



CENTER FOR GLOBAL DEVELOPMENT

*Presents*

***George Bush's Foreign Aid:  
Transformation or Chaos?***

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*[TRANSCRIPT PREPARED FROM AUDIO RECORDING]*

Nancy Birdsall: Good afternoon ladies and gentlemen. It's great to see a very high quality and high quantity audience to hear about a book that the Center for Global Development is really proud to publish.

I'm Nancy Birdsall at the Center for Global Development and my job is to introduce Carol. Carol will then talk about the content of her book. Then we will have, for discussing what Carol has to say and what the book is about, we're proud to have Congressman Jim Kolbe here. And then we will be – following that, Steve Radelet, my colleague, will organize a subsequent discussion amongst himself, I hope, and Carol and Jim.

Now, I want to say a few words about all of these people, by way of introduction and to illustrate how pleased I am to see this crowd on this absolutely essential subject. First, on Carol, you all probably know that she is at the School of Foreign Service at Georgetown University and is Director of the Mortara Center for International Development. We were very pleased to launch with the Mortara Center and Carol, another book on African – growth in Africa, just a few weeks ago.

Carol was the Deputy Administrator at USAID in the 90s and earlier, she served in the State Department and at the Office of Management and Budget. I didn't even realize about the Office of Management and Budget until I looked carefully at her bio.

Now, what this all means is not as important – it's not illustrated by this history of rich experience as it is by the kind of book that Carol has just written, which is, Carol is, in my view, really, the leading voice in the world on what you might call the political economy or the IO, what economists call the industrial organization. Let's just say, the political economy of the organization and the politics of foreign aid in, really, all the major donor countries. And Carol spoke briefly about her book at our Board dinner in April. And she said something that I thought was really important. It was a lesson for me.

Because we were discussing at the Board dinner, the issue of how to fix up the aid business in the US and such questions as, should the different US agencies be better coordinated? Should there be a cabinet member? I see we have Rodney from the Millennium Challenge Corporation here, so these are questions for people like Rodney. And Carol said, organization drives politics and that is, in part, what she's talking about in impressive nuance, fascinating detail in this book.

Now, after Carol comes Congressman Jim Kolbe, also, very well-known to all of you. A champion for many years of doing smart foreign assistance in the Congress; smart on the part of the US government. I'm not going to say too much more about him because I've asked Steve Radelet to do that. But Steve might forget to mention one of the most important things about Congressman Kolbe, in

our selfish view at the Center for Global Development, and that is that, in 2006, I believe it was, he was the recipient, right here, of the world class award that the Center for Global Development gives each year to someone who has changed the behavior or attitudes of the rich world toward the poor world. We call it the Commitment to Development Award.

So we are very pleased to have an awardee who actually knows a lot about the politics and how organization drives politics here in the US. Jim is also managing, right now, an initiative – a transatlantic initiative on how the two sides of the Atlantic can do better, among other things, in working together on foreign aid issues.

And then we will have Steve Radelet who is probably, also, very well-known to most of you in the room, who is our colleague at the Center who is shouldering the burden of modernizing foreign assistance here in the US in two ways. He has at least two major initiatives that he's leading right now. One is called Modernizing Foreign Assistance Initiative. You can find – learn more about it on our website. It's the Center for Global Development medium term program to influence the way foreign assistance is designed, organized, implemented in the US.

The other is that Steve is the co-Chair of something called the Modernizing Foreign Assistance Network, which brings together a dozen or more of the leading lights, many of whom are here in the room and I hope will ask questions on developing a consensus document, which will be launched also here, on June 9th, on how to fix up – how to overhaul, modernize foreign assistance in the US. All of which is – all of that discussion is greatly enriched by the kind of analysis that Carol will be presenting now and is in more detail in her book.

I hope all of you – if you're here, you're interested enough to read this book. I promise you, it's very readable. It's really interesting – I don't want to say fun because it's very serious, but it is interesting and, in its own way, entertaining and enriching. Carol.

Carol Lancaster: Thank you, Nancy. I want to say thanks also to the Center for Global Development for sponsoring this book and being such a good source of support and advice.

I did a lot of interviewing for this book and many of the people, I think, are here today. I want to thank them as well. Some of you will not find your names in the book, at your request, since you still hold official positions. Those who read the book, a number of you are here today. Again, thanks. And then a special thanks to Jim Kolbe for coming and commenting. I'm very honored that you were able to do that, Jim. And thank you all for being here. The point of this book is the following:

That there have been enormous changes in foreign aid in the Bush Administration; probably more than any other time since John F. Kennedy and maybe even going back to the Marshall Plan. But each of these changes is based on addressing a real challenge or taking advantage of a real opportunity. Each of the changes I'm going to talk about also bring with them a number of problems and issues that remain with us and will be with the next Administration.

Together, the initiatives have transformed US foreign aid, but they've also deepened the chaos that prevails, both in our policies and in our organization and I want to talk about that too. What I've tried to do is bring all of these initiatives together. Many of us, in different venues, have been talking about them and working on them and so on, but I wanted to try to bring them all together in one place. I wanted to put them in historical context and relate them to some of the literature of scholarly production with an accessibility that you won't find a problem and offer some suggestions for the future; some recommendations of my own, but by no means, well-developed ones.

So let's start. The most notable change in US foreign aid over the last seven years has been its dramatic increase in volume. It has doubled – and I'm talking only about economic assistance now. I'm not talking about military assistance or other things. It's doubled between the year 2000 and 2006. And even if you take Iraq, Afghanistan, and Pakistan out, it has nearly doubled. That's a very dramatic increase.

I know that in my years as the Deputy Administrator in AID from '93 to '96, it went down, not up. So I celebrate this change and the people who had the good luck to be present during it because all we could do is cut and make everybody mad at us. So I think that's important.

The second major thing that I think is really important is that the President has spoken a lot about various kinds of aid and development. He has talked about development as one of the three D's, along with diplomacy and defense. And again, I think that represents a major change. We struggled again, in the first Clinton Administration to get something on development or something on foreign aid either in the UN General Assembly speeches or in the State of the Union, but without much success. So it's exciting to see this issue so much more prominent in our discussion about foreign policy and American leadership in the world.

Behind this increase are four big initiatives and that's what I really want to talk about. That is the Millennium Challenge Corporation, PEPFAR, the F Process, and the rise of DOD, the Defense Department, as a source of aid giving. And let's start with Rodney's favorite organization, the Millennium Challenge Corporation.

It seems to me that what we have here is an exciting new business model for doing foreign aid. It has, it seems to me, at least three interesting and prominent

components that we've talked about a lot, all of us in this business, but haven't often had a chance to actually implement.

One is an emphasis on recipient ownership. The governments receiving the aid have to come up with the ideas about how to use it within constraints. The second is its performance based, as you well know. There are 18 objective criteria that governments have to – or countries have to fit into in order to be eligible to receive the Millennium Challenge Corporation funding. And the third isn't – it is supposed to act as an incentive for other governments to adopt the reforms that would allow them to become eligible as well.

That's all very important and exciting, but the MCC, it seems to me, has been off to a very slow start. Five years have gone by and it's still in a slow start. At the beginning of 2008, I checked in the book. I don't always remember numbers, but of \$4.8 billion in appropriations, approximately 125 million had actually been spent. So this afternoon, I went back and thought, maybe I ought to double check that and see where we are now and it's up to \$172 million dispersed. That's kind of disappointing and it, I think, is a challenge for the corporation itself.

So what's the problem? Well, it seems to me, the problem is a fundamental question as to whether the business model actually works or not. And I don't think we know the answer to that, but it does seem to me, there are a couple of elements of that problem. One is the problem of capacity at both the donor and the recipient end. It took a long time to staff up – Millennium Challenge Corporation to staff up. It also was asking recipient governments to create their own entities to manage the MCC funding. And that, I think, has been a challenge as well, particularly, when you're dealing with poor countries, low-income countries, which all have challenges of capacity in their governments.

Another place where there's been a problem is performance and I haven't documented this because I only picked up on it after the book was in press, but I understand there has been some backsliding in terms of the performance of MCC eligible countries as well. And I think that's kind of easy to understand because once you've got the compact, the incentives – if that happens to be what motivated you, as a government, to adopt the needed reforms – may be less.

So the question is, where is that going? How important is that going to be? And I think, behind that is another interesting issue. Governments don't – countries don't always fit neatly into our categories and even when they do, they have a tendency not to stay there. And so, this, I think, is a kind of – a challenge to our efforts to be logical and rational and reasonable. But it's there and I think it's a test. The MCC is one of the tests.

The other incentive element in the MCC is whether it has, in fact, encouraged other governments to adopt reforms. I only have one source of evidence, which is cited in the book; a paper by a couple of Harvard scholars that was published in

2005, 2006. A little early, but suggested that there was an incentive affect and I think we need more evidence to nail that one down.

The basic problem, I think, is also for the MCC, one of the political clock ticking. Nobody wants an organization, a new aid agency to waste its money, to shovel it out the door in order just to meet political criteria. But on the other hand, a number of years have gone by. I think there is a political equation here. You have to show forward progress, particularly, to the Congress, if you wish to get appropriations at the level of requests in the future. And I think that has been a challenge for the MCC and it remains a challenge for the MCC.

So in some ways, I see it as a test. I don't think we've got a – we're at a point where we can make a conclusion about it, but I think there is a question about the business model. I hope it turns out that it works. I hope it works in time, politically, to survive and prosper.

Moving on to PEPFAR, the President's Emergency Program for AIDS Relief. Here, the size of this program is extraordinary, as you, no doubt, know. It was initially proposed by the President to be \$15 billion for five years. The President recently doubled that to \$30 billion for five years in the context of the reauthorization. And the Congress moved it up to \$50 billion for five years. That Authorization Bill hasn't passed the Congress yet, but if you think about what that means, it's \$10 billion a year for fighting HIV/AIDS. And that's likely to be a half or a third of our total aid budgets if that actually gets passed. It's a very, very large sum.

There are 15 focus countries. Most of them are in Sub-Saharan Africa where the AIDS epidemic is most severe. And the PEPFAR monies are intended to be used for three things; prevention, treatment – providing antiretroviral drugs - and care. One of the interesting things about PEPFAR is that it was ramped up quickly. I think there was some doubts at the beginning as to whether we could create and manage an aid program that spent out so quickly for this purpose. But that, it seems to me, has happened.

One million people are now on US funded antiretroviral drugs. That's one million out of 33 million infected in the world and it's – the increase in those receiving the drugs is slower than the increase in those infected by the virus. So there's – it's a little bit of a losing game here, but nevertheless, it has been ramped up quickly.

It has some issues. It raises some issues. I actually think it raises, perhaps, the most fundamental policy issue of all of these. But first, a smaller issue. There is a lot of criticisms that an earmark required a portion of the funds intended for prevention, to be used for abstinence. That, I think, is in the process of being waived, but that caused quite a lot of criticism. There's been a lot of concern

about the capacity of recipient governments to use as much money as is being put out there.

But I think the real issue is the size of this program relative to what else we're doing in these recipient countries. And if you have a copy of the book, take a look at page 58. Page 58 has some pie charts that will show you, for 2008, the portion of US bilateral aid to a couple of the focus countries compared to HIV/AIDS. And it's quite striking how much larger the monies for PEPFAR, for HIV/AIDS are. It's quite extraordinary, it seems to me.

And I think that those monies already do and may continue to exert something of a gravitational pull on the rest of that bilateral aid money. You know, PEPFAR monies are not intended to increase agricultural production and therefore, the food that people have to eat or the clean water or the other things they need to survive. But if you've got that much money invested, I think the argument for using the rest of your money to make that effective is going to be quite compelling.

But I think the other thing, and many of us probably realize this, is that this is a lifetime commitment. When we provide antiretroviral drugs to people who, otherwise, would die from HIV/AIDS, we are saving their lives and that's a good thing. But these are poor people in poor countries and it's not clear when, if ever, they are going to be able to finance their own drugs or that their governments will be able to finance their own drugs.

So, in a way, we have made a commitment to continue funding them unless we want to move our money somewhere else and be complicit in their certain death. And I think that's probably unacceptable, so I think we have a need. Over at the Center for Global Development calls it an entitlement. More of a moral entitlement than a legal entitlement here, but we have – we are creating a moral commitment, it seems, on our behalf, to continue funding these individuals.

And what, I think, bothers me is something I remember from being in the Clinton Administration. When the budget was squeezed down – and I don't think we can be sure that budgets are not going to be squeezed down on discretionary funding, which is foreign aid, in the future. Two programs were protected. You can probably guess what they are or were; aid to Israel and aid to Egypt. So, all of the decrease fell on development assistance and other programs.

I can imagine that happening in the future. I think we'll have to protect the drugs that we will be providing for those suffering from HIV/AIDS. Which means that decreases in the future could well fall on the rest of our programs. Now, maybe there won't be future decreases, but I do think we need to realize what we're doing here, when we make this commitment. It's a very, I think, laudable humanitarian commitment, but I think it has all kinds of implications for what we do with our aid and I'll come back to those in the very end.

Let's turn to the F Process. I assume everybody knows what the F Process is. It is the partial integration of USAID into the State Department, part of Secretary Rice's transformational diplomacy. The idea is to be sure that our aid monies are better aligned with our foreign policy. Those are her words. I just looked them up a little earlier today.

What that means is that, the policy and program planning and budget functions have been integrated, not personnel. That's the third piece of it. If you're really going to integrate or merge agencies; you need to do the personnel piece as well. That hasn't yet been done.

You probably know the details and they're in the book, of what all of this involves. My original fear, when I observed this policy evolving, was that it was actually going to be a takeover by the State Department of USAID, that its aid – the development mission of AID would be subsumed into the more powerful foreign policy focus of the State Department.

And, you know, I've been on both sides of this, as the Deputy Assistant Secretary in State; my job was explicitly told to me to raid the aid budget, which I didn't always succeed at doing. And in AID, of course, I spent a lot of time fending off the State Department. I mean, there are conflicts; there are very serious ones, between the two missions. They don't always conflict. Sometimes, they overlap. I think that's not well understood, it seems to me. And it is, also, very, very likely that a large, powerful agency will overwhelm a smaller, less powerful agency, if that agency is merged and has a different mission.

I think we have the example, perhaps, of FEMA and the Department of Homeland Security and a not very happy experience with the merger of USIA into the Department of State.

Now, this was not the intent of the F Process. Secretary Rice, I do not think, intended this and neither did Steve Krasner who, at that time, was planning these changes. And it's not yet been tested. In fact, the way it was managed by Ambassador Tobias, the first Director of Foreign Assistance under these reforms, provoked as much criticism from the State Department being USAIDized as from AID people, as far as I could tell. But it will be tested in the next Administration and I'll tell you how in a minute.

The F Process, nevertheless, I think it's fair to say, became discredited and, I think, is widely regarded as a failure. It had some very good ideas in it. The framework, I think, of putting countries in frameworks, as long as you don't get too rigid about it, is a good way of thinking about what we should be doing in countries if we're doing development because countries are in different places at different times. The collection of data is useful and in the book, you will see a box that Laura Wilson very kindly provided on her insight. She was very much



on the inside of the reform. Her insights as to how and why the data piece of that was put into place.

But I think the real problem in the F Process, as it was implemented over the last couple of years, was actually a change management problem. I think that's what really led to its discrediting. And there, it seems to me, we have a case where major, major changes were rushed and they were undertaken with, I think, inadequate consultation and communication, both within USAID and with the stakeholders, that Congress and the nongovernmental organizations are very much involved in these programs outside of the Administration.

It reflects, I think, perhaps, a mistaken view about what change involves in the public sector. My experience is that USAID is not so much an organization as an alliance of separate interests who have close relationships with those interests outside of AID. And when something is threatening, there are usually pretty quick telephone calls to the Hill and elsewhere. We certainly had that experience and change didn't always take place. Well, that was different this time.

There's a very interesting quotation that I use in the book, where – it's by a famous Public Administration Professor from many years ago who said, "Change in the public and private sectors are similar only in unimportant ways." It's worth remembering. But there's one quotation I really want to read to you and I think this is from somebody who had a lot of experience in change management in the private sector. It's in the book. "Change is a lot like fire; manage it, turn it to your advantage and you will bask in the warmth of its glow. Ignore it or manage it poorly and one thing is certain. Eventually, you will get burned." That was Randall Tobias in his book, *Put the Moose on the Table*.

So, on to the Defense Department. Terrorism has provided the Defense Department with a new mission, which is, however you want to say it, stabilization, shaping the zero phase of conflict meaning, before it starts. A lot of us see it as very similar to development work that many of us have been involved in, in many years. It's understandable where this comes from because terrorism is a real threat. And in countries where there are, as the Defense Department has said, large ungoverned spaces; there are places where terrorists can locate, and where there's great discontent or poverty or unemployment of youth. It's a place where the sources of terrorists can become important.

The Defense Department is probably the most can-do organization in this town; full of energy and commitment. It's already doing, in fact. It has three regional programs in Africa, where it's working on some of these issues. And, of course, it's set up AFRICOM, which will be another platform for regional work in the region.

The problem, I think, for me and, I think, for many of us is that the Defense Department lacks the capacity, at this point, to do development. It will be one

more major player in a crowded field. I have to say that, I've been back and forth to China a lot and dealing with the Defense Department on these issues or listening to them reminds me of being in China. I can't understand a thing they're saying because there are lots of codes and acronyms and so on. I'm not sure they're on top of their data. Neither, by the way, are the Chinese, in terms of what they're doing. And my fear is that they will go in and stumble around and upset things that have been put into place very carefully.

If you, for example, support the strength in the security services in a country, let's say, of the Sahel, where the government is pretty awful, you may be achieving exactly the opposite of what you're intending. And finally, the Defense Department delivering aid does put a military face on our aid and I think that can be a problem, particularly, for us. We aren't uncontroversial in the world and I think that could be a danger for the effectiveness of our policies and for the people delivering them. So that is a challenge as well.

Now, what does this all add up to? I think we have major policy challenges for the next Administration or the one after that. The HIV/AIDS, it seems to me, Program is – constitutes the biggest implicit policy challenge. It is going to be very large. It has a lot of political support behind it in this country because people understand the problem of HIV/AIDS. They respond to it. It's real. It has a right/left coalition behind it, which is very interesting. And it has increased in amount, I think, in good part, because of that.

Is this going to mean a shift in the orientation of our bilateral aid, away from development and towards global issues? Is this the beginning of something fundamental in the way we do business with our foreign aid? I think it's plausible. If you think, what else is behind – what's coming along after we set up for HIV/AIDS? Food, again; we're going to want to go back to doing something on food, having virtually dropped it over the years. But it's kind of a world-wide food security problem, as well as a development problem. And then, behind that is, surely, climate change. All of the candidates have talked about climate change as part of something they find important.

The countries that are going to be most severely affected with climate change are the poorest countries; many in Sub-Saharan Africa. There are going to be, I imagine, a lot of support. There is going to be a lot of support for policies of mitigation and adaptation, which is going to be very important for many countries. So I see climate change as being out there, ready for attention.

Fragile states is another big policy issue where there's an awful lot of stirring. I talk about it a little bit in the book. I won't talk about it here. And what that leaves me asking is, where's the room for development and poverty reduction? These overlap. Most of these global issues overlap with that, but they're not focused specifically on it. And so, my question is, is this the beginning of a major reorientation of the way we do business with foreign aid? So that, it seems to me,

is a big policy question for the next Administration. What purposes and what priorities?

The second major issue is the organizational one that Nancy mentioned, both a challenge and opportunity. I think a lot of us realize how fragmented our aid system is. I think we compete with the French and the Japanese for maximum fragmentation and both of them are actually trying to reorient their aid programs to be a little more focused and unified. We're going in the other direction.

The problem, of course, is not just overlap and duplication and lost synergies, but the voice for development; however you want to define it, is divided in administrations and so weakened. I think there is a very strong case for organizational reform. Let me just tell you, I think there are plans A, B, C, D, and E and I thought I might just mention them quickly.

Plan A – this is option A, if you like – is something that everybody in the development community has been talking about. Create a cabinet level development agency which would combine all the aid programs in 26 different federal agencies. Great idea. In my view, not a chance. The political lift is really going to be big because you would have to have major legislative changes and that would take a lot of attention from the next President. And whoever he or she is, there are going to be a whole lot of other priority issues on the desk in the Oval Office.

So keep that in mind. Keep that out there. I write that I like it. I do like the idea, but I think, politically, it's a hard sell.

Plan B is to combine some of these major programs into the same agency, not necessarily having the programs lose their integrity, but under a common roof and that would be a refurbished USAID, the Millennium Challenge Corporation, PEPFAR. You can take on the Treasury Department if you want to, but nobody has succeeded yet in wresting out the International Financial Institution's responsibilities from there. I think there is a political element to these decisions as well. That's going to require legislation as well. I don't know how big a lift that would be. Jim would probably know that much better than I.

Plan C is to take – to pull AID out of the State Department. I have this vision of a large fish having partially swallowed a small fish and the small fish's tail is still flapping. We want to pull that fish out of the State Department, reconstitute it as an agency – a semi-independent agency because what is really important, it seems to me, yes; you want to have joint planning and all that. But if you – if AID has no channel of appeal outside of the State Department for decisions that it feels undercut its mission, then it's gone and it doesn't have that right now.

We always sent our budgets to the White House and, you know, I've seen this in successive Administrations. People in AID would look for champions in the

White House and that would be the person or persons who would balance off against the State Department if the pressures got too heavy. Of course, you then go to the State Department if the White House pressures got too heavy. But it was a way of retaining a little bit of space in which you could operate and retain your degree of autonomy. If you don't have that outside channel, you really don't have much space. So I think that would be important. It would not take legislation.

The plan D is to do nothing. Now, if we do nothing, I think what will happen is that the next Secretary of State will not agree to let USAID go. It will, eventually, be absorbed, I think, in the State Department. I just think that is the nature of the way bureaucracies operate and nobody should be surprised and maybe that's the way – maybe that makes sense. But I think we are in danger of losing the development mission of AID if that happens.

Plan E is a merger and I've always been intrigued by the idea of the HELP Commission to apply Goldwater-Nickels, which is the way the Defense Department was reorganized, I believe, in the late 70s to the foreign affairs area. I'm not supporting it, but it's an interesting concept. It's not been very well elaborated. And since it produces so many groans from my friends in the development community, I love to bring it up and just provoke a little bit. But I think a full merger is another option. I'm not going to tell you the costs and benefits. I think I've already given my opinion.

Finally, the last point. I think we need, in the future, to have whatever shape our aid agency or agencies are, we need to have, in the future, the flexibility and agility to adapt to a rapidly changing world. One of the things, it seems to me, that marks the 21st century is rapidly developing new technologies, some of which are going to be very exciting or have already become very exciting for development work. The appearance of new potential partners, the increasing engagement of the private sector in some of these issues, venture philanthropists, social entrepreneurs, China, India; they're all there.

Some of this has been done already by AID with its Global Development Alliance and I see Dan back there with the International Finance Corporation, where partnerships are being formed with the private sector. And it seems to me, some of those activities are very exciting, but you have to have the flexibility to do that. And that, Jim, means fewer earmarks. So – I'm not blaming you for the earmarks, but I hope you'll comment on them. That means something has to be set aside to do this if our aid programs are going to be adequate to the 21st century, both the opportunities and the challenges.

So just let me conclude with one observation. Seems to me, there's never been a time of greater challenge or opportunities in the foreign aid and the development business. I hope the next Administration grasps them and does something with them within the constraints of what that Administration will be facing. It's

essential to our interests as a country, to our leadership, and to making the world a better place. Thank you.

Steve Radelet: Thank you very much, Carol. There is much there to talk about and to discuss and read and I would urge you to read the book. I read it in a couple of different versions and its well worth every minute of it.

Let me turn now to our commenter, Congressman Jim Kolbe. During his 22 years in Congress, Jim Kolbe distinguished himself in many, many ways. But he distinguished himself, especially, I think, as one of the most thoughtful and dedicated and committed members of Congress on issues of US engagement with the rest of the world.

He's truly been one of the great American leaders of the past quarter century in fighting poverty around the world and in showing the way for the United States to engage most effectively with the poorest countries around the world. As a member of the Appropriation's Committee, he played a key role in all of the debates and decisions on allocations and funding of how the US spends its development assistance dollars. He was deeply engaged in debates and discussions on all of the issues that Carol has raised in her book.

His retirement from Congress created a huge hole and a big leadership vacuum for those of us that are concerned with issues of US engagement and development. But we're pleased that he's continuing his leadership in new ways, at the German Marshall Fund and in commenting on Carol's book and in other ways, continuing to engage in these debates. I can think of no one who's better qualified or more knowledgeable to discuss Carol's books and the issues that are raised in that book.

So please, join me in a warm welcome for Congressman Jim Kolbe.

Jim Kolbe: Well, Steve, thank you. Thank you very much. A couple of years ago when – I think the step was here for Carol. It's all right. It's okay. No, it's fine.

I remember a couple of years ago when I was here in this room, I think I remember commenting, saying that my colleagues should try this retirement thing more often. It's like going to your funeral without having to die, getting all these nice things said. And here I am a year and a half out of Congress and I'm still getting all these nice things said. It's getting old hat, but anyhow, it's still nice. Thank you very much for the nice comments. It really is great – that's right. You can't get any money from me these days. It really is good to be here with you and with Carol and to have a chance to comment on her book.

I've gotten to know Carol well during this past year as she has helped to guide our own task force that we're working on, on development assistance and looking at the effectiveness of it at the German Marshall Fund and also, speaking to her class at Georgetown. So it's been really, kind of fun to do that.

Just a few thoughts about the book and then we're going to get into a larger discussion here. I think it is, really, a pretty balanced review and I know that may sound, kind of, old hat or boring or dull, but really, it's not. You have to remember, Carol is a big D, democrat. I mean, she comes from the democratic side of the political spectrum. And yet, what you see here is, I think, a very balanced view about foreign assistance. And I think in the age of the kind of political bickering that we see here today, to be able to look at the Bush Administration, see the pluses as well as the minuses, the warts as well as the beauty spots, I think, is something that's really worthwhile.

She does give credit to the Administration for the large increase in the expenditures that have been given to the 150 account. I was in the Congress. I was there as the person ministering or administering these huge increases for most of that time. And so, there has been a very substantial increase. I know that that is true and she does, certainly, acknowledge that. And also, acknowledging the creation of at least two very major innovative ideas in aid that I think are very important, not just for the United States, but for the world.

She talks about both – she has talked about both of those; the Millennium Challenge Corporation and the PEPFAR, the AIDS presence – emergency AIDS program, as well as the effort to try to transform the bureaucracy through a rather unwieldy process called the F Process. But it's a valiant try and nonetheless, a lot of Administrations in the past have broken their pick over in trying to make those kinds of changes.

I think it's fair that she does make those comments in support of the President because it is true that if there is going to be any legacy, I think this Administration will have, it is what they have done in the area of aid and development. So it's important to acknowledge that. Not because I'm on the Republican side, but I think that Administrations need to get credit for when they do this kind of thing. This is not, politically, terribly popular. And so, if they don't get the credit for this, it makes it less likely that the next Administration is going to want to undertake any further kinds of changes or improvements in the area of foreign assistance.

Now, at the same time, on the other side of the ledger there, she does take a hard look – a jaundice look at the F Process for the style in which it was carried out, as well as the lack of consultation that got a lot people's backs up and generated a lot of resistance. I think there's a few people in this room here that would probably know something about that or probably, were a part of that. And I think she has pointed out some of the weaknesses of the MCC and PEPFAR.

Though, I have always taken the position from the very beginning and maybe this is the bias of somebody who was one responsible for writing and putting the legislation – creating the MCC in our Appropriation Bill. But I have always felt

that the MCC's gotten a bit of a bum rap for the fact that they haven't gone fast enough because it was designed not to be done quickly. It was designed to be a country process where the country designed the program. And in many cases, the countries don't have the skill and you have to develop that skill. So it's taking a long time, but I'd rather we go about it the way that we have then to try to rush the things through.

But nonetheless, she has pointed out some of the problems and certainly, with PEPFAR, the huge increase – Congress is involved with this as well. The huge increase in funding there has created a – I wouldn't say a monster, but it's created a problem that we're going to look at down the road because you simply can't stop treatment once you start. And so, you've created a huge block of funding that is going to have to continue as far as the eye can see in development programs.

So I think it's a very interesting, it's a fair analysis of the historical context around which – around reform. And, in fact, she talks a little bit about Nixon and the aborted attempt in the 1970s to divide USAID into three agencies according to their functions. And the unwieldy attempt to rewrite the basic legislative basis for US foreign aid in the 1980s, which, by the way, the year I came to Congress, in 1985, was the last time the Foreign Assistance Act was passed the reauthorization before it was passed. So to give you some idea of how difficult a process this is to go through it from a legislative standpoint of really looking – to get a comprehensive look at foreign assistance and really managing it.

She, I think, rightly emphasizes and explains both the management challenges that are inherent in delivering a change and the political costs that are involved. You, on the one hand, can get great benefits out of it, but there are tremendous political costs that are involved in that.

She also suggested that I should talk about earmarks a bit and maybe, when we get up here, we can talk a little bit more about. But, now again, pointing my bias as an appropriator, those that provide the earmarks, first of all, I always thought that our subcommittee was one of the more – if not an angel, we were one of the better ones when it came to earmarks, that we didn't do a lot of hard earmarks. We did, mostly, soft earmarks. But if you're going to look at the hard earmarks, do you really think that Congress is going to give up its ability to say that we should give money to Israel and to Egypt as part of the Camp David Accords? No.

So an earmark is in the eye of the beholder. I always say, what's an earmark to one person is a vital program to somebody else. And I always have said that if the administration had its way, they would get a \$3.1 trillion appropriation that would be one line appropriated to the President of the United States to spend as they see fit. I don't think that's what the Constitution calls for and I don't think that Congress is about to do that.

So somewhere in between the kinds of proliferation of earmarks that we have seen in Appropriation Bills and where we are today and doing absolutely none of them is striking the right balance. But it's always difficult as to how you're going to strike that balance.

I'm going to use this book, I'm sure, in my class. You'll be happy to know, my students are going to buy this book, so you'll get some of the royalties of – you don't get – they go here – good. Well, Steve gets the royalties then.

There is, I think – now, if I'm going to be a book critic here, I think there is – the way the book is structured into the landscape of aid policy issues, organization, and US going forward means that there's a little bit of redundancy and some overlap. Maybe that's intended, but there is just a little bit of that.

As far as the recommendations that are contained in this book, I think it's fairly clear in the book that Carol does support the idea of a Department of Development. In fact, she said so herself, that she thinks there's strong arguments to be made for that. I'm more neutral on that. I am not quite so sure. I'm not opposed of the idea of a Department of Development Assistance, but I guess, in a sense, I'm neutral because I think the reality is so unlikely that there's not – we shouldn't waste a lot of time worrying about and thinking about that because it just, simply, isn't going to happen.

If we can't even pass a Reauthorization Act for the Foreign Assistance Act, it's not likely we're going to create a Department of Development and we're going to consolidate all this. So what can you do? And I think what Carol has suggested in the plan B might be an approach that we could take, but it's going to require a lot of heavy lifting. So the real question is going to be, how much heavy lifting is the next Administration going to want to do? How high up on their priority list is this going to be?

And it's a little hard given the war in Iraq, given the fumbling, stumbling economy that we have here. It's a little hard to see the next President trying to put this real high up on the priority list. But nonetheless, I think it's the job of all of us in this room to keep this issue up there and to make sure it is up there somewhere on the priority list.

Well, in general, I think that this book is an exceptional effort at trying to bring some sense out of the direction that foreign assistance has gone in the last eight years and I think, will stand for a long time as a very good primer. And I say primer because it's a – as Nancy Birdsall said at the beginning – it's an easy book to read. It's a good book to read in that sense. It makes it clearer. It's sensible and doesn't attempt to be the most intense, scholarly academic kind of approach to it.



But I think it does exactly what it needs to do for this audience – which, as I call, the Washington audience of development assistance and the political audience on Capitol Hill, and in the White House – in trying to outline these issues and, I hope, provide some coherence and some thoughtfulness that the next administration can use as it goes forward on these issues. So I look forward to our continued discussion on this. Thank you.

Steve Radelet: Thank you very much. I'm going to start with just a couple of questions, get a little discussion going here, and then we'll open it up to you folks for more questions.

My first question has to do with the changing opinions and support for foreign assistance or engaging in developing countries. You mentioned, Carol, the decline in support in the early 90s, things began to turn around in the late 90s. There was an increase in assistance after it's low point in 1997, mostly around debt relief and other things, and then, it really took off six or seven years ago. What changed?

And not just what changed in terms of September 11th and inside Washington. That's part of it, but was there a change – did you see a change – do you see a change more broadly outside of Washington in terms of how people are thinking of engaging with poor countries around the world that led to support for some of these programs?

Carol Lancaster: Well, yes.

Steve Radelet: Yeah, you wrote the book so, we'll start with you.

Carol Lancaster: Hoping the hard questions would go to Jim.

Steve Radelet: You've had plenty of time to think about it, so.

Carol Lancaster: Well, actually, I think that my answer is going to come from another book that I did. I think the history of US foreign aid, going all the way back to the beginning or almost to the beginning, is a history of a dual marriage, if you like, between, if you like, the left and the right in US politics. The left supporting aid for development and good works abroad. The right being skeptical of that, but supporting aid for National Security purposes.

I think, in a way, the National Security purpose weakened after the Cold War and I think it made it easy for the budget cutters in the Clinton Administration to cut the aid without much resistance. I think that left/right, if you like, coalition has resurfaced after 9/11 because we now have a new National Security concern. And indeed, the striking thing is the engagement, at least, of this Defense Department under Secretary Gates in this issue as well.

Something else has happened, I think. Two other things of importance have happened over the last, I'd say, couple of decades. One is, as I see it, the expansion and increasing sophistication of the nongovernmental organizations and others that are part of the development coalition. There is a norm, not just in this country, but in the world, that rich countries provide aid to better the human condition in poor countries. It's actually become a requirement for accession to the European Union. That's something that would be unthinkable 50 years ago. So something in the world has changed.

And, you know, we can go into more details about what that is. In many ways, we have been more recalcitrant in our views about aid because I think, we, as a people, carry in our heads, many of us, a sort of classical liberal view of the role of government in society should be limited. Even liberals in this country look like conservative abroad. So I think we have, gradually, been changing when it comes to this issue.

But I would add one more thing I think is important and that is, that a chunk of the traditional right has fallen off and moved into the center. That is a significant portion of the evangelical movement, which has become engaged in international social justice issues increasingly. One of which is HIV/AIDS and that, I think, has been the key constituency that has supported the expansion. Not the only one, but a key one that supported the expansion of monies for HIV/AIDS. That's my next book.

Steve Radelet: Good. That's the next one. Jim, what about – on that same issue, how did you see the perspectives and attitudes of your colleagues in Congress change over the last decade on these issues and why?

Jim Kolbe: Well, first of all, I've just got to comment on that last thing that Carol said. I don't think that that section of the evangelicals fell off in the center. I just think they're still over there on the right, but they just adopted this as a program and it's true for religious, moral reasons, whatever. They have really focused on this and that's to the good because it ends up becoming, as I think Carol says in her book, a coalition between the left and the right that ends up bringing this all together.

Everything that Carol said is true about what's happened in the world and yet, I don't think the kinds of things that we've seen in terms of transformation, either the increase – the large increase, leaving aside Pakistan, Iraq, Afghanistan, the large increase we've seen in aid or the creation of the MCC or the PEPFAR really came about because there was a human cry coming from Wichita, Kansas and Sandusky, Ohio. I certainly don't remember any one in Tucson saying, do we really need a Millennium Challenge Corporation?

It came about because this President, I think, had, for whatever reasons. Whether it's, again, his religious and moral reasons, had a vision that this is something that we needed to do, was a commitment that we needed to make and he really

believed in terms of like, the MCC, that we can do a lot better in terms of delivering the goods.

So in terms of how my colleagues say it, I think they were the ones that kind of went, for republicans, it was easy on MCC. It's performance-based. It's all the things that republicans would tend to believe. On PEPFAR, I mean, everybody's – that's the nice thing about that program. It's probably the most bipartisan foreign assistance program that I've ever seen in Congress because everybody's in favor of it. The only question is whether you double or triple the money every year.

So I think that there is a strong support for that and I think there was, certainly, strong support for the creation of an agency to deal with this.

Steve Radelet:           What about your constituents in the Arizona 8th? They weren't calling you to say, create the MCC –

Jim Kolbe:               No.

Steve Radelet: –       but what –

Jim Kolbe:               It was 9/11 there. After 9 – I've never had a Town Hall beforehand – I can't say even afterwards that I didn't – still didn't get the question. But beforehand, I always had – every Town Hall, I always got the question, why are we spending all that money on foreign assistance when we got all these problems here at home? After 9/11, there really was an awareness on people's part. When the issue would come up, they'd say, yeah, but you know, this is kind of important for what we're doing in the world. We've got to fight these terrorists. You've got to fight poverty. You've got to do these kinds of things around the world.

So there was a greater understanding, I think, between – of the link, between foreign assistance and our global security objectives.

Steve Radelet:           Good. Looking forward. Now, we've had the big change in the 90s where things were – where there was much less of a positive attitude, then a big change over the last few years. Where do we see this going? You listed a number of options. Your plan A through E on the organizational structure, you said a little bit about the legislation, but not quite as much. I want you to be a little more precise, Carol, on what you would like to see in terms of a blueprint for reform. If you were in charge and you could paint it over the next five years, within some political realism, where would you like to see it go in terms of organization, legislation, strategy?

Carol Lancaster:       Well, I have to include in my answer a degree of political realism, which is something, I think, Jim also talked about. I would like to – I like plan B as a

good possibility. Plan B being, let's take the big pieces of our bilateral program, put them under one roof, what would that roof look like or what would the governance be? It would be a sub-cabinet level agency. It would have to have some accountability to the State Department or the Foreign Affairs area. I think it probably would be implementing aid monies that are, basically, attached to US diplomatic goals. That will always be the case.

I think that is, probably, a little more doable than a cabinet level agency. What I don't know, quite frankly, is how much legislation would be required to get that done. I think –

Steve Radelet: But also, is legislation – even aside from the reorganization, are there other reasons to think about legislation? You framed the legislation in terms of what legislation would be needed to be done for the organizational side, but I think there's also an argument for legislative changes even in the absence, perhaps, of organizational change.

Carol Lancaster: Maybe you would make that argument, but I've been so intimidated by Jim and his colleagues on the Hill and I worked on the Hill at one point. With the history of changes in legislation that, I think, to get a good, clean – let's say, rewrite of the foreign assistance act, which I think that's where you're going, through the Congress would be a huge lift for any administration.

You know, members of Congress don't want to vote for foreign aid. They've shown that in terms of the Authorization Legislation, which hasn't come up. And when it's been tried, often, there are all kinds of amendments that are put on the legislation that'll make it more palatable to the folks back home. Which means the Administration has got to and try to get them off or has got to, sort of, do side deals or whatever. I mean, I think it's a – it seems to me to be a huge political lift and what one wants to do is something that isn't going to be a huge political lift, I think, because the next Administration has got other really high priority political lifts it's going to have to engage.

So I, personally, would love to stay away from legislation, with all due respect, and try to do as much as possible. It may not be possible, but I think that that's a big political lift.

There's a policy issue as well. A whole set of policy issues that I think I mentioned and I – we always talk about the aid program having 50 objectives or however you want to count them; 50 objectives, 25 objectives, 139 objectives. But what's happening now is we are seeing big issues impinging on the program. Global problems, as I said; fragile states, we don't know quite what to do about that, but it's there; the other series of things and I think that is going to be a real question for the next Administration.

Are we going to continue to do or be able to do very much in our traditional areas of development and poverty reduction and growth? Or are we going to find our monies drawn off toward some of these big issues, which, I think, I suspect, are much more popular among the American population, much more easily understood because they touch people. AIDS touches people or touches people you know. Climate change is with us all the time and so on.

So I think there's – the Administration's going to have to face that challenge and I think it's going to be a question of both policy and organization. How we organize ourselves is going to affect where this program goes in the future.

Steve Radelet: And I would just add on top of that, regardless of whether it's option A, B, C, D, or E, I think we've talked about this before. I think we'd all agree that there are steps necessary to strengthen the professional capacity of whatever the organization looks like, to strengthen monitoring and evaluation capacity, to fix procurement rules. That there's a whole range of things that regardless of what the boxes look like that would need to be done to increase the civilian capacity.

Jim Kolbe: Can I just comment on that?

Steve Radelet: Yes, please.

Jim Kolbe: I think you're absolutely right. USAID is going to be with us in one form or another and we should be very concerned about, for example, their personnel situation. It's a crisis that's growing here; the lack of and the retirement of the professionals and the inability to recruit those professionals. There isn't really the kind of career ladder in USAID that we need to have in order to bring those people in. We have to deal with that and figure that out.

Just a comment on the plan B that Carol was talking about, I think it's a good idea, but you know what? I'm not so concerned quite so much about the big pieces like MCC and PEPFAR, which, everybody's going to be able to see and focus on. I'm worried about these 20 plus other agencies – somebody says 49 agencies – that have some piece of foreign assistance out there and getting those – bringing those in. I'm especially concerned about the growing role of the Department of Defense and we really need – it's happening, but nobody's really thinking about it and it's happening without any kind of policy coherence. We need to be talking and thinking about that.

Steve Radelet: Why do you think that's been happening?

Jim Kolbe: Why? Because –

Steve Radelet: What did you see from the Hill in terms of why?

Jim Kolbe: Well, they're the ones on the ground in places like Afghanistan and Iraq; the only ones that can do – combine the security with the aid and actually deliver it. So I think that's why I think you're seeing this more and more. I mean, the Department of Defense is uniquely organized in a very disciplined way to get things, to get goods. We know that from seeing in the tsunami or other kinds of humanitarian crises. When you call on the Defense Department to deliver the goods, nobody else can do that kind of stuff. They can do it. I think that what we're seeing is they're able to do that.

Steve Radelet: Do you see that as a proactive action or more as a result of perceived weaknesses in our core development agencies?

Jim Kolbe: I think it's more of a perceived weakness rather than a core action on the other side – of the side of Department of Defense. I think most of the people in the Department of Defense don't think this is a core function of theirs and they don't really want it. It's, kind of, their financing's forced into it in a place like Iraq, where they have to be able, on the ground, to deliver something.

Steve Radelet: Because in some ways, it's part of the same phenomena of perceived weaknesses within the core agencies that led to the MCC being created as a separate agency, PEPFAR as not an agency, but an umbrella organization and Department of Defense, all part of that same phenomena of the weakening core of our development agencies.

Carol Lancaster: I actually wanted to talk about the periphery rather than the core. The small programs in the 24, 26 agencies, putting aside the big ones like State and Defense and so on, you know, my feeling is, that cat's out of the bag. Is that the right one or is the horse out of the barn? Well, anyway –

Steve Radelet: It's all the same.

Jim Kolbe: Either one.

Carol Lancaster: – I think it's going to bring the – take those out of the agencies where there's a, sort of, bureaus and interest and so on, and it fits agency missions as well. The Labor Department has a sort of Child Labor Program abroad, for example. The Treasury Department gives advice on tax policy. I don't see that that's wrong. What we need is some kind of a coordinating mechanism that makes sure we're not stumbling all over everybody and we all at least know what's going on.

Jim Kolbe: Well, I think we're saying the same thing.

Carol Lancaster: Yeah. But I think, though, there is an issue here. It's control versus coordination. Every one of these issues is a control versus coordination. If you put it all in the State Department, you've got the control. That's control. But then

you may lose some of the value of these separate programs or their missions. If you take them out or leave them separately, then you have the challenge of coordination and every government has that challenge all the time.

It's finding the right balance, but I mean, I don't want to tilt at windmills and think the Treasury's going to remain responsible for the – probably, for the IFIs. It may not be a bad thing. The Labor Department's going to do its thing. I just think, you have to find a way to bring these together in one place so that we know what's going on and there is a measure of coordination. I don't mean sitting in interagency meetings defending your turf. I've done enough of that. It's got to be – something's got to be set up that has some real incentives for people to collaborate, otherwise, I'm afraid.

I would just like to say, in reference to the MCC, my favorite governance arrangement is that, let's stick all of these other agencies – PEPFAR and USAID – into the MCC legislation. Not that the MCC would – one would control the other, but I like the governance arrangement, which is a corporate one with a board and so on. It is accountable, but you have a variety of voices on the board and that makes the voices heard, but no one single one driving it.

Jim Kolbe: Well, just one final comment. I know we want to go to questions. If you want to think about the difficulties of doing all this, this kind of reorganization, imagine for a moment, the difficulty of trying to pry away from Treasury, their control over the multilateral financial institutions. You think they would willingly give that up? Oh my God, what a fight that would be. I don't think any Administration would take that one on. So, I mean, that's just one example of the kind of difficulties I think we'd have.

Steve Radelet: Well, that's just because Treasury does everything really well.

Jim Kolbe: They do everything perfectly, of course. That's right.

Carol Lancaster: This is Fred Bergsten's building. Be careful what you say.

Steve Radelet: Great. I really like the governance structure of the MCC too and it's – the MCC, it's similar to EXIM and OPIC in a sense of the board structure with both government and non-government members. The idea of the Secretary of State as Chair of a board of an entity, I think there's a lot of appeal to something along those lines.

Let me ask one more question to Congressman Kolbe and then we're going to go to the audience. If you were in charge and you could decide in five years from now, 10 years from now, what would it look like? How would the foreign assistance mechanism evolve? In terms of structure, legislation, what are the key things that you would like to see?

Jim Kolbe: I knew you were going to ask that question. You asked it of her and I was thinking maybe I was going to get away with that.

Steve Radelet: No, I'm not going to let you –

Jim Kolbe: I just don't know exactly what it would look like. I think it would – what I would – again, it's the question of, what would I like if I were king for a day –

Steve Radelet: That's the question.

Jim Kolbe: – and could design this from the ground up or what it'll – but you can't really separate it from what's the political reality and what you're going to be able to do. So I think the kind of thing that Carol's talking about, the kind of thing of a plan B where we bring some of these from a policy coordination and coherence standpoint under one wing is, probably, the best that we're going to get. I think that policy coordination is absolutely essential. It isn't – as she says, isn't control that we're looking for. It's getting some coordination.

There is some argument to be made about some of these agencies doing programs separately, but there certainly needs to be coordination when we go to the Hill for funding and that you end up with one Appropriation Bill over here that's totally divorced from an Appropriation Bill over here. We really need to have better coordination on the funding of these things and we need to have better coordination on the policy behind these. So these would be just some of the things that I would think of.

Steve Radelet: And legislation?

Jim Kolbe: Well, legislation – we'd require legislation to do some of that. As far as a Reauthorization Act, you know, what I would go back to what I've said before, I think we really have to do something with USAID. If it's going to continue as I think it is, as our main agency for delivering assistance outside the big pockets of PEPFAR and MCC, we have to fix that. We really have to fix it. And it's – I mentioned the personnel, but the procurement processes and a number of other things really need to be fixed. It is – I think it's a crisis.

Steve Radelet: Great. Let's turn it over to you folks. Please raise your hand. Heather will come by with the microphone. Please state your name and your affiliation. Please, no speeches, nice sharp questions. You can address it to either one of them or to both. Go ahead Heather.

Peter Morgan: Thank you. I enjoyed this book, but there's part of it I find –

Steve Radelet: Can you state your name and –



Peter Morgan: Peter Morgan. I live here. I'm a Consultant working here in Washington DC. Part of your book emphasized interdependence of the kind of world we live in and yet, the book itself is exclusively US centric. I think it pays no attention at all to aid trends in the rest of the world – aid trends, I think, that are preoccupying other aid agencies; the Paris Declaration, budget support, aid coordination, all of those things.

And hence, if you can read this as being a continuation of a, kind of, outlier strategy, is that unfair? Did you just think that that was not important or you needed to keep the book to 100 pages? Why is there no mention of that aspect at all in the book?

Steve Radelet: Have to read the previous book.

Carol Lancaster: Yeah, actually, I've done that already in another book. I wanted to – you can broaden or narrow these books in a number of ways –

Steve Radelet: Say a word about the other book.

Carol Lancaster: The previous book – the last book I did is called *Foreign Aid Diplomacy* – what is it called? *Diplomacy, Development, Domestic Politics* and that does look at – it's a comparative analysis of five major aid donors and how the – what they've done and how they've done it, why they've done it, domestic politics and so on. What I wanted to do is to capture a single thing and that was, what has happened in the last seven years, because it seems to me, very important. There's a lot that's happened in the last seven years and that's – I wanted to put in book form the first crack at the historical record and to analyze it.

I have some mention of other aid agencies and what their doing in there. I don't talk about the Paris Declaration. You know, people don't talk about the Paris Declaration in the policy environment in Washington. I mean, we are an outlier and the MCC was created with very little consultation of their European or \*\*\*\* colleagues and so on.

I'm not trying to take that issue on in this book. All I wanted to do was to lay out what I think happened and what the implications are. So I just had a narrower objective.

Larry Bridwell: My name is Larry Bridwell and I teach MBA students at Pace University in New York and I have a question for Congressman Kolbe. What do you think your Senator from Arizona – Senator McCain would do if he became President, in terms of foreign aid in a McCain Administration?

Jim Kolbe: Well, I –

Steve Radelet: I'm sure this is all off the record –

Jim Kolbe: Yeah, right.

Carol Lancaster: What have you been telling him, Jim?

Jim Kolbe: It may say something about where this is in all of the campaigns, but I've been doing some – giving some help to the campaign on trade, in terms of writing some stuff about trade and I keep telling them, I'm available on foreign assistance, if you want. I haven't been asked yet, to talk too much to them about foreign assistance and I think that's an indication of where this is.

However, having said that, he is really committed to a multilateral approach. He's said that over and over again. He said he wants to go on a multilateral approach, so I think you're going to see a lot more reliance on multilateral approaches to foreign assistance.

This is a guy who has a great kind of international outlook on things and I think he would be looking for ways to strengthen. Exactly how he would do it, whether he'd take the organizational stuff we've been talking about here today, I don't know. But I think he's going to be a strong supporter. He'd be a strong supporter, for example, I would think, of the performance-based approach to aid that is represented by the Millennium Challenge Corporation and using that same approach in some other ways.

Measurements and performance, I think, is the kinds of things that he would want to look for. But I think he's going to be – he'll be a strong supporter of aid programs.

Aiichiro Yamamoto: My Name is Aiichiro Yamamoto I am Representative of JICA, which is a Japanese foreign aid agency based in Washington DC. Carol just mentioned that there has been a dramatic increase in the US aid volume in the past seven years. Do you think it will continue to grow in the next Administration, whether it is republican or democrat, in spite of the rising domestic – US domestic issues such as healthcare, education, and unemployment?

Jim Kolbe: Who was that? To both, any?

Carol Lancaster: Yeah, I think we both should take that.

Jim Kolbe: Yeah, and we may have a difference here.

Carol Lancaster: Well, I'm not sure we do, Jim. Foreign aid is a discretionary – it's discretionary spending. Obviously, it is not required by law like the Farm Bill. I may be becoming a republican with the Farm Bill issue. But my suspicion is that if there isn't an effort by the next President to seriously reduce the budget deficit, then it's going to fall on foreign aid. I would see – I do not see how the increase

that we've seen over the last several years would continue, but I'm constantly surprised by this administration's lack of concern about the budget deficit. Of course, you probably don't to cut the government budget at a time when you're having recession.

So I don't think – I mean, I think that decision's going to ride on other issues in domestic politics, if possible, I think. Maybe the next President – that both of the democratic candidates have committed to increase aid significantly. I just read Senator McCain's speech that I think he gave about two or three days ago. He gave a speech quite recently. I think, maybe, it was in March. That seems recently somehow.

Jim Kolbe:               It was about six weeks ago.

Carol Lancaster:       Which, I didn't see any numbers or any indication in there and his interests tend to be, mainly, in democracy promotion as far as I could tell. So I really – I can't speak to that, but.

Jim Kolbe:               My answer to that – we don't really disagree. My answer is that, no. I think that in the next Administration, I don't care who it is, there's not going to be a large increase. I think this kind of increase can't be sustained given the other kinds of problems that we face.

A year or so ago, I gave a talk here, to the Society for International Development, SID, here in Washington. I said, I'm going to talk to you about something you probably haven't thought much about and that's entitlement programs. What does that have to do with foreign aid? If we don't fix – we don't figure out a way to fix the entitlement programs in this country, everything that's discretionary is going to get chopped and the first thing will be foreign assistance. So you better get involved in that struggle and in this fight.

But I think the next President – I guess, maybe I'm thinking this because I spent the morning with another group, the Committee for Responsible Federal Budget, where we're talking about our 12 principles that we want candidates to talk about. I think that the next President is going to have to address the issue of entitlements and the crisis that we're facing in the budget.

It is really – we talk about it all the time, but it really is getting to the tipping point, where we're not going to be – it's a point of no return and it's going to have to be dealt with. The flexibility that the next President is going to have is going to be so limited because the entitlement programs give no flexibility for them to do anything in the discretionary area, whether we're talking about modernizing the military or we're talking about foreign assistance. Not going to be able – there's going to be no flexibility to do it.

Woman: So \*\*\*\* from Manchester Trade. I have two questions. One is a general one, and one is a specific one. Generally talking about aid. Especially development aid. How effective do you think development aid is in reducing poverty?

Well, when you say like aid for education or for health. When they focus on a specific project it has a good outcome you could measure. But for a country, when you give a development aid, when there is so much problem in coordinating between the agencies here. How do you think it has an impact in a larger framework of donor coordination of all the countries that is happening.

And also, if you are talking about aid as a foreign policy leverage, how do you look at it from the point of view of emerging markets investing now? Like China and India. Compared to that, how do you think U.S. aid has a foreign policy leverage? And my specific question is, considering giving credit that giving aid does an effect, do you think focusing from a regional point of view is more effective than just looking at national point of view? Thank you.

Jim Kolbe: I'm sorry I didn't get that -- that second one.

Carol Lancaster: Is that a regional versus country focus you just asked? Yea.

Jim Kolbe: I really haven't thought too much about the regional versus. There does need to be more – one of the things we are looking at with the German Marshall fund with our task force is this policy donor coordination and coherence. Because you have multiple – the number of donors, the average number of donors at a country has risen from somewhere like 16, 25 years ago to over 30 in a country. Now, you have so many more players in the field. And not just countries that are in it. All these philanthropic groups, I mean Gates Foundation and others that are in it. So you've got everybody on the field out there playing and who's really. There's no real coordination.

I know I've heard a complaint from a minister from one country said "I have no time to deal with the healthcare in my country. Because all I'm doing is filling out forms for the different countries that are donors in my country. I'm trying to respond to their things there." And I think this is a reality so I think we need to do a lot better on that in terms of a general approach to the thing. We do need much better coherence. Donor coordination.

Steve Radelet: If I can just follow on that. There's no question that aid is not the most important element to poverty reduction and growth. I just don't think there is any question about that. There are much, many other issues that are much more important. Most importantly the policies and, and the, the countries themselves pursue. There's a temptation to kind of overstate what we can do whether it's with any of our instruments in terms of engaging with the rest of the world. Trade, investment, lots of other things are more important.

Having said that, some of the debate on this is just completely skewed by folks who want to take various positions on one end or the other. As that often happens in public policy debates the truth is in the messy middle. I think the best piece of work on this over the last few years is Paul Collier's book *The Bottom Billion*, which I think has it just about right. That the evidenced suggested aid does have a positive effect overall on growth and development. Some more in other areas than other – some more of an impact in some places than in other places. But it is not either the element of great success nor is it the complete failure that some on either side would have us believe.

And what that means is that, I think one of the implications of that is that we can do better. And since it is one of the principal instruments that the United States uses to engage with the world, even though it's not the most important thing in fighting poverty. It is an instrument that we have that we can engage and that we can provide some assistance and some help and I think behooves us to make it work better. Is where I would come from. And my guess is that my colleagues who would see it broadly similarly to that. We have question from others. Maybe this side we haven't - We have Joel over here.

Carol Lancaster: Joel is trouble.

Steve Radelet: Joel is good trouble though, it's good trouble.

Joel Barkan: Yea, I have reputations of a mischief maker. My question is actually addressed to –

Steve Radelet: You have to introduce yourself.

Joel Barkan: Sorry. Joel Barkin, CSIS. Yes. This –

Carol Lancaster: We changed partners already – excuse me.

Joel Barkan: Usually the instruction is to get to your question and make it short. I would like to do that.

My question is actually addressed to both of you. And it picks up on an important point that was made by Congressman Kolbe. And that is the hollowing out of aid, the human process, the outsourcing, the vested interest them come in here. So my question is the following.

What realistically is the chance of addressing this problem? How might it be – occur? And if it doesn't occur, what difference will plan B make, Carol? There won't be anything there except what you're bringing in and they will just function as independent entities under one roof.

Steve Radelet: That's a good question, Joel.

Carol Lancaster: You know, Joel, that's a good question, I agree. I think the hollowing out, or I would almost call it a death spiral. That one seemed to see in particularly –

Steve Radelet: One of us –

Jim Kolbe: I turned mine off, so

Carol Lancaster: In USA. Just died a loud death.

The problems of personnel in AID in particular the decrease in the number of people. The decrease in the technical expertise and so on. Which has been going on for a long time. I mean this is not just a phenomenon of this administration. And it is also a broader phenomenon throughout the government I think. The generation of officials are at or about to retire. As well, and I think a lot of agencies are looking at that problem. But I think AID probably suffers more than most.

Now there are people in this audience that can say more than I can about it. But I have the impression that Henrietta Fore is actually working pretty hard on this issue. And that I think is exactly the right thing to do at this moment in time. Because at the end of an administration it's really hard to sort of grapple with these big policy issues. But you can – you can work on some of these important but less, if you like less prominent challenges of staffing up and, and so on.

On the procurement, which Jim has mentioned, that yea, I don't know. That's not so much I think a availability of people issue than perhaps if it's possible to streamline. We certainly found it very challenging when we were there. And of course everything got done in the last three weeks of the fiscal year. So, that was also a problem. I think there are people here who can speak better to that question than I can. But, I think my sense is that at least it's on the radar screen and being worked on by the administrator today.

Jim Kolbe: I do think this is something that's probably can be dealt with. I mean they're not really sexy issues but they're certainly the kind of things that I think people in Congress will, or some people in committee and staff are willing to grapple with these kinds of issues. And some people in the administration. Whichever the follow on administration would be that it would be willing to deal with these and tackle these problems. It certainly did not, as Carol said, start in just this administration. You can go back to the mid 90's to see the beginning of this process. But it really is something that has become critical and needs to be addressed.

How many for example, how many engineers are there now in USAID that when you come to the contracting process can even look at these contracts on these things. There's hardly any, just two or three that are left in the entire agency or something like that. It is ridiculous, the number. You just don't have the kinds of expertise you have.

And one of the problems is clearly that USAID lacks the kind of career ladder, I think, that you can really see a progression. I mean people come to work there and they either come from other agencies, come in and then go back out. Or they come in, they start and they go out of the agency. It's just not a kind of thing that is really tempting to stay there because there just isn't the kind of progression in careers you have in other agencies.

Carol Lancaster: Now, just let me just add something too. You were talking and it occurred to me. There are other things in this mix of difficult and very important questions involving personnel and procedures. The, I think one of the things that AID lost and it lost it again during the Clinton administration because of budget problems, was training. You know you need, it seems to me any good organization is going to have to have a series of training programs. For its, first of all its incoming people and its professional staff as they move up the line. And budget stringencies led us to cut those out. And you also need a floater population. I mean you can go into all kinds of details for this. They're very much down in the weeds, but very important.

I would say that, I don't know if behind your question is the assumption that in the future an USAID agency will actually no longer be a wholesaler but will go back to being a retailer. That's not going to happen. It's you know, the implementation, actually the design and implementation I think of a lot of what we do abroad, at least in AID is going to continue to be outsourced. And others do this as well. But, but we need to have the judgment, enough judgment to have the sense to follow it up. So your point is right.

Steve Radelet: Nancy mentioned that I, that I chair a group of people that are wrestling with some of these issues. And I think one of the things that those of us involved in this would agree on. Is that, if this, if any attempt to modernize or reform foreign assistance is seen as simply a reorganization, of moving boxes, of moving things together, it will fail. It's much deeper than that. And there is a series of things of which organizational structure is one. But there's a legislative piece, there's a strategic piece in terms of thinking how this fits with our other elements. There's policy issues.

And regardless of the organizational structure there are these nuts and bolts issues. Of strengthening the professional capacity of AID and improving the monitoring and evaluations, of fixing the procurement procedures that will need to be done. And if those are not addressed and we just reorganize the boxes, we're not going to get anywhere. So it's got to be much deeper than that. And I

think there is a danger that this is being seen as simply oh, it's all about a new cabinet department. And that's not what it's all about. It's about a much deeper and broader set of changes that together have to, I think, come together to really modernize foreign assistance for the 21<sup>st</sup> century.

Our time has come. It's been a great discussion. It's a terrific book. I want you to encourage to grab a copy on the way out. I hope they're still there. And thank you very much for your participation. Please join me in thanking Carol and Jim Kolbe as well.

Carol Lancaster:        Thanks so much.