

A conversation with the Center for Global Development, February 8, 2018

Participants

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Note: These notes were compiled by GiveWell and give an overview of the major points made by Ms. Collinson and Ms. Rose.

Summary

GiveWell spoke with Ms. Collinson and Ms. Rose of CGD to find out more about how US spending priorities in foreign assistance are changing, and in what areas there are likely to be funding gaps in future. Conversation topics included predictions about likely federal foreign aid budgets for 2018 and 2019, what sorts of cuts various agencies and programs might see, and sources for staying up-to-date on decisions about the foreign aid budget.

Foreign aid budgets for 2018 and 2019

Budget proposal and Congressional process for fiscal year 2018

The Trump administration's budget request for fiscal year 2018 (FY18) cut the international affairs budget by over 30%. Final appropriations for FY17 hadn't yet made it through Congress at the time of that request; the FY17 bill that eventually came out in May included an international affairs budget more in line with levels under the Obama administration. Congress hasn't yet passed full funding for FY18, but based on draft bills, both the House and Senate appropriations committees seem unlikely to accept cuts as extreme as those in the administration's proposal.

For the last several years, the Senate has tended to propose a larger international affairs budget than the House, with the final budget ending up somewhere in the middle. Congress also recently raised the overall budget cap for all non-defense discretionary spending for the next two years; it's not clear how that will impact foreign aid.

The international affairs budget for FY16 was \$54.5 billion; as a rough guess, FY18 might be closer to \$51 or \$52 billion. (FY17 was somewhat of an outlier because it included significant supplemental foreign aid funding for famine and other crises.)

Proposal and process for fiscal year 2019

Broadly speaking, it seems likely that the administration's FY19 proposal (like that for FY18) will include large cuts in some areas, such as multilateral assistance (especially assistance that flows through the Treasury, e.g. contributions to

multilateral development banks). There may also be some significant differences. For instance, last year's request included a proposal to eliminate the Overseas Private Investment Corporation (OPIC); it seems likely that the FY19 request will reverse that and instead propose strengthening the US's development finance tools.

It's especially unclear when appropriations for FY19 are likely to be settled by Congress (since FY18 isn't finished yet). Budget hearings typically take place in the spring, and draft appropriations bills begin to come out in the summer (usually from the House first, then the Senate). Ideally, a bill is settled on before September 30, though often this is difficult because Congress is out of session for most of August.

Impact of funding uncertainty

The administration's initial budget request last year, as well as the fact that Congress hasn't yet completed a FY18 appropriations bill, has created a lot of uncertainty at implementing agencies, USAID field missions, etc., as to the allocations countries will ultimately receive once Congress settles on a bill. It generally takes a long time for funding to reach the field once it's allocated. This state of uncertainty is likely to continue, and could have damaging consequences for program planning and implementation.

CGD has heard anecdotally of humanitarian accounts not having adequate resources to respond to crises, but that's not uncommon even when there is a more robust international affairs budget. The Office of Management and Budget typically doesn't fully allocate funds until Congress has completed appropriations for a given year.

Potential impact on various areas and programs

The US government doesn't conduct cost-benefit analysis for most of its aid-funded programs.

Much of the rhetoric from the Trump administration has indicated that US foreign aid ought to serve American interests and/or support American allies. While that has been an aspect of foreign aid for a long time (especially for bilateral institutions), it can be much harder to get a clear sense of a program's effectiveness or efficiency in terms of development outcomes if its actual, intended goal is some near-term policy objective around American interests.

There may be cuts to country-specific funding across the board, and some countries may be zeroed out. Major traditional areas of aid within global health (e.g. malaria, HIV, etc.) may see some cuts, but these generally have congressional champions and broad bipartisan support.

Family planning

Family planning may be a particularly important area to watch and potentially take action in, if budget cuts end up creating a funding gap.

The US provides about half of all family planning assistance globally and support for about a third of family planning commodities, so cuts to US family planning spending would have a significant impact and might leave a gap that would be

important for other groups to fill. Support for family planning seems like a particularly strong return on investment, given its importance for women's economic empowerment.

The administration's FY18 budget request zeroed out family planning funding. The House appropriations bill returned the family planning budget to roughly its levels under the George W. Bush administration; the Senate has recently proposed levels similar to those under the Obama administration. It's still unclear what the final family planning budget will be, but it's unlikely to completely zero out.

USAID

The FY18 budget proposal included cuts to USAID's main policy and planning functions. For instance, the Bureau for Policy, Planning and Learning (PPL), which is the main entity within USAID that focuses on examining evidence of effectiveness and which houses economists to support USAID's cost-benefit analysis work. Cuts to PPL could affect USAID's overall institutional ability to learn about the cost-effectiveness of its programs.

Spending directives from Congress

Congress has become increasingly prescriptive in providing directives for how USAID's budget can be spent. These directives can be quite detailed and significantly limit USAID's flexibility. In the face of such deep proposed cuts, however, concerns about the administration's intentions might make Congress less likely to expand flexibility and may create incentives for it to further constrain how the agency spends its funds.

Congressional directives for the USAID budget tend to carry over from year to year, and are influenced, in part, by outside groups that advocate for particular prescriptions with members of Congress. Some individuals in the international development community have pushed for USAID to have greater flexibility, believing that funding could be used more effectively.

Phasing out of grant-based foreign assistance

USAID is developing a framework for thinking through whether, how, and when to responsibly phase out traditional, grant-based assistance in some countries that have achieved a certain level of development, and perhaps transition to other bilateral tools. This could involve shifting emphasis to tools that would help those countries build capacity (e.g., working to strengthen development finance tools and domestic revenue mobilization in those countries).

The conversation around how to sustainably transition countries away from grant-based aid is intentionally divorced from budget discussions, however. So even though the proposed transition framework emphasizes targeted, responsible, sustainable phasing out of aid, there remains a risk that near-term budget pressures could motivate commitment to impractical timelines for winding down country

programs, which could threaten the long-term sustainability of progress made in those countries once programs close.

Funding for multilateral institutions

There are a number of reasons why support to multilateral institutions can be cost-effective investments for donor governments to make. First, multilateral development banks have long placed more emphasis on cost-benefit analysis than the US government typically has.

Additionally, research from 2012 by the US Treasury Department estimates that every \$1 the US provides in capital to the World Bank can lead to an additional \$25 in lending. This leveraging effect suggests that a reduction in the US's contribution could shrink multilaterals' lending ability by significantly more than just the amount of the reduction. It's hard to predict in all cases whether other countries will react to a reduction in US spending in a particular domain of foreign aid by aiming to fill that gap or by following US leadership and also pulling back.

The Global Fund

The Global Fund replenishment process starts soon. Continued support for the Global Fund in Congress seems likely, though the exact allocation could be impacted by the budget caps set by Congress. Congress has generally been supportive of global health spending, including through multilaterals, and tends to allocate more funding to the Global Fund than is included in the President's budget request.

The Millennium Challenge Corporation

The Millennium Challenge Corporation (MCC) is a smaller aid agency within the US government that has had broad bipartisan support. It may see some cuts, though likely not as large as for the aid budget overall (e.g. the FY18 budget request included a 12% cut to MCC funding from the enacted level for FY17). Budget cuts could potentially reduce the number of countries MCC chooses to work in, as well as the size and number of programs it supports within a given country.

The MCC's process starts with selecting which countries to fund with each fiscal year's pot of funds. It's finished that selection process for FY18 (even though final appropriations for FY18 haven't been passed by Congress). The MCC typically chooses three or four countries each year, but this year picked just one new country. While factors beyond budget resources go into that decision, it seems likely that uncertainty around the final budget was a contributing factor.

The MCC's core mission is poverty reduction through economic growth, and it emphasizes "country ownership" of the programs it supports. The MCC is not subject to spending directives, and the agency performs a growth diagnostic to identify the binding constraints to growth in a given country, in partnership with the country's government, in order to determine what programs to invest in. The MCC has supported a lot of transportation infrastructure and energy projects, as well as projects in health, education, and agriculture.

The MCC conducts cost-benefit analyses for the major separable components of its investments. Given the MCC's emphasis on cost-efficiency, it seems especially likely that a scale-back of the MCC could leave some worthwhile projects unfunded.

The President's Emergency Plan for AIDS Relief (PEPFAR)

PEPFAR has been broadly supported by Congress.

Among the interventions funded through PEPFAR, some are known to be more cost-effective than others. CGD's impression is that PEPFAR seeks to use evidence of interventions' effectiveness, as well as the cost profile of its programs, to inform allocation decisions. However, portions of PEPFAR funding are specifically reserved for interventions with less evidence of impact or cost-effectiveness, e.g. a number of interventions to support orphans and vulnerable children and the promotion of abstinence and faithfulness.

PEPFAR is also now subject to the Mexico City Policy. This policy, which restricts US funding from organizations that provide or promote abortion as a means of family planning, has regularly been enacted under Republican administrations. While it has typically only applied to family planning funds, the Trump administration expanded it to apply to PEPFAR as well. This could end up seriously constraining PEPFAR's ability to continue some of its key partnerships with local organizations, compromising efficiency and the delivery of lifesaving services.

Sources for staying up-to-date on the international affairs budget

- The US Global Leadership Coalition (USGLC), an advocacy group promoting a strong US international affairs budget, produces up-to-date budget analyses, with a focus on potential cuts. USGLC does a big analysis when there are major developments from Congress, as well as regular, shorter blog posts.
- The Kaiser Family Foundation puts out a regular newsletter focused on global health funding and does excellent budget analysis that covers trends, funding levels, spending directives, funding streams, etc.
- Congressional appropriations hearings are webcast, and the videos are usually available online afterwards.
- Global Health Council materials

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