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CONTENTS

THE AMERICAN INTEREST • VOLUME 1, NUMBER 4 (SUMMER 2006)



FROM THE WAR FILES

- 6** **Making Enemies: An Anthropology of Islamist Terror**
by Anna Simons
Nearly five years into the War on Terror, the Bush Administration still lacks a serious understanding of our Islamist enemies. Here is such an understanding (*first in a two-part series*).
- 19** **Law, Liberty and War**
Anne-Marie Slaughter & Jeremy Rabkin cross swords over constitutional balances and civil liberties amidst the War on Terror.
- 28** **Business Bombs: The Rise of Terrorism-for-Profit**
by Justine Rosenthal
Some terrorists these days are in it just for the money, but that doesn't make them a pocket change problem.
- 33** **Blowtorch Bob in Baghdad**
by Richard K. Betts
Robert Komer's retrospective on the Vietnam War sheds a hazy light on U.S. choices in Iraq.

A SYMPOSIUM ON THE AMERICAN IMAGE

- 43** Ali Salem, Itamar Rabinovich, Lilia Shevtsova, Bronislaw Geremek, Owen Harries & Tom Switzer, Bernard-Henri Lévy, Luis Rubio, Niall Ferguson, Hiro Aida, Wang Jisi and C. Raja Mohan.

AMERICANA

- 82** **A Short History of a Big Mistake**
by Ralph Rossum
Americans revere the Framers, but few realize how distorted their handiwork became at the hands of the 17th Amendment.
- 94** **A Conversation with Kinky Friedman**
Texas' most renowned Jewish cowboy is busier than a horsefly on a chili dog running as an independent for Governor.
- 101** **Industrial Folklore: George Gerbner's (Tele)Vision**
by Joseph Turow
George Gerbner studied the cultural impact of television with greater intensity than anyone. A colleague explains what he learned.
- 107** **The Truman Standard**
by Derek Chollet & James Goldgeier
Bush Administration principals often compare themselves to those of the Truman Administration. But does the current crowd really measure up?

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GETTING ORGANIZED

113 The Trouble with USAID

by Roger Bate

USAID is a mess. Can the Administration's recent reform package fix it?

122 Toolbox: The Democracy Bureaucracy

by Thomas Melia

President Bush has made the spread of democracy the central strategic goal of U.S. foreign policy. Are we organized to do this?

132 Get Smart

by Norman Augustine

Next to war, the greatest threat to American power and prosperity is our acute education deficit.

REVIEWS

138 What Is a War Crime?

by Barry Gewen

What do recent trials of Slobodan Milosevic and Saddam Hussein have to do with the venerable postwar legacy of Nuremberg? Not enough.

146 Old Master

by Fred Baumann

Cultural critic Philip Rieff has been a man of few but powerful words. Now, at age 84, he has published the first volume of a new trilogy.

150 Something New Under the Sun

by Aaron David Miller

Shlomo Ben-Ami has done something remarkable, says a veteran U.S. Middle East diplomat: He's said something new.

153 Tales of the Raj

by Jeffrey Meyers

The Ruling Caste is the best book on the British civilians who ruled India in 50 years. Americans might learn something from it.

156 Retroview: Utopianism Redux

by John Gray

The re-publication of Leszek Kolakowski's magisterial *Main Currents of Marxism* is cause for celebration. The migration of the utopian illusion he understood so well is not.

SUMMER NOTE

164 Dissecting Anti-isms

by Josef Joffe

Anti-Americanism is distinguished by five characteristics common to all "anti-isms."

172 Yankee Doodle

The Trouble with USAID

ROGER BATE

Africa, once known as the Dark Continent in the pre-PC era, enjoyed a vogue year in 2005. Both the G-8 and the United Nations declared 2005 the “Year of Africa”, and rock stars inspired politicians and fans alike to end poverty. But 2006 may prove to be more momentous for Africa and other impoverished corners of the globe: The United States, the largest and most influential international development aid donor, has set out to overhaul its aid structures. This is welcome news because the most important U.S. aid vehicle, the United States Agency for International Development (USAID), has failed disastrously in its mission. An array of perverse incentives has plagued USAID staff and contractors, particularly since a series of “reforms” in the mid-1990s altered its original *modus operandi*. Change is long overdue.

The Bush Administration announced its reform package on January 19 in a speech delivered by Secretary of State Condoleezza Rice. Rice admitted that previous attempts to integrate State and USAID programs and budgets had failed. She was right: The U.S. government ran 19 separate major aid accounts in 2005, ranging from child survival to strategic support

for Egypt, and including those run by the new and promising Millennium Challenge Corporation (MCC). Taken together, these accounts totaled about \$17 billion in spending. As the Administration realized, that’s a lot of money to risk wasting on account of organizational incoherence.

After what the Secretary termed a “comprehensive review”, the Administration concluded that “the authority to allocate foreign assistance” was still “too fragmented among multiple State Department offices and bureaus, and between State and USAID.” Reform was necessary for three purposes: to ensure that foreign assistance is used as effectively as possible, to more fully align the foreign assistance activities carried out by the State Department and USAID, and to demonstrate that the Administration is a responsible steward of taxpayer dollars.

So what changed? The Secretary announced the creation of a new position called the Director of Foreign Assistance, to be held concurrently by the Administrator of USAID (Randall Tobias, who had served as Coordinator of the Office of Global AIDS, was confirmed for that position on March 31). The Director of Foreign Assistance, who is nominated by the president and confirmed by the Senate, has the rank of deputy secretary—co-

Roger Bate is a resident fellow at the American Enterprise Institute.

equal in title, if not in fact, to Deputy Secretary of State Robert Zoellick. This Director is now responsible for a newly integrated structure for planning, budgeting and implementing policy across all agencies and entities within the government having to do with development assistance, including the MCC and the Office of Global AIDS.

In addition, Secretary Rice announced new efforts at professional education at the Foreign Service Institute concerning development and governance efforts, and a new personnel exchange program between State and USAID. At the same time, State Department spokesmen and fact sheets all noted that these changes fell within the authority of the Secretary of State, that no new legislation was necessary to enable these changes, and that USAID's status as an independent organization with an administrator reporting directly to the secretary of state would remain unchanged.

All of this was both more and less than initially met the eye. Stephen Krasner, director of the State Department's Policy Planning Staff, emphasized that in addition to these announced changes, USAID would take planning and evaluation a good deal more seriously than it had in recent years. Krasner, who played a major role in the Administration's comprehensive review (and earlier, as an NSC staffer, a major role in the creation of the MCC), noted that Ambassador Tobias would develop both specific five-year country plans and one-year implementation targets, and that USAID would start using and publicizing specific quantitative indicators of progress to measure its efforts. Former USAID Administrator Andrew Natsios was a part of the review process, and toward the end of his tenure he enacted several other changes in USAID's operations that paralleled the new planning, evaluation and implementation goals.

Clearly, then, a good deal of thinking lay behind the Secretary's January 19 announcement. On the other hand, the decision to keep the reform effort within the ambit of the Secretary's authority, at least for the time being, and not go to Congress with a more broad-ranging initiative—such as the total integration of USAID within the State Department—limits what can be done. There are real ques-

tions as to whether USAID, as presently constructed, is reformable, whether under the guidance of a new deputy secretary or not. And there are real questions as to whether some elements of the reform package may end up being counterproductive.

USAID Then and Now

USAID wasn't always such a mess. When the Kennedy Administration created it in 1961, USAID represented a significant advance over the existing haphazard and inefficient mix of several aid-dispensing agencies. As a single agency that consolidated the development functions of its many predecessors, USAID's mission would be, as President Kennedy put it, "To prevent the social injustice and economic chaos upon which subversion and revolt feed." By blending development aid and national security interests, USAID became a "soft power" weapon in the Cold War long before the term itself was invented. And it worked.

The end of the Cold War, however, thrust USAID into political limbo. Since the agency's primary purpose had been to use foreign development assistance to help win the Cold War, many in Congress saw no further need for it. Foreign aid spending steadily declined during the 1990s and conservative congressmen, foremost among them Senator Jesse Helms, called for USAID's elimination. Helms, who famously described foreign aid as "throwing money down foreign rat holes", and his colleagues eventually agreed to keep it alive on three conditions: USAID would shrink; it would be held accountable to the State Department; and it would embrace private sector reforms.

Subsequent Clinton-era transformations of USAID had an immediate impact on the character of U.S. development assistance. As part of the initiative to streamline government through privatization and make the agency acceptable to Congress, USAID became largely a contracting organization. USAID closed 24 missions between 1993 and 1997 and reduced its full-time professional staff from 11,150 to 7,609. With an eye to its own survival, USAID sup-

planted its national security constituency with an influential interest group of commercial supporters. Prohibited from lobbying for funds in Congress itself, USAID now actively beseeches its “partners”, as it calls its contractors, to push for greater funding through what, for lack of a better term, we may call the K Street consultants’ money-go-round.

Though USAID is not unique in pursuing its objectives primarily through contracting, it has drawn sharp criticism for its particular way of doing business. One major criticism is the Agency’s strong preference for using large, U.S.-based organizations with which it has long-term relationships. Ruben Berrios’ insightful analysis, *Contracting for Development* (Library of Congress, 2000), found that the market structure for development aid contracting was segmented and largely uncompetitive. Since a significant part of the supposed advantage of contracting lies in competition, drawing from only a small pool of organizations seriously hampers USAID’s efficiency and increases the likelihood of rent-seeking behavior. Berrios found that for-profit firms receive the most money from USAID, that the geographic distribution of all contractors skews heavily toward the Washington, D.C. area, and that some of the firms rely exclusively on USAID contracts to stay in business.

Adding to this “insider” culture, USAID employees tend to trade jobs between the Agency and its contractors with great frequency. The Research Triangle Institute, Chemonics and the Academy for Education Development are but three of the many contractors that actively court USAID employees. From the contractors’ perspective, inside knowledge of the Agency is valuable for procurement purposes. Indeed, a quick search of any international development job board shows that previous experience in procuring USAID funding is a high-demand skill.

Other criticisms of USAID persist as well. One of the most serious is that the work typically performed by contractors actually undermines the local institutions and indigenous capacities the aid process is presumably trying to build. Why does USAID continue to pay contractors U.S. rates for work that local organizations could do much more cheaply? Largely because the mission closings of the 1990s made

the Agency incapable of monitoring operations in remote locations. Consequently, the Agency has little knowledge of local operators capable of doing the job at a cheaper rate. The corollary is that local contractors have no access to the USAID lobbying process nor, without expert help, do they have the capacity to fulfill the regulatory requirements for aid projects.

This raises a larger issue: the incompatibility between what the rich world wants for the developing world and what the developing world desires for itself. Aid recipients with few resources are not in a position to complain about aid they receive, even if it eventually proves counterproductive. The fact that USAID hires almost no local people compounds its insular thinking. U.S. contractors often share the same aims as the U.S.

The fact that USAID hires almost no locals compounds its insular thinking.

Government, or at least know how to pay lip service to them, thus reinforcing approaches that are often unwarranted.

For years USAID justified its existence, to Congress especially, by stressing that foreign aid money benefited American domestic economic interests through contracts to U.S. organizations and commodity import programs for U.S. products. Although exact figures are hard to come by, USAID spends a significant percentage of its international development funds on U.S. goods and services going to recipient countries. Data from USAID’s *Buy American Report*, the best available assessment, indicates that over the last decade between 70 and 80 percent of funding appropriations were directed to U.S. sources. In gross terms, the Business Alliance for International Economic Development estimated in 1996 that foreign aid sustained 200,000 U.S. domestic jobs.

USAID itself is not solely responsible for choosing U.S.-based organizations to carry out the bulk of its development work. The 1961 Foreign Assistance Act that created USAID included special guidelines that extended the

1933 Buy American Act to ensure that agency funds financed goods and services of American origin. While these “Buy American” provisions remain a source of contention for many aid specialists, they have appeased USAID skeptics in Congress with domestic interest arguments, allowing lobbyists of USAID-dependent contractors to win increased funding. These are clear benefits to USAID and, despite the higher costs that result from not buying local goods and services, the Agency has never advocated changes to the policy or made much use of the generous loopholes available to it.

Take the example of former USAID Administrator Brian Atwood. After leaving the Agency in 1999, Atwood told the *Washington Post* that the Buy American procurement laws were “the biggest headache I had to deal with.” Yet during Atwood’s tenure, in all his appearances before Congress and statements to the press concerning his initiative to reform USAID (including its procurement policies), he never mentioned his Buy American migraine. Indeed, in 1995 he boasted to a Senate subcommittee that he “introduced reforms to open up USAID’s procurement to the best expertise in America”, but omitted any reference to non-American sources. During that same testimony, he tacitly endorsed the Buy American policy, stating, “Foreign assistance is far from charity. It is an investment in American jobs, American business.”

Atwood’s actions were unsurprising, as his Agency’s endorsement of Buy American rules earn it substantial political capital in an otherwise hostile environment. No USAID official has ever attempted to change this longstanding policy, though there is some hope now that Tobias has been named to head USAID. As head of President Bush’s Emergency Plan for AIDS Relief, Tobias challenged Buy American requirements by openly announcing to Congress his intention to waive them in procuring anti-retroviral treatment. But will he hold fast to this attitude at USAID?

Another criticism of USAID’s contracting process is its lack of transparency. USAID policy forbids the disclosure of “proprietary” information related to its contracts, which keeps the financial details of the bidding process hidden from public view. Part of the reason for this is that some of the contracts secured by USAID are

for operations in geographically sensitive locations (Islamic states, for example) or for work involving national security concerns. Rather than differentiating between these types of contracts and those for, say, child immunization in a predominantly Christian African nation, USAID lumps both sensitive and non-sensitive financial information together, protecting it from external scrutiny without good reason. Congressional pressure (notably from conservative Senators Sam Brownback [R-KS] and Tom Coburn, [R-OK]) has only recently been applied to rectify this opacity. Even general facts about Agency policies and procedures are kept from the public. In response to my office’s request for information regarding evaluation procedures, a USAID-Kenya employee explained the rules: “I’m unable to respond to your queries due to strict Agency policy of sharing USAID information with people or sources we are NOT familiar with” (emphasis in original).

In addition to its secrecy, USAID also has a habit of punishing contractors or employees who criticize the agency. Some employees have had their career paths derailed after publicly criticizing USAID. One example involves former Chief of Travel and Transportation Shirl Hendley, who raised the alarm in 2002 that USAID travel practices violated federal rules. Despite being ignored by top USAID officials, who benefited from the rules violations (estimated to have cost U.S. taxpayers about \$250,000 every year for two decades), Hendley refused to stay quiet. She was subsequently reassigned because, according to her reassignment letter, “you have chosen to do what you believe is correct, even if it contradicts the instructions you have been given.” A subsequent investigation spearheaded by Senator Charles Grassley (R-IA) vindicated Hendley and strongly rebuked top AID officials, including Andrew Natsios and Inspector-General Everett Mosley.

USAID in Global Health Policy

Despite its problems, USAID is a trendsetter in global development aid practices, particularly in the health policy arena. Though its leadership role is more subtle today than it was when U.S. funding and

expertise dominated World Health Organization (WHO) disease eradication campaigns, Department of State figures for 2003 show that American contributions still constitute a quarter of the organization's budget—by far the largest single national share.

As the world's most powerful nation, U.S. input remains the single most important influence on global health policy. Ilona Kickbusch, a former WHO employee and current head of Global Health at Yale University, argues that U.S. support for global health initiatives is so crucial that “many international documents read as if they have been written for members of the U.S. Congress rather than for the broader global health community.”¹ As the development arm of the U.S. government, whose financial and political support is crucial for global health programs, USAID thus has considerable clout over policy design and strategy. Part of that clout flows from the fear of losing U.S. funds. Such fears are well grounded. In July 2002 the United States redirected \$34 million from the U.N. Population Fund to USAID since the U.S. government opposed spending on abortions and abortion rights.

USAID also acts as a role model for private lending. Private donors to international causes, whose giving, according to the Hudson Institute, more than triples official U.S. government assistance, look to USAID as the arbiter of which programs and interventions to fund. Corporations, which value the good publicity generated from charitable contributions, are wary of crossing swords with official U.S. development policy. ExxonMobil, for instance, explicitly endorses the failing approach of USAID's co-sponsored Roll Back Malaria program and funnels its \$1.5 million contribution to the battle against malaria through USAID-affiliated ITN (Insecticide-Treated Bed Net) programs. USAID thus has influence over resources far exceeding its congressional earmark.

In the case of the Roll Back Malaria program, which USAID shaped and continues to influence, USAID's clout has actually harmed global health. Malaria rates have probably risen since 1998, when Roll Back Malaria was set up with the goal of halving rates by 2010. This poor result is not for lack of resources; since RBM's inception, USAID has increased its

malaria eradication budget from \$18 million to \$90 million (as of 2005). But the Agency's flawed malaria control strategy has rendered public and private investment unproductive.

It is not clear exactly how these poor results have come to pass, again because USAID refuses to release details of the contracts, grants and cooperative agreements used to disburse malaria funds. But from the documentation that is available and communication with USAID staffers and contract employees willing to speak off the record, we know that USAID spends very little money purchasing the tools necessary to fight malaria effectively. Three methods of combating malaria save lives: indoor residual spraying; insecticide-treated bed nets; and effective medicines. Despite the Agency's claims that it takes a “comprehensive approach”, it spent *less than 10 percent* of its \$80 million malaria budget for 2004 on purchasing these interventions (most on only one intervention—bed nets).

So what of the other 90 percent? Some sleuthing reveals that about \$10.5 million is dedicated to researching and testing a malaria vaccine, and the rest is spent on “capacity building”, “technical assistance” and “strengthening” or “supporting” government health ministries in malaria-affected countries. USAID does not disclose any details as to what these categories actually mean, but as Agency malaria staffers explained to me, many involve U.S. consultants giving advice to government ministries. For example, the consultancy Management Sciences for Health (MSH) received \$64.3 million from USAID in 2003 (the last year for which figures are available) for dispensing such advice. MSH is active on many malaria projects, and its 2003 IRS Form 990 illustrates how USAID malaria funds are typically spent: Between 52 and 70 percent of MSH's program expenses are dedicated to compensation and travel. That amount is separate from what MSH designates as overhead.

Aside from their considerable expense, Western consultants are often ineffective

¹Kickbusch, “Influence and Opportunity: Reflections on the U.S. Role in Global Public Health”, *Health Affairs* (November/December 2002).

because they lack detailed knowledge of local conditions. During a \$5 million malaria effort in cooperation with the ministry of health in the Bungoma District of western Kenya, the local health staff ran into major problems when USAID's consultants did not ever once visit the program area.

USAID claims that its comparative advantage lies in the institutional knowledge it can dispense, and in the fact that it coordinates its technical expertise with organizations that provide actual interventions, such as the Global Fund and UNICEF. Unfortunately, except in a few isolated circumstances, USAID has not provided any evidence of such complementary and careful coordination. In some instances its failure to coordinate effectively has turned tragic. For example, the Vurhonga child survival project in Chokwe, Mozambique, a USAID-

Western consultants often lack detailed knowledge of local conditions.

funded child survival effort implemented by Save the Children, was all but wasted because no arrangement was made to buy medicines. In the final evaluation report submitted by Save the Children to USAID, team leader of the project Armand L. Utshudi noted that "frequent stock-outs and unreliable supply of essential drugs at community-based health facilities" impeded the program's operations. Although it used the well-designed community participation technique developed at the Johns Hopkins School of Public Health, this project met only seven of its 36 objectives. It did raise the proportion of children with malaria symptoms treated within 24 hours from 2 percent to 50 percent, but it failed to reduce the number of children dying because they were given outdated drugs. The project's medical advisor, Peter Ernst, says that efforts to convince USAID and UNICEF to persuade Mozambique's health ministry to stock the proper drugs failed due to cost concerns—costs that USAID could easily have covered.

That we know anything of these projects is

highly unusual, as USAID generally does not collect enough data to evaluate its own activities. USAID can offer no evidence that its strict capacity-building and technical assistance approach to malaria has yielded any dividends. The only outcome measurements offered to a Senate subcommittee are its statistics on increases in mosquito net ownership: in Malawi (from 13 to 60 percent); Senegal (11 to 43 percent); Zambia (9 to 40 percent) and Ghana (zero to 21 percent). These figures were derived from surveys from the \$65.4 million Netmark Africa program run by USAID and its contracting partner, the Academy for Educational Development. However, while these figures show an increase in ownership of mosquito nets, they tell us nothing about how much protection they provide (lower protection is the result if: nets get ripped, which happens often; one emerges from the net, for example, to go to the bathroom in the middle of the night; one does not go to bed at dusk). Repeated requests to USAID from my colleagues and me, and from Senators Brownback and Coburn, for more information, which would include USAID's contracts, have gone unmet.

Aside from poor basic data collection, USAID's evaluation of program performance is also inadequate. An internal review of the substantial drop-off in USAID evaluations (from 529 in 1994 to 167 in 2004) found that past recommendations for improving evaluation systems have been systematically ignored by the Agency's senior leadership, and that current evaluation practice is rife with impropriety. Such practice includes allowing project managers to grade their own projects and to claim success without offering evidence. The evaluator of the above-mentioned Save the Children effort inexplicably recommended that the program's approach be "replicated in other parts of Mozambique."

Change or Perish

If the malaria effort is any indication at all, USAID is failing to make a positive difference in an important facet of U.S. foreign policy and may well be a liability. USAID can and must improve. Transparency improve-



© J. Carrier/Corbis

Former USAID administrator Andrew Natsios in Darfur, Sudan, September 17, 2004

ments should come first. Senator Coburn has suggested posting all USAID contract and budget details on a web site. If USAID is indeed actively cooperating with other agencies, measuring meaningful outputs and tailoring programs to the needs of recipients rather than to the needs of its contractors, USAID should delight in sharing this evidence with the politicians, policymakers, academics and ordinary citizens concerned with American efforts to fight poverty and disease in the developing world. A refusal to be held accountable ought to be understood accordingly.

Fortunately, after the malaria battles of 2005 many within USAID's Global Health Bureau want change—although recent improvements in rhetoric on malaria have yet to be matched in other areas of Global Health or in any other program. But change takes time and there is

undoubtedly good intent from many appointees. And of course, as already noted, top-down reform is even now in train.

As these reforms proceed, it would be wise to keep three key imperatives firmly in mind: First, *do no harm*; second, *match means to ends* (i.e., link development strategies to U.S. principles and interests); and third, *neither overestimate nor underestimate what organizational reform can accomplish*.

Do no harm: As William Easterly demonstrates in *The White Man's Burden* (Penguin, 2006), much aid has not only not helped but has slowed development, propping up odious dictators. It is ironic that USAID was set up in 1961 partly to streamline a disorganized clot of foreign aid agencies, for in recent years it has become anything but streamlined. One reason the Millennium

Challenge Corporation and the President's AIDS initiative exist today is USAID's poor performance. It would be tragic if the relatively decent performance of these two new efforts was undermined by shortsighted policy "reforms."

For example, the Millennium Challenge Corporation actually refused to disburse funds until the prospective recipient countries were able to efficiently absorb them—a sensible stance that would be unthinkable at USAID. But the MCC has come under pressure from recipient countries who wanted fewer aid hurdles to jump over, as well as Republicans and Democrats, especially in Congress, to speed up grant disbursement, even though that would probably mean in some cases providing money to countries ill equipped to spend it. Paul Applegarth, the first director of the MCC, may have been a casualty of that pressure. It is possible that it took too long to establish procedures at the MCC and grants can flow more easily now. But it is still far too early to say whether the new approach of disbursing larger grants under the new MCC head, Ambassador John J. Danilovich, is the correct way forward. It would be regrettable if reform were to diminish the Corporation's ability to achieve its mission. In her January 19 remarks Secretary Rice stated that the Millennium Challenge Corporation, "which operates under unique, conditions-based standards for assistance", as well as other aid entities of the U.S. government, will fall under the overall leadership of the newly created Office of Foreign Assistance in the State Department. Pulling MCC under stronger control of the State Department to improve coherence in foreign assistance operations certainly makes organizational sense. Even so, as both Director of Foreign Assistance and USAID Administrator, Randall Tobias' greatest challenge will be to foster an environment where MCC and USAID can work together while improving overall effectiveness.

Match means to ends: It is essential that the Administration stick to its own principles. Improved governance, both in recipient nations and in financing and delivery of western programs, is the key to using aid resources wisely. It is and always has been sim-

ply foolish to spend money just because it is available. As distinguished development economist William Easterly put it:

Let's not kid ourselves that spending more money on foreign aid accomplishes anything by itself. Letting total aid money stand for accomplishment is like the Hollywood producers of *Catwoman*, voted the worst movie of 2004, bragging about their impressive accomplishment of spending \$100 million on its production.²

The keys to matching means and ends in development aid are setting measurable goals, and actually measuring them to inform continuation of aid and seeking constructive feedback. The Millennium Challenge Corporation's approach, using and thereby building civil society, effectively fosters constructive feedback from local officials in recipient countries. At a meeting with African leaders in June 2005 for example, President Bush pledged to "work harder and faster" to increase aid after receiving complaints about MCC's bureaucratic bottlenecks that slow aid disbursement.³ It therefore makes sense that USAID should work with the Corporation and remain open to local concerns as the MCC has done. Incentive structure matters: If employees of an aid agency were penalized when an aid recipient complained about project design and implementation, they would soon become more responsive. Of course recipients have incentives to complain if they don't want to implement what donors might think to be sensible policy changes (for example, aid tied to reductions in corruption), so feedback has to be dealt with logically and criticism not assumed to be accurate or fair.

It also makes sense to prioritize aid according to a country's strategic importance, which of course is an argument for structurally reintegrating foreign development aid with U.S. foreign policy itself—even going so far as distrib-

²Easterly, "The Utopian Nightmare", *Foreign Policy* (September/October 2005).

³Andrew Balls, "Awkward Timing for US Aid Chief's Departure", *Financial Times*, June 21, 2005.

uting USAID's current mandate within the geographical bureaus of the State Department. That is precisely what the U.S. Commission on National Security/21st Century (the Hart-Rudman Commission) recommended in March 2001.

When the story of the reorientation of U.S. aid policy first broke on the front page of the December 12, 2005 *Financial Times*, critics argued that planned reforms would lead to the politicization of aid. This is a simplistic and naive complaint. Implicit in the critique is the idea that development is a simple input-output exercise: more resources and technical expertise get you more development. Governance is usually the subject of diplomacy. But the supposedly sharp distinction between development and diplomacy is purely artificial. USAID has always been politically driven, with the (partial) exception of humanitarian relief. While the critics may be right about the harm done by politicizing aid in the past—for example, aid given to the likes of Mobutu Sese Seko in Zaire—spending taxpayers' money along the lines of U.S. strategic interests might not be such a bad idea. At least we would have one metric by which to determine success or failure.

It would also be useful to bring the President's vision into all U.S. aid policy. That is not the case today. Current HIV prevention policies favoring abstinence over condom distribution are not routinely followed in the field by USAID contractors. For instance, an excellent research project with sex workers in southern Africa violated the explicit instructions of the President's policy. While this policy or other policies may or may not make sense, they should be adhered to for the sake of coherence. If a policy were fully implemented according to presidential edict, properly evaluated, and then found to be a failure, a better course of action would become clear. What we have now, more often than not, is an incoherent muddle.

Neither overestimate nor underestimate what organizational reform can accomplish: Organizational reform can be a powerful impetus for better performance. It can provide a more efficient and rational use of resources and a chance to capture and imple-

ment intellectual innovation. The mere expectation of organizational reform can put the fear of God and the fighting spirit in some bureaucrats, too. But organizational reform cannot substitute for a lack of intellectual energy. It cannot easily change cultural bias and it may not lead to growth, even at MCC. If a new aid structure continues to rely excessively on mostly unaccountable contractors, it will very predictably do little or no good.

And organizational reform cannot by itself substitute for vision and determination in American leadership. President Bush appears to care deeply about all aspects of development. He has been personally involved in policy judgments like no other president since Kennedy. There is no substitute for good leadership; more is the pity that Bush has not been as well served as he has deserved by the aid apparatus of the U.S. government. A lot is riding, therefore, on the boldness, wisdom and competent implementation of recent reforms. Lives literally depend on it. 🌐

FRANCIS FUKUYAMA
EDITOR

NATION- BUILDING

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