USAID Firms Project's Agriculture Marketing Reforms

From Multilateral Champion to Handicapped Donor–And Back Again?

By Nancy Birdsall and Alexis Sowa[1]

The global financial crisis triggered by the fall of Lehman Brothers in 2008 and its aftermath in the subsequent five years has made visible and telling two new realities of the 21st century. First, the United States and its western allies no longer represent the single canonical example of the economic and political model of a free market democracy that other countries ought to strive to imitate. The crisis was triggered in the United States in part by a failure of monetary and financial regulatory policy; many emerging market economies, including China, India and Brazil, recovered relatively quickly from the global crisis in part due to so-called heterodox policies inconsistent with the U.S. model. Second, the global economy is no longer dependent on growth in the traditional western democracies; it is growth in China and other emerging market economies that has fueled the global recovery. For the first time in over 100 years, there is convergence between the per capita incomes of the richest and at least some large developing countries.

One key outcome of these new 21st century realities is that global development can no longer be thought of solely as a matter of financial transfers from rich to poor countries to reduce poverty. The world's poor are no longer concentrated in "poor" countries, nor are the world's rich solely in rich countries. For many countries, rich and poor, reducing poverty is a matter of reducing the concentration of wealth and income at home.[2] For most of the last century, credit and capital flowed

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from the transatlantic powers to poorer countries; today capital flows "uphill" from developing to advanced economies. That it is the rich and not the developing world that is struggling with looming public debt and the burdens of aging populations only drives home further the shared nature of the challenge. Rather than a matter of transfers from rich to poor countries, global development is now as much a matter of meeting a set of challenges shared by all countries, both at home and through cooperation in managing a globally integrated and interdependent global market.

The cross-border challenges range widely – from financial crises, volatile food prices, disease pandemics, policing of drug and sex trafficking, microbial resistance to drugs, to climate change. All of these in one way or another constitute challenges to progress against poverty and inequality in the developing world. At the same time, without development in the form of state building in low-income and front-line states, they constitute challenges to global stability and the long-term security of Americans. Put simply, economic globalization has created dependence of citizens everywhere on decisions elsewhere, and individual well being, material prosperity and security itself, depend increasingly on successful international cooperation.

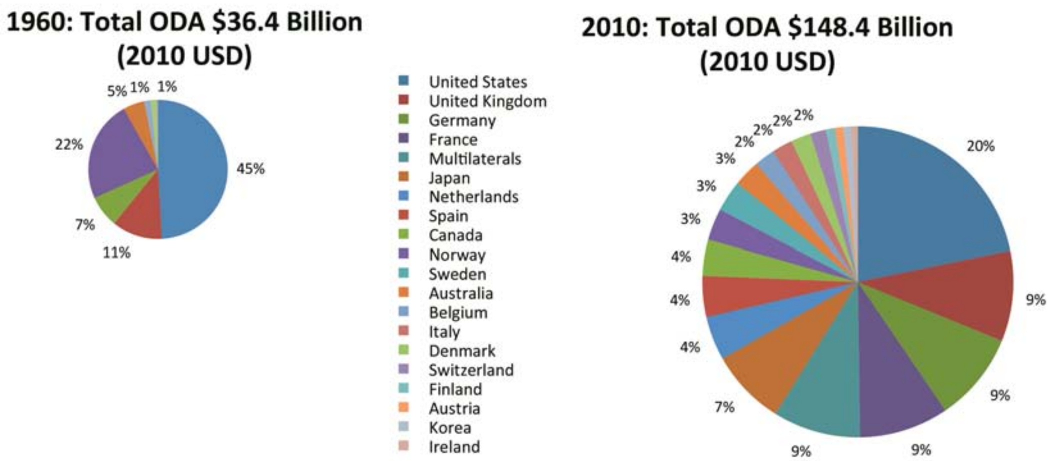
In this paper we argue that the United States cannot afford *not* to revisit and re-emphasize cooperation with other countries, or multilateralism, in its development programs and policies. The approach the United States takes to development needs to adjust more quickly to its diminished comparative advantage as a provider of foreign assistance, and the growing premium on cooperation with other countries, including China, India, Brazil and other large and rapidly growing emerging markets, in shaping climate, immigration, financial and trade policies at the global level that are more development-friendly than current regimes.

We begin by describing briefly the history of U.S. leadership in multilateral cooperation for development, beginning with the founding of the Bretton Woods institutions and the creation in 1960 of President John F. Kennedy's Alliance for Progress, and the more recent reluctant multilateralism, at least in the approach to foreign assistance. We then explain the structural difficulties the United States faces in providing effective aid to a major recipient of U.S. bilateral aid, Pakistan, and the constraints that one of the largest and most prominent U.S. agencies, the U.S. Agency for International Development (USAID), faces in exploiting new models for delivering aid effectively. Further, we summarize evidence using economic data that with the rise of China and other major emerging markets, the United States is less dominant than it has been for many decades, and refer to recent signs that the United States is shifting from energetic leader to reluctant follower in support of the International Monetary Fund (IMF) and the World Bank, and in its approach to international cooperation not only on aid, but on financial, climate and trade issues. Finally, we conclude that if the U.S. is to contribute to development at the level its place in the world and its interests and values as a nation suggest it should, it needs to become again a leader in multilateral cooperation, not a reluctant follower.

The United States' Role in Fostering Economic Cooperation in the Immediate Postwar Period

In the aftermath of World War II, the United States took a leading role in establishing a new open and liberal economic order. In his 1996 essay in Foreign Affairs, John Ikenberry identifies four principles underlying this post-war order. The first principle was economic openness, in the form of a system of nondiscriminatory trade and investment. Second was joint management of the Western political-economic order, reflecting the increasingly prevalent recognition (to quote President Franklin D. Roosevelt) that "the economic health of every country is a proper matter of concern to all its neighbors, near and far." A third principle

Figure 1: Share of Total Official Overseas Development Assistance (ODA) from Each Donor



Source: OECD Statistics Export. ODA Includes Aid of Types I.A (Bilateral Official Development Assistance) and I.B (Multilateral Official Development Assistance). Data in constant 2010 prices.

reflected the importance of domestic economic stability and social security, holding that the new rules and institutions of the Western world economy must support these domestic priorities (and, notably, creating new institutions to secure economic openness while providing safeguards for domestic stability). Ikenberry termed the final element "constitutionalism," referring to the need for Western nations to systematically anchor their commitments in long-term and binding mechanisms – in effect, tying their own hands to minimize obstruction from domestic constituents.

These principles were manifested and made more permanent through the creation of three major new global institutions: the General Agreement on Tariffs and Trade (GATT)–and its successor the World Trade Organization, or WTO–to shape and implement trade rules in support of increased growth and development; the IMF, to assist countries in adjusting to balance of payments difficulties imposed by the gold standard and to provide safeguards for domestic economic stability; and the World Bank, to provide low-cost loans to developing countries for productive, growth-enhancing investments. In helping to create these institutions, the U.S. ushered in a new era of coordinated action to broaden and sustain economic prosperity.

While this economic integration and joint management was motivated initially by the impulse to rebuild in a new way after World War II, and by the threat posed by the Soviets during the Cold War, the fight to end poverty also assumed an ethical character. As President Kennedy famously said in his 1961 inaugural address, "To those people in the huts and villages of half the globe struggling to break the bonds of mass misery, we pledge our best efforts to help them help themselves, for whatever period is required – not because the communists may be doing it, not because we seek their votes, but because it is right. If a free society cannot help the many who are poor, it cannot save the few who are rich." Later that year the U.S. Congress signed into law the Foreign Assistance Act, reorganizing the structure of US foreign assistance programs and creating USAID to administer non-military economic assistance programs. President Kennedy also launched the Alliance for Progress, a ten-year plan to stimulate growth and establish democratic institutions in Latin America.

Other advanced economies followed suit and increased their official development assistance, resulting in a more than quadrupling in official overseas development assistance (ODA) between 1960 and 2010. In 1960 the United States dominated as a funder, providing almost half of all development aid. But as other countries became donors and the size and influence of the World Bank and other multilateral development banks grew, the prominent role of the United States declined – in money terms and eventually in terms of thought leadership as well. By the 1990s, following the fall of the Berlin Wall and the end of the Cold War rivalry with the Soviet Union, U.S. aid had fallen to just 15 percent of total aid; it rose somewhat in the 2000s to 20 percent in large part due the Bush Administration's emergency program to combat the AIDS pandemic in Africa.

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In the last five to ten years, China and other emerging market economies have instituted aid and investment programs in Africa and the poorer countries of Asia and Latin America, particularly for infrastructure; the regional development banks founded in the late 1950s and 1960s have become larger and more influential; sub-regional banks like the Andean Development Corporation in Latin America have become major financiers in their borrowing member countries; and the *BRICS* countries[3] are proposing to capitalize their own development bank. While contributions from these new so-called *non-DAC* donors[4] are not included in official aid flow estimates they constitute an increasingly significant share of financial flows, with estimates ranging from 8 to 31 percent of global gross ODA.[5]

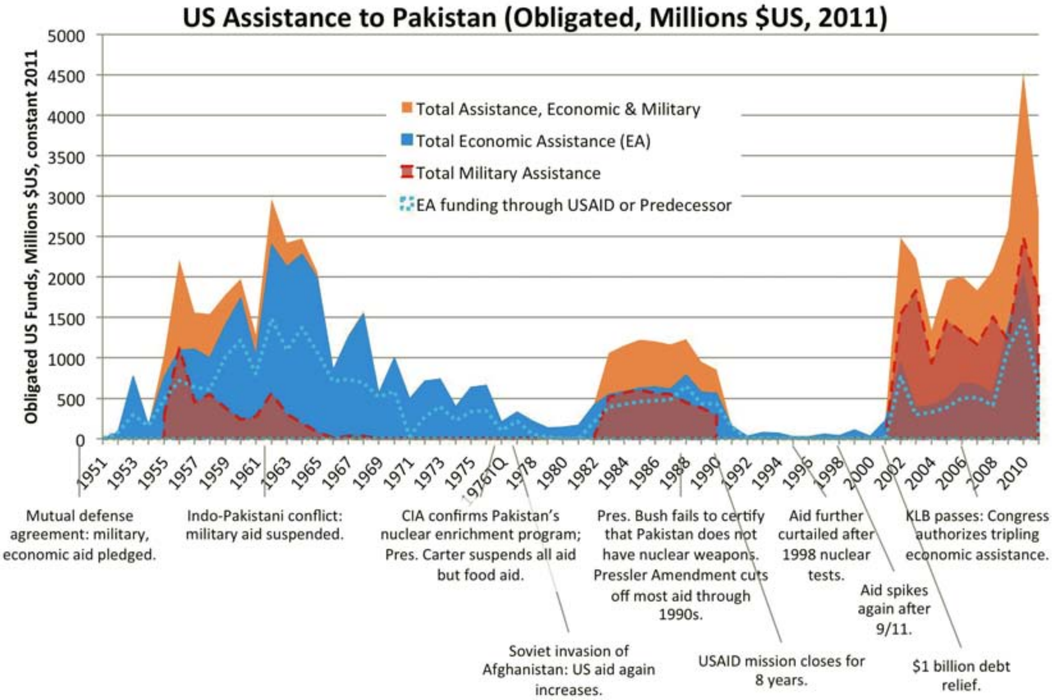
Thus while still a large donor in absolute terms, the U.S. is no longer as dominant in relative terms. Moreover USAID, its major aid agency, struggles with bureaucratic and political constraints that have accumulated over many decades. Some of these arise from the U.S.'s role in the world as a military and economic power, and some of which reflect the legislative scrutiny that foreign aid faces in all donor countries, but especially so in the U.S. system.[6]

Structural Difficulties in the United States' Ability to Provide Effective Aid

Of the total U.S. foreign operations budget of nearly $34 billion in FY 2012, more than 18 percent went to Afghanistan, Pakistan, and Iraq where U.S. aid programs were motivated in part by military and security interests, and another 13 percent to Egypt and Israel, motivated as much or more by diplomatic as development objectives.[7] In this section we describe the difficulty the U.S. has faced in providing effective assistance to Pakistan, as an example of the handicap the United States faces in countries where it has multiple objectives (no matter how reasonable). We then describe some of the bureaucratic and political constraints specific to the United States that circumscribe the ability of USAID and other U.S. aid agencies to shift to new ways of providing assistance to developing countries in general – adding to the sense that the United States is handicapped compared to other donors in its ability to "do aid well."[8]

The U.S. began providing economic assistance along with military aid to Pakistan shortly after the country's creation in 1947, and for more than three decades, was seen by Pakistanis as a steadfast partner in support of growth and development objectives. But in 1979 the CIA confirmed the existence of Pakistan's nuclear enrichment program; President Jimmy Carter responded by terminating all U.S. military and economic assistance. Less than a year later, when the Soviet Union invaded Afghanistan (a harsh reminder of Pakistan's geostrategic importance) the United States reinstated its development aid program, and at a higher level. Then in 1985, the U.S. Congress

Figure 2: History of US Assistance to Pakistan (Annual Obligations, Millions USD, constant 2011 $)



Data Source: U.S. Overseas Loans and Grants: Obligations and Loan Authorizations, July 1, 1945–September 30, 2011 (aka the Greenbook) and "Direct Overt U.S. Aid Appropriations and Military Reimbursements to Pakistan", prepared for the Congressional Research Service by K. Alan Kronstadt, Specialist in South Asian Affairs.

passed an amendment to the Foreign Assistance Act (the Pressler Amendment), which conditioned U.S. assistance on an annual presidential certification that Pakistan did not possess nuclear explosive devices. Pakistan's nuclear test in 1998 again brought U.S. assistance to a halt – until the September 11, 2001 attacks on U.S soil provided yet another reminder of Pakistan's importance to the interests of the United States.

In short, for the last 30 years, U.S. support has fluctuated massively, largely as a function of U.S. political, strategic, and diplomatic concerns. The United States is no longer seen or trusted, by the civilian government or a large majority of the people, as a development partner – and that was the case even before the fallout of the drones and Abbotabad.

However as a now nuclear-capable state with a population nearing 200 million people, almost half of whom are between the ages of 15-29 with few job prospects, Pakistan's development is clearly in the long-term interests of Americans. In 2009, in recognition of this fact (and no doubt because of the United States' military engagement in Afghanistan), the U.S. Congress passed a landmark piece of legislation seeking to insulate the U.S. development agenda in Pakistan from the unpredictable geopolitical and military events that had undermined the development (as well as diplomatic) benefits of past aid funding. In addition to providing political cover, the Enhanced Partnership with Pakistan Act (commonly referred to as the Kerry, Lugar, Berman or KLB legislation in recognition of the bill's sponsors) authorized $7.5 billion in funding over five years, with an emphasis on promoting "sustainable long-term development and infrastructure projects."[9]

But in Pakistan, as in other frontline states, it quickly became apparent that the management of the development program could not escape the multiple and sometimes shifting priorities for its use set by the State and Defense Departments, the White House and even the Congress, and by the office of the Special Representative for Afghanistan and Pakistan, led at the time by Ambassador Richard Holbrooke.[10] The least secure regions of Pakistan got priority to counteract the Taliban insurgency.[11] To maintain stability the U.S. focused on increasing short-term energy supply, a not unreasonable idea, but the program could not be sustained let alone deepened for lack of political capacity of a weak government to manage adequate price increases. An emphasis on schooling made sense but the USAID program was small and piecemeal compared to impressive sectorial reform programs of the World Bank and the UK, which required longer time horizons and were not compatible with USAID procurement and other standards. These are a few of many examples of the handicaps the U.S. government encountered in trying to administer an effective aid program in the difficult circumstances of Pakistan.

Independent of these obstacles, within two years other events had already undermined the commitment to a renewed partnership on long-term development objectives. There was the diplomatic deadlock arising from the case of Raymond Davis, reportedly a CIA contractor who shot and killed two Pakistanis and was arrested by Pakistani police forces, then subsequently released upon urging from President Obama and then Senate Foreign Relations Chairman John Kerry (D-MA). Then came the covert Navy SEAL raid on Abbottabad in May 2011 and the angry reaction of Pakistan, which viewed the raid as a violation of its sovereignty. These raised tensions in Pakistan and in the U.S Congress that naturally affected the assistance program (the state government of Lahore asked USAID to close its office there for example). Discussion in Congress of reducing or halting aid, or conditioning it on security and military decisions in Pakistan, added to tension – in an unfortunate echo 25 years later of the Pressler Amendment.

The U.S. development assistance program was in fact never suspended in the wake of these events, but annual disbursements have to date been lower than the KLB authorization of $1.5 billion per year for the period 2009-2014.[12] The low disbursements reflect a mixture of lower appropriations by the Congress and the attendant uncertainty in planning programs and projects, and the challenges of spending money effectively in priority areas like energy and other infrastructure in the absence of pricing and other reforms by the government.

Spending levels are in any event a poor measure of the success of an aid program. Still the reality is that the size and visibility of the original $7.5 billion authorization raised expectations in Pakistan and in Washington that in retrospect were unrealistic.[13] The tensions around the aid program, if anything, took political attention from other ways the United States could have supported the civilian government: special trade measures to increase access to the U.S. market for Pakistani exports; greater flexibility for the Overseas Private Investment Corporation (OPIC) in bringing foreign direct private investment to Pakistan and supporting small and medium enterprise development; and greater emphasis on strategic and technical dialogue on water, agriculture, energy and other critical long-term development issues.[14]

It is not only that Pakistan is and was a difficult setting for an effective aid program administered by the country embroiled in complicated military and security activities. U.S. aid programs are for many reasons less flexible and more costly to administer than is the case for most other donors. For example, in what was meant to be a "re-set" of its relations with the government of Pakistan, Ambassador Holbrooke proposed a major departure from what had become USAID practice in most aid-recipient countries, namely that in Pakistan at least 50 percent of U.S. development assistance funds should be spent through the civilian government and other Pakistani institutions rather than through American contractors. This was in part a response to the obvious interest of Pakistan's civilian government in deploying assistance through its own budget for its own priorities, and of the U.S. government in improving its relations with the government. It also reflected the experience of the larger donor community that aid programs are more effective and sustainable if instead of being administered in a parallel system, they are owned and managed by the recipient government and local institutions.

But the creaky U.S. aid system had difficulty in responding quickly. Other donors operating in Pakistan, including the UK aid agency, the World Bank and the Asian Development Bank, have been able to develop systems over the years that combine reasonable controls and auditing practices to allow funding governments and local institutions directly, while minimizing the risks of waste and corruption. In the United States, however, auditing and accounting demands for tracking assistance have mounted over the decades in response to Congressional and other pressures to ensure foreign aid is spent well, and it took several years for USAID to ensure local government agencies and civil society groups could comply with U.S. standards. The target was subsequently adjusted to 30 percent, but even that has not yet been attained.

Another example is the annual appropriations process itself, which limits U.S. aid agencies' ability to commit financial support and subsequent programming over the longer time horizons generally required for development impact. At best, U.S. development officials can pledge to ask Congress to approve additional funding each year – hardly a guarantee of financial commitment.

Furthermore, oversight from a relatively large and active counter-bureaucracy whose "principal mission is to monitor, criticize and improve the performance of other government agencies" has institutionalized a culture of risk aversion and allergy to any sign of waste within the U.S. aid system.[15] The offices of the Inspectors General (OIG), Management and Budget (OMG), US Government Accountability Office (GAO), and the special Inspector Generals for Iraq Reconstruction (SIGIR) and Afghanistan Reconstruction (SIGAR) are but a few examples of institutions that have been created to provide this oversight function. This proliferation of the counter-bureaucracy has occurred during a period when the private sector has embraced innovation and risk-seeking behavior, to much reward as evidenced by the success of the Silicon Valley tech giants. While USAID is demonstrating fledgling attempts to move in this direction, for example by creating new units like Development Innovation Ventures (DIV), and the White House has managed new initiatives like the Partnership for Growth, these are small pilot programs in a larger sea of traditional, risk-averse activity. It is difficult to undo the culture of risk-aversion that has built up in the bureaucracy over the past decades.[16]

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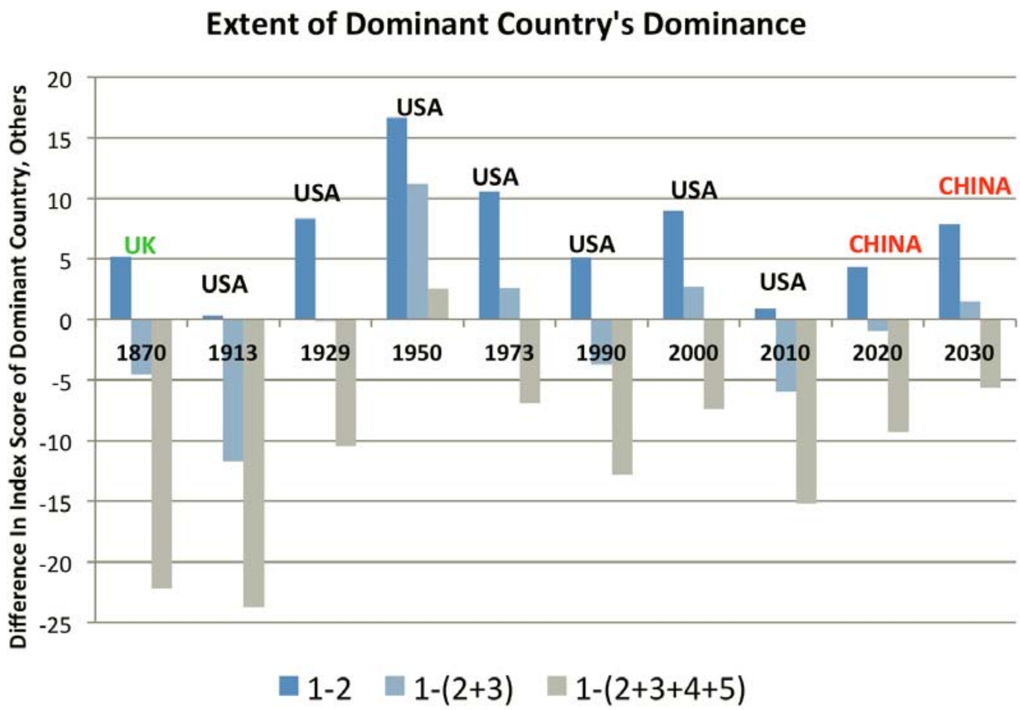
This is unfortunate, because much has been learned in recent years about the importance of experimentation, and the dramatic gains that can be achieved when programs are owned by recipient governments and developed and implemented locally. New approaches such as paying for performance after the fact are being tried by the United Kingdom (in Ethiopia for a schooling program) and Norway (in Brazil, Guyana and Indonesia for forest preservation); donors shift the responsibility for progress (and the risks of lack of progress) to the recipient governments, and pay out only once progress is independently verified.[17] Another aid delivery mechanism getting increased attention by other donors but limited uptake in the U.S. government is direct cash transfers. Rather than investing funds to deliver public services,

Figure 3: Extent of Dominant Country's Economic Dominance



Source: Authors' calculations using Subramanian's index values.

under a cash-transfer scheme those deemed 'in need' according to some measure are directly given cash (sometimes though not always with conditions imposed, such as requirements that children attend school or receive immunizations). Such schemes have proven extremely effective across countries and sectors, but have had limited uptake within the U.S. government. In Pakistan the United States cannot, for example, provide long-term support for the Benazir Income Support Program, a non-conditional cash transfer program that has proven effective at providing assistance to low-income families. While the United States did financially support the program in 2010, largely in response to the terrible floods that devastated many areas in Pakistan and rendered rapid disbursal of cash to the victims particularly important, that support was discontinued soon thereafter.

The United States' Decline in Relative Economic Dominance

For the latter half of the 20th century the United States provided the leadership, generally if not always benign, in managing the liberalization of international trade and finance – in its own interests as for decades the most competitive and dynamic economy, and in the interests of prosperity and growth among its allies as well. It also provided the canonical example of the economic and political direction all countries should take, that is in the direction of more open markets and deep democracies, in which individual freedoms and protection of minority rights in the political sphere, and property rights and contract enforcement in the economic sphere, buttress each other to minimize elite capture and guarantee sustained and widely shared prosperity. The United States used its dominance to manage the system almost

Marc Weinberg

China in Africa; Along the Benguela Railway, Angola

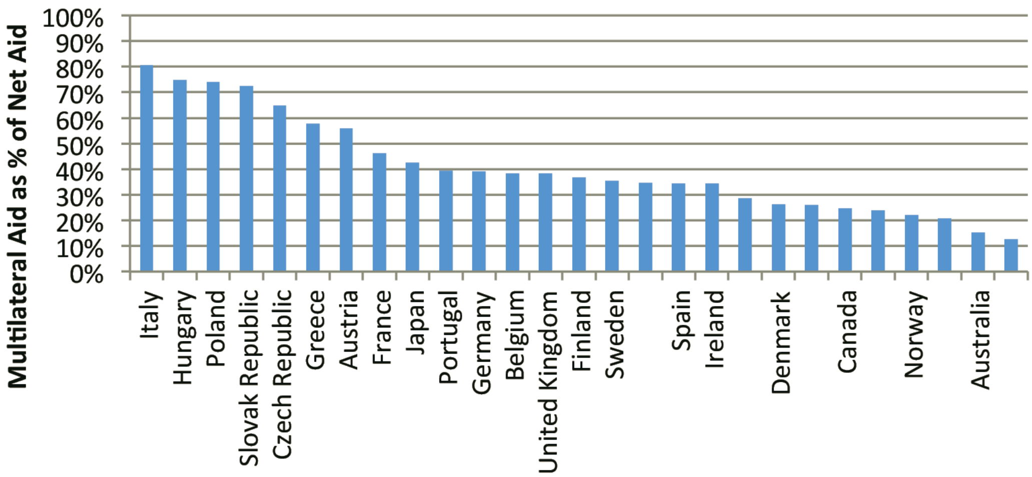
on its own, creating and supporting the global institutions and rules, which have underwritten that model.

However the 20th century geopolitical order is now being disrupted. The U.S. economic model, with its belief in and promotion of markets, has bred success elsewhere in the world; with the model of market capitalism supporting rapid growth in the developing world, China and other emerging markets are catching up. The United States is still in economic and military terms a super-power, but it can no longer manage without collaboration and engagement with not only its traditional allies but with the new emerging market powers. On economic and financial issues and on related growth and development issues, the reality of multi-polarity is reflected in the creation of the G20 club of nations at the level of heads of state at the time of the global financial crisis.

In his 2011 book "Eclipse: Living in the Shadow of China's Economic Dominance," Arvind Subramanian quantifies sovereigns' changing economic dominance over time, based on an index incorporating three country-level inputs: overall resources (GDP), share of global trade, and external financial strength.[18] In Figure 3 we show the difference between the resulting index scores of the most economically dominant country and, a) the second most dominant, b) the second and third most dominant countries, and c) the second through fifth most dominant countries. As the chart below shows, the postwar period marked the peak in the United States' "lead" over other countries: in 1950 its dominance index score was greater than the next four largest economies' index scores combined. However by 2010, while still the dominant power the United States had lost its lead over the others and China, the second most dominant country, was very close behind.[19]

In many respects the United States remains the western world's leading nation; no trading nation can afford to ignore the U.S. market, or eschew the U.S. security blanket. But the rise of China suggests the United States will not have an uncontested monopoly on leadership indefinitely. China's growing engagement in Africa is one example. China last summer pledged $20 billion in loans to Africa for infrastructure and agricultural investments over the next three years – amounts comparable on an annual basis to U.S. levels of

Figure 4: Multilateral aid as a percent of each country's net aid, 2010



Source: CGD 2012 Commitment to Development Index (using 2010 data).

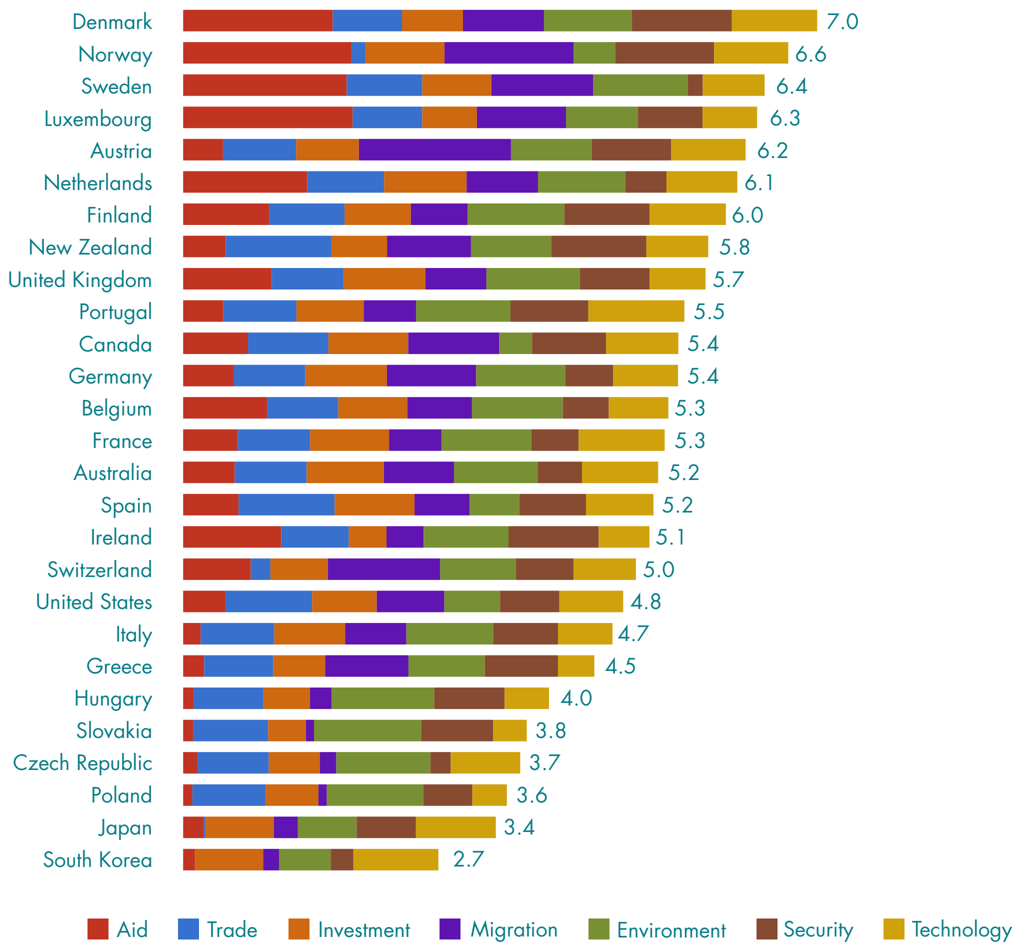
aid, but far more concentrated on infrastructure in response to African leaders' emphasis on growth.[20]

Changing geopolitics means, perhaps ironically, that it is more than before in the interests of the U.S. to promote and support multilateral approaches, engaging with China and other rising emerging markets in and through the key economic and financial multilateral institutions on what and how to "do" development in their own countries and in the smaller and poorer low-income countries. That is true for aid programs, but also for cooperation on trade, immigration, climate and other policies that matter for the developing world's people and the countries in which they live.

But despite the premium on multilateral engagement in a global system that is increasingly interdependent and multi-polar, the United States is if anything shifting from energetic leader to reluctant follower in support of the key global economic institutions that matter for developing countries. A worrying example: the doubling of IMF quotas (votes, influence, reserves available for borrowing) and the accompanying modest reallocation of quotas to increase those of China and other emerging markets compared to Belgium and other small European countries, is held up in the U.S. Congress. Though most other nations have approved the changes agreed in 2010, and indeed the Bush and Obama administrations took the lead in negotiating the reforms at the IMF, the changes cannot be implemented without Congressional blessing, because U.S. voting power gives it an effective veto on such changes, and U.S. approval requires Congressional legislation. Despite strong bi-partisan support including from former Republican and Democratic Treasury and other officials, the administration has had to carefully time its request to Congress, because of concern that a hostile Congress is unfriendly in general to international institutions.

Similarly in recent recapitalizations of the World Bank and the major regional development banks, the United States has been a reluctant follower, not a leader. The recapitalizations require appropriation of new funds to each bank. The amounts are relatively small, come primarily in the form of callable not paid-in capital, and are highly leveraged because of other countries' capital. But the politics of adding to a tight budget in the United States militate against the kind of leadership the United States could exercise in the

Figure 5: Country Rankings on the CGD Commitment to Development Index



[i] The chart reflects the authors' update to the Center for Global Development's "Aid to Pakistan by the Numbers" analysis: http://www.cg-dev.org/page/aid-pakistan-numbers.

past. The relatively small recapitalization at the World Bank may have contributed to the ongoing initiative among the BRICS countries to capitalize their own new multilateral bank, primarily to support borrowing for infrastructure.[21]

The lack of robust political support for multilateralism is also reflected in the relatively small proportion of its aid budget (just 13 percent in 2011 compared to an average of 41 percent by other OECD donors) that the U.S. channels through the multilateral institutions as opposed to through USAID and other U.S. agencies (Figure 4). This is despite the United States' poor performance when it comes to aid quality, as measured by the Quality of Official Development Assistance (QuODA) Assessment compiled by the Center for Global Development and the Brookings Institution.[22] The QuODA assessment ranks 31 countries and multilateral agencies on four dimensions of aid quality, in turn based on 30 measurable indicators. The United States scores below the mean in 21 of the 30 indicators. In contrast the United Kingdom, a strong performer on the QuODA assessment and a large donor in absolute terms and relative to the size of its economy, still chooses to channel nearly 40 percent of its total aid through multilaterals.

Nor is the United States in a position of leadership on other issues that matter for development. It has been unable to forge a development-friendly climate policy at home, and without its engagement a global agreement remains elusive. On other issues – trade, immigration, investment and tax policies – the United States scores in the bottom of the pack among the advanced democracies in terms of its commitment to development.[23]

The Multilateral Narrative: From Reluctant Follower to Leader

Global development in this century is no longer mostly about charitable transfers from rich to poor countries, if it ever was. The United States is still the most powerful nation in the world in economic and military terms. But it no longer dominates as it did, and the trajectory of its relative influence suggests it will soon be overtaken by China. The rise of China and rapid growth in many other countries of the developing world, the increasing salience of such global problems as climate change and the risk of disease pandemics, and the reality of fiscal and demographic challenges in the advanced economies are changing the development landscape. The changes warrant a reconsideration of the United States' strategic approach to fostering development – for its own sake and in its enlightened self-interest in a more stable and prosperous global system.

the United States can be more effective deploying its strength as a global leader and moral force on trade, immigration, climate and other global challenges

First, the focus on foreign assistance in developing countries as the principal tool of "development" for the United States should end. We have suggested above that the United States is particularly handicapped in managing its own bilateral aid programs in frontline states because of its security responsibilities as a kind of global sheriff, and is handicapped elsewhere because of its history as a large donor in which fear of waste and corruption in aid programs has led to an unwieldy system. The United States can be more effective in other ways, deploying its strength as a global leader and moral force on trade, immigration, climate and other global challenges, where U.S. action or lack of action matters far more than U.S. foreign assistance for growth and prosperity across the world.[24] Even its aid programs could be better focused by addressing global challenges; food security, global health and climate (current announced Presidential priorities) as well as humanitarian aid and emergency relief, where the United States does have a comparative advantage on the delivery side; and on a few high-performing low-income countries.[25]

That approach would not mean that U.S. aid funding would necessarily fall, only that more of it would be channeled to global programs where the United States can be particularly effective, and more of it would flow through the multilateral institutions, where U.S. contributions crowd in other countries' contributions and foreign and local private investment.[26]

In the case of Pakistan the administration could work with the Congress on two adjustments. The $7.5 billion KLB authorization could be formally extended from its current five (2010-2014) to 10 years (through fiscal year 2019) to signal a commitment to a long-term partnership with the new civilian government. This would reduce the political pressure to manage the details of a large bilateral aid program on the ground in the two years remaining of the KLB authorization. And more of the funding that is appropriated could be channeled through the multilateral banks and the UK aid agency, particularly in sectors such as education where their programs have had measurable impact, with technical input from U.S. staff. Working with and through the IMF and the multilateral banks, the United States could continue to

(U.S. Marine Corps photo by Capt. Paul Duncan/Released) U.S. Department of Defense

15th Marine Expeditionary Unit, helps Pakistani men load food into a Marine Corps CH-53E Super Stallion helicopter Aug. 13, 2010, during a humanitarian mission in Khyber Pakhtunkhwa province, Pakistan.

engage on the big issues that matter for long-term development in Pakistan – the challenges of tax and energy and macroeconomic policy, where its technical input and indirect financial clout give it considerable influence.

Second, the United States should reclaim its leadership in fostering the multilateral narrative. Over the last 60 years, the United States took leadership in fostering the open liberal trading system and providing the security umbrella that made possible rapid economic growth and poverty reduction in the developing world; that has been its greatest contribution to development. In doing so, the United States put a premium on multilateral cooperation as a mechanism for collective action and for leveraging its own resources and reinforcing its interests and values – beginning with its leadership in the founding of the United Nations, the international financial institutions, and what became the WTO. Today continued U.S. engagement is key to assuring the maintenance and strengthening of such clubs as the G20 and such institutions as the multilateral banks and whatever climate institutions can be created, and is critical to ensuring the stability of the global system. As its hegemonic dominance gradually diminishes and the list of development challenges that require global cooperation lengthens – climate, security, sex and drug trafficking, disease pandemics, and more – it is more than ever in the interests of the United States to be the champion of a robust and fair system of multilateralism that will navigate the challenges of the 21st century. PRISM

Notes

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[2] Andy Sumner, "The New Bottom Billion: What If Most of the World's Poor Live in Middle-Income Countries?" *CGD Brief,* Center for Global Development (Washington DC, 2011).

[3] "BRICS countries" refers to Brazil, Russia, China, India, and South Africa.

[4] The term "non-DAC donors" refers to countries that are not members of the Development Assistance Committee of the Organization for Economic Co-operation and Development (OECD).

[5] Julie Walz and Vijaya Ramachandran, "Brave New World: A Literature Review of Emerging Donors and the Changing Nature of Foreign Assistance." *CGD Working Paper 273,* Center for Global Development (Washington DC, 2011).

[6] One constraint may be the extensive and fragmented oversight of aid programs by various Congressional committees. In 2008, twenty U.S. government agencies disbursed funds for or administered foreign assistance activities, with each agency falling under the jurisdiction of multiple congressional committees. This may be a product of the U.S. bureaucracy operating under an antiquated Foreign Assistance Act (originally passed in 1961), or it could be a product of extensive checks and balances of the U.S. presidential system compared to the ministerial systems of many other donors. But it is difficult to do a systematic comparison. Some evidence of the latter exists in a 2003 analysis of U.S. Official Development Assistance (ODA) flows to Africa. Markus Goldstein and Todd Moss show that between 1961-2000, when the same party controlled the executive and legislative branches of government, aid to Africa was higher; when different parties controlled each branch aid was lower, both in terms of absolute flows and as a percent of total aid. This feature of the U.S. presidential system, whereby the separation of the executive and legislative branches is meant to institutionalize checks and balances and limit excessive concentration of the government's power, does not exist in a parliamentary system, where the executive is drawn from the legislature and criticism of one branch by another is less likely. Source: Markus Goldstein and Todd Moss, "The Surprise Party: An Analysis of US ODA Flows to Africa," *CGD Working Paper 30,* Center for Global Development (Washington DC, 2003).

[7] U.S. Department of State, "FY 2013 Department of State Operations Congressional Budget Justification," released on February 13, 2012.

[8] Not all U.S. aid goes through USAID. The Millennium Challenge Corporation by design works in countries judged better able to absorb development aid, and the PEPFAR program is focused on dealing with the AIDS pandemic (although over half the funding still goes through USAID). They are both newer, smaller and more focused agencies and programs and are less burdened by multiple objectives, though they do face some of the same bureaucratic constraints as USAID.

[9] S. 1707 (111th Congress): "Enhanced Partnership with Pakistan Act of 2009." Text as of August 23, 2010.

[10] As former USAID Administrator Andrew Natsios wrote in a 2010 CGD essay, State and Defense aid programs worldwide are "political, not development, aid programs... (we should) dispense with the polite pretense that they are development programs at all." While this observation was likely informed by observations in both frontline and non-frontline states, we believe it is particularly relevant in countries where the United States has pressing (and sometimes competing) defense and diplomacy objectives. Source: Andrew Natsios, "The Clash of Counter-Bureaucracy and Development," *CGD Essay,* Center for Global Development, (Washington DC, 2010).

[11] This has been the experience in Afghanistan as well. A forthcoming paper by Sandefur, Dykstra and Kenny finds that development and security objectives are at odds with each other in that donors overwhelmingly prioritize wealthier, violence-prone districts over poorer, more peaceful districts. Importantly the authors also find a mixed relationship between increased aid flows and changes in political attitudes, casting doubt on the commonly held view that foreign assistance buys hearts and minds and is thus an effective tool for counterinsurgency efforts.

[12] It appears (from conflicting data sources) that of the $7.5 billion over five years authorized by KLB, after three years perhaps $3 billion has been spent. The sources are the U.S. Foreign Assistance Dashboard, accessed at www.foreignassitance.gov, on March 15, 2013, whose figures loosely correspond to figures discussed with USAID staff but differ quite substantially from those in the Greenbook, formally known as the U.S. Overseas Loans and Grants, Obligations and Loan Authorizations companion to the annual report of U.S. foreign assistance to Congress, available at http://gbk.eads.usaidallnet.gov. This highlights another challenge in tracking U.S. development assistance to Pakistan: data availability is limited, data is often reported in aggregate, and figures from different sources are often conflicting, rendering detailed analysis challenging if not impossible.

[13] Expectations were high despite the fact that $1.5 billion a year represented less than five percent of the government's annual budget in 2011-2012. On the limits to leverage that aid provided, see Nancy Birdsall, Wren Elhai and Molly Kinder, "Beyond Bullets and Bombs: Fixing the U.S. Approach to Development in Pakistan," Center for Global Development (Washington DC, 2011).

[14] Perhaps ironically when major infusions of outside financial support are critical to macroeconomic stability in a country like Pakistan, it is participation in broader macroeconomic dialogue between the civilian government, IMF, and the multilateral banks that matters, not the details of U.S.-administered aid projects.

[15] William T Gormley, "Counter-bureaucracies in Theory and Practice," *Administration and Society*, 28 no.3, 276, cited in Natsios (2010), *Op. Cit.*

[16] As Carol Lancaster discusses in her book "George Bush's Foreign Aid: Transformation or Chaos?" (Center for Global Development, 2008) the creation of new government agencies (the Millennium Challenge Corporation) and programs (e.g., PEPFAR) was an attempt to overcome these bureaucratic limitations and transform how the U.S. delivers aid. However while effective in some regards, such as embodying an increased focus on measuring results, incorporating elements of performance-based aid, and dramatically increasing funding flows, these changes also introduced elements of chaos into an already heavily fragmented aid system.

[17] The UK program in Ethiopia takes the form of Cash on Delivery. See Nancy Birdsall and William D. Savedoff, *Cash On Delivery: A New Approach to Foreign Aid* (Washington D.C.: Center for Global Development, 2010). The World Bank has developed an instrument called Program for Results based on the same idea of ex post payments tied to demonstrated progress.

[18] Arvind Subramanian, *Eclipse: Living in the Shadow of China's Economic Dominance* (Washington, D.C.: Peter G. Peterson Institute for International Economics, 2011).

[19] Subramanian argues that by 2020 China will dominate overall, as the chart shows.

[20] Jane Perlez, "With $20 Billion Loan Pledge, China Strengthens Its Ties to African Nations," *New York Times*, July 19, 2012, accessed April 2013.

[21] The Obama Treasury supported the unusual and large recapitalizations of the Inter-American Development Bank, the African Development Bank and the Asian Development Bank (and the first time general capital increases were done across all the banks), and some observers would assert that a reluctant Congress on the multilateral institutions is nothing new. What may be new is the budget crisis – which is likely to persist in the next decade and go to the heart of the changed role of the United States in the world.

[22] Nancy Birdsall and Homi Kharas, "Quality of Official Development Assistance Assessment," Center for Global Development (Washington DC, 2010). See in particular tables four and five for rankings and performance by donor and donor type.

[23] CGD's Commitment to Development Index website, accessed at http://www.cgdev.org/initiative/commitment-development-index

[24] For an agenda that is still relevant, see the chapters in Birdsall (ed). *The White House and the World: A Global Development Agenda for the Next U.S. President*, (Washington D.C.: Center for Global Development, 2008).

[25] The Millennium Challenge Corporation maintains this focus on a few countries where security and diplomatic objectives are less likely to dominate. Its annual budget in 2011 was $745 million, compared to the USAID budget of over $11 billion.

[26] The Obama Administration's Presidential Policy Directive includes language committing the United States to strengthen key multilateral capabilities, including: "redoubling efforts to support, reform, and modernize multilateral development organizations; renewing leadership in the multilateral development banks, ensuring that we take advantage of their expertise and coordinate our respective efforts; and creating new multilateral capabilities as and where needed." Source: The White House, *Fact Sheet: US Global Development Policy*, accessed at http://www.whitehouse.gov/the-press-office/2010/09/22/fact-sheet-us-global-development-policy.