



Passing the BATON

*Foreign Policy Challenges and
Opportunities Facing the New Administration*

Afternoon Panel Four: “Economic Development and State Building”

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Main Issues

Although economic development is a cornerstone of state building in fragile environments, relatively little is known about the design, implementation and monitoring of effective programs. Recent programs in countries like Liberia, Iraq and Timor-Leste suggest that the international community still has much to learn. However, looming collapse in countries like North Korea and Zimbabwe and growing fragility in many other countries demand that the lessons must be learned and implemented quickly. The incoming administration should consider updating relevant legislation, rationalizing the organizational structure to deliver economic assistance, and providing adequate resources for long-term programs in order to bring about much needed change in this area. The United States should build on its current leadership position in the delivery of development and humanitarian assistance.

The fragility of governance systems in a growing number of countries highlights the timeliness and importance of effective and lasting international state-building initiatives. Although definitions of state building differ, there is some consensus among scholars that successful efforts to building and sustaining well-governed states able to respond to the needs of their people must be based on a balanced application of the 3 “D”s -- development, diplomacy and defense. However, much more is known about defense and diplomacy in fragile states than is known about development in this context.

The United States leads the world in the provision of aid in aggregate terms. Since 2001, U.S. foreign assistance has tripled worldwide. While funding has increased, the administration has also taken steps toward strengthening the effectiveness of U.S. foreign assistance through projects such as the creation of the Millennium Challenge Corporation, the creation of new partnerships with the private sector, and the launch of foreign aid reform. These projects have all been undertaken with the goal of cultivating economic growth and good governance. However, many challenges apparently prevent the United States from exercising effective leadership. These include outdated foreign assistance legislation, interagency stovepipes, inadequate resource allocation, and short-term approaches to complex problems.



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U.S. Foreign Assistance Act

The U.S. Foreign Assistance Act should be updated to respond to current and emerging problems in a rapidly globalizing world. The legislation is further weakened by an apparent lack of focus; since it has more than 50 objectives. Fewer objectives could sharpen focus and enhance effectiveness. The legislative process for the allocation of foreign assistance is somewhat constrained by earmarks, in the opinion of some panelists. A more streamlined process could both expedite and enhance the process.

Organizational Reform

The organizational structure of America's development organizations was devised in the 1960s. The government has made a number of recent attempts to address this problem, albeit in an ad hoc manner. New initiatives and programs such as the Millennium Challenge Corporation and PEPFAR have been introduced to address gaps, but more comprehensive reforms are needed to allow the U.S. to improve the effectiveness of foreign assistance. Such reforms will require vision, time, energy, ingenuity and ultimately more resources.

Transition from Humanitarian Assistance to Economic Development

Most economic development programs are affected by the "CNN Moment." Donor states like the U.S. are very interested and pour in substantial resources when fragile states are in crisis and generating media exposure, but interest wanes when the country is no longer in the headlines. More thought should be given to smoothing the transition between the providing of short-term assistance and the onset of programs that lead to long-term economic progress.

Encouraging Private Sector Development

Economic development in fragile states goes beyond humanitarian and development assistance. It must also focus on the emergence of a viable and productive private sector. The successful recovery of a democratic market economy requires both the public and private sectors to take root simultaneously. The private sector should also engage in making decisions, advise the government, provide feedback and help create accountability. The private sector is not only an engine of growth; it is also a proven route to self-sustained economic development.

Adequate Resources



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The ongoing global financial crisis, economic downturns in most donor countries, and donor fatigue mean that the development community will have to learn to do more with less. While every effort must be made to improve efficiency, the reality is that effective development plans are costly. Increased resources must be made available.

Capacity Building for Development Professionals

The U.S. interagency is becoming more involved in development and humanitarian programs in fragile states. However, most strategists lack the training to fully appreciate the ramifications of the 3 Ds or how to plan development optimally. Ongoing professional education programs are necessary to build and retain core competencies in this field. Appropriate training could improve interagency collaboration, enhance coordination and improve development outcomes.

Policy Conclusions*

1. Modernize enabling legislation for more effective development assistance. The set of recommendations proposed by the Modernizing Foreign Assistance Network provides a helpful blueprint.
2. Reorganize the interagency and consolidate programs, where necessary. USAID's new economic growth strategy provides a workable template.
3. Reform funding for economic development assistance by ensuring adequacy for long-term support and removing earmarks to ensure flexibility.
4. Adopt mechanisms for early decision-making and quick disbursements. Stabilization needs are urgent and delay is very costly.
5. Prioritize multidisciplinary training programs to improve skills, encourage cross-fertilization of ideas and reduce stove piping.
6. Increased funding for the hiring of new development personnel is essential for increasing development capacity and skill. Particular support should be given to USAID recently launched Development Leadership Initiative (DLI) with the aim of quadrupling its Foreign Service workforce over the next few years.

* Policy Conclusions from Group Panel Discussions at Passing the Baton 2009 were not necessarily achieved by group consensus. In some instances, individual panel members may have been in disagreement with the larger group. For specific information on each panel's contents, please see the comprehensive online archive at www.usip.org/baton2009.