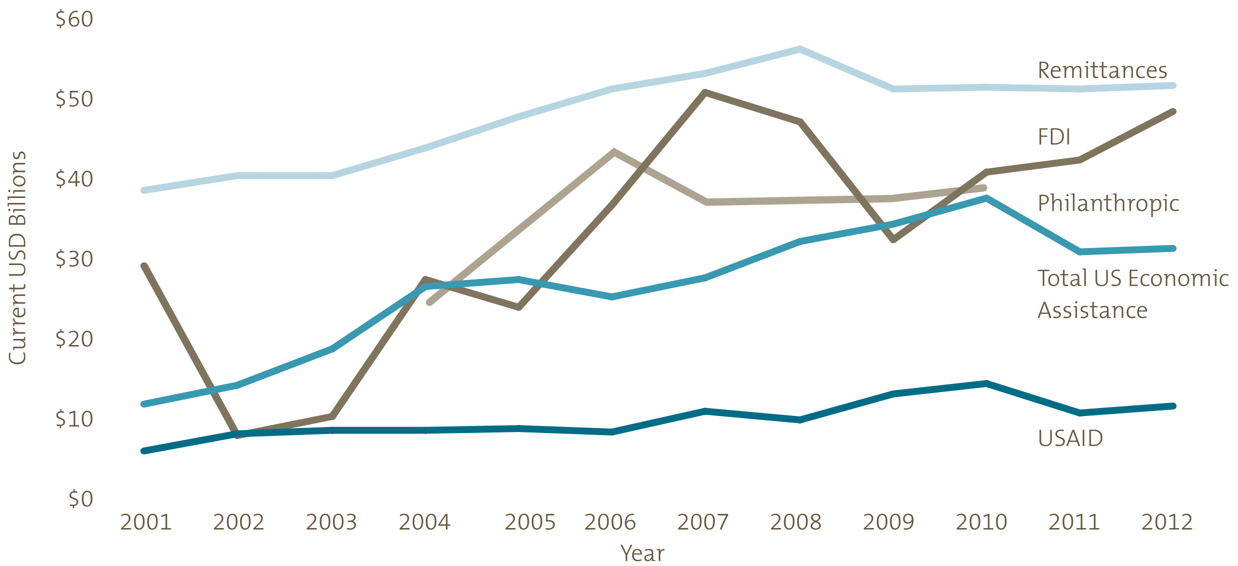
Figure 1 Domestic Revenues Now Dwarf Total US Aid in Sub-Saharan Africa



Sources: International Monetary Fund; Organisation for Economic Co-operation and Development's Development Assistance Committee (OECD-DAC).

Note: In this instance, aid is defined as official development assistance and other official flows as reported to the Organisation for Economic Co-operation and Development's Development Assistance Committee. World Bank aid figures include both concessional and nonconcessional commitments by the International Development Association and the International Bank for Reconstruction and Development.

Figure 2 USAID Support to Developing Countries Is Small Compared to Other Financial Flows



Sources: Authors' calculations using data from the World Bank (Remittances), Bureau of Economic Analysis (Foreign Direct Investment [FDI]), the Hudson Institute (Philanthropic), and US Overseas Loans & Grants (USAID and Total Economic Assistance). "Developing world" includes countries eligible for official development assistance, as defined by the Organisation for Economic Co-operation and Development.

issues while other entities assume greater responsibility for addressing emerging development challenges? We argue that the former course of action is possible and preferable. A new administration and Congress offer the opportunity to undertake this reform, which could be guided by the findings of a mandated comprehensive review of USAID's efficacy.

While there have been several congressional efforts, the executive branch has undertaken only two public, comprehensive reviews of the agency's programming since its inception.[6] In 1969, President Richard Nixon commissioned a full review of aid programs, known as the Peterson Commission.[7] The Peterson Commission proposed reorganizing USAID into three parts that would focus on economic growth in low-income countries, development innovation, and security assistance. Although the restructuring never occurred, the review and subsequent proposal marked the first serious attempt at cataloguing the purpose and efficacy of US assistance programs.

In 1987, then-USAID administrator Alan Woods led a second attempt to review and reform the agency's development programs. The Woods Report evaluated USAID activities through an economic growth lens, arguing that agency programs failed to support the macroeconomic reforms that were necessary for successful and sustainable development outcomes.[8] Though the report avoided specific policy prescriptions, it did call for an overhaul of the 1961 Foreign Assistance Act.[9] As with the Peterson Commission, the Woods Report was not translated into concrete reform initiatives.

The Quadrennial Diplomacy and Development Review (QDDR) is the closest, most recent approximation to a review of agency programming. Initiated in 2010 by then-Secretary of State Hillary Clinton, the QDDR reviewed the mission, mandate, and operations of the State Department and USAID.[10] The review focused on organizational structures and reforms that would improve the US foreign policy apparatus. While the QDDR has led to several important reforms, it is not a comprehensive review of USAID development activities, and it does not provide recommendations for where and how the agency should focus its scarce human and financial resources.[11]

Recent USAID Changes and Key Remaining Challenges

Over the past decade, USAID has undertaken a series of reforms to improve programmatic effectiveness. First, USAID implemented a multiyear effort that was designed to restaff and match its personnel needs with its existing development activities. Despite a relatively flat programmatic budget since 2010, USAID has increased its technical and economic expertise to historic levels, reversing the steep reductions in technical and operational personnel that had occurred during the 1990s and early 2000s.[12]

This personnel restoration began during the George W. Bush administration and continued under the Barack Obama administration, with each advancing bold plans to rebuild the agency's hollowed-out capacity. More specifically, the previous two USAID administrators implemented the Development Leadership Initiative (DLI), which focused on doubling USAID's workforce by 2012. Under DLI, and with congressional support, the agency added more than 800 staff, most of whom had a "solid background in their technical backstops."[13] Partly because of these efforts, USAID is increasingly positioned to serve as an engine of development expertise, rather than a simple contracting pass-through.

Under Administrator Rajiv Shah, USAID undertook a series of reforms known as USAID Forward. Enacted in 2010, USAID Forward has sought to (1) return policy and budget capacity to the agency; (2) increase focus on the sustainability of development programs; (3) stress the importance of science, technology, and innovation in addressing difficult development challenges; and (4) develop Country Development Cooperation Strategies in concert with partner governments. By illustration, USAID established the Local Solutions initiative to encourage agency investments in partner-country governments,[14] businesses, and civil society as a way to support sustainable country institutions and implementation capacity.[15] Taken as a whole, USAID Forward reforms have expanded USAID's technical capacity and expertise to design and execute development programs.

USAID has also leveraged its scarce resources to bring in new partners and new streams of development funding. Since 2001, USAID has entered into nearly 1,400 public-private partnerships that have mobilized more than $14 billion for US development priorities, with private partners accounting for three-fourths of the funding.[16] It is difficult to gauge the quality and development impact of these partnerships because of a lack of comprehensive and rigorous evaluations. However, the scale of recent partnerships highlights the agency's recognition of the increasing importance of private finance for development.

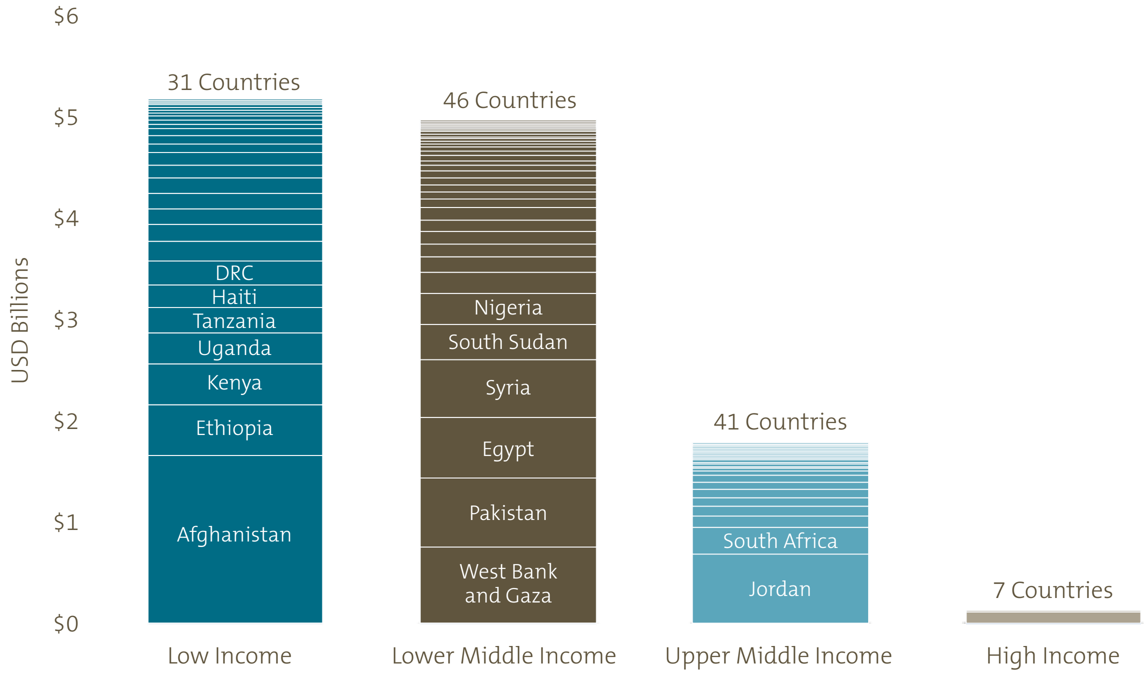
Despite these efforts, USAID faces significant challenges in sustaining and increasing its development impact. First, the agency arguably has too many small programs in too many countries. In fiscal year 2013, USAID obligated nearly $12 billion in bilateral funding to 125 countries, ranging from $1.6 billion in Afghanistan to only $6,113 in Malaysia. Overall, the top 10 country recipients accounted for 54 percent of the agency's total programmatic budget. The smallest 50 recipients accounted for less than 2 percent, or roughly $3.6 million on average. While small, targeted grant programs can be efficient and effective, often they are constrained by high overhead costs and an inability to scale. The agency also provided roughly $2 billion to 48 upper-middle-income and high-income countries, including Brazil, Cyprus, and Serbia.

Second, USAID has a mixed record in promoting integrated development approaches because of its sector-focused operations. For more than 50 years, the agency has built a bureaucratic organization and procurement processes that favor stovepiped, issue-based solutions.[17] Attempts at promoting a systemic approach, as with the crosscutting Global Health Initiative, have been unable to overcome bureaucratic inertia.[18] Yet, development agencies increasingly recognize that complex development challenges often require coherent, mutually reinforcing interventions and reforms.

Third, USAID has not systematically used tools for data collection, monitoring, and evaluation; nor has it made the information that it does collect fully transparent. For instance, USAID lacks even basic, standardized monitoring and evaluation metrics across all of its country and sector operations, making it impossible to compare project performance at the organization level. The lack of monitoring and evaluation (M&E) and associated reporting is hard to address because of the agency's heavy reliance on large contractors that are not required to account for, or report on, their subcontractors.[19]

In contrast, development entities like the multilateral development banks use harmonized project performance metrics, which are tied to annual portfolio and staff reviews. Moreover, unlike other aid agencies—such as the Millennium Challenge Corporation, World Bank, African Development Bank, and the United Kingdom's Department for International Development—USAID has yet to fully comply with the global standard for reporting aid activities (the International Aid Transparency Initiative).[20] The Quality of Official Development Assistance (QuODA) assessment confirmed this, with USAID ranking 58th out of 108 donor agencies in its commitment to transparency and learning.[21]

Figure 3 USAID Bilateral Funding by Income Group and Top 15 Recipients, FY2013



Source: Authors' calculations using FY2013 USAID obligations country data from foreignassistance.gov.

Four Criteria to Assess USAID Development Programs

Working closely with Congress and other stakeholders, the next US president should launch a top-to-bottom review of USAID and commit to act upon its findings. Part of this commitment would entail consideration of the review's findings within the broader landscape of US foreign assistance efforts. A review effort could ultimately catalyze comprehensive program reform, as appropriate, early in the new president's term. Such efforts would build upon the progress of the Bush and Obama administrations' reform initiatives.

The next administration's global development vision and priorities should frame the actions taken based on the results of the review. Whereas President Obama has prioritized the elimination of extreme poverty, the next president may seek to concentrate programs in fragile and conflict-affected countries or to emphasize economic growth in emerging economies.

Regardless of strategic vision, the proposed USAID review should take into account, at a minimum, a range of criteria that reflect aid effectiveness principles and global best practices, as well as US geostrategic realities. We discuss four specific criteria in particular: (1) program effectiveness, (2) allocation of USAID resources, (3) alignment with recipient priorities, and (4) national security implications.

1. **Program Effectiveness**
   USAID should systematically evaluate its development results across countries, sectors, and subsectors. The agency does not have a standardized way to judge the efficacy of development programs across its entire global portfolio.[22] Instead, many regional and functional bureaus have different approaches for designing, implementing, and evaluating program results. USAID will have to develop a standardized approach and train staff to implement it, much like Australia's Annual Review of Development Effectiveness or the World Bank's Independent Evaluation Group rating system.[23] A standardized approach is invaluable for determining where the agency performs the best (or worst), as well as how it should adjust operations in the future.[24] While such information currently is not systematically available, the top-to-bottom review should draw upon all existing performance data.

2. **Allocation of USAID Resources**
   The comprehensive assessment should examine where USAID focuses its programmatic resources and personnel. An analysis of resource concentration should especially take into account the large number of relatively small USAID programs around the world.[25] A review of where USAID apportions its budget will be critical for informing future reform trade-offs, such as reallocating resources from programs with some combination of (1) relatively small budgets and high overhead costs and inability to scale, (2) large budgets concentrated in strategic countries that may generate insufficient impact per investment dollar, or (3) substandard performance results. Similarly, the review must scrutinize the agency's personnel capacity as it relates to size, technical expertise, and programmatic impact to ensure bureaus and missions are appropriately staffed to achieve development outcomes.

3. **Alignment with Partner Country Priorities**
   The top-to-bottom review should assess how well USAID assistance aligns with clearly delineated and prioritized US interests and partner-country priorities. Over the past 15 years, the US government, along with all other major donor countries, has repeatedly committed to align its development activities with country-led strategies, plans, and priorities. This reflects both best practice and practical foreign policy considerations. Yet, the majority of USAID-sector budget decisions still emanate from Washington.[26] The review should map the agency's programmatic allocations with partner countries' most pressing priorities, as illustrated by national development strategies, representative citizen surveys, and business surveys.

4. **National Security Implications**
   Finally, the comprehensive review should consider US national security interests. In pragmatic terms, the US government often continues programmatic activities with lower development effectiveness because of broader geostrategic concerns. However, national security interests should not be a default criterion that reaffirms every development program in a strategic country (e.g., Afghanistan or Pakistan) or subsector (e.g., transnational crime). Rather, it should function as an additional benchmark upon which to judge development programming that otherwise may not prove as effective, well staffed, or resourced. In doing so, this criterion would force US government officials to make the development case for these so-called strategically important programs. In some cases, the national security criterion may warrant extension or augmentation of development programs; while in other cases, certain programs may best be implemented by a different US or multilateral agency or be halted altogether.

Taken together, these four criteria provide a solid foundation for a top-to-bottom review of USAID development programming. They combine development best practices, aid effectiveness principles, and an emphasis on taxpayer value, while also reflecting the practical realities of budgetary limitations and overriding US geopolitical interests. The next presidential administration will certainly adopt additional criteria based on new development priorities and goals for the agency, such as US comparative advantages or gaps in global development support. An understanding of US comparative advantage and how USAID development programs contribute to the broader assistance landscape would further highlight the impact of agency programs around the globe. However, these principles offer a starting point for a thorough review of USAID activities around the globe.

Constraints to USAID Reform and Adaptation

Two long-standing dynamics have prevented or constrained fundamental reform and adaptation at USAID: (1) widespread congressional earmarks and directives and (2) the proliferation of presidential initiatives. Both of these constraints represent formidable, but not insurmountable, challenges for the proposed comprehensive review and any subsequent USAID reform efforts. Understanding these distinct political and programmatic constraints will be necessary as the next US president seeks to channel USAID's core capabilities over the coming years.

1. **Congressional Directives**
   Since its founding, USAID has grappled with congressional directives about how its programmatic funding should be deployed. Anecdotal evidence suggests that congressional directives account for 90 percent of available program funds in some USAID missions, including Indonesia, Malawi, and Mozambique.[27] The actual size of congressional directives in any given year is uncertain because of the lack of transparent, publicly available reporting. Until 2010, the Congressional Research Service

aggregated and disclosed congressional earmarks on an annual basis.[28] Since then, no public or private entity has tracked them comprehensively.

Therefore, the proposed review will need to address this information gap by commissioning a report on existing congressional directives. More than 50 years of congressional earmarks and directives have produced a hamstrung agency with limited ability to flexibly respond to partner-country priorities and needs, conduct long-term programming and planning, respond to crisis situations, or address new and emerging priorities.[29] At the very least, Congress could permit more flexibility within existing directives, thus allowing USAID the opportunity to better manage portfolios with local priorities.

2. Presidential Initiative Proliferation

Every presidential administration and USAID administrator seeks to leave a development legacy, whether in health (President Bush) or food security (President Obama). While priorities and focus areas are natural—and even welcomed—presidential initiatives have multiplied at an increasing pace over the past decade. For USAID, this has meant institutionalizing program areas such as malaria, electricity, women's empowerment, family planning, and even development innovation.

While these initiatives all address important development challenges, they have also become ever-growing administration budget lines that reduce organizational flexibility and responsiveness to emerging needs and priorities. Moreover, they often reflect Washington-based directives instead of partner-country priorities (as noted earlier).[30] In practical terms, the sheer number of operating initiatives means that USAID officials must contend with a host of competing priorities. For example, Tanzania is the recipient of nine ongoing USAID-backed initiatives, such as Feed the Future, the Global Climate Change Initiative, Power Africa, and the President's Malaria Initiative.[31] Therefore, the proposed top-to-bottom USAID review should account for the ever-growing number of development initiatives, recognizing that any comprehensive reform might work at cross-purposes with individual initiatives.

Recommended Road Map for Action

Conducting a comprehensive USAID program review will be a politically difficult and time-consuming process that could result in perceived winners and losers. However, USAID must take this challenge head-on if it wants to become the premier US global development agency. To increase the prospect for success and lasting results, the next US president should:

1. **Identify and empower an objective, USAID-led team, and then provide that team with the time and resources to credibly undertake the top-to-bottom review.**

The team should also include non-USAID stakeholders such as external development experts and former congressional members.

2. **Ensure that the team and other senior administration officials work closely with Congress throughout the process, including keeping leadership and relevant committees apprised of interim findings.**

3. **Commit to act upon the review outcomes in terms of future USAID budget and staffing requests.**

To incentivize review and reform, the next US president should provide USAID with budgetary and policy primacy within the US government over areas in which the agency demonstrates efficacy and focuses its programmatic and staff resources. This could mean transferring funding from other government agencies, which would reduce US agency fragmentation and reinforce USAID as the lead agency on a specific set of development issues.

In functional terms, this budgetary and policy primacy for USAID would require two organizational changes. First, the president should codify recognition that the USAID administrator has the option of participating in, or sending a designated deputy to, any National Security Council discussions related to development policy. Second, the USAID administrator should once again be dual-hatted as the director of the F Bureau at the State Department, with the rank of deputy secretary of state. Such a rank is essential for elevating the USAID administrator's voice in interagency development policy discussions.

Notes

[1] World Bank, *World Development Report 1995: Workers in an Integrating World* (New York: Oxford University Press, 1995).

[2] For instance, in Africa, nearly every coastal country, as well as many landlocked countries, has either discovered or is actively exploring for oil and gas deposits.

[3] International Monetary Fund, *World Economic Outlook Database* (Washington: IMF, October 2014).

[4] In 2013, the median revenue mobilization rate for all developing countries was 27.1 percent of gross domestic product.

[5] For examples, see International Monetary Fund, "Poverty Reduction Strategy Papers" (library), www.imf.org/external/np/prsp/prsp.aspx.

[6] Larry Nowels, "Foreign Aid Reform Commissions, Task Forces, and Initiatives: From Kennedy to the Present," in *Security by Other Means: Foreign Assistance, Global Poverty, and American Leadership*, ed. Lael Brainard (Washington: Brookings Institution, 2007).

[7] Ibid.

[8] US Agency for International Development, *Development and the National Interest: U.S. Economic Assistance into the 21st Century*, report by the administrator (Washington: USAID, 1989).

[9] Ibid.

[10] US Department of State and USAID, *Leading through Civilian Power: The First Quadrennial Diplomacy and Development Review* (Washington: US Department of State and USAID, 2010).

[11] US Department of State and USAID, *Enduring Leadership in a Dynamic World: Quadrennial Diplomacy and Development Review* (Washington: US Department of State and USAID, 2015).

[12] See "What Is the Development Leadership Initiative?" USAID, www.usaid.gov/work-usaid/careers/foreign-service/foreign-service-officer-faq; Connie Veillette and John Norris, *Engagement amid Austerity: A Bipartisan Approach to Reorienting the International Affairs Budget* (Washington: Center for Global Development and Center for American Progress, 2012).

[13] *Evaluation of the Development Leadership Initiative (DLI): Final Report*, developed for USAID (Alexandria, VA: Federal Management Partners), http://pdf.usaid.gov/pdf_docs/pdacs519.pdf.

[14] USAID, *USAID Forward: Progress Report 2013* (Washington: USAID, 2013), www.usaid.gov/sites/default/files/documents/1868/2013-usaid-forward-report.pdf.

[15] Casey Dunning, *Is Local Spending Better? The Controversy over USAID Procurement Reform* (Washington: Center for American Progress, 2013).

[16] George M. Ingram, *A Data Picture of USAID Public-Private Partnerships: 2001–2014* (Washington: Brookings Institution, October 2014).

[17] US Commission on Helping to Enhance the Livelihood of People, *Beyond Assistance: The HELP Commission Report on Foreign Assistance Reform* (Washington: The HELP Commission, 2007), http://helpcommission.info.

[18] Amanda Glassman, "Failure to Launch: A Post-Mortem of GHI 1.0," *Global Health Policy* (blog), Center for Global Development, July 2012, www.cgdev.org/blog/failure-launch-post-mortem-ghi-10.

[19] Vijaya Ramachandran and Julie Walz, "The Need for More Local Procurement in Haiti" (CGD Policy Paper, Center for Global Development, Washington, 2013).

[20] Publish What You Fund, "Aid Transparency Index: 2014 Report," http://ati.publishwhatyoufund.org/.

[21] Nancy Birdsall and Homi Kharas, *The Quality of Official Development Assistance (QuODA)*, 3rd ed. (Washington: Center for Global Development and Brookings Institution, 2014).

[22] USAID, "Development Experience Clearinghouse," https://dec.usaid.gov/dec/home/Default.aspx.

[23] "Annual Review of Development Effectiveness," Australian Department of Foreign Affairs and Trade, February 2014, www.ode.dfat.gov.au/publications/arde.html.

[24] An exemplary model is the World Bank's Independent Evaluation Group's standardized approach to evaluating project performance. The methodology rates programs annually on a scale of 1 to 6 and includes a series of indicators that cover the quality of projects at entry, during implementation, and ex-post.

[25] Veillette and Norris, *Engagement amid Austerity*.

[26] Benjamin Leo, "Is Anyone Listening? Does US Foreign Assistance Target People's Top Priorities?" (CGD Working Paper 348, Center for Global Development, Washington, 2013).

[27] Authors' conversations with USAID mission directors, 2014.

[28] Carol Hardy Vincent and Jim Monke, "Earmarks Disclosed by Congress: FY2008–FY2010 Regular Appropriations Bills" (Washington: Congressional Research Service, 2010), http://nationalaglawcenter.org/wp-content/uploads/assets/crs/R40976.pdf.

[29] Veillette and Norris, *Engagement amid Austerity*.

[30] Some of these efforts, such as President Obama's Power Africa, align with requests from partner governments and seem to work in concert with USAID plans and national development strategies.

[31] Center for Global Development, "US Development Initiatives: Where in the World Are They?" www.cgdev.org/cgd_map.

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MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

Defining the Next Ten Years of the Millennium Challenge Corporation

Sarah Rose and Franck Wiebe

Introduction

When the George W. Bush administration launched the Millennium Challenge Corporation (MCC) just over a decade ago, its vision was to make fundamental changes to how the US government delivered foreign assistance. MCC has a single mission—reducing poverty through economic growth—that allows it to pursue development objectives in a highly targeted way. The agency's model for how it pursues that mission was, from the outset, grounded in fundamental principles of aid effectiveness. Its programs are driven by well-governed developing-country partners, with individual projects selected on the basis of expected economic returns. In addition, MCC has integrated robust monitoring and evaluation into its operations more than any other development agency in the world.[1] That the US Congress, with bipartisan support, has protected MCC's flexibility and responsiveness by keeping it free of spending directives has been a key factor enabling the agency to operationalize its groundbreaking model.

MCC's model has received much recognition. However, since the agency controls just a small portion of the US foreign assistance budget, it alone has not fulfilled—and cannot be expected to fulfill—the founding vision of transforming US foreign assistance policy. Partly in response to the recommendations stemming from the 2010 Presidential Policy Directive (PPD) on Global Development, the larger agencies, especially the US Agency for International Development (USAID), have commendably worked to incorporate many of the same principles included in MCC's model. For the most part, however, those principles are applied to a still-limited portion of the overall US foreign assistance portfolio. The next US president should continue to support MCC as a separate institution and support efforts to more thoroughly extend the good practices promoted in MCC's model throughout US foreign assistance in general.

POLICY RECOMMENDATIONS

- Expand the proportion of US foreign assistance subject to MCC-type aid-effectiveness principles, while increasing the proportion of flexible funding that is not subject to congressional directives or administration initiatives.
- Further strengthen the implementation of key aspects of MCC's model, such as the commitment to cost-effective investments, advancing transparency efforts, and learning from ongoing and completed programs.
- Pilot new approaches, such as outcome-based aid and regional compacts that address cross-border growth constraints.

Following MCC's 10th anniversary last year, many policymakers and politicians are also looking closely at MCC itself and wondering what should be next for the agency. This juncture presents opportunities for innovation and adaptation; however, pressure to expand and evolve raises the risk of mission creep and watering down MCC's model. To increase MCC's effectiveness, as well as the way its principles are applied throughout the broader foreign assistance portfolio, the next US president should embrace MCC's focused mission and results-oriented approach while directing his or her administration to advance several adjustments to further improve and expand its impact. MCC has struggled at times to preserve its focus on high-quality programs while trying to deliver *large* programs *quickly*. Consequently, any encouragement to expand MCC's budget should explicitly caution against funding large investments whose expected returns are poor or unknown.

In this brief, we review what makes MCC unique from other US development agencies and how it has performed during its first decade of operations. Following this, we identify a number of specific reform proposals.

MCC Background

MCC is a relatively small agency, spending less than $1 billion annually; for comparison, USAID spent $17 billion in 2013.[2] Yet the way MCC delivers its large-scale grant programs makes it a unique and important US development tool. Three key guiding principles underpin the agency's model:

1. **Policies matter.** MCC partners only with relatively well-governed low- and lower-middle-income countries that demonstrate commitment to governing justly and democratically, investing in their people, and encouraging economic freedom. This reflects the premise that aid should build on and reward policies that promote private investment and poverty-reducing economic growth.

2. **Results matter.** MCC's robust results framework directs the agency to address binding constraints to growth, identify economically efficient projects (i.e., those with local benefits that exceed project costs), track the projects' progress, and measure their impact. Although MCC has not always acted according to its results-based principles and has experienced disappointing results at times, even when it has implemented its own best practices, its framework remains exemplary within the development community.

3. **Locally developed and owned programs matter.** MCC works in partnership with eligible countries to develop and implement agreed-upon programs. This assumes that US investments will be more effective and sustainable when they support local priorities and strengthen partner governments' accountability to their citizens.

MCC is not the only US government agency to incorporate aid-effectiveness practices into its operations. USAID, in particular, has pushed forward a number of reforms in recent years, including efforts to increase local ownership of foreign assistance projects, use economic analysis to inform project selection, and evaluate results. Even in this context, however, MCC remains at the forefront of applying best practices in foreign aid, doing so across its entire portfolio and throughout the lifespan of each program. This is something that no other US agency does currently. In fact, in the Center for Global Development and Brookings Institution's *2014 Quality of Official Development Assistance (QuODA)* assessment, MCC outperformed all other US aid agencies on the basis of how well they maximize efficiency, foster recipient countries' institutions, and reduce administrative burdens on the partner country.[3]

To date, MCC has signed compacts (five-year grant programs) totaling roughly $10 billion with 25 countries.[4]

Table 1 Millennium Challenge Corporation Signed Compacts

Year of Signing	Country	Compact Total ($ millions)	Year Completed
2005	Madagascar	110	2009*
	Honduras	215	2010
	Cape Verde	110	2010
	Nicaragua	175	2011
	Georgia	395	2011
2006	Benin	307	2011
	Vanuatu	66	2011
	Armenia	236	2011
	Ghana	547	2012
	Mali	461	2012*
	El Salvador	461	2012
2007	Mozambique	507	2013
	Lesotho	363	2013
	Morocco	698	2013
	Mongolia	285	2013
2008	Tanzania	698	2013
	Burkina Faso	481	2014
	Namibia	304	2014
2009	Senegal	540	
2010	Moldova	262	
	Philippines	434	
	Jordan	275	
2011	Malawi	351	
	Indonesia	600	
2012	Cape Verde II	66	
	Zambia	355	
2013	Georgia II	140	
2014	Ghana II	498	
	El Salvador II	277	
	Total	**10,217**	

*Compact that was terminated before its scheduled closure due to a military coup in the country.

MCC's Model in Practice

In this section, we examine the three core pillars of MCC's model, assess the agency's track record of implementing those principles in practice, and discuss the potential for their extended application to other parts of the US foreign assistance apparatus.

A. Policy Performance Matters

MCC partners only with relatively well-governed countries. Countries are picked largely (but not exclusively) on the basis of their performance on publicly available "scorecards." These are compilations of quantitative policy indicators from reputable third-party organizations (e.g., the World Bank, Freedom House).

MCC's transparent, evidence-based selection process was intended to depoliticize eligibility decisions. The agency's founders recognized that the allocation of most US development assistance funds tended to reflect both a need to support strategic allies and a need to have widespread recognized presence. MCC's record of country selection suggests that policy performance has been the main criterion for eligibility over time. While US geopolitical interests have almost certainly influenced some decisions about compact eligibility, that factor has not generally trumped MCC's overall focus on policy performance. That is, MCC has not, to date, selected any relatively poorly governed countries to receive its large compact agreements.[5] Adherence to this principle should be continued in the future.

MCC can also suspend or terminate a country partnership following a substantial deterioration in policy performance. In fact, the agency has halted eligibility or funding for more than one-third of its compact-eligible countries over the last decade.[6] Undemocratic practices, such as military coups or irregular elections, have been the most common reason for suspension or termination decisions. A willingness to curtail partnerships with countries that experience policy declines should be continued as well.

MCC is currently the only donor worldwide to use a largely transparent set of governance criteria to determine where it will work.[7] Of course, this type of selective approach is not necessarily appropriate for all US government development efforts. For example, humanitarian relief, refugee assistance, and postconflict reconstruction tend to be concentrated in more fragile policy environments. However, for some portions of the foreign assistance budget, like those focused on economic growth goals, it may make sense for other US aid agencies to apply greater policy-based selectivity. Such an idea has been raised periodically (for instance, the PPD stressed that the United States should be more selective, and the 2015 Quadrennial Diplomacy and Development Review [QDDR] mentions partnering with countries committed to good governance), but broader implementation remains limited by a variety of factors, including congressional earmarks and broader US diplomatic interests.[8]

B. Results Matter

When MCC was founded, there was widespread skepticism regarding the effectiveness of foreign assistance. Many observers agreed that a lot of foreign aid was spent on poorly designed and implemented projects with weakly defined objectives or unclear linkages to the expected development results, if not both. There was little understanding of what aid dollars were achieving. In response to this concern, MCC was designed with a single objective—reducing poverty through economic growth—that in practice was understood as funding only projects with benefits in terms of local income increases that would exceed project costs. MCC developed a three-pronged results framework to measure, throughout the project lifecycle, results linked to this ultimate goal: (1) MCC requires country partners to use economic analysis to identify impediments to growth and to design projects that would achieve efficient economic return (i.e., their expected benefits would exceed project costs); (2) MCC and its country counterparts monitor the progress of intermediate results during implementation (were the interventions undertaken as planned with outcomes as expected?); and (3) upon project completion, MCC uses independent evaluations to rigorously assess whether impact attributable to the project's interventions occurred. This section looks at two of these components: economic return and evaluation.

Although MCC invests in the same activities as other donors (e.g., building roads, training farmers), its distinguishing feature is its commitment to finance only those projects that are expected to raise local incomes *by more than* the cost of implementation. Although almost all aid projects generate some benefits, other donors are rarely able to determine whether the gains from their assistance justify the expenditure of limited aid resources. In contrast, MCC adopted the use of cost-benefit analysis to identify growth-focused projects (i.e., those with benefits that exceed their costs). Cost-benefit analysis compares all project costs with expected increases in local incomes over the lifetime of the project (usually 10 to

20 years).[9] Relying on cost-benefit analyses to screen for program quality across the agency's entire portfolio has set MCC apart from other donor organizations, including all other US agencies.[10] USAID is currently expanding the use of cost-benefit analysis in its program design processes, but the share of the portfolio assessed for economic return remains relatively small.

MCC has largely adhered to its guiding principle of selecting efficient economic investments. However, some notable exceptions suggest MCC could further strengthen the implementation of this commitment going forward. These inconsistencies typically have taken two forms: (1) approving projects whose costs exceed their benefits, or (2) deciding to fund projects without first conducting cost-benefit analyses.

According to publicly available information, in MCC's first 10 years, more than 90 percent of program funds went to projects estimated to achieve sufficient economic returns. However, approximately 9 percent of MCC's portfolio—around $800 million—did not demonstrate acceptable returns at the time of project approval.[11] In some cases, the agency approved projects whose costs were known to exceed their benefits; in other cases, it approved projects in the absence of cost-benefit analysis, often on the grounds that the implementation strategy of the proposed activity was not yet sufficiently developed to estimate its effects. In a few cases, MCC funded activities that were considered experimental, and therefore lacking in evidence of impact. While MCC clearly should have room to innovate, experimental activities should be a relatively small proportion of a country's program funds, and they should be subject to rigorous evaluation. In contrast, more than 50 percent of the $600 million Indonesia compact was not subject to cost-benefit analysis, and many of those expenditures will not be amenable to rigorous impact evaluations. MCC was designed to make large high-return investments, not primarily as a tool for trying interventions whose impacts are unknown. Large expenditures on proposals with substandard returns or no solid basis for estimating impact are inconsistent with the agency's focus on generating *efficient* results; that is, generating benefits that justify the costs of achieving them.

Table 2 Examples of Projects Approved Despite Low (below 10 percent) or Uncalculated Rates of Return

Compact	Compact Total ($ millions)	Project/Activity Description	Project/ Activity Cost ($ millions)	Economic Rate of Return
Burkina Faso	481	Primary roads	142	
		Road 1		-0.8
		Road 2		-3.3
		Road 3		0.1
		Road 4		-1.6
		Road 5		2.7
		Road 6		-2.5
		Road 7		1
		Rural land governance	60	*Not calculated*
		BRIGHT 2 schools project	29	*Not calculated*
Indonesia	600	Green prosperity	333	*Not calculated*
		Procurement modernization	50	*Not calculated*
Lesotho	363	Rural water supply/sanitation	30	0.7
Madagascar	110	Agriculture business investment	18	*Not calculated*
Mozambique	507	Road rehabilitation	173	
		Road 1		7.1
		Road 2		6.7
Namibia	304	Eco-tourism development	18	6.9
		Land access management	21	8.7
		Indigenous natural products	7	2.9
Senegal	540	Irrigation	5	7

Note: All rates of return are from data posted on www.mcc.gov and reflect original calculations. All budget figures are from the original compact agreements and reflect original budgeted amounts.

Several factors likely explain these project approval decisions. For instance, partner governments may have applied pressure to pursue politically valuable projects, and US and international advocacy organizations sometimes press for sector-specific spending.[12] In addition, there can be internal pressure within MCC to deliver compacts within a predetermined time frame or of a specific financial size. This can result in the inclusion of activities justified more for their political expediency or their role in minimizing unobligated balances than for their economic logic. To MCC's credit, its commitment to transparency enables stakeholders to recognize and question the agency's choices to invest in projects that will not raise incomes in an efficient manner. However, while all initial investment decisions are subject to public scrutiny, MCC has not extended the same level of transparency to decisions about midcourse changes in implementation plans, weakening the agency's accountability.

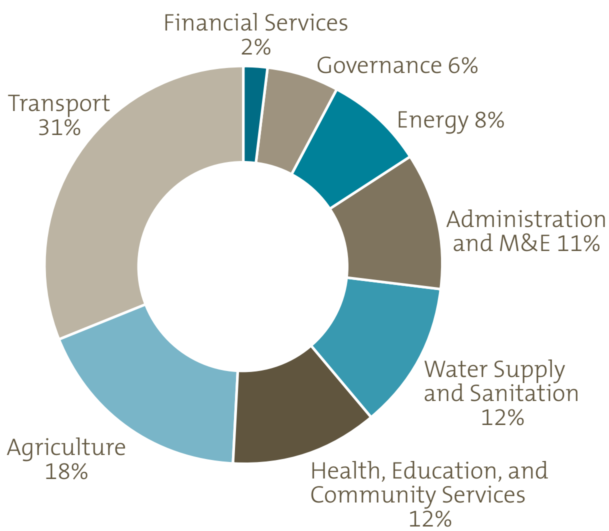
MCC has received well-deserved accolades for its commitment to conducting and publishing high-quality evaluations for the majority of its projects. Other US government foreign assistance agencies, notably USAID, have also increased their focus on evaluation for purposes of learning and accountability. But MCC remains a leader, evaluating far more of its portfolio, more systematically applying the evaluation process, using more rigorous methods, and more clearly communicating evaluation results. During the next presidential administration, MCC should continue to strengthen its evaluation practice, with a focus on increasingly transparent and frank discussion of results, regardless of whether the desired impact has been achieved or not. While MCC remains a leader, it still has substantial room to improve the timeliness and transparency with which it communicates the results of its evaluations.

C. Locally Developed and Owned Programs Matter

The idea of country ownership reflects the understanding that partner-country governments, in consultation with key stakeholders, should lead the development and implementation of their own national strategies. Donor governments worldwide have repeatedly endorsed this principle for more than a decade. Among US development agencies, MCC's approach is arguably the most comprehensive given its multiyear funding and lack of congressional spending directives. This provides the agency far more flexibility to support country-led priorities than other US agencies with structural constraints that prevent greater action in this area. For instance, extensive congressional spending directives, some imposed at the behest of the agency itself, as well as a range of presidential initiatives, require that USAID spend funds on priorities identified inside the DC Beltway rather than on those identified by its partner countries.[13]

MCC has funded country-identified priorities across a range of sectors, and it is clear that the agency's flexibility to do so has enabled it to fill some important gaps. For example, when MCC was created, transportation infrastructure suffered from a dearth of donor funding. That area quickly became MCC's most funded sector, reflecting the agency's ability to address countries' needs in an area where other donors were unable or unwilling. Energy has recently emerged as a key country-led priority among a number of MCC's partners, consistent with the US government's focus on tackling this constraint through its Power Africa initiative (see the *White House and the World* paper "Powering Up US Policy to Promote Energy Access."[14] However, in keeping with its principle of country ownership, MCC must be careful that its energy investments are driven by evidence that power is a main constraint to growth in a partner country and that the partner, not just the White House, prioritizes this focus.

MCC Compact Funding by Sector



Source: MCC's 2013 Annual Report, with figures adjusted to include the Ghana II compact signed in August 2014 ($260 million added to Energy, $48 million added to Administration and M&E).

MCC's approach to local ownership is integrated throughout the compact process. Partner governments—in consultation with citizens, nongovernmental organizations, and businesses—are responsible for proposing funding priorities. They also lead compact implementation. However, the principle of local ownership is complicated, and incorporating it well often requires a fine balancing act with other requirements such as the need for accountable use of funds, the need to ensure expedient implementation, and the need for proposed projects to meet MCC's parameters for economic return. MCC is also occasionally challenged by having to weigh domestic pressures from US stakeholders against country priorities.[15]

The Path Ahead for MCC and Other US Aid Agencies

The next US president should subject more of the US foreign assistance budget to MCC-type aid-effectiveness practices. For MCC itself, the next president should champion the agency's proven model and its narrow, focused mandate, while improving how MCC implements its model in key areas. This will increase MCC's own effectiveness and lead to a more informed application of the agency's aid-effectiveness principles and practices to the broader US government foreign assistance portfolio. Together, this agenda should cover four distinct areas:

❶ Expand the proportion of US foreign assistance subject to MCC-type aid-effectiveness principles.

Many aspects of MCC's model, as referenced above, should be applied to more of the foreign assistance budget. This could be achieved in part through increased funding for MCC. However, more money should be contingent upon the agency's identification of results-focused investments in eligible countries that justify the expenditures. However, greater impact would likely come from continuing to expand the use of results-focused aid-effectiveness practices within the other US aid agencies, especially USAID and the State Department, which together control three-quarters of US foreign assistance dollars.[16]

In particular, the next presidential administration should require that these agencies—for far more of their portfolio—clearly demonstrate value for money, apply greater country selectivity, give partner countries more responsibility for identifying and managing aid investments, and further their commitment to transparency and rigorous evaluation. (This proposal should be read in conjunction with the *White House and the World* paper "Making USAID Fit for Purpose—A Proposal for a Top-to-Bottom Program Review." MCC's set of standard practices is not necessarily systematically appropriate for all US foreign assistance objectives and programs. Some things, such as expanding the use of constraints analysis, a commitment made in the 2015 QDDR, are more relevant for growth-focused programming. However, other aspects, such as cost-benefit analysis, country participation, evaluation, and transparency, can be applied more broadly and across sectors and initiatives.[17]

❷ Increase flexible spending.

The lack of congressional spending directives is a key feature that enables MCC to implement its model. The flexibility to support partner-country priorities and target results-focused investments, with appropriate oversight and quality controls, should be preserved. It should also be expanded throughout the US foreign assistance budget.[18] In practical terms, this will require working with Congress to prevent burdensome directives as well as reducing executive branch requests for specific priorities. The next administration should also moderate the use of presidential initiatives since they, too, can constrain agencies' ability to respond to local priorities.

❸ Further strengthen the implementation of key aspects of MCC's model.

MCC should continue to reinforce its commitment to pursuing only investments with adequate economic returns, in both the initial project approval stage and during midcourse corrections. It should refrain from financing investments whose benefits are either unknown or known to be less than their cost, and it should increase accountability for such decisions by publicly disclosing the data that informs midcourse corrections. In addition, the next administration will bear significant responsibility for managing and messaging the results achieved with MCC funding since many evaluations will be finalized over the next several years. MCC should build on its proven leadership in evaluation practices by reinforcing its commitment to publishing all evaluation reports, increasing resources dedicated to timely dissemination of results, and demonstrating how it is applying lessons to its ongoing programs.

4 Pilot new approaches to expand MCC's impact.

The next administration should encourage MCC to expand its impact while ensuring that any innovations remain closely aligned with the agency's core founding principles. In particular, the next president should encourage MCC to continue current efforts to experiment with regionally based programs that address eligible countries' binding constraints to growth and poverty reduction. This will present a number of practical challenges for MCC's existing model that must be handled carefully. Nevertheless, the next presidential administration should continue to work closely with Congress to secure authority to pilot regional MCC compacts in contiguous eligible countries, assess the successes and challenges of early attempts, and then consider whether the practice should be institutionalized going forward.

The next US president also should encourage MCC to pilot pay-for-performance approaches, such as Cash on Delivery Aid. These are agreements in which donor agencies pay a partner country for the delivery of independently verified and measurable pre-agreed outcomes.[19] (This proposal should be read in conjunction with the *White House and the World* paper "Shifting the Foreign Aid Paradigm—Paying for Outcomes.") Pay-for-performance schemes fit well with many aspects of MCC's model, and the agency has already signaled its interest in pursuing them. They are focused on measuring results and promote greater country ownership by providing partner governments with increased flexibility to find the best ways, within their own local context, to achieve agreed-upon targets.

Conclusion

Over the past decade, MCC has firmly established itself as a global leader in changing how aid is delivered. Strong bipartisan support—spanning the Bush and Obama administrations, as well as within the US Congress—has been critical to its achievements and to maintaining the integrity of its guiding principles. The next US president should embrace MCC's strong track record while overseeing further improvements to its model. This includes careful piloting of new approaches that reflect emerging demands, such as regionally based and pay-for-performance programs. However, the largest prize ultimately will entail continuing to expand more of the aid-effectiveness practices that MCC embraces to cover more of the US aid portfolio.

Further Reading

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Notes

[1] Although the World Bank evaluates virtually all of its projects, such assessments by the World Bank project lead at the time of project completion are rarely rigorous impact evaluations. Although the World Bank produces in absolute number the most rigorous impact evaluations of any development institution, the share of its portfolio subject to impact evaluation is still relatively small (despite having grown in recent years). For instance, 8 percent of World Bank lending operations approved between FY2005 and FY2010 and 10 percent of projects approved between FY2007 and FY2010 were linked to an impact evaluation. World Bank, *World Bank Group Impact Evaluations: Relevance and Effectiveness* (Washington: World Bank, 2012). By contrast, MCC conducts impact evaluations for more than 40 percent of its portfolio (by value).

[2] According to US Overseas Loans and Grants (http://gbk.eads.usaidallnet.gov/data/fast-facts.html), MCC was responsible for just under 5 percent of US economic assistance disbursements in FY2012. In comparison, USAID was responsible for 35 percent and the State Department 38 percent.

[3] Nancy Birdsall and Homi Kharas, *The Quality of Official Development Assistance (QuODA), Third Edition* (Washington, DC: Brookings Institution and Center for Global Development, 2014). Note that while MCC did score better than any other single agency on the indicators referenced, "United States—Miscellaneous" scored higher than MCC on the indicators "maximizing efficiency" and "reducing burden."

[4] As of April 2015.

[5] Only two countries have ever been newly selected for compact eligibility despite not passing the scorecard criteria: Georgia (twice) and Mozambique (once). The vast majority (93 percent) of compact-eligible countries passed the scorecard at the time they were first selected; more frequently, countries once selected have been reselected despite failing the criteria while program development or implementation had commenced. The indicators on the scorecards are only proxies for policy performance, however, and in the cases of Georgia and Mozambique, the decision to select the countries despite their failing to meet the formal eligibility criteria had some plausible basis in supplementary data. Geopolitical interests have arguably been more visible in some eligibility decisions for the smaller-threshold program, a program intended to help countries become compact eligible, whose criteria for eligibility is less precisely defined. For examples, see Sarah Rose and Franck Wiebe, "MCC at 10: Focus on Policy Performance," MCC Monitor analysis (Washington: Center for Global Development, 2015).

[6] MCC cut funding or eligibility for 13 of the 35 countries selected for MCC compact agreements between FY2004 and FY2014.

[7] The World Bank's International Development Association (IDA) also uses a publicly available set of quantitative policy criteria to inform resource allocation. However, all countries with per capita incomes below a certain threshold (plus some additional countries) get some IDA resources regardless of their policy performance. Countries that perform better on the policy criteria get a larger allocation. In contrast, MCC only funds countries that demonstrate a certain level of performance on its policy criteria.

[8] The Partnership for Growth, an interagency US government initiative that seeks to accelerate economic growth in select countries, used policy performance—including MCC scorecard performance—as part of its criteria to identify focus countries.

[9] MCC requires that projects have an expected economic rate of return (the interest rate at which the net benefits would equal zero) of at least 10 percent to be considered economically justified; this approach is consistent with approving only those proposed investments with a positive net present value using a 10 percent discount rate.

[10] Both USAID and the World Bank use cost-benefit analysis (CBA) today and have used the framework more extensively in the past. Both institutions have had reasons for reducing the use of CBA, including the increasing importance of nongrowth activities in their portfolios (e.g., democracy and governance at USAID, social welfare at the World Bank). Both institutions have also experienced the difficulty of preserving the credibility of CBA in the context of incentives to move money. (For an excellent description of the World Bank's past and current practices, see Andrew Warner, *Cost-Benefit Analysis in World Bank Projects* (Washington: World Bank, 2010.) In many other development institutions, there is little formal effort to compare the cost of their operations to the value of their impact.

[11] These estimates were derived by compiling all the economic rate of return (ERR) calculations MCC has posted on its website plus references to original ERR values included in online monitoring and evaluation (M&E) reports. However, it is not clear whether *all* completed ERRs are posted online and/or referenced in M&E reports. The fact that M&E reports sometimes refer to ERRs that are not posted suggests that the public set of information is incomplete. It is therefore possible that nonpublic ERRs exist for some projects or activities; in which case, the estimate of the value of projects that do not demonstrate economic efficiency could be either higher or lower than cited here. Moreover, some projects with acceptable overall ERRs may have included substantial activities or subactivities that, if assessed independently, would not have demonstrated a sufficient rate of return, thus undercounting the dollars spent on investments that are not economically sound.

[12] Although pressure from US-based advocacy groups is not common, MCC did face high-level pressure from members of Congress and other US environmental groups to ensure that the Indonesia compact included substantial funding for activities aimed at preventing deforestation.

[13] In the 2010 Foreign Operations Appropriations bill, Congress earmarked two-thirds of development funds by sector. Connie Veillette, *The Future of U.S. Aid Reform: Rhetoric, Reality, and Recommendations*, CGD report (Washington, DC: Center for Global Development, 2011). An example of how this limits USAID flexibility appears in USAID's Country Development Cooperation Strategy (CDCS) for Mozambique, which says, "Currently, USAID/Mozambique's portfolio is 100 percent earmarked by Presidential Initiatives and other requirements.

The Mission has no funds to use at its own discretion, and the vast majority of its programming falls under strategies that were approved prior to this CDCS. As such, Presidential Initiatives and USAID global strategies greatly influenced the strategic choices made in this CDCS."

[14] MCC plans to spend $1 billion (of the approximately $7 billion pledged by the US government) to support Power Africa objectives in three countries: Ghana, Liberia, and Tanzania.

[15] For instance, as noted above, the expressed preferences of certain US stakeholders for the Indonesia compact to contain environmental programming contributed to the inclusion of a large project that was not among the Government of Indonesia's top priorities. In addition, with MCC expected to play an important role in the Obama administration's Power Africa initiative, there is the distinct possibility that the US government's desire to finance power projects in designated countries influences partner countries' decisions to propose projects in this sector over other potential areas they might otherwise prioritize.

[16] As noted earlier, according to US Overseas Loans and Grants (2014), MCC was responsible for 5 percent of FY2012 economic assistance disbursements. In comparison, the State Department and USAID were responsible for 38 percent and 35 percent, respectively.

[17] The 2015 QDDR also committed to expand data transparency and evaluation efforts.

[18] In addition, a substantial portion of the US foreign assistance budget is intended for nondevelopment objectives like humanitarian relief and support for geo-strategic allies. These are important and worthwhile goals for the US government to pursue, but the loss of focus that occurs when these

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Strengthening Incentives for a Sustainable Response to AIDS: A PEPFAR for the AIDS Transition

Mead Over and Amanda Glassman

Introduction

Remarkable progress has been made in the global fight against HIV/AIDS. The number of people receiving treatment in low- and middle-income countries increased from 300,000 in 2003 to 13.7 million in 2015, including 7 million supported by the United States. AIDS-related deaths have dropped by 29 percent since 2005.[1] These gains are primarily attributable to a 2003 US government initiative called PEPFAR (the President's Emergency Plan for AIDS Relief) that provided major new multiyear funding for global HIV/AIDS and created a new entity, the Office of the Global AIDS Coordinator, headed by an ambassador-rank Global AIDS Coordinator who is authorized to allocate PEPFAR's resources and coordinate all US bilateral and multilateral activities on HIV/AIDS. The Global AIDS Coordinator has wide authority over HIV/AIDS activities implemented by the US Agency for International Development (USAID), the US Department of Health and Human Services (primarily through the Centers for Disease Control and Prevention [CDC], the Health Resources and Services Administration, and the National Institutes of Health [NIH]), the Departments of Labor, Commerce, and Defense, and the Peace Corps. US leadership is recognized worldwide as having spurred an unprecedented surge in political commitment, global spending, and scientific advancement, which has transformed AIDS from a death sentence into a manageable disease.

However, without dramatic changes to PEPFAR, the next president risks being held responsible for the failure of a program that until now has been one of the United States' proudest foreign assistance achievements. And because PEPFAR is a major component of US foreign assistance spending, the next president's choices about PEPFAR will heavily influence any subsequent assessments of his or her humanitarian foreign assistance policies.

POLICY RECOMMENDATIONS

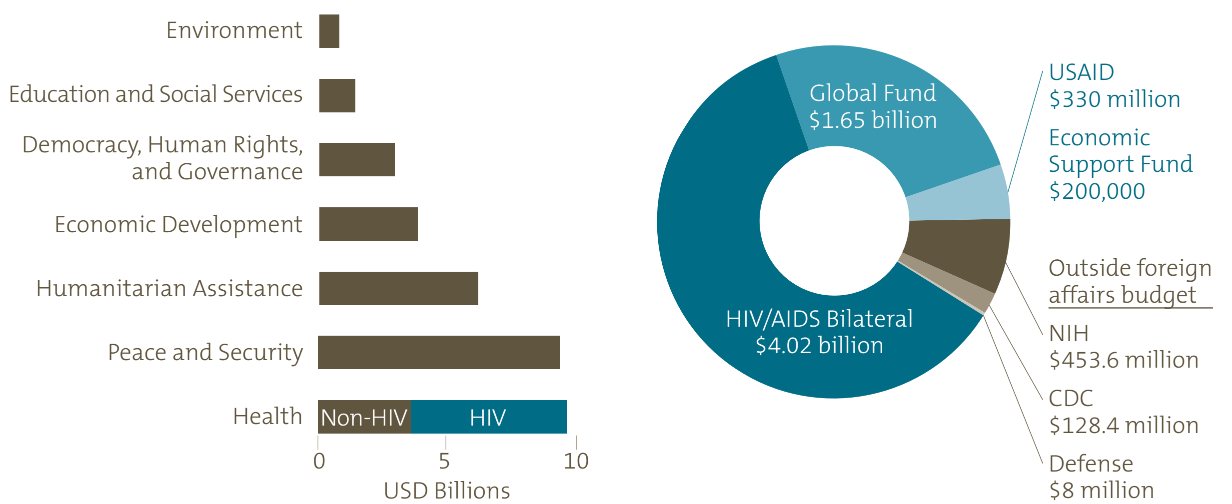
- Experiment with impact-based agreements to align policy, funding, and actions to drive progress toward an AIDS transition, with attention to rights and gender issues.
- Measure what matters—new infections and AIDS-related mortality—to achieve maximum value for spending through better targeting and alignment of financial support with countries' own financial commitments and progress on prevention and treatment.
- Create incentives for co-financing by committing to a floor of support in hard-hit countries and developing matching funds for each additional person tested or on treatment.

While the United States had played a role in the global response to AIDS since the mid-1980s, the creation and authorization of PEPFAR in 2003 marked a turning point in terms of funding and attention given to the epidemic. Through the US Leadership against HIV/AIDS, Tuberculosis and Malaria Act of 2003, $15 billion over five years was allocated to PEPFAR to address HIV/AIDS in the hardest-hit countries and make contributions to multilateral agencies such as the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund).[2] In 2008, PEPFAR was reauthorized for an additional five years at up to $48 billion, and in 2013 Congress extended PEPFAR's authorities through 2018.[3,4]

Figure 1 More US Foreign Assistance Is Devoted to Health Objectives Than to Any Other (FY2014); Most of That Is for HIV/AIDS

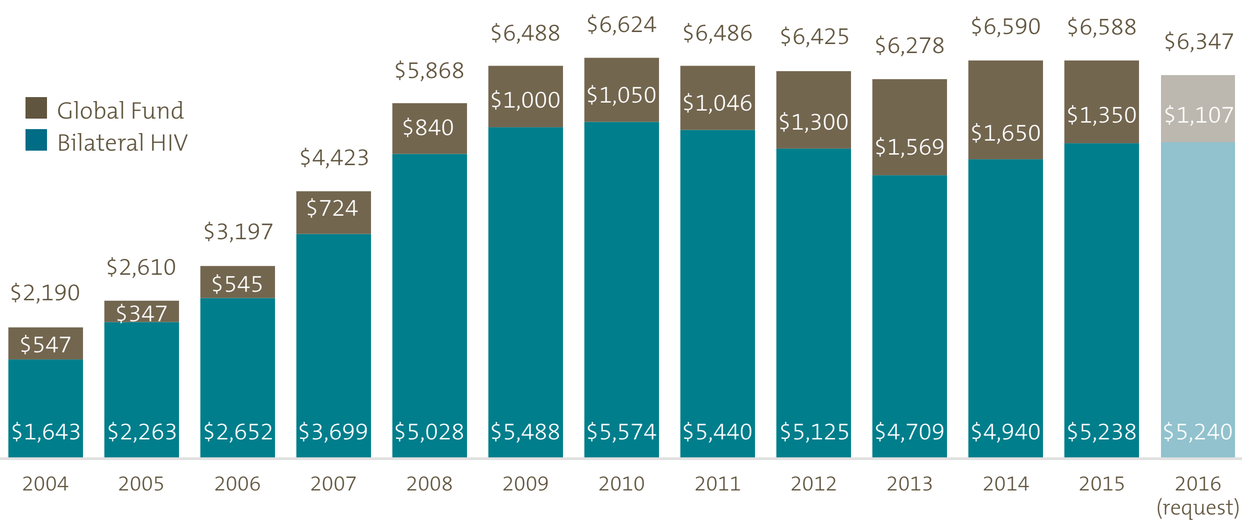
Panel A US Foreign Assistance Budget

Panel B Breakdown of HIV/AIDS Funding in Foreign Assistance Budget compared to other sources



Source: Panel A: Foreign Assistance Dashboard database, downloaded May 2015. Panel B: Kaiser Family Foundation, *HIV Funding* (2014), http://kff.org/interactive/budget-tracker/summary/Filter-Program-Area/HIV/Agency/?view=single-year&startYear=2014.

Figure 2 US Funding for PEPFAR (for Bilateral HIV/AIDS Programs and Global Fund Contributions) FY2004–2015 and FY2016 Request (millions USD)



Adapted from the Kaiser Family Foundation. Original source: Kaiser Family Foundations analysis of data from the Office of Management and Budget, Agency Congressional Budget Justifications, Congressional Appropriation Bills, and US Foreign Assistance Dashboard (www.foreignassistance.gov)

More US foreign assistance spending, $8.4 billion in 2014, is devoted to health objectives than to any other broad category (the bottom bar in the left panel of figure 1). PEPFAR funding to combat the HIV/AIDS epidemic includes not only $6 billion from the foreign assistance budget, but also an additional $580 million channeled through the NIH and the CDC (right panel of figure 1). PEPFAR is one of a very few bipartisan development priorities, with executive and congressional leaders in both political parties generally agreeing on the program's objectives and strategy. Perhaps as a result of this rare political collaboration, the program is the largest foreign assistance program in history to address a single health issue and has spent a total of $51 billion from its launch in 2004 through the end of 2014, with $6.6 billion authorized for 2015 and $6.3 billion requested for 2016 (figure 2).[5]

PEPFAR's importance to US foreign assistance policy derives not only from its size but also from several other unusual or unique characteristics. It is the only foreign assistance program that directly provides long-term medical treatment, thus arguably endowing those patients with a virtual entitlement to continued US support.[6] PEPFAR is also the vehicle through which the United States is experimenting with channeling foreign assistance through the Global Fund, a multilateral institution quite different from the traditional Bretton Woods ones like the World Bank.[7] Along with the Millennium Challenge Corporation, another innovative foreign assistance program, PEPFAR sits outside of USAID and thus has the freedom to adopt new approaches to improving the effectiveness of foreign assistance. Like the Department of Homeland Security, PEPFAR attempts to rationalize and coordinate government bureaucracy, in its case by organizing HIV/AIDS-related programming across multiple government agencies, including not only the State Department, USAID, and the CDC but also Health and Human Services, the Department of Defense, and the NIH. Furthermore, the United States provides nearly two-thirds of all international assistance for HIV/AIDS, which together with its 33 percent contribution to the Global Fund makes its support critical to the sustainability of the global effort against AIDS. All of these features together suggest that whether PEPFAR continues to succeed or is humbled by its growing challenges will have repercussions for good or ill not only on the United States' international reputation but also on the effectiveness of its foreign assistance policy overall.

Because US financing, both bilateral and multilateral, has dominated the global battle against HIV/AIDS, choices by the next administration will largely determine the health and financial burdens of the disease in severely affected countries through 2020 and beyond. If PEPFAR continues on its current path, the burden of HIV/AIDS in hard-hit, low-income countries threatens to consume an ever-increasing share of national health spending, perpetuate most recipient countries' dependency on foreign donors, and indefinitely postpone the achievement of an AIDS-free generation. Therefore, the next US president must reinforce and continue the US government's commitment to reducing HIV infections and AIDS-related deaths by ensuring PEPFAR's programs establish clearer incentives for progress and partner-country investment. This can be done by

- aligning funding to reward progress toward the AIDS transition;
- allocating more funding to measure new HIV infections; and,
- specifying future US commitments to focus countries as a foundation for strengthening co-financing schemes.

Policy Analysis

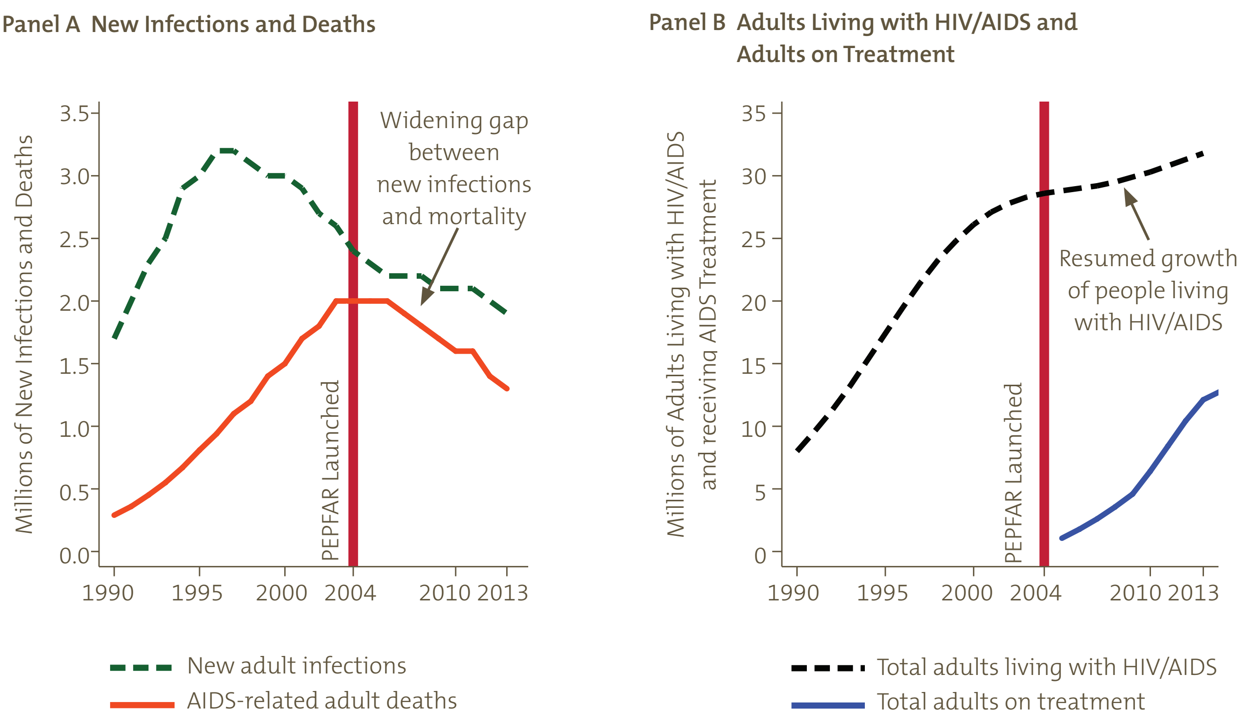
Aligning Funding to a New Goal: PEPFAR Must Prevent More New Infections, Not Just Reverse the Death Toll

PEPFAR-supported treatment is working and has reversed the death toll. But the fact is that HIV prevention has not worked well enough, so the number of people living with HIV/AIDS has continued to rise (see figure 3 and table 1).[8] For countries with large and growing treatment burdens, the pivotal challenge for the country, and for the United States as well, will be to push new infections below AIDS mortality. The political reality is that unless this challenge is adequately addressed, the US government will face large, endless fiscal outlays for what has become an international entitlement program.[9]

To begin to address this challenge, in 2015 PEPFAR announced a new strategy ("PEPFAR 3.0") with a goal of "epidemic control" and broader aspirations of achieving an AIDS-free generation. PEPFAR defines epidemic control as the point where new HIV infections fall below the number of AIDS-related deaths. Epidemic control is the only way to reduce the actual size of the HIV/AIDS burden on partner countries and on the donor governments that support them, and the only way to eventually achieve an AIDS-free generation.[10]

Achievement of epidemic control or an "AIDS transition"[11] depends vitally on PEPFAR's ability to work with its partners—recipient governments, its grantees and contractors, and the Global Fund—in every partner

Figure 3 New Infections Exceed Annual HIV-Related Deaths with the Number of HIV-Positive Adults Continuing to Grow Worldwide



Note: Kinks in the lines representing incidence and deaths are due to UNAIDS' rounding of published estimates.

Source: Authors' construction using UNAIDS AIDSInfo database, downloaded January 2015.

Table 1 Global Dynamics of the HIV/AIDS Epidemic, Millions of Adult Infections

Year	Total number living with HIV/AIDS	Annual number of new infections	Annual AIDS-related deaths	Total number receiving antiretroviral therapy	Number of persons newly recruited to antiretroviral therapy assuming attrition to be:	
					0%	5%
2006	29.0	2.2	2.0	1.8	0.7	0.8
2007	29.2	2.2	1.9	2.6	0.8	0.9
2008	29.5	2.2	1.8	3.6	0.9	1.1
2009	29.9	2.1	1.7	4.6	1.0	1.2
2010	30.3	2.1	1.6	6.4	1.8	2.1
2011	30.8	2.1	1.6	8.4	2.0	2.3
2012	31.3	2.0	1.4	10.4	2.0	2.4
2013	31.8	1.9	1.3	12.1	1.7	2.2

Note: All rates of return are from data posted on www.mcc.gov and reflect original calculations. All budget figures are from the original compact agreements and reflect original budgeted amounts.

country, aligning and fine-tuning efforts and incentives in support of that single goal. This will mean ensuring that partner countries and funding agencies—and ideally related agencies such as UNAIDS and the World Health Organization—share the vision of an AIDS transition. This includes moving scarce resources toward the most cost-effective prevention and treatment combinations in key populations that will get to goal as quickly and inexpensively as possible, while simultaneously respecting human rights and gender issues.

Current spending and allocation is under study within PEPFAR, and early decisions to refocus resources have been taken. However, recipient government spending and Global Fund resource allocation practices are less well known at this time. Recent research suggests that some aspects may still be inconsistent with a transition goal.[12] Specifically, patient retention on antiretrovirals varies widely, as do costs associated with delivery, while some key prevention interventions such as circumcision remain at low coverage. This suggests that aspects of programmatic quality and effectiveness will require greater attention. Within the PEPFAR ecosystem of partners and implementers, setting up grant agreements or contracts that generate better incentives to align PEPFAR technical assistance and research partners' support to implementing partners with the same goal in mind are also needed.

Better Data Are Needed to Align to a New Goal

A new strategy, however, requires new data to be successful. Better measurement is needed to more accurately estimate the two variables that will define success at epidemic control: the mortality of HIV-infected populations and new HIV infections. Currently, data collection is focused on enrollment of patients into antiretroviral treatment, alongside a large number of operational and service-readiness measures. While these latter data are essential for management and oversight purposes, mortality and new infections are the underlying drivers of program success. Therefore, they should be better measured on an ongoing basis.

Consistent with its goal to improve the quality of AIDS treatment, and thereby enable treatment as a means of preventing new transmission, PEPFAR is already working to improve monitoring of patient adherence to antiretroviral therapy. As a byproduct of that process, facilities will track patients to their homes and thus learn more about patient characteristics—for instance, whether they have simply shifted treatment facilities, have dropped out of treatment altogether and now pose a threat to potentially spread drug-resistant strains of HIV, or have since died. The new monitoring plans should bring improved data on HIV/AIDS mortality.

However, a much more difficult challenge is to accurately estimate the number of new HIV infections in a given population. Since healthy people contract HIV during risky activities outside treatment facilities, new HIV infections can be accurately estimated only by population-based sampling methods. Furthermore, because HIV infection is a rare event even in highly affected countries, large samples are necessary to estimate the number of new infections with sufficient accuracy such that improvements can be detected from one survey to the next. By illustration, one study estimated that a sample size as large as 50,000 respondents might be necessary to detect a halving of the infection rate.[14]

The cost of accurate and reliable surveys is significant, even if they are inexpensive compared with the cost of antiretroviral therapy. Sufficient resources will need to be mobilized for the accurate measurement of annual infections to properly track progress toward epidemic control in each partner country. We recommend an annual budget of $5 million per country for such efforts. This would total roughly $180 million per year across PEPFAR's 36 active country programs. Although this seems like a large expenditure in absolute terms for monitoring surveys, the data would provide PEPFAR and recipient countries with a chance to bend down the curve on billions of dollars of AIDS treatment spending over the medium to long term. More specifically, this strategic investment could lead to significantly improved epidemic control outcomes due to the resulting improvements in patient targeting both within and across focus countries, and enable future usage of outcome-based program expenditures.

Partner-Country Co-Financing Must Be Strengthened

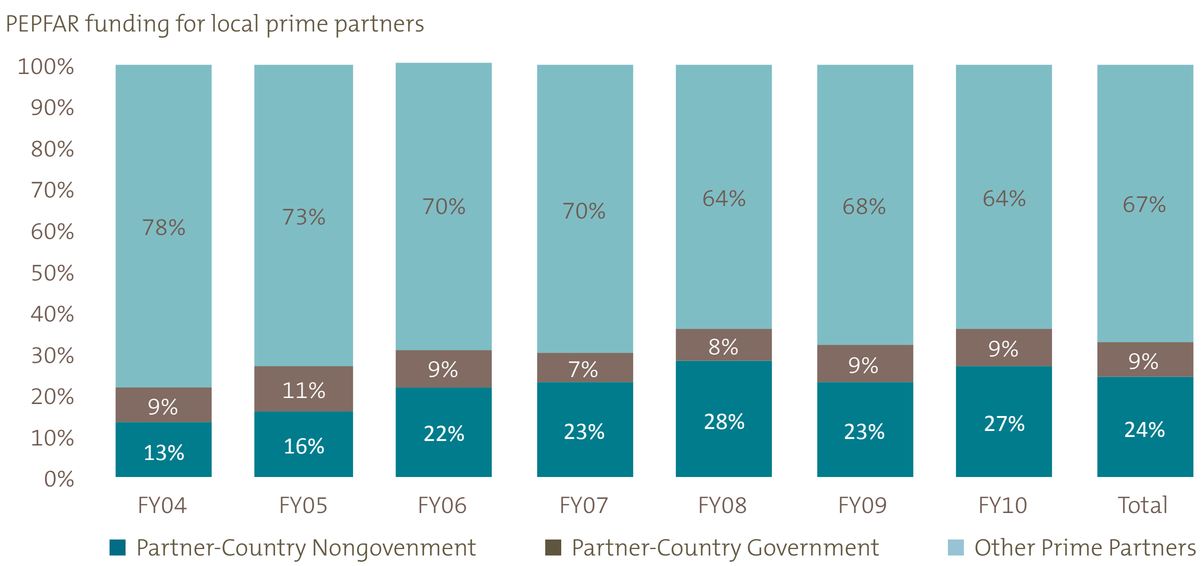
To date, PEPFAR has shouldered the lion's share of AIDS treatment and prevention costs in most of its focus countries. In some countries, the US government has covered approximately 90 percent of total AIDS-related spending.[15] Conscious of its flat funding from Congress, PEPFAR has signaled that it expects recipient countries to assume a larger share of the fiscal burden going forward. However, the incentives for those governments to assume that responsibility remain weak. Most PEPFAR recipient countries report modest increases in their domestic spending on HIV/AIDS. But to date, only the government of South Africa has assumed responsibility for specified numbers of patients, while low-income countries with high AIDS burdens remain heavily dependent on PEPFAR and Global Fund assistance.[16]

Making all of US funding conditional on recipient government co-financing is not a credible strategy because of the implicit entitlement of existing patients to continued treatment. The largest obstacle to increased HIV/AIDS spending by recipient governments is their uncertainty whether their increased spending would be offset by PEPFAR reductions, saddling them with an entitlement burden (or "contingent liability") without actually increasing the number of patients receiving treatment. To reverse such perverse incentives, PEPFAR should clearly and transparently commit, without conditions, to a minimum or base level of AIDS treatment support in a subset of the most severely affected countries for at least a decade. By recognizing and respecting the treatment entitlements the United States has incurred, such a commitment would not only provide a baseline to which recipient governments can confidently contribute incremental funding, but also establish a floor from which the United States can offer rewards for verified success at reducing new infections.

To shift incentives toward epidemic control and co-financing, PEPFAR must shift how its funding is disbursed and tracked. Currently, PEPFAR's funding fails to encourage recipient governments to either accelerate progress toward epidemic control or assume a greater share of the responsibility and costs. Since PEPFAR's inception, it has preferred to implement HIV prevention and treatment programs through local and national contractors (represented by the top and bottom segments of the bars in figure 4) instead of through national governments (the thin middle segment).[17] Although it is easier to audit and hold nonstate actors accountable—at least for narrow, contractor-specific objectives—only national governments have the authority and responsibility to be charged with bending the nationwide trends on mortality and new infections as required for epidemic control.

Far from assuming a larger share of the responsibility and funding for HIV/AIDS programs, several partner-country governments have responded to donor health funding by diverting domestic resources *away* from health.[18] Since PEPFAR funding is subject to Congress's annual appropriations process, recipient governments are quite rational to doubt whether PEPFAR is willing to commit either to continue funding HIV/AIDS if the recipient government starts to shoulder a greater proportion of the financing burden or to withdraw funding when the recipient government reneges on an agreement. In addition, PEPFAR's strategy of

Figure 4 Through 2010 PEPFAR Had Made Little Progress Toward Its Objective of Contracting Directly with Partner-Country Governments or Local Nongovernmental Organizations



Note: The Institute of Medicine was unable to obtain more data after 2010 on the distribution of PEPFAR financing by type of partner

Source: Institute of Medicine, Evaluation of PEPFAR (Washington, DC: National Academies Press, 2013).

running money largely outside of country governments to address AIDS has meant that public funds quite naturally went to other priorities. Unless PEPFAR changes these incentive structures, the US government should be expected to continue to shoulder most of the responsibility for AIDS treatment in poor countries. Therefore, while the absence of incentives not only burdens the US government—both through persistent funding requirements and lost opportunities to support other development priorities—it also will handicap efforts to truly bend the arc of AIDS within these environments. In addition, the US government may face difficult choices in several countries, where recipient governments continue to deprioritize AIDS control in favor of other priorities. Having a clear plan of action for how to address these cases will be important.

Until PEPFAR policies align recipient governments' core priorities and interests with the objective of epidemic control, those countries' HIV/AIDS disease burden and the fiscal demands of that burden on the US government are both likely to grow.

Proposed PEPFAR Reforms and Policy Recommendations

The next president has the potential to definitively contribute to controlling the AIDS epidemic throughout the world. Yet that will require a series of concerted steps and reforms concerning how the US government operates and collaborates with PEPFAR's focus-country governments and partners. Undoubtedly, the next president must continue the United States' strong commitment to supporting the global AIDS response and the millions of people whose lives hang in the balance. Yet to maximize the impact of US funds and accelerate progress, we recommend three strategies.

❶ Experiment with impact-based agreements.

To align funding to their new goal, PEPFAR and partner countries should experiment with innovative contracting mechanisms that would reward the country for demonstrating progress on agreed-upon targets, such as reductions in new HIV infections or treatment coverage and quality. These new mechanisms should be implemented at the government-to-government level (i.e., between PEPFAR and a partner government).[19] They also should be incorporated into contracts between PEPFAR and partner governments and their agents, such as subnational governments and local nongovernmental organizations.[20] If these results-based payment mechanisms are to motivate government and other local actors, PEPFAR must accelerate its shift away from US contractors to funding governments and local contractors. Two particular impact-based expenditure models warrant consideration:

- **Cash on Delivery Aid.** Working with the Global Fund and other partners, PEPFAR could support payments to recipient governments for measurable and verifiable progress on specific outcomes, such as $100 for every HIV infection averted.[21] By linking at least part of payments directly to a small number of specific outcomes, governments would be empowered to search for more effective ways to achieve the mutually agreed-upon outcomes. Moreover, actual progress would become more transparent to the recipient country's citizens. To encourage the recipient government to improve the accuracy of its HIV infection monitoring, PEPFAR can link a portion of reward payments to the precision of the estimates.[22] These structural features would serve to rebalance accountability, reduce transaction costs, build local service capacity, and encourage innovation. Like any aid approach, PEPFAR must discern whether a country's governance structures are sufficient to support this kind of engagement without inducing human rights challenges. To mitigate that risk, certain checks and balances could be included in cash-on-delivery contracts, such as the requirement of oversight from a supervisory body or civil-society watchdog, or a provision to annul the contract in the event of discriminatory or stigmatizing behavior toward HIV-infected persons.

- **Fixed-amount reimbursement agreements.** In country programs that are not yet ready for a cash-on-delivery approach, PEPFAR could enhance incentives by paying for well-defined activities or outputs with previously agreed-upon specifications or standards. This would work particularly well for financing outputs for which cost structures are well known.

❷ Collect more representative data on new infections.

PEPFAR should increase funding for HIV testing by as much as $180 million per year for subnationally representative sample surveys that track progress in reducing new infections. Having regular performance measures, even ones based on samples rather than on the whole population, enables the deployment of a large number of possible mechanisms to pay for performance and align the incentives of all national actors with the intermediate goal of the AIDS transition and epidemic control

❸ Restructure co-financing arrangements.

- **Specify future commitments to each focus country.** In addition to all the patients PEPFAR has enrolled in treatment, the United States should unilaterally commit to support at least a fixed percentage of the new treatment requirements in each recipient country. This could vary from 20 to 80 percent depending on the current and projected US share of treatment financing within the respective country. Specifying a floor for future commitments ensures a base level of continued US support and assures the recipient country's ministry of finance that its funding will help additional patients, instead of simply crowding out US assistance. Committing to a number of patients, rather than a minimum amount of money, allows cost reductions to free up resources for other uses. As the recipient country begins to share the fiscal burden of treatment, its financial incentives to prevent new infections will gradually increase.

- **Leverage recipient government co-financing.** Before programming its base level of country funding, PEPFAR should set aside as much as 10 percent of its total budget to reward countries that clearly mobilize additional funding for epidemic control. Possible mechanisms include block grants and other risk-sharing arrangements like those used in the US Medicaid program, where states match federal outlays on a dollar-for-dollar basis. Importantly, however, grant-matching programs should allow innovative local implementation and be accompanied by incentives for efficiency and impact.

Taken together, these three actions—impact-based agreements, measuring new infections, and co-financing—will help elevate PEPFAR from its past myopic focus on accountable funding of health service inputs toward a value-based purchaser of health improvements with the strategic vision to reach its new milestone of epidemic control—and proceed toward an AIDS-free generation

Further Reading

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Notes

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[2] U.S. Congress, Public Law 108-25 (2008).

[3] U.S. Congress, Public Law 110-293 (2008).

[4] U.S. Congress, Public Law 113-56 (2013).

[5] Kaiser Family Foundation, *U.S. Global Health Funding for the President's Emergency Plan for AIDS Relief (PEPFAR), FY 2001–FY 2013* (2013); Kaiser Family Foundation, *U.S. Federal Funding for HIV/AIDS: The President's FY 2016 Budget Request* (2015), http://kff.org/global-health-policy/fact-sheet/u-s-federal-funding-for-hivaids-the-presidents-fy-2016-budget-request/.

[6] Mead Over discusses the obligations that the United States has incurred and the associated reputational advantages and risks. Mead Over, *Achieving an AIDS Transition: Preventing Infections to Sustain Treatment* (Washington: Center for Global Development, 2011).

[7] Unlike the World Bank, the Global Fund confines its assistance to three diseases, provides only grant financing, relates to a customized group called the Country Coordinating Mechanism rather than to the recipient government, and employs no in-country staff. Beginning in 2014, annual US financing of the Global Fund for its three diseases has exceeded its financing of the World Bank for all purposes, including not only health but also education, road construction, environmental protection, and so forth. Scott Morris, "Multilateralism-lite from the Administration and Congress," Center for Global Development blog post, www.cgdev.org/blog/multilateralism-lite-administration-and-congress.

[8] Among PEPFAR-supported countries, new infections remain stubbornly higher than AIDS deaths in South Africa, Kenya, Mozambique, Uganda, Zimbabwe, Zambia, Cameroon, Lesotho, Botswana, Angola, Namibia, and Rwanda. Tanzania, Ethiopia, and Malawi have managed to push new infections below AIDS mortality, establishing the proof of concept. However, sustained effort will be necessary to keep new infections from rising there as they have already rebounded in Uganda. While Nigeria's annual new infections are fewer than its AIDS deaths, that is due more to the weakness of its AIDS treatment program than to the effectiveness of its prevention policies.

[9] Over, *Achieving an AIDS Transition*.

[10] A previously discussed objective of adding more patients to AIDS treatment every year than the number of infections in that year, dubbed the "tipping point," was not a useful strategy, since its apparent achievement in 2012 did not shrink the total number living with HIV/AIDS as reaching epidemic control would do. See table 1.

[11] Over, *Achieving an AIDS Transition*.

[12] Amanda Glassman, Victoria Fan, and Mead Over, *More Health for the Money: A Practical Agenda for the Global Fund and Its Partners* (Washington: Center for Global Development, 2013).

[13] The HPTN 052 randomized trial established the prevention benefits of treatment. Myron S. Cohen, Marybeth McCauley, and Theresa R. Gamble, "HIV Treatment as Prevention and HPTN 052," *Current Opinion in HIV and AIDS* 7, no. 2 (2012): 99–105.

[14] Timothy B. Hallett and Mead Over, "How to Pay 'Cash-on Delivery' for HIV Infections Averted: Two Measurement Approaches and Ten Payout Functions," Working Paper 210 (Washington: Center for Global Development, 2010), http://international.cgdev.org/publication/how-pay-"cash-delivery"-hiv-infections-averted-two-measurement-approaches-and-ten-payout.

[15] Institute of Medicine, *Evaluation of PEPFAR* (Washington, DC: National Academies Press, 2013).

[16] Center for Strategic and International Studies, *The Future of the U.S.–South Africa HIV/AIDS Partnership* (Washington: CSIS, 2013).

[17] In 2009 and again in 2011, PEPFAR has seemed to recognize that its contracting pattern is incompatible with its other goals and has promised to shift implementation responsibility away from US contractors and toward local contractors and national governments. In some places, such efforts are now under way, but success has been mixed in even the most developed recipients such as South Africa.

[18] As described in the 2013 Institute of Medicine *Evaluation of PEPFAR*.

[19] Nancy Birdsall and William D. Savedoff, *Cash on Delivery: A New Approach to Foreign Aid* (Washington: Center for Global Development, 2010); Over, *Achieving an AIDS Transition*.

[20] Rena Eichler and Ruth Levine, *Performance Incentives for Global Health: Potential and Pitfalls* (Washington, DC: Center for Global Development, 2009).

[21] See Hallett and Over, "How to Pay 'Cash-on Delivery.'" Hallett and Over propose such a scheme and analyze the incentive properties of alternative payoff functions. The Office of Management and Budget has included a line item in the proposed 2016 budget for an "impact fund," which Congress will hopefully endorse. The existence of such a line item would protect a small part of PEPFAR's budget for experimentation with incentive programs.

[22] The country could be rewarded both for improved statistical power to reject the hypothesis of zero improvement (as suggested by Hallett and Over, "How to Pay 'Cash-on Delivery'" and for agreement of its own measures with the results of an independent verification of its data. Johanne Pelletier, Jonah Busch, and Catherine Jeanne Potvin describe a related approach to accommodating imprecision in a program to reward emissions reduction in "Addressing Uncertainty Upstream or Downstream of Accounting for Emissions Reductions from Deforestation and Forest Degradation," *Climatic Change* 130(4): 635–48.

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Restructuring US Global Health Programs to Respond to New Challenges and Missed Opportunities

Amanda Glassman and Rachel Silverman

Introduction

In the absence of effective international institutions, the United States has become the world's de facto first responder for global health crises such as HIV/AIDS and new threats like Ebola. The US government has the technical know-how, financial and logistical resources, and unparalleled political support to act quickly and save lives. Initiatives such as the President's Emergency Plan for AIDS Relief (PEPFAR) and the President's Malaria Initiative are widely considered among the most effective aid programs in the world.

Yet US global health approaches are based on increasingly outdated engagement models, which fail to reflect emerging challenges, threats, and financial constraints. Effective HIV/AIDS control efforts, which already cost US taxpayers many billions of dollars each year, will require more funding as a result of new science and ambitious program coverage goals.[1] At the same time, noncommunicable diseases—such as cancer, diabetes, and cardiovascular disease—have exploded in developing countries. Moreover, the United States and other donor countries historically have spent little on national health systems; in 2011, for example, just 4 percent of development assistance for health went to programs to strengthen health systems.[2] The inability of West African nations to combat the Ebola crisis demonstrates the practical impact of those past spending decisions, with frightening results in the United States and abroad.

The next US president, working closely with Congress, should modernize how US global health programs are organized, deployed, and overseen. By taking three specific steps, the United States can reduce the need for costly first responses and generate more health and economic impact for every US taxpayer dollar spent.

POLICY RECOMMENDATIONS

- Appoint US global health leadership with the mandate, budget alignment, and political support to enforce interagency collaboration.
- Harmonize the approach to multilateral organizations to ensure consistency of priorities and objectives.
- Establish an office of Global Health Trade, Economics, and Knowledge Exchange responsible for sharing US health-care know-how with policymakers and businesses in developing countries.

First, the new presidential administration should establish clear global health leadership with the mandate, political support, and accountability to implement coherent government-wide policies and enforce interagency collaboration. Second, the US government should drive reforms at related multilateral organizations, such as the World Health Organization (WHO), Gavi, and the Global Fund to Fight AIDS, Tuberculosis and Malaria. These reforms would ensure that technical excellence and programmatic outcomes are more effectively prioritized and rewarded. Finally, the US government should increase its partnership for sustainable health investment and collaboration. To do so, the next administration should establish a US Department of Health and Human Services (HHS) office focused on sharing US expertise in health-care development and management with developing-country policymakers.

New Global Health Threats amid Historic Progress Combatting Infectious Diseases and Child Mortality

Men, women, and children have better prospects today for long, healthy lives than at any other time in human history. In just the past two decades, deaths among children under five years old have dropped by almost half, from 12 million to less than 7 million each year.[3] Moreover, these health outcomes have been shared broadly across socioeconomic groups within developing countries. In fact, life expectancy in many low-income countries has outpaced similar gains in high-income countries by a factor of two to one.[3]

At the same time, the economies of low- and middle-income countries (LICs and MICs) have grown dramatically, enabling them to double their own domestic health spending.[4] Based on strong growth and income-based eligibility limits, many traditional aid recipients, such as Ghana and South Africa, are now ineligible for health assistance from many multilateral organizations. Many more will "graduate" from such aid over the coming years.

As infectious disease burdens have lessened, new challenges and opportunities have emerged. While US-supported HIV/AIDS programs have saved millions of lives, these efforts have essentially become an international entitlement that costs many billions of dollars per year. Because of new science, growing program coverage, and ambitious global goals, the fiscal requirements for HIV programs have grown even further in recent years. These requirements exceed the domestic financing capacity in many low- and middle-income countries,[5] thereby threatening the sustainability of US investments made to date.

Cancer, cardiovascular disease, diabetes, and other noncommunicable diseases have meanwhile grown in importance. These diseases now kill more than eight million people in low- and middle-income countries each year, at younger ages and with worse outcomes than in wealthier nations.[6] Emerging infectious threats, like Ebola and influenza, have resulted in large-scale outbreaks with global implications. Moreover, growing antimicrobial resistance threatens to erode or even reverse major health gains both at home and abroad. And the growing sophistication of health markets and systems has generated ever-growing demand for US pharmaceuticals, medical devices, and other health products in low- and middle-income countries, as well as know-how and expertise on insurance, payment, and management of health systems, representing an unprecedented opportunity for US expertise and firms.

Outdated and Inefficient US Global Health Structures

Despite rapidly changing needs and priorities, the US government's approach to global health has remained stuck in a previous era. Existing US global health infrastructure, established to address short-term emergency outbreaks and specific infectious diseases, cannot effectively respond to emerging challenges because of its lack of an overarching strategy; multiple and sometimes unfunded or conflicting mandates; fragmented leadership within the executive branch and at multilateral organizations; dispersed accountability for results; disease- and intervention-specific budget earmarks that can limit efficiency by forcing allocation to certain activities even when they may not produce the desired outcome; and insufficient or ineffective tools to secure greater health investments by developing countries. Put differently, US government mandates, budgets, and accountability structures currently are not aligned or deployed for maximum impact on US health, foreign policy, or national security objectives.

The US government ignores these challenges at its own peril. Infectious diseases are increasingly global and require modern and flexible responses to minimize health impacts and protect economic gains both at home and abroad. The recent Ebola outbreak in West Africa illustrates how rapidly an inadequate response can lead to unnecessary loss of life overseas—along with anxiety, economic impact, and electoral liabilities here at home.[7] Ignoring such challenges also means missing opportunities to promote US diplomatic and security goals by increasing US leverage with developing-country governments.

Finally, adapting to these modern global health challenges is simply the right thing to do. Americans take tremendous pride in their generosity and impact on the lives of men, women, and children in developing countries. Roughly 84 percent of Americans believe that "improving health for people in developing countries" is a top or important priority for world affairs, and 61 percent either support current global health spending or believe it should be increased.[8] The US government owes its taxpayers assurances that it is using health aid dollars as effectively as possible to drive global health impact and to ensure that their own health is secure from global threats.

Fractured US Government Leadership and Policymaking

The troubles that plague US global health structures are longstanding and start with their institutional setup. Far from a unified approach with clear and coordinated goals, US global health programs are spread across eight executive branch departments, four independent or quasi-independent federal agencies, numerous departmental agencies and operating units, and at least four large-scale, multiagency initiatives.[9] Within the executive branch, only the president has singular authority over all constituent parts of the apparatus, but because White House attention is limited, most US agencies typically run on autopilot until new crises arise.

Muddled policy at home creates missed opportunities to drive US policy priorities and reforms abroad. The US government is represented by different agencies at each of the major multilateral global health organizations, with little coordination across them. By illustration, HHS has the lead on WHO, USAID at Gavi, and PEPFAR at the Global Fund. This model contrasts sharply with US government approaches to other multilateral organizations. For instance, the US Treasury Department has the lead on the World Bank, the International Monetary Fund, and all regional development banks; that set-up has promoted system-wide reforms and best practices with good results.

The US government's fractured representation at global health institutions has led to inconsistent policy priorities over time, with limited impact on much-needed governance reforms within these bodies. In one important exception, an interagency team led by the Office of the US Global AIDS Coordinator (OGAC) successfully pushed for important reforms at the Global Fund to Fight AIDS, Tuberculosis and Malaria—yet even there, some have noted that the consolidated voices of disease-specific vertical programs (e.g., OGAC and the President's Malaria Initiative) may have crowded out the priorities of US tuberculosis programs, which lack their own dedicated institution.[10]

The lack of coherence partially stems from policy-level indecision about the overarching goal of US global health investments, that is, whether the US primarily aims to save lives overseas or to foster long-term systems development by supporting more effective policy development, service delivery, and financing arrangements. In principle, these are compatible and deeply connected goals. Yet balancing across these objectives, while also maintaining a consistent balance across agencies, has been problematic in practice. This tension begets fragmentation: the life-saving and development programs pursue parallel goals through parallel structures, creating chaos and confusion in the US policy arena and among all partners.

Fragmented Congressional Oversight Responsibilities

Congressional authority and oversight is similarly fragmented. There are two authorizing committees and two appropriating subcommittees in both chambers. Further, the US Senate Committee on Health, Education, Labor, and Pensions also has oversight given Centers for Disease Control and Prevention (CDC)'s involvement. This contributes to stovepiped and piecemeal strategies, ad hoc goal setting, and diluted accountability. Not only do US entities involved in global health have their own authorizing legislation, but they also have their own authorizing and oversight committees and frequently their own appropriations committee and federal budget account—sometimes even multiple committees and accounts for a single agency.[11] In addition, new or shifting priorities within Congress typically result in ever-growing cause-specific legislation and appropriations, feeding ever-increasing bureaucratic complexity.

Recent Reform Efforts Have Failed to Move beyond Rhetorical Change

The Obama administration acknowledged significant deficiencies in US global health efforts early on. In 2009, it announced plans to unify fragmented programs under a single umbrella; dismantle vertical structures in favor of an integrated approach; and transition narrow, disease-focused programs toward broader health challenges, such as maternal health, child survival, and health systems strengthening.

Yet its implementation, through the short-lived Global Health Initiative (GHI), was a poorly conceived exercise in aspirational rhetoric over substance that proved inadequate to address the core problems. First, the GHI could not consolidate budgetary and programmatic authority—and thus strategic planning and accountability—within a single leader or agency. Neither

USAID nor CDC had a clear comparative advantage as a leader for the GHI. As a result, placing the initiative at the Department of State represented a practical alternative to continued bureaucratic positioning. However, existing authorities vested in OGAC meant that OGAC in practice had the greatest interagency authority, while the GHI had none, other than the informal authorities conferred by the designation of a GHI coordinator by the secretary of state. Second, budget earmarks and separate funding streams for specific diseases were left untouched; that includes PEPFAR, a standalone program that accounts for roughly 70 percent of total US global health funding. In July 2012, the GHI quietly admitted defeat, walking back from its ambitious and strategic goals toward a far more modest and amorphous program of "global health diplomacy."[12]

Continued Proliferation of US Policies and Initiatives

Fast-forward to the present, and US global health policy and infrastructure remain ad hoc, uncoordinated, and without overarching leadership, strategy, or vision. The largest global health agencies (PEPFAR, USAID, and HHS) have all issued their own separate policies,[13] which are inconsistent with one another and make no mention of the GHI's integrated 2009 strategy. Beyond such macro strategies, US government agencies have announced almost 30 new global health initiatives since 2009—ranging from the Global Alliance for Chronic Diseases to the Global Alliance for Clean Cookstoves and an aflatoxin control program.[14] The link between these efforts and the GHI goals or agency strategies remains unclear. Even further, there are new disease-specific initiatives on H1N1 influenza and Ebola, each with its own separate appropriation process and implementation arrangements. The net result is a muddled and confusing mess that is far less effective than the sum of its global health spending parts.

Latent Economic Benefits from Global Health Engagement

Despite the deployment of massive budgetary and human resources, US global health engagement has largely ignored the importance of the health sector as a source of economic activity. As a result, the United States has missed opportunities to explore mutually beneficial trade, investment, and information exchanges.

Historically, the health sector has been an important source of jobs and economic growth in the United States and other countries of the Organisation for Economic Co-operation and Development. The same opportunities exist in growing middle-income countries, where demand for quality health care and products is skyrocketing alongside economic growth and educational gains. Despite the global financial crisis and significant economic headwinds in many regions, total global health-care expenditures continue to increase, accounting for 10 percent of global gross domestic product.[15] According to the Economist Intelligence Unit, health expenditures were projected to reach nearly $260 billion in 2014 across Eastern and Central Europe, the Middle East and Africa, and East Asia and the Pacific.

The existing US global health architecture has not formally recognized these important changes and opportunities. On the global health side, the export and application of US know-how and expertise to middle-income health systems and would represent a fruitful path for global health diplomacy. Although the US health system has its substantial limitations, other countries emulate elements of the US system, such as clinical training, accreditation of health-care facilities, innovative risk-sharing and payment modalities, experiences in integrated care through organizations such as Kaiser Permanente, and design of health-benefits plans in the state of Oregon, as well as a thriving civil-society voice and analytical research on health-care policy and economics. These core US strengths could be mobilized in support of policymakers in low- and middle-income countries as well as US aid programs.

On the commercial side, more can be done to facilitate investment—via the Overseas Private Investment Corporation and multilateral development banks, as well as the Office of the US Trade Representative—and to minimize barriers to trade at home and abroad, allowing US services, products, and device firms to contribute and compete on a level playing field in markets overseas.

Policy Recommendations and Implementation Roadmap

The next US president, working closely with Congress, should modernize how US global health programs are organized, deployed, and overseen. Overall, that effort should focus on strengthening global health security, ensuring maximum impact and sustainability of US taxpayer investments, and forging partnerships that advance health as a key driver of economic growth and opportunity in developing countries. These core objectives—saving lives and developing health systems simultaneously—must be clearly defined and given high-level political support, with the goal of bringing programmatic goals in line and reducing fragmentation.

To achieve those objectives, the next presidential administration should pursue three mutually reinforcing steps:

❶ Establish new US global health leadership.

First, the next US president, working closely with Congress, should establish clear global health leadership that has both the mandate and political support to enforce interagency collaboration in both international and domestic policies. Such an effort would learn from, and build upon, past efforts such as the Obama administration's GHI. Specifically, the president should appoint a global health coordinator, who reports directly to the national security advisor, with a dotted reporting line to the domestic policy advisor. While congressional authorization would not be explicitly required, it would help to empower this new position. Ultimately, the new White House global health coordinator would oversee coordination of US government-wide policies and related budget processes.

❷ Pursue a harmonized approach to multilateral organizations.

Second, the next presidential administration should more systematically engage with the largest multilateral organizations. This includes using US funding and governance leverage to ensure that they complement US investments and effectively support US global health objectives. Moreover, the US government should lead reform efforts that improve efficiency, scale, results, and accountability. Ideally, the US government should rationalize which agencies sit on the boards of these multilateral organizations. At a minimum, the proposed global health coordinator should ensure consistency of US priorities and reform objectives.

❸ Establish a new Office of Global Health Trade, Economics, and Knowledge Exchange.

Third, the next presidential administration should establish an Office of Global Health Trade, Economics, and Knowledge Exchange within the HHS Office of Global Health Affairs. The new office, which ultimately would fall under the White House global health coordinator, would be responsible for sharing US health-care know-how with policymakers and businesses in developing countries. In pursuing that agenda, the office also would collaborate with multilateral organizations and other bilateral donors to leverage health care as a driver of economic growth.

Together, these actions will reposition US engagement in global health, transforming it from its inertial, aid-based status quo to a forward-looking and strategic investor for global health today and tomorrow.

Notes

[1] See the White House and the World brief "Strengthening Incentives for a Sustainable Response to AIDS: A PEPFAR for the AIDS Transition by Mead Over and Amanda Glassman (Washington: Center for Global Development, 2015) in this volume.

[2] Institute for Health Metrics and Evaluation, *Financing Global Health 2013: Transition in an Age of Austerity* (Seattle, Washington: IHME, 2014).

[3] These figures correspond to the decline in child mortality between 1990 and 2011. Source: D. T. Jamison et al., "Global Health 2035: A World Converging within a Generation," *The Lancet* 382(9908): 1898–1955.

[4] Data from International Monetary Fund Fiscal Monitor database, accessed March 18, 2015, http://www.imf.org/external/datamapper/index.php?db=FM.

[5] Over and Glassman, "Transitioning US Leadership"; also Stephen Resch, Theresa Ryckman, and Robert Hecht, "Funding AIDS Programmes in the Era of Shared Responsibility: An Analysis of Domestic Spending in 12 Low-Income and Middle-Income Countries," *The Lancet Global Health* 3(1): e52–e61, www.thelancet.com/journals/langlo/article/PIIS2214-109X(14)70342-0/abstract.

[6] Mitchell E. Daniels, Thomas E. Donilon, and Thomas J. Bollyky, *The Emerging Global Health Crisis: Noncommunicable Diseases in Low- and Middle-Income Countries*, Independent Task Force Report No. 72 (Council on Foreign Relations Press, 2014).

[7] Sarah Ferris, "GOP Floats Gates, Powell for Ebola Czar," *The Hill*, October 6, 2014, http://thehill.com/policy/healthcare/public-global-health/219953-gates-powell-floated-as-ebola-czar.

[8] Kaiser Family Foundation, *2013 Survey of Americans on the U.S. Role in Global Health*, November 2013, http://kff.org/global-health-policy/poll-finding/2013-survey-of-americans-on-the-u-s-role-in-global-health/.

[9] Kaiser Family Foundation, "The US Government's Global Health Architecture," March 13, 2013, http://kff.org/global-health-policy/slide/the-u-s-governments-global-health-architecture/.

[10] Amanda Glassman and Victoria Fan, *Does the Money Match the Message? Current Practice in Allocation of Aid for Tuberculosis and Implications for the U.S. Government* (Washington: Center for Strategic and International Studies, 2014), http://csis.org/files/publication/140604_Glassman_DoesMoneyMatchMessage_Web.pdf.

[11] Jen Kates, Julie Fischer, and Eric Lief, *The US Government's Global Health Policy Architecture: Structure, Programs, and Funding* (Washington: Kaiser Family Foundation, 2009), https://kaiserfamilyfoundation.files.wordpress.com/2013/01/7881.pdf.

[12] Amanda Glassman and Rachel Silverman, "Failure to Launch: A Post-Mortem of GHI 1.0," Global Health Policy Blog, July 9, 2012, www.cgdev.org/blog/failure-launch-post-mortem-ghi-10.

[13] PEPFAR issued new policies in 2009, 2012, and 2015. USAID and HHS each issued separate policies in 2011.

[14] Kaiser Family Foundation, "Global Health Policy Tracker, http://kff.org/policy-tracker/search. Results compiled by CGD in Excel spreadsheet: www.cgdev.org/sites/default/files/PolicTracker_Obama_V02.xlsx.

[15] Economist Intelligence Unit, *World Industry Outlook: Healthcare and Pharmaceuticals* (London: Economist Intelligence Unit, 2010).

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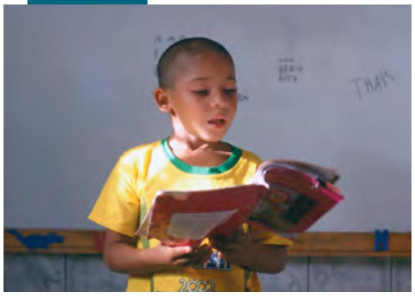


Shifting the Foreign Aid Paradigm—Paying for Outcomes

William Savedoff, Rita Perakis, and Beth Schwanke

Introduction

While global development is about much more than aid, US foreign assistance is, and will remain, one of the most visible tools for US development policy in many countries. The US government spends less than 1 percent of its annual budget—about $23 billion—on nonmilitary foreign assistance across the globe. These programs have consistently come under fire for failing to achieve measurable and sustainable results, ignoring local priorities and contexts, perpetuating bureaucratic inefficiencies and inflexibility, and repeating mistakes over time. A paradigm shift within US aid agencies is needed. In this brief, we outline concrete proposals that would address many of the traditional shortcomings of US foreign aid approaches.

The common theme across these proposals is an overriding focus on financing outcomes (like increased agricultural yields) rather than inputs (buying fertilizer). This would ensure that the United States spends taxpayer money only when our development partners actually deliver concrete, measurable results. For example, it does not matter how many new textbooks the United States provides if children still cannot read at the end of the school year. If more of our scarce US aid dollars were paid in proportion to the achievement of outcomes, we could avoid many of the risks associated with traditional foreign aid programs. This would require channeling some funding through new mechanisms but would not change US development agencies' objectives.

The next US president has a unique and timely opportunity to encourage an innovative, adaptable, and efficient approach to US foreign assistance—one that is driven by outcomes. In the first 100 days of the administration, the US president should announce and launch a Development Impact Fund. The fund would commit itself to paying for outcomes that are of interest to both the United States and recipient countries. It also would build a knowledge base to support ongoing projects. In addition, the fund would integrate the strengths of an outcome-driven model into US aid agencies' core business models, thereby reforming them from the inside out.

POLICY RECOMMENDATIONS

- Establish a Development Impact Fund to pilot outcome-based aid models with 10 percent of existing development agency programmatic budgets.
- Increase the share of funding spent through outcome-based funding models within USAID, the Millennium Challenge Corporation, and other US development agencies.

Responding to the New Development Finance Landscape

Outcome-based funding models, such as Cash on Delivery Aid and Development Impact Bonds, described in detail below, are more adaptable and efficient than traditional input-based approaches. With both Cash on Delivery Aid and Development Impact Bonds, the US government pays only when independently verified, agreed-upon outcomes are realized. Outcome-based funding models also have other important advantages over traditional aid, including the following:

1. **Flexibility:** With most development assistance, funding for a project is obligated up front. Project designs are developed in advance of implementation and often include detailed procurement plans. The intent of standardized processes is to prevent waste, but a side effect is rigidity. Project designs are rarely modified even when midterm evaluations suggest unsatisfactory progress. Redirecting the focus of assistance to development outcomes would incentivize adaptation. If an early strategy adopted by an outcome-based project is not having the expected effect, implementers would have the flexibility to return to the drawing board since the US agency funding the project only pays for what works. This provides an important opportunity to learn from both mistakes and successes in the field.

2. **Recognition of Local Context:** When traditional aid projects claim success, there is often immediate pressure to scale up and replicate. This response ignores the fact that even the most successful models do not work everywhere. Different contexts—such as cultural norms, political and societal structures, and policy environments—often demand different solutions. Outcome-based funding builds in the potential for local solutions and forms of collaboration that can help ensure that projects reflect unique local conditions and needs.

3. **Creating Demand for Rigorous Evaluations:** Not all evaluations are created equal. Assessments completed in the interest of checking a box offer few lessons for improving current and future aid activities. Since outcome-based payments depend on achieving independently verified progress, there is a strong incentive for rigorous measurement of and learning from what really matters: development results.

4. **Reducing Waste:** The United States would pay only for results. This would allow the US government to be clear with taxpayers about what their scarce resources deliver and foster a fundamentally different discussion with the American public than what occurs today.

Outcome-Based Aid Model Options

Outcome-based funding approaches can take many forms. Below we first outline two specific variations: Cash on Delivery (COD) Aid, which can be implemented by US aid agencies in partnership with developing-country governments, and Development Impact Bonds (DIBs), which additionally leverage the resources of the private sector. We then propose options for US implementation in the form of a Development Impact Fund to support both types of outcome-based funding projects.

Cash on Delivery Aid[1]

COD Aid offers a fixed payment to recipient governments for each additional unit of progress toward a commonly agreed-upon goal (e.g., $200 for each additional child who completes primary school and takes a standardized test).[2] At its core, this approach has five defining features:

1. The donor pays only for an outcome.
2. The recipient government has full responsibility for and discretion in using funds.
3. The outcome measures or units of progress are verified independently.
4. The contract, outcomes, and other information are disseminated publicly to ensure transparency and accountability with both local and US stakeholders.
5. The funding complements other foreign aid or domestic resources.

COD Aid is designed to improve accountability and transparency in development spending, in both the sponsoring and recipient countries. Recipient governments would be primarily accountable to their citizens for delivering the services that they need, rather than to US aid agencies for implementing a plan that was funded up front. This shift in accountability would encourage good governance and strengthen domestic resource systems through the use of recipient countries' existing budget and procurement systems. COD Aid can also reduce corruption because it is harder to manipulate independently verified outcomes that are publicly disseminated than it is to mislead procurement and audit systems, which operate in relative obscurity.[3]

In turn, US aid agencies would be more accountable to US taxpayers because payments would reflect the achievement of strategic outcomes. This would allow the US government to be clear with taxpayers about the outcomes that their scarce resources deliver. In addition, rather than valuable resources and time being spent on monitoring processes, resources and time would be spent solely on measuring achievements and on providing technical assistance when there is demand from recipient countries.

Under a COD Aid agreement,[4] the US government and a developing-country recipient would decide upon the outcomes they want to achieve; how outcomes will be measured and independently verified; and the amount to be paid upon achievement of outcomes, where possible a fixed amount for each unit of progress (e.g., each household that gains access to safe, reliable running water or electricity). It is a straightforward agreement that obviates the need for the compliance and control systems that are ubiquitous features of current aid agency systems and add layers of bureaucracy, thereby

COD Aid for Literacy

The US government has a long history of supporting education in developing countries. However, much of this assistance has focused on measurable inputs, such as teacher training, textbooks, and scholarships. A COD Aid model would represent a dramatically different approach through a central focus on learning outcomes.

- **Shared Goal:** All 12-year-olds should be able to read simple paragraphs and do basic arithmetic.
- **Indicative Unit of Progress:** Literate and numerate child as indicated by 12-year-old students' test scores on a nationally representative ASER test.*
- **Payment:** The funder pays $25 per additional literate and numerate child relative to a moving average baseline.
- **Transparency:** The ASER test is administered by independent groups in open community settings. Scores are posted to a website by smartphone entry. Random retesting occurs to assess reliability.

*ASER (meaning "impact" in Hindi) is a test created by Pratham, an Indian nongovernmental organization, to annually measure reading and arithmetic levels of children ages 6–14 years. Other organizations, such as UWEZO (Tanzania), have developed similar tests. For more information on ASER, see www.pratham.org/programmes/aser.

COD Aid for Energy Access

The Obama administration and Congress have placed a strong emphasis on promoting reliable access to electricity throughout Sub-Saharan Africa. If this priority continues into the next presidential administration, then a COD Aid model could be an important tool for delivering results. We outline two potential variations as illustrative examples.

Reliable and Adequate Household-Level Services

- **Shared Goal:** All households should have access to reliable and adequate electricity services.
- **Indicative Unit of Progress:** A household with access to electricity for an average of 23 hours a day, adequate to power five basic appliances (e.g., television, refrigerator, stove, air conditioner, and lighting).
- **Payment:** The funder pays $100 per additional household relative to a moving average baseline.
- **Transparency:** An independently administered nationally representative household survey is carried out, with results posted to a website.

Financially Sustainable Power Utilities

- **Shared Goal:** Reliable and adequate electricity services are available to consumers through financially sustainable utilities.
- **Indicative Unit of Progress:** Appropriately billed and collected electricity revenues; that is, revenues derived from (a) electricity delivered as demanded by consumers, (b) properly metered consumption, (c) consumption invoiced, and (d) invoiced amounts collected by the distributor.
- **Payment:** The funder pays $1 for every $5 in appropriately billed and collected revenues.
- **Transparency:** Financial and administrative reports are cross-checked by periodic and random visits to collect information from consumers on consumption levels, billing, and payments.

constraining creativity along with real-time iterative program improvements. The current implementation of COD Aid agreements by the UK's Department for International Development creates opportunities to adapt lessons for US aid agency purposes.[5]

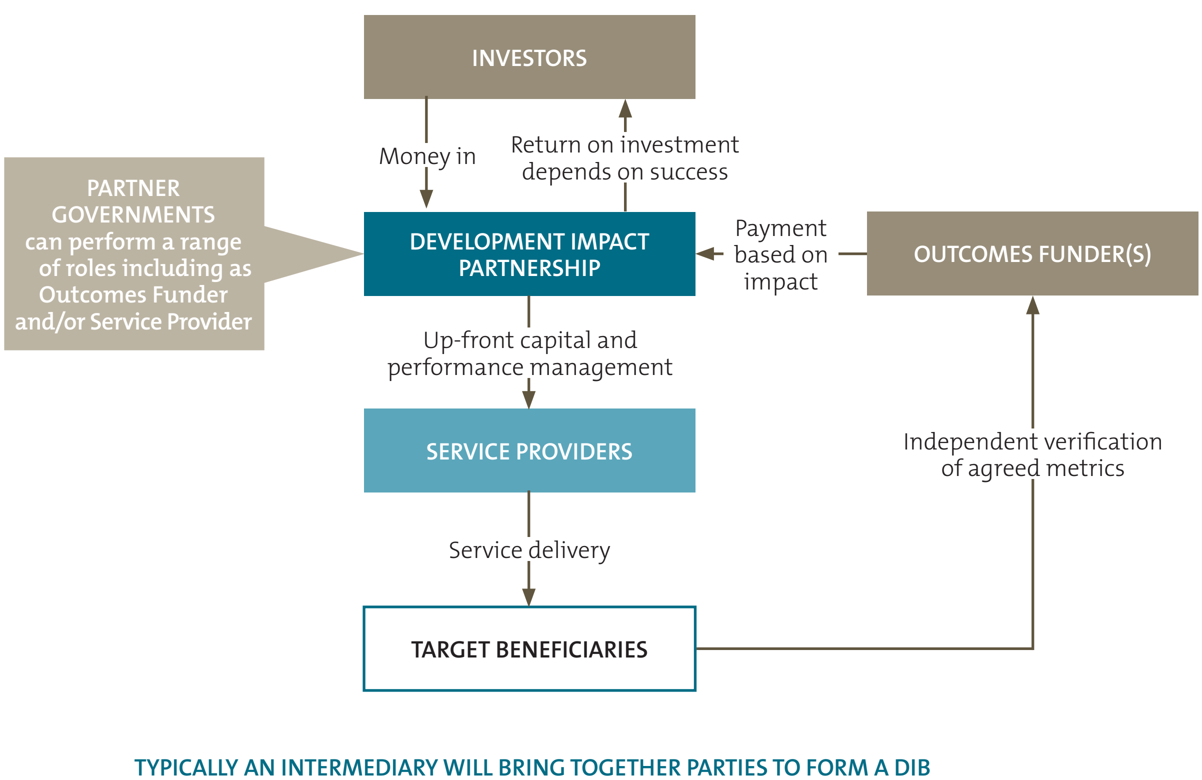
Implementing outcome-based funding programs would also demonstrate that the US government is taking concrete and transformative actions to execute its international commitments to increase country ownership, focus on results, and promote mutual accountability to improve the effectiveness of development spending.[6] These commitments have been made by Republican and Democratic administrations over the last two decades.

Development Impact Bonds

There are several reasons why COD Aid models will not always be appropriate or feasible in developing countries. First, developing-country governments or implementers may not have adequate financing to cover program costs up front. Alternatively, US aid agencies may not want to transfer all or most of the inherent performance risk to a recipient government. In these cases, DIBs offer another engagement model for US aid agencies to promote outcome-based development activities.[7]

Under a DIB, there are three key actors (see figure 1). First, private investors provide risk capital in the form of prefinancing for a program. This money is channeled to the second actor, the ultimate service provider. If the program achieves the desired outcomes on the basis of independently verified evidence, then the third actor comes into play. This so-called outcomes funder (e.g., USAID, possibly in conjunction with the recipient-country government) would return the private investors' principal with a financial return that is proportionate to success. Intermediary organizations typically would play a coordinating role among these actors or manage the performance of service providers on behalf of investors, if not both.

Figure 1 Development Impact Bond Structure



Source: authors

Under a DIB, the private investors provide implementing organizations with flexible funding, which creates the space for these organizations to be more innovative and make modifications based on program implementation results and real-time challenges. Since investor returns are tied to pre-agreed outcomes, DIBs create incentives to establish the necessary data systems and feedback loops to monitor results and create a more bottom-up and client-centered approach to service delivery.

This model can be a new and effective platform for public-private partnerships that transform development challenges into investment opportunities. DIBs build on the model of Social Impact Bonds, launched in the United States,[8] the UK, and other developed countries, that have attracted private-sector funding and expertise in pursuit of effective solutions to social problems such as inmate recidivism and homelessness. The first DIB, which aims to improve education access and quality for girls in Rajasthan, India, was launched in June 2014.[9] Many other DIBs have been proposed or are in the design phase; the UK Department for International Development is exploring using DIBs to reduce sleeping sickness in Uganda and to improve education in Rwanda.[10]

Implementation Options

The next presidential administration should establish a USAID fund that would develop and manage a portfolio of outcome-based funding projects, such as COD Aid and DIBs. Outcomes supported by a dedicated fund could cover a range of development goals and include country-based priorities or could be linked to the achievement of the new post-2015 global development goals. Initially, the fund should focus on select demonstration projects. Testing these new approaches would be a low-cost undertaking for US government agencies, which pay only for successful results, and would demonstrate a commitment to country ownership, rigorous evaluation, and development effectiveness.

Once fully running, the fund would demonstrate the potential of outcome-based funding, producing effects well beyond its direct outflows. As the base of knowledge grows, it also will encourage greater emphasis on results within US agencies, both culturally and through an eventual institutional shift to more dedicated outcome-based funding.

To pursue this ambitious and transformative objective, we outline two specific implementation options.

1 Bilateral option: Establish a Development Impact Fund.

The next US president should establish a Development Impact Fund, which would provide a dedicated pot of resources for piloting and then scaling outcome-based development approaches (both COD Aid and DIBs) across a range of countries and sectors. This fund should initially account for 10 percent of existing USAID and other relevant development agency programmatic budgets. In pursuing this transformative approach, the administration could consider two options:

- **Formal Budgetary Line Item:** Under this approach, the next US president would call on Congress to formally establish the Development Impact Fund through legislation. This could occur through a broader foreign aid reform bill or through provisions added to a preexisting legislative vehicle. US aid agencies—in partnership with developing countries, the private sector, and other development recipients—would propose projects. The best ones would receive funding from the Development Impact Fund in the form of commitments to pay for the outcomes of successful multiyear projects. A modest portion of the fund could also be used to provide design and implementation support for outcome-based funding projects.

- **OMB Allocation:** The administration, with active involvement by the Office of Management and Budget (OMB), could instruct relevant US development agencies to allocate 10 percent of programmatic funds for outcome-based approaches. The Development Impact Fund would begin as a virtual aggregate of these programs. While this would not require congressional action, the administration should proactively consult with key congressional leaders and committees to secure bipartisan support. This will be essential for institutionalizing this new approach and would allow for a formal budgetary set-aside in the future.

Regardless of the specific approach, the Development Impact Fund should be structured to ensure sound financial management practices. As with existing programs, the fund's resources would be appropriated up front on an annual basis. The administration would establish a multiyear funding mechanism by which money that is committed to pay for outcomes in out-years does not need to be disbursed within the given fiscal year. The Millennium Challenge Corporation and some USAID programming have this multiyear funding authority.

In most cases, funding would be disbursed during a two- to five-year period, which would allow adequate time for the achievement of agreed-upon outcomes.[11] Moreover, US development agencies' sector-based objectives (e.g., food security or child and maternal health) would remain unchanged. The central distinction is that budgetary resources would be allocated through innovative mechanisms such as DIBs or COD Aid contracts to drive an emphasis on results.

Because of the critical focus on paying only for independently verified results, outcome-based approaches inherently create some uncertainty about whether disbursements will actually occur in out-years. This will invariably lead to congressional pressure to reallocate the fund's balances for unrelated or emerging priorities or withhold further funding until appropriated resources are spent.

To address these political challenges, USAID and other US development agencies could pursue a portfolio-based approach to managing actual disbursements. Some projects will disburse more than expected; others less. But pooling the commitments and projecting the probability of specific development outcomes would allow projected outlays to then be aggregated to provide a portfolio-level expectation of financial commitments, creating greater certainty across a broad range of contingent obligations. Budgeting across the entire portfolio would enable authorizations to align closely to disbursements.[12] US aid agencies would regularly provide updates to the relevant appropriations and authorizing committees.

Yet another option would be to pursue a first-to-succeed approach on a sectoral basis (i.e., a "prize" approach). For example, the fund would issue a global call for school learning outcomes to governments of developing countries. Then, the available US budgetary resources would be channeled to those partner countries that deliver verified results on a first-come, first-served basis. Alternatively, the fund could use a proportional-award system by making a global offer to eligible developing countries that are willing to establish school learning outcomes as the basis for outcomes payments. All US budgetary resources allocated to this outcome in a given year would be distributed to the included recipient countries in proportion to the outcomes they achieved that year.[13] If structured appropriately, this approach would significantly reduce the likelihood of undisbursed balances in out-years while still only paying for demonstrable development outcomes.

2 Multilateral option: Establish a pooled DIBS Outcomes Fund.

Another alternative for advancing outcome-based approaches to aid is to co-invest along with other official donors and private foundations in a multidonor DIBs Outcomes Fund.[14] This fund would make resources available to pay for the results of successful DIBs. While DIBs are a new approach, pooling resources together to make funding readily available could help accelerate the implementation of pilot programs as well as encourage the sharing of lessons learned. This could catalyze reforms not only in US development practices but also in the broader global development community.

Further Reading

Nancy Birdsall and William D. Savedoff. *Cash on Delivery: A New Approach to Foreign Aid*. Washington: Center for Global Development, 2010.

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Charles Kenny and William D. Savedoff. "Can Results-Based Payments Reduce Corruption?" CGD Working Paper 345, Center for Global Development, Washington, 2013.

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W.A. Masters and B. Delbecq. "Accelerating Innovation with Prize Rewards." Discussion Paper 835, International Food Policy Research Institute, Washington, 2008.

Rita Perakis. "Development Impact Bonds Briefing Note." Center for Global Development, London, 2014.

Rita Perakis and William D. Savedoff. "An Introduction to Cash on Delivery Aid for Funders." CGD Note, Center for Global Development, Washington, 2014.

Notes

[1] For all CGD materials related to Cash on Delivery Aid, see www.cgdev.org/initiative/cash-delivery-aid.

[2] For other sectoral applications, such as water, see www.cgdev.org/page/application-other-sectors.

[3] See Charles Kenny and William D. Savedoff,"Can Results-Based Payments Reduce Corruption?" (CGD Working Paper 345, Center for Global Development, Washington, 2013).

[4] For a template COD Aid agreement, see Nancy Birdsall and William D. Savedoff, *Cash on Delivery: A New Approach to Foreign Aid* (Washington: Center for Global Development, 2010).

[5] For more information on the Department for International Development's (DfID's) implementation of Cash on Delivery or Results-Based Aid, which DfID refers to as one type of "Payment by Results" project, see project information for its first pilot in Ethiopia (http://devtracker.dfid.gov.uk/projects/GB-1-202989/) or these guidelines and a list of outcome-based projects DfID is funding: www.gov.uk/government/publications/dfid-guidance-on-payment-by-results-and-spreadsheet-of-pbr-projects.

[6] See, for example, the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action (www.oecd.org/dac/effectiveness/34428351.pdf) and the Busan Partnership for Effective Development Cooperation (www.oecd.org/dac/effectiveness/Busan%20partnership.pdf).

[7] For all CGD materials related to Development Impact Bonds, see www.cgdev.org/initiative/development-impact-bonds-0.

[8] The federal government currently has several Social Impact Bond–like programs, under the rubric of "Paying for Success" (www.whitehouse.gov/omb/factsheet/paying-for-success). Municipal governments, such as that of New York City, are also involved in Social Impact Bond projects (www.goldmansachs.com/what-we-do/investing-and-lending/urban-investments/case-studies/social-impact-bonds.html).

[9] The UBS Optimus Foundation is investing in the Educate Girls DIB, and the Children's Investment Fund Foundation is the outcomes funder. Services will be provided by Educate Girls, a nongovernmental organization in Rajasthan. For more information, see the following blog post and news release: www.cgdev.org/blog/first-development-impact-bond-launched and www.instiglio.org/pub/EG_DIB_Press_Release.pdf.

[10] See www.gov.uk/government/news/uk-development-bonds-will-combat-global-poverty and www.cgdev.org/blog/two-dib-pilots-will-test-new-development-partnerships.

[11] This time profile for disbursements is consistent with the Millennium Challenge Corporation's existing approach, whereby projects are funded over a five-year compact period.

[12] For further discussion of this portfolio-based approach, see Ben Leo, "Can Donors Be Flexible within Restrictive Budget Systems? Options for Innovative Financing Mechanisms" (CGD Working Paper 226, Center for Global Development, Washington, 2010).

[13] The use of proportional rewards is mentioned in Birdsall and Savedoff, *Cash on Delivery: A New Approach to Foreign Aid* (Washington: Center for Global Development, 2010) and detailed for projects that raise agricultural productivity in Masters and Delbecq, "Accelerating Innovation with Prize Rewards" (Discussion Paper 835, International Food Policy Research Institute, Washington, 2008).

[14] See Development Impact Bonds Working Group, *Investing in Social Outcomes: Development Impact Bonds*, CGD Working Group Report (London: Center for Global Development, 2013).

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Realizing the Power of Multilateralism in US Development Policy

Scott Morris and Madeleine Gleave

Introduction

US leadership in multilateral institutions such as the World Bank and regional development banks is flagging. These institutions, rated as some of the most effective development actors globally, provide clear advantages to the United States in terms of geostrategic interests, cost-effectiveness, and results on the ground. Those are among the reasons the United States played a leading role in creating the institutions and has continued to support them over many decades. Yet the US position in these institutions is less certain today. As a multilateral development bank (MDB) donor, the United States has fallen behind other countries, and it is increasingly seen as an obstacle to expanding MDB capital to address higher demand in the developing world for lending and investment.

Today, the United States too often takes a defensive posture in the MDBs, with a policy agenda set more by budgetary constraints at home than by a clear vision of US goals and priorities abroad. This defensive posture in turn is weakening the global preeminence of the MDBs themselves, as many members of the World Bank and regional development banks are now turning their attention to new institutions such as the Chinese-led Asian Infrastructure Investment Bank (AIIB), frustrated by the lack of growth and slow pace of change in the traditional MDBs. Restoring US leadership in institutions like the World Bank will mean giving a greater priority to MDB funding, which today accounts for less than 10 percent of the total US foreign assistance budget and less than 0.1 percent of the total federal budget. Prioritizing multilateral assistance in an era of flat or declining foreign assistance budgets will necessarily mean some reallocation from other pots of foreign assistance money, as well as an effort to address the structural impediments to considering reallocations.

Currently, there is no policy target for the multilateral share of the foreign assistance budget, despite a commitment to "renew" US multilateral leadership in the 2010 Presidential Policy Directive on Global Development.[1] There is also no policy framework that guides decisions related to multilateral commitments across agencies. Instead, each multilateral program is considered within its own agency budget silo (largely the Departments of State and Treasury), leading to fragmented and ineffective decision-making.

Remedying these weaknesses would start with a policy-level budget target for multilateral assistance, defined as a percentage of the foreign assistance budget. Such a policy goal would help to protect multilateral contributions from the inherent political biases in favor of bilateral assistance. Proceeding from such a target, a common framework for prioritizing multilateral financial commitments across the lead agencies would allow the next presidential administration to determine which of the multilateral institutions provide the most value to the United States

POLICY RECOMMENDATIONS

- **Establish a multilateral assistance target (e.g., 20 percent of total US foreign assistance).**
- **Conduct a multilateral aid review and reallocate scarce budgetary resources to effective institutions that advance US policy objectives.**
- **Improve budgetary and policy coordination mechanisms within the US government to ensure coherent decision-making about multilateral funding levels.**

and are best aligned with US development objectives. This approach would not only allow a more effective use of our limited development dollars but also leverage the powerful position of the United States within these multilateral organizations to make them more effective.

In this brief, we make the case for more multilateralism within US development policy. We examine the value of multilateral assistance to the United States, as well as the problems of the current budgetary decision-making approach that leads to the flow of too little money into too many multilateral institutions. Recommendations for a new multilateral target and decision-making structure follow from this analysis.

Why Multilateral Assistance?

All donors employ a mix of bilateral and multilateral development assistance. Although US bilateral assistance—from headlining programs like the President's Emergency Plan for AIDS Relief (PEPFAR) to targeted support for strategic countries—has played and will continue to play the foundational role in US development policy, the unique characteristics of multilateral assistance merit its elevation in the development agenda. The case for multilateral assistance, drawn here in part from the US government's own arguments, can be thought of in six categories: leverage, instruments, geographic and sectoral scope, political buffers, effectiveness, and finally, the "privilege" the United States enjoys by being the largest collective shareholder in the MDBs.

1. Leverage

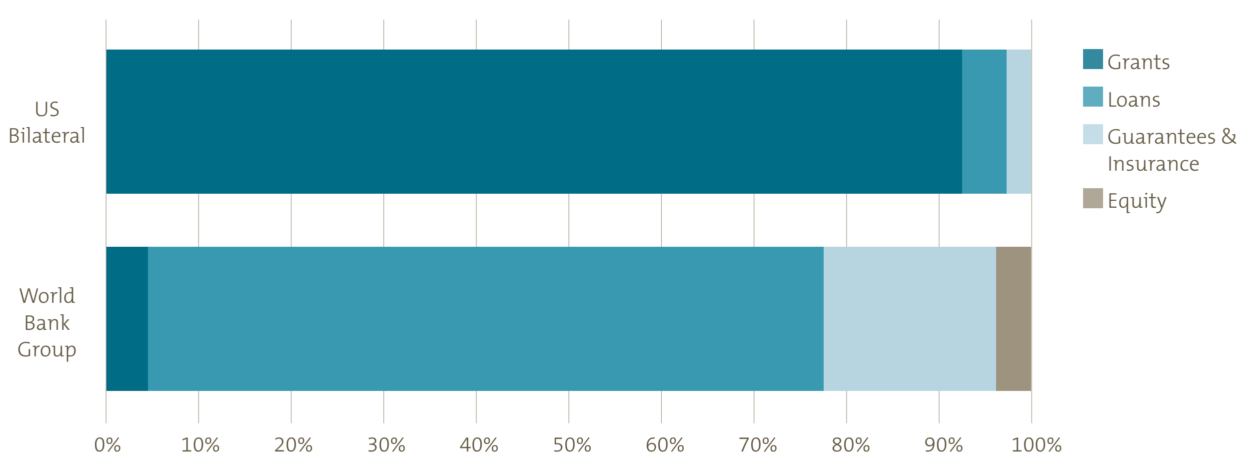
From a financial perspective, the multilateral channel allows the United States to leverage its foreign assistance. By US Treasury estimates, the combination of multidonor leverage and the leverage provided by the ability of MDBs to borrow in capital markets means that every dollar of US paid-in capital leads to $25 in lending. According to the US Treasury, "over time, this effect is compounded, as demonstrated by a capital increase contribution of $420 million made under the Reagan administration that helped support $325 billion in lending over the subsequent two decades."[2]

This dynamic financial model contrasts sharply with most US bilateral assistance, which by definition has no multidonor leverage. Typically, there is not any capital leverage either, since almost all US bilateral assistance has been provided as grants since the early 1980s.

2. Instruments

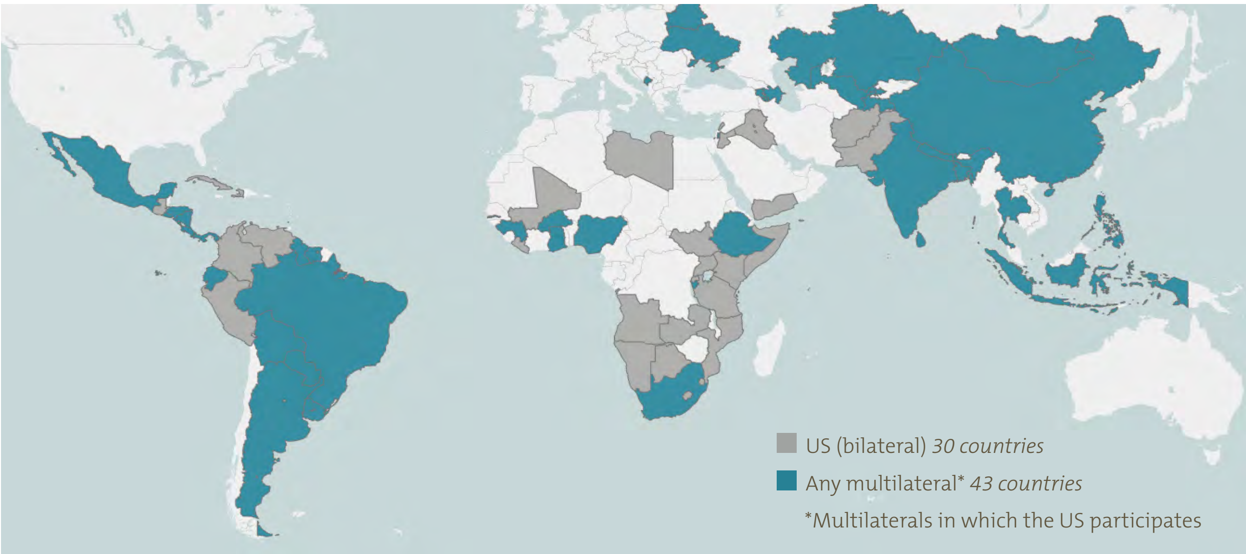
The range of instruments provided by multilateral institutions is greater than those employed by the United States bilaterally. The biggest difference is the prominence of loans in MDB programs and the paucity of them within US bilateral programs (see figure 1). Similarly, multilateral institutions offer far more in the

Figure 1 US Bilateral Development Programs Rely Heavily on Grants at Expense of Other Instruments



Source: World Bank, IFC, and OPIC 2013 annual reports; OECD

Figure 2 Top Donor of Development Assistance by Country, 2012



Source: OECD, includes official development assistance (ODA) and other official flows (OOF, e.g. non-grant assistance, export credits, or investment support)

way of equity investment, guarantees, insurance, and knowledge products. Increasingly, nongrant instruments are better aligned with major development initiatives such as infrastructure investment and private-sector development. These characteristics often make the MDB model more attractive to recipients relative to the US government's traditional grant-based model. Moreover, multilateral institutions can provide multiyear financing commitments; that is difficult to do bilaterally because of the annual appropriations process.

The MDBs also offer much greater sectoral diversity to US development policy. Despite a great deal of rhetoric about US policy's supporting broad-based development, the bilateral assistance budget continues to be dominated by health and humanitarian assistance (see figure 3). MDB dominance in infrastructure finance explains why the institutions play explicit roles in prominent US initiatives such as Power Africa, where most traditional bilateral grant programs are not well matched to the objectives of the initiative.

3. Geographic and Sectoral Scope

Multilateral institutions operate in more countries and sectors than US bilateral programs, offering the United States the ability to focus its bilateral programs on fewer countries while still maintaining broader geographic reach and influence through the multilateral channel. The United States is the largest donor in 30 countries worldwide. But these are clustered in regional pockets, mainly in eastern and southern Africa (because of large health and agriculture programs) as well as in frontline countries like Afghanistan, Pakistan, and Libya (see figure 2). On the other hand, US-supported multilateral organizations are the top donors in 43 countries across nearly every region. The multilaterals also tend to have far more presence in middle-income countries, with lending and investment programs that are better matched to these countries' financing needs than the grant-dominant model employed by the United States.

4. Domestic and International Political Buffers

Multilateral assistance often provides a useful political buffer at home and abroad. At times when US bilateral support for a particular country, sector, or program is politically problematic at home, multilateral institutions allow the United States to maintain support but at arm's length when it has a compelling reason to do so.

For example, in 2010, the United States "abstained" on a decision at the World Bank to finance a large coal-fired power plant in South Africa. The US government formally withheld its support amid competing environmental, development, and diplomatic interests. Nonetheless, the US abstention came with an implicit understanding that the project would be approved by the broader World Bank board of directors. A contemporaneous US Treasury statement reflected the mix of competing interests, as well as the utility of an arm's-length decision, by formally opposing the project while clearly acknowledging the merits of its going forward.[3]

Multilateral institutions also provide the United States a political buffer in other countries, where direct engagement with US officials is problematic. For example, the US-Pakistan relationship has experienced degrees of estrangement over the years in part because of a shifting domestic political environment within Pakistan. In fact, public-attitude surveys suggest that nearly 90 percent of Pakistanis have an unfavorable view of the United States.[4] Nonetheless, Pakistan has compelling development needs and remains a geopolitically important country for global security, counterterrorism, and other national security issues. In cases such as this one, the World Bank and regional development banks can provide a stable source of financing, even when the US relationship has soured.

In general, by allowing for degrees of political separation, the MDBs can be a better instrument than the US government for driving difficult reforms in politically sensitive sectors such as energy and banking when the United States has defined them as a priority in a bilateral relationship.

5. Effectiveness

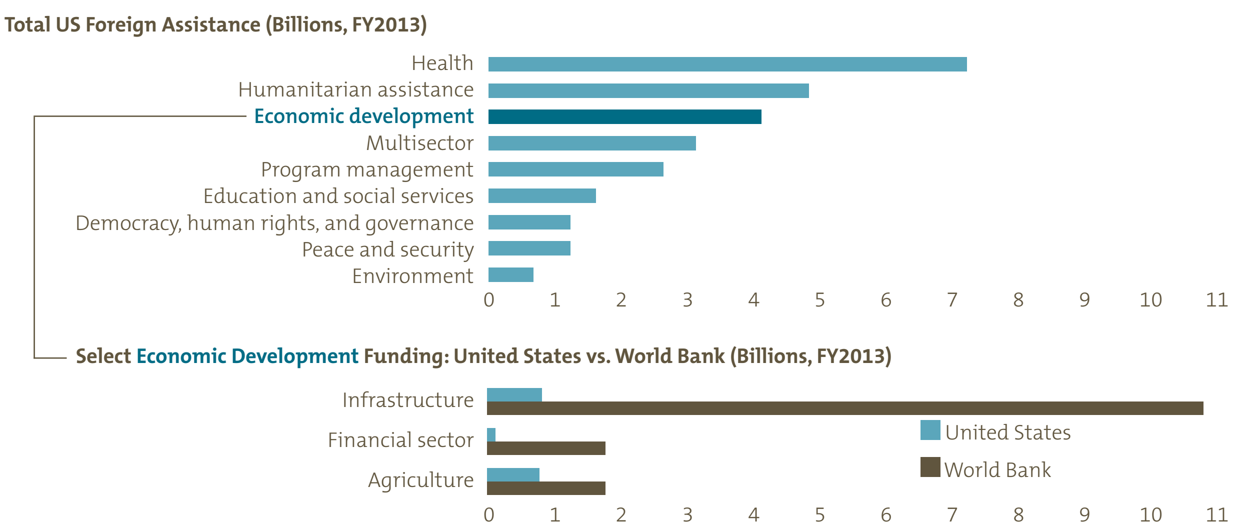
Multilateral channels afford the United States more opportunities to achieve positive development outcomes with its foreign assistance dollars. In various initiatives that evaluate global aid agencies, multilateral organizations have consistently outperformed bilateral institutions in organizational effectiveness (overhead, transparency, and learning), programming (fragmentation and specialization, alignment with country priorities), and "best practices" (selectivity against corrupt recipients, limiting tied or ineffective types such as food aid).[5] Figure 4 reports the performance of US bilateral aid programs as a whole relative to the leading multilateral programs according to the 2014 edition of the Quality of Official Development Assistance Assessment (QuODA).[6]

Not only do US bilateral programs underperform against the average of all aid agencies (more than 100 agencies and 35 donor countries) in the study, but they greatly underperform on all four dimensions against the major multilateral agencies, defined here as the International Development Association (IDA) at the World Bank, the African Development Fund at the African Development Bank, the Asian Development Fund at the Asian Development Bank, and the Global Fund to Fight Aids, Tuberculosis and Malaria.

6. The Value of Being Number One in the MDBs

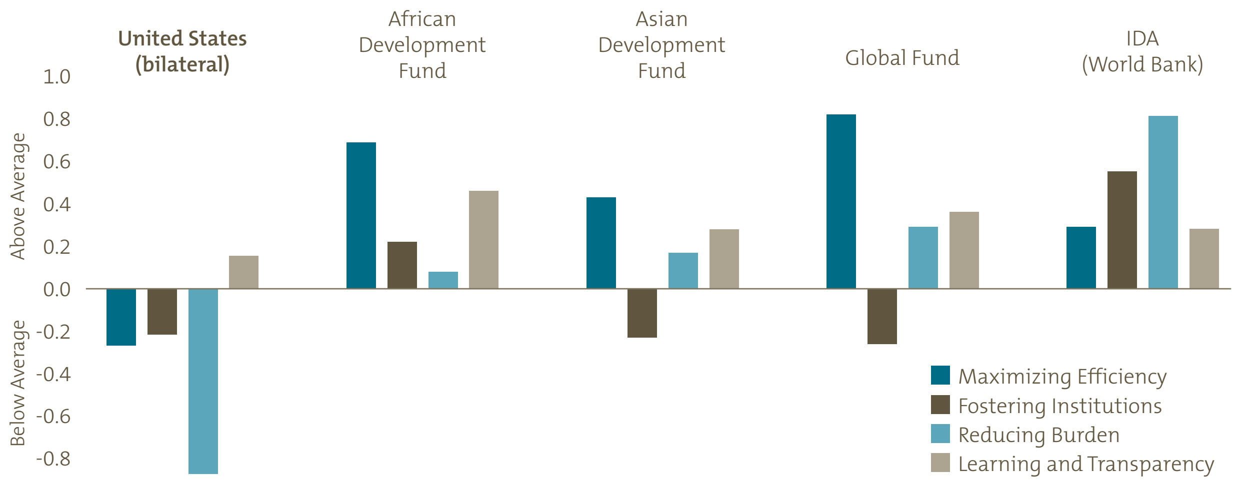
All of the aforementioned benefits depend to some degree on US influence within the multilateral institutions. The United States enjoys particular benefits

Figure 3 US Bilateral Assistance Is Dominated by Health and Humanitarian Assistance



Sources: US Foreign Assistance Dashboard, *World Bank Annual Report 2013*

Figure 4 US Bilateral Aid Programs Perform Poorly on the Quality of Official Development Assistance (QuODA) Assessment



Source: Nancy Birdsall and Homi Kharas, *The Quality of Official Development Assistance (QuODA)*, 3rd ed. (Washington: Center for Global Development and the Brookings Institution, 2014)

from being the largest (or second-largest) shareholder in these institutions, relative to other countries. Unlike the governance system of the United Nations, which relies on "one country, one vote," the MDBs employ weighted shareholding, which gives the United States greater say as a large shareholder, both formally through voting power within the institution and informally through direct access to senior management of the institutions.

As the largest shareholder at the World Bank, Inter-American Development Bank, and Asian Development Bank (along with Japan), the United States has unique formal power in the form of veto authority over key decisions in the board of directors, as well as a unique degree of informal influence, evidenced by the ability of the United States to shape broad policies (procurement rules, environmental safeguards) and programs of the MDBs as well as to steer them to particular initiatives, such as extraordinary support for Afghanistan during the past decade or financing the post-earthquake response in Haiti in 2010.

Of course, the value of being the top shareholder in the MDBs also depends on the value of the MDBs themselves and, in particular, how much they continue to matter to the rest of the world. In the remainder of this brief, we describe how the United States is failing in this regard and what can be done about it.

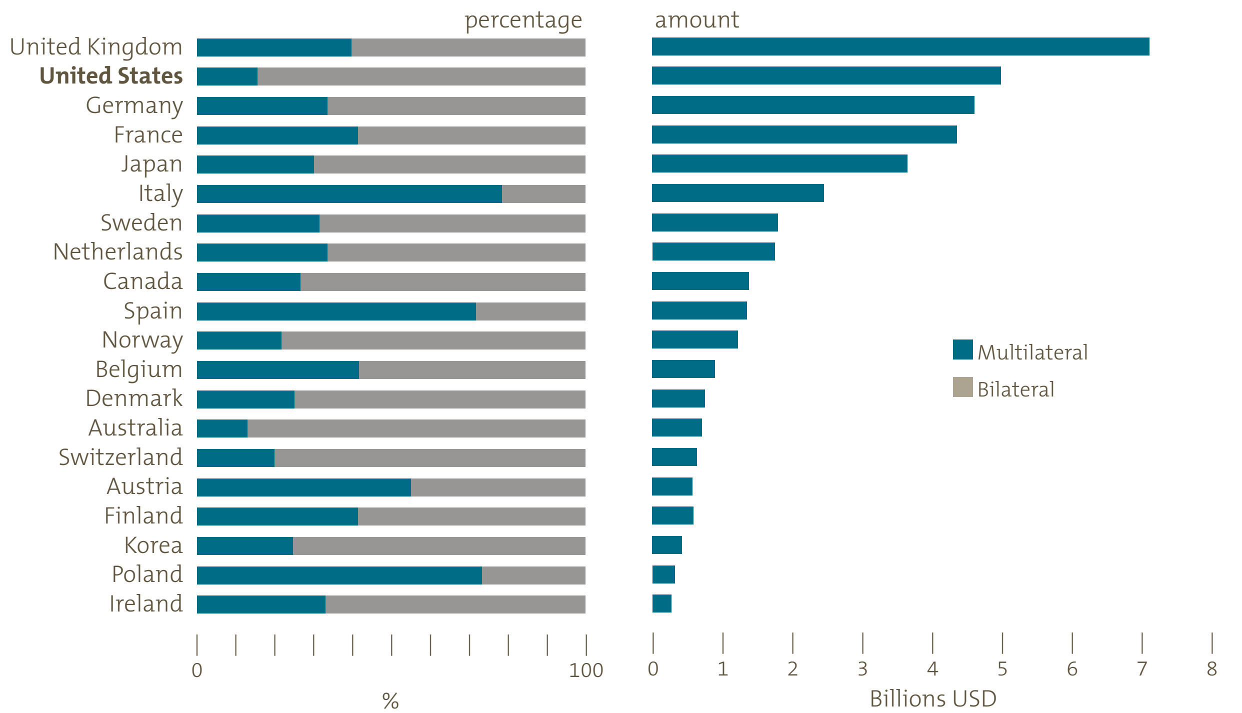
US Multilateralism: Too Little Money through Too Many Channels

Despite the benefits of multilateral assistance, the United States greatly favors funding bilateral over multilateral channels. This imbalance is especially acute when compared against other donor countries. In 2013, the United States channeled $5.1 billion through all multilateral agencies (the MDBs plus other multilateral funds), or just 16 percent of the $31 billion the United States provided in total net development assistance. The average multilateral share for members of the Organisation for Economic Co-operation and Development (OECD) is 41 percent, putting the United States at 19th out of the 20 largest donor countries (see figure 5).

The multilateral share of the US foreign assistance budget has declined from an average of 27 percent in the late 1990s (see figure 6), the result of a dramatic expansion of bilateral foreign assistance programs during the years 2000 to 2013, such as PEPFAR, the Millennium Challenge Corporation (MCC), and large bilateral programs in Afghanistan, Pakistan, and Iraq.[7]

The United States clearly is underfunding multilaterals on a relative basis. At the same time, it is providing these modest resources through too many multilateral channels. The World Bank alone receives support from 10 different US government agencies through more than 175 dedicated

Figure 5 The United States Gives More Aid through Multilateral Channels Than Most OECD Countries, but Multilateral Assistance Is a Small Share of the US Total



Source: OECD, 2013

channels, most of which are trust funds. These proliferated funds are difficult to track, often have overlapping mandates and one-off financing patterns, and broadly contribute to an inefficient and incoherent system (see figure 7).

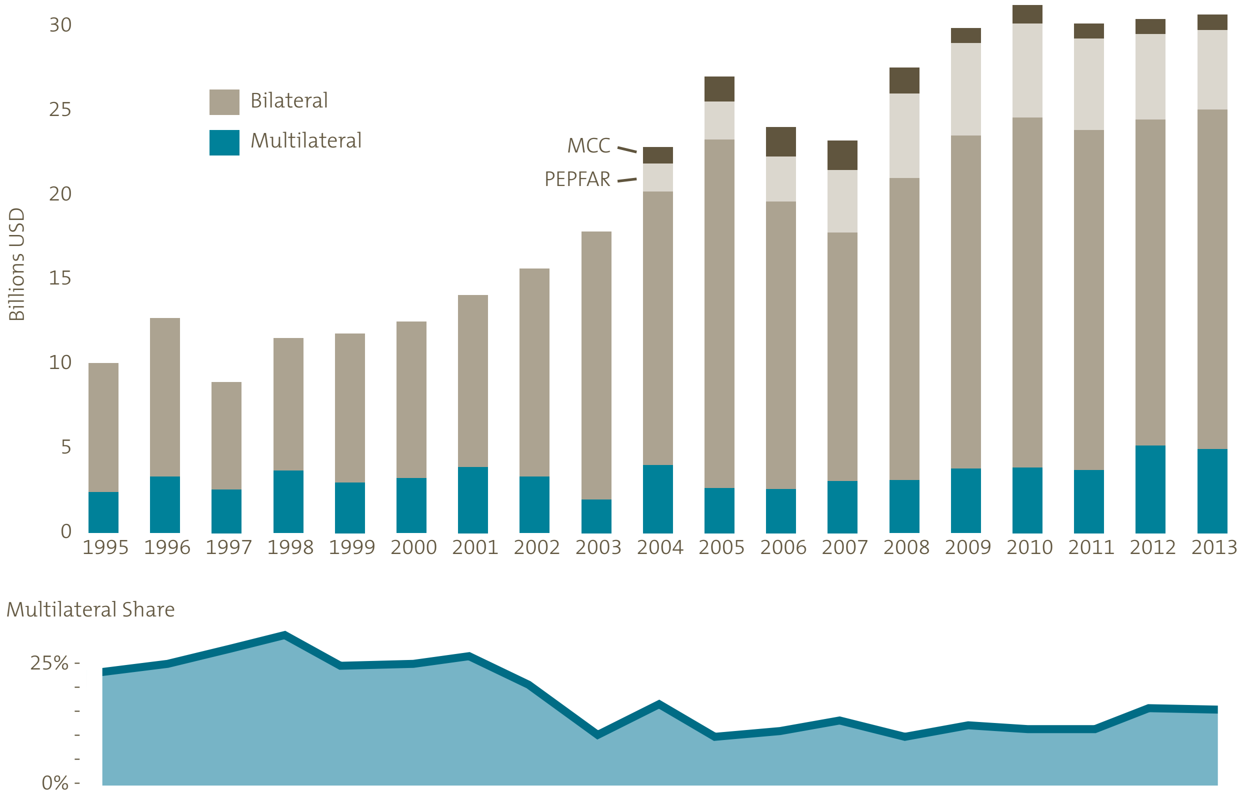
There are a number of reasons why the US multilateral agenda is underfunded and lacking coherence. Decisions about multilateral funding are spread across multiple agencies. A majority of US multilateral funding flows through Treasury's International Affairs budget, followed by global health funding decisions made through the State Department budget process. A distant third are many small decisions made mostly by the United States Agency for International Development (USAID) with regard to multilateral trust funds.

The Treasury Department's International Affairs budget almost wholly comprises multilateral commitments. As a result, these funding decisions cannot draw on potential trade-offs between multilateral and bilateral programs.

Further, existing budget processes do not consider bilateral and multilateral trade-offs between agencies. The only coordination occurs between each agency and the White House Office of Management and Budget (OMB). However, OMB seeks only to enforce what is typically a small decrease or increase in the agency's budget over the previous year's budget. Existing executive branch budgeting processes fail to consider trade-offs across agency budgets, including both multilateral and bilateral allocations.

Similarly, absent overarching policy direction, existing coordination mechanisms do not seek to prioritize *among* multilateral programs. This situation contributes to the lack of coherence and fragmentation evidenced in figure 7. This bureaucratic breakdown has led to surprising outcomes. For instance, in 2013, US contributions to single-issue vertical funds such as the Global Fund (overseen by the State Department) surpassed those of the World Bank's global, multisector concessional finance institution (managed by the Treasury Department). A further example is the Obama administration's decision to cut core funding for the African Development Bank (AfDB) even as the president was championing the AfDB's role in his signature Power Africa initiative. Even more confounding, the AfDB cut was juxtaposed with a USAID decision to contribute $5 million to a small energy-related trust fund at the AfDB, funds that could have been better leveraged through the bank's core operations.[8]

Figure 6 The Share of US Multilateral Development Assistance Has Shrunk Since the Late 1990s as Bilateral Foreign Assistance Has Expanded



Source: DFI annual reports and authors' calculations

The sum of these failures is a diminished US position in the MDBs, and a diminished position for the MDBs themselves as they are forced to reject capital increases because of US opposition. The positive reception that China's AIIB has received in Asia, with 57 member countries and counting, comes on the heels of frustrated multiyear efforts within the Asian Development Bank (ADB) and World Bank for capital increases to support greater infrastructure investment in the region. The defensive posture struck by the United States in these circumstances fundamentally fails to recognize the potential for leadership in and through multilateral institutions. Clearly, US interests in Asia would be better served through a bigger ADB, in which the United States is a leading shareholder, than they will be through a new AIIB, of which the United States isn't even a member.[9]

The next presidential administration should seek to restore US leadership in multilateral development institutions. To do so, we propose a three-step framework to guide future actions and decisions.

A Reform Agenda in Three Steps

The next president should promote a multilateral development agenda by first adopting a guiding policy target for the multilateral share of the US foreign assistance budget. From this starting point, we recommend an inaugural multilateral aid review (MAR) aimed at informing the allocation of funds within this multilateral share and at providing some impetus for stronger interagency engagement on multilateral development policy issues. Finally, we identify measures that would sustain this engagement through relying on existing statutory authorities, roles, and functions.

1 Establish a multilateral target.

The next administration should use the White House-led Interagency Policy Committee (IPC) on Global Development to establish a target for the multilateral share of US foreign assistance. Given the political challenge of shifting large portions of the budget at

Figure 7 Dedicated US Funding Channels

Source: authors' illustration

once, and absent a nonarbitrary starting point for a multilateral target, the best approach is an incremental one.[10]

For example, the White House–led interagency process could make an initial commitment to increase the multilateral share from 16 percent to 20 percent over a three-year period, yielding an additional $1.2 billion annually for multilateral assistance. Reassessment of this target could then be a part of the ongoing engagement outlined below. This process would allow for a smoother reallocation of resources from the bilateral side of the US foreign assistance budget and a more orderly scaling up of resources in the MDBs.

Assuming a flat overall budget, this implies some cuts to bilateral programs, but they would be very modest, less than 5 percent of the bilateral assistance budget.

❷ Conduct a multilateral aid review.

Multiple donors have initiated MARs, which evaluate and rank all multilateral agencies receiving government funding against a standard set of criteria, including operational efficiency, program effectiveness, and alignment with the donor's national priorities.[11] The purpose of a US MAR would be to help guide the government's decision-making and prioritization within the multilateral portion of the foreign assistance budget.

An effective MAR depends critically on the multilateral share target discussed above. One risk of a multilateral review versus a comprehensive foreign assistance review (multilateral and bilateral) is that bilateral programs will escape the critical scrutiny that is being applied to multilateral programs.[12] As a result, any criticism of multilateral programs within the MAR could be grounds for cutting multilateral funding relative to bilateral. The ex-ante multilateral share target serves to guard against this outcome.

The analytical framework of the MAR would be constructed by a core agency working group (State, Treasury, USAID, and MCC, with its data-driven approach to policy decisions) coordinated by the Global Development IPC. Agencies would be tasked with engaging with their respective multilateral partners to collect evidence and report results. And while we have emphasized the MDBs in characterizing multilateral channels and programs, the MAR would appropriately assess all multilateral assistance, including the (much smaller) funding provided to UN agencies for development purposes. Existing comparisons of MDBs and UN agencies, such as the UK's MAR, demonstrate that not all multilateral programs are created equal, with UN programs tending to significantly underperform as compared with the MDBs.

The process of constructing a MAR framework would give life to a more robust interagency decision-making process around multilateral funding issues and force an internal discussion about the relative weight to place on sectors and regions. For example, how much does the United States wish to prioritize infrastructure investment relative to global health when it comes to multilateral contributions? While we may be able to infer an answer to this question now based on budget outcomes, in reality there is no direct policy deliberation that seeks to answer it.

An additional key value of the MAR framework would be the clear articulation of criteria for assessing these institutions. Given the considerable body of work to date, there would not likely be many surprises about which multilateral institutions "perform" better than others on criteria such as budget overhead or transparency. But the relative weight the US government places on these measures and others, particularly around strategic alignment, would be illuminating in its articulation (to US taxpayers, the MDBs, aid recipients, and other donors) and would usefully help guide policy in its construction.

❸ Make better use of existing coordination mechanisms.

The Global Development IPC provides a high-level coordinating mechanism to oversee the multilateral target and conduct the MAR exercise. The IPC should also devise a multiyear strategy for determining and prioritizing multilateral commitments following the MAR exercise. In order to operationalize a multiyear budget strategy, it will also be necessary to employ other mechanisms:

- **Treasury-chaired National Advisory Council on International Monetary and Financial Polices (NAC):** By law, Treasury is tasked with coordinating policies related to the MDBs through the NAC, an interagency policy committee. Given this statutory responsibility, Treasury should play a leading role in MDB-related funding decisions, which points to the need for clarity around roles between the White House–led process and the NAC.

- **OMB:** The OMB-led budget process will benefit from the guidance of a multiyear, multilateral funding strategy. As it stands, OMB has struggled to incorporate multiyear financing commitments such as US pledges to IDA or the Global Fund into an annual budget process. Bringing these commitments together under a common policy framework would improve the quality of OMB's guidance in this area as well as the quality of the interaction between OMB and the respective US line agencies.

- **State and USAID:** A number of multilateral funding decisions are internal to State and USAID. In the same way the Treasury-led NAC process would need to be better aligned with the multiyear strategy, multilateral decisions within State and USAID would need to adhere to the agreed-upon principles and priorities. The interagency process would also be improved by more discussion in the NAC of MDB-related funding decisions made by these agencies.

Of course, coordination between the administration and Congress is also critical. Although the reforms articulated here do not require changes in law, congressional action in favor of this agenda could be highly beneficial in sustaining the reforms across administrations. Congress has in fact been more supportive of multilateral channels than is commonly perceived, providing over the past decade slightly more funding than requested for multilateral programs and slightly less than requested for bilateral assistance channels.

Conclusion

The United States has valued its multilateral partners over many decades. In recent years, rhetoric and policy engagement suggest that the US government continues to value institutions such as the World Bank and the regional development banks as instruments of US development policy. Yet budgeting for foreign assistance is increasingly telling a different story, one in which the multilateral funding relationship is undervalued and disconnected from policy.

The MDBs are operating in an increasingly dynamic landscape, with new sources of financing tempting them away from traditional funding arrangements and with new multilateral institutions emerging in which the United States is not a member (e.g., the AIIB and the New Development Bank). From a narrow budgeting perspective, this seems to mark an advantageous moment for the United States to step back while others step forward. But just as the United States chose to lead a multilateral development agenda at Bretton Woods as a way to promote peace and prosperity in a post–World War II era, today's officials should take a more expansive view toward US multilateral leadership. The United States can continue to be a force for good in the developing world, perhaps no more so than when it chooses to work in the cooperative spirit that defines multilateralism.

Notes

[1] US White House, "Presidential Policy Directive on Global Development," September 22, 2010, 6.

[2] US Department of the Treasury, "International Programs Justification for Appropriations, FY 2013 Budget Request," n.d., 2.

[3] US Department of the Treasury, "Treasury Department Statement on the U.S. Position on the World Bank's Eskom Investment Support Project," April 8, 2010.

[4] Pew Research Global Attitudes Project, "Chapter 1: Attitudes toward the United States," in *America's Global Image Remains More Positive Than China's* (Washington: Pew Research Center, 2013), 8–18.

[5] Nancy Birdsall and Homi Kharas, *The Quality of Official Development Assistance (QuODA)*, 1st and 3rd Eds., (Washington, DC: Center for Global Development; Global Economy and Development at Brookings, 2010 and 2014); William Easterly and Tobias Pfutze, "Where Does the Money Go? Best and Worst Practices in Foreign Aid," Journal of Economic Perspectives 22(2): 29–52; Stephen Knack, F. Halsey Rogers, and Nicholas Eubank, "Aid Quality and Donor Rankings," World Development 39(11): 1907–17.

[6] QuODA is an ongoing joint initiative by CGD and the Brookings Institution to assess aid quality for 31 Development Assistance Committee member countries and multilateral agencies according to four dimensions of aid quality that draw upon international declarations: maximizing efficiency, fostering institutions, reducing burden, and transparency and learning. For more information see the Center for Global Development, "Quality of ODA (QuODA)", www.cgdev.org/page/quality-oda-quoda.

[7] US President's Emergency Plan for AIDS Relief, "Focus, Partner, Achieve: An AIDS-Free Generation; Latest PEPFAR Funding," www.pepfar.gov/documents/organization/189671.pdf; Curt Tarnoff, *Millennium Challenge Corporation*, CRS Report 7-5700 (Washington: Congressional Research Service, 2014).

[8] African Development Bank, "Sustainable Energy Fund for Africa Scales-Up Operations with USAID Support," www.afdb.org/en/news-and-events/article/sustainable-energy-fund-for-africa-scales-up-operations-with-usaid-support-12292/.

[9] Scott Morris, "How China and the United States Can Come to Terms on AIIB," *Boao Review*, January 19, 2015, www.boaoreview.com/Opinions/Finance/20150119/483.html.

[10] Trying to match, for example, the OECD average multilateral share of 41 percent would imply a nearly $8 billion annual increase over the current level of $5 billion. Even if a reallocation at this level were politically feasible, it is unlikely that the United States could effectively channel such an increase through multilaterals without raising questions of absorptive capacity and disrupting governance arrangements within the MDBs, which are tied to funding contributions.

[11] Starting with the UK government's first high-profile MAR in 2011, other large donors have followed with their own reviews, in addition to an annual multidonor Multilateral Organisation Performance Assessment Network exercise. With this proliferation of official reviews, the multilateral institutions themselves are suffering from review fatigue, and the OECD has raised concerns about multiple assessments. But these concerns are misplaced when it comes to the United States. As the second-largest multilateral donor, with the potential to be significantly larger, the United States should conduct its own comprehensive, data-driven review following the establishment of a multilateral target.

[12] We do not believe a transparent, comprehensive foreign assistance review would be politically or practically achievable. A multilateral review entails a much smaller universe of actors and is naturally at arm's length from the programs in a way that a bilateral review could not be.

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