



Rethinking the Battlefield

*The World Has Changed. It's Time for the U.S. Foreign
Affairs Budget to Keep Up.*

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Introduction

At the turn of the 21st Century, America seemed to be reaping the fruits of a “peace dividend” that helped create record economic growth, budget surpluses, and an unchallenged global leadership role. As the risk of armed conflict seemed to recede, many expected a relatively uneventful Bush presidency focused primarily on domestic issues. But the attacks of 9/11 shocked us out of that complacency, and we have since poured hundreds of billions — trillions — of dollars, during both Republican and Democratic administrations, into trying to protect America and make the world a safer place.

From 2001 to 2010, annual U.S. military spending more than doubled, a massive increase of hundreds of billions of dollars in a few short years. Much of that increase was of course caused by the wars in Afghanistan and Iraq, but even after the end of major combat operations in both countries, military budgets have remained at historically high levels. So, what have we reaped from this massive military investment since 2001? A world that is more dangerous, full of greater threats, than ever before in our lifetime. Clearly, there is not a direct relationship between increases in military spending and global stability. In fact, over the last decade and a half, the evidence suggests the contrary.

Why is this? Why is it that under both President Obama and President Bush, pursuing very different philosophies and strategies with nearly unlimited military resources, our enemies have seemed to only multiply and strengthen?

The answer is simple. A strong American military is still vital to guard against conventional security threats, but the emerging threats to global stability exert influence that cannot be checked with military power alone. We face a new world today. And the new global power players – emerging economies, energy rich bullies, developing world youth poverty bulges, and shadowy terrorist groups – are increasingly immune to the blunt force of American military hegemony.

In its place, other tools are emerging dominant for other nations. China gains influence through massive economic assistance to developing nations. Russia crows those on its periphery with propaganda and energy dominance. Iran takes

advantage of governance vacuums and sectarian anxiety to increase its influence. Extremist groups recruit by using the internet to peddle a false version of both Islam and the United States.

The threats posed to the United States have changed. The global challenges the United States faces have transformed. Our adversaries have adapted. Given this changed world order, why does America refuse to rebuild its foreign policy toolkit? Why has America's foreign policy not adapted too?

This document lays out a blueprint for building a kit of foreign policy tools to match the world we live in now. It contains specific, targeted recommendations for how to get the most return out of every dollar for American security and prosperity. It spends money on smart power — investing in diplomacy, economic development, and humanitarian assistance — to head off conflicts *before* they require costly military interventions. It matches U.S. capabilities with the new capabilities of our enemies and adversaries. It will reap returns to the health, safety, and bottom lines of Americans at home, and will make the job of our troops abroad easier by reducing the occasions when our only options seem to be starting a war or doing nothing. As President Reagan once said, our foreign assistance programs “contribute to regional stability and to a more peaceful world, both of which are central U.S. policy objectives.”¹

Over the past year, my office conducted interviews with foreign policy leaders from across the political spectrum — including current and former administration officials, representatives from non-governmental organizations, and think tank experts — to develop a budget for the new world we face. What follows is a set of actionable recommendations, arranged under three thematic areas, that the United States can take to reassert leadership at a time when global instability is on the rise. These recommendations represent a dramatic new approach to reinvigorate and retool American international affairs programs over a five-year period at a fraction of the cost of military intervention.

Executive Summary

It is shocking how little the United States spends on international affairs: about 1.4% of the federal budget, when you include all of our foreign assistance programs, diplomacy, security partnerships with other countries, international exchanges, work with international organizations, and many others. We spend about twenty times more on defense and intelligence than we do on diplomacy and development. Put another, more surprising way: the Department of Defense has twice as many people working in its military-run grocery stores as the State Department has diplomats.²

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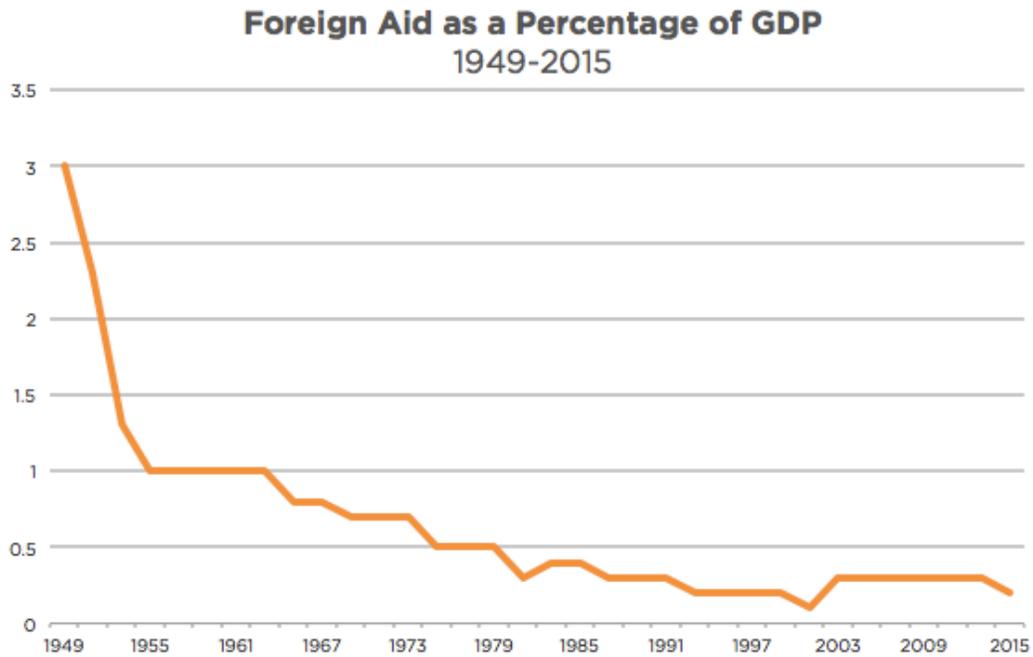
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This report recommends nearly doubling the amount we spend on international affairs over the next five years. Doubling that budget may sound like a lot — but it would be the equivalent of a 5% bump to our military and intelligence budget. Rather than comprehensively including every program or account within the international affairs budget (which includes the budgets of the State Department, U.S. Agency for International Development (USAID) and other agencies), this report highlights specific proposals where a large, targeted investment in resources would provide the most return in terms of protecting America and advancing our interests. These proposals are grouped into three main thematic areas, which together provide the best means to counter violent extremism and reduce the risk of armed conflict and instability.

Part One

A 21st Century Marshall Plan

Following World War II, the United States spent an average of 2% of GDP annually on economic aid to help both our friends and former adversaries rebuild from the devastating effects of war. We did it not simply out of the goodness of our hearts, but because we had learned the lesson of post-World War I the hard way: improving the quality of life in war-torn areas was the best way to ensure we wouldn't have to go back in to respond to a worse problem later. Today, we have forgotten that lesson—we spend only about 0.2% of GDP on foreign assistance, a 90% decrease.³



Source Congressional Research Service

We cannot compete with China, Russia, or even ISIS if America exits the economic and democracy assistance playing field. And we cannot continue playing the role of global fire department, responding to crises only after they have developed into four-alarm blazes. Instead, we need a 21st Century Marshall Plan that recognizes that the best prophylactic against extremism, despotism, and armed conflict in at-risk regions is economic empowerment and democracy assistance.

With few exceptions, countries experiencing broad-based, inclusive economic growth unimpeded by corruption are less likely to experience political instability and extremism than countries with governments unaccountable to their people. For decades, U.S. assistance has helped spread economic growth and more open, participatory government through bilateral aid partnerships, contributions to multilateral organizations, trade, and by leveraging the country's public-private finance capabilities. We know how to do this. We just need the resources to do it effectively, and at scale.

This report lays out specific budget proposals that will spur economic development abroad by:

- **Creating a New, Powerful U.S. International Development Bank:** China, Japan, and many European countries are way ahead of the United States in their use of financial instruments to facilitate development projects and extend their influence abroad. Why should the United States, with the best capital markets and financial minds in the world, get beat at our own game? Our development finance capacity is currently scattered throughout multiple organizations and hamstrung by outdated restrictions and regulations. Given the scale of the development needs of emerging economies and the fiscal limitations of grant-based foreign assistance, the United States needs to leverage the power of private finance for development by creating a new U.S. International Development Bank that would consolidate the authorities of multiple agencies and dramatically grow our lending capacity.
- **Creating a Next-Generation Millennium Challenge Corporation (MCC):** The MCC has successfully transformed how we deliver aid to poverty-stricken countries since the program was established in 2004 by offering compacts to developing countries that commit to principles of good governance and economic freedom. The MCC creates stability, and prevents conflict and the growth of extremism. However, it has operated with a significantly smaller budget than originally planned, which has limited the size of compacts and the number of countries that can participate. Increasing the MCC's budget to \$10 billion by 2022 and scaling up its capacity would inject much-needed development funding for additional compacts in a pool of 74 candidate countries.

- **Getting Fragile States on Track to Stability and Growth:** Failed and fragile states are an acute global security challenge. They are a source of much of the world’s instability and conflict, but traditional foreign assistance can be ineffective or impossible to deliver given governance and security challenges. We should establish a Fragile States Economic Partnership program to incentivize incremental, achievable reforms in countries that are not yet eligible for MCC compacts. Countries would be required to identify constraints to economic growth, and would be eligible for five-year partnerships that would include technical assistance and funding to achieve benchmarks.
- **Harnessing the Power of Global Health Programs to Drive Global Stability:** Preventable diseases such as malaria and HIV/AIDS still claim millions of lives each year, creating not only a devastating human toll but also a significant drag on economic growth and political stability in the countries most affected. Global health programs managed by USAID and the Department of State have been tremendously successful at stemming the spread of communicable diseases such as HIV/AIDS, and we should build on them. Additional funding for global health programs, including those for family planning and reproductive health, would save countless more lives and support sustainable economic growth — and are one of the most direct ways the United States can help developing countries and earn the goodwill of their people.
- **Breaking the Grip of Petro-Dictators:** The United States needs to be able to help finance strategic projects to reduce the malign influence of energy dominant powers like Russia and Venezuela. Russia’s near-monopoly on gas supplies in the region is one of the main tools Vladimir Putin uses to manipulate geopolitical affairs, while the State Department can do little more than provide technical assistance to our allies and root from the sidelines. We should ramp up our diplomacy and technical assistance in this sphere, but we also need to be able to put our money where our mouth is to counter their dominance. New authorities and resources to help finance consequential energy development projects are critical tools to shore up alliances and extend our influence.

Part Two

American Values, Forward Deployed

Diplomacy is the basic “nuts and bolts” of how we interact with other nations — peace talks and international summits, but also just the daily work of communicating between governments and facilitating commerce and travel — but we consistently underinvest in it. Diplomats are the day-to-day face of America and our values in almost every nation in the world. They work with Central American countries to stem the flow of undocumented migrants to the United States. They work with developing nations in Asia to counter China’s economic dominance. They work on combatting corruption in the Balkans to blunt the influence of Russian oligarchs. And yet we consistently underinvest in this American asset. Our diplomats, aid workers, and Peace Corps volunteers represent a truly cost-effective means to reduce the need for costly military interventions down the road, and we need to put the appropriate level of resources behind them. Further, in order to manage the significant increases in U.S. foreign assistance called for under a new Marshall Plan, we will need new staffing and a greater level of engagement with the rest of the world.

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Some of the specific initiatives to expand U.S. global engagement in this budget include:

- **Ramping Up the Physical U.S. Presence — Everywhere:** Each component of the new American foreign policy toolkit will need to be staffed by diplomats—diplomats who fight corruption, wean countries off Russian gas, and help build sustainable economies that act as buffers against the lure of extremism. Our Foreign Service Officers (FSOs) are on the frontlines of U.S. engagement with the

world, but they are understaffed and overworked. Increasing the number of State Department FSO and USAID direct-hire positions by 50% over five years would help us meet current and expected international challenges, enable U.S. missions to handle expanded workloads, and improve our capacity to manage development projects overseas with more effective oversight and accountability.

- **Simplifying and Expanding One of the Best Tools We Have to Spread American Values and Understanding—Global Exchange Programs:** The State Department currently manages 93 separate academic, professional, and cultural exchange programs — double the number that existed in 2004. These exchanges are a critical tool, exposing promising foreign civic leaders to American ideals of democracy, good governance, and civic engagement, and creating long-lasting bonds with future foreign leaders. But having so many different exchange programs dilutes their overall impact and makes it difficult for the State Department to manage them effectively. Slashing the number of exchange programs to a core few will allow the State Department to focus its management and oversight resources on those programs that have proven results. At the same time, we should double the amount of funding devoted to them, with a particular focus on forging ties with women and youth in developing countries.
- **Establishing a 21st Century Anti-Propaganda Program:** Countries like Russia and China are spending millions of dollars to manipulate public opinion around the world, often with the specific intent of undermining our interests. To fight back against the proliferation of foreign propaganda from state and non-state actors (like ISIS), we need to ramp up the State Department’s funding to identify and employ the most effective strategies for countering disinformation. The newly established Global Engagement Center, which coordinates federal efforts to expose and counter foreign propaganda and disinformation efforts that undermine U.S national security interests, should be robustly funded through 2022.

- **Cracking Down on Global Corruption:** Corruption and political instability go hand-in-hand — witness South Sudan, Venezuela and Afghanistan. Estimates show the true cost of corruption is staggering, impeding economic growth by costing more than 5% of global GDP every year.⁴ The State Department should create a new Governance track within the Foreign Service to focus U.S. Government-wide technical assistance resources towards anti-corruption work and push for reforms that can restore faith in government and reduce inequality. We should also massively scale up the annual funding we dedicate towards Democracy, Human Rights, and Governance initiatives overseas. This increase would help foreign countries institute political and legal reforms to improve governance and the rule of law, and promote the ability of civil society organizations to operate freely.
- **Achieving JFK's Peace Corps Vision:** In a global fight of ideas, the Peace Corps represents the purest distillation of the idea of America – a generous, munificent nation that uses its power and resources to build peace, stability, and prosperity outside its borders. Peace Corps' presence draws a country closer to America and away from our adversaries. But every year we are forced to turn down thousands of volunteers because of a lack of funding, and the program's footprint is shrinking even as foreign countries are requesting more. The Peace Corps Act of 1961 calls for a volunteer corps of 10,000, but the Peace Corps is only able to field about 7,100 under its current budget. We should significantly increase the Peace Corps budget to enable it to meet the demand.

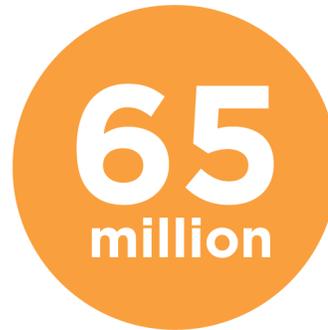
Part Three

Crisis Prevention, Crisis Management

Our world currently faces a global leadership crisis with the greatest displacement of people since World War II. The UN has announced that over 20 million people face starvation and famine, and there are over 65 million refugees, asylum seekers and internally displaced persons worldwide – but few countries are stepping up to the plate to meet the challenge. We cannot hide from this reality. Developing and festering crises, whether they be civil wars or famines, eventually threaten the United States. Civil wars in the Middle East drive extremist recruitment. Public safety crises in Central America drive undocumented migration to America. If the United States does not step up to address these crises, or prevent crises before they arise, no one will, and the United States will end up paying the price for this abdication of global leadership.



**People facing
starvation
worldwide**



**Refugees, asylum
seekers and internally
displaced persons**

Proposals for ramping up U.S. leadership in responding to global crises include:

- **Stopping the Humanitarian Bleeding:** The current global refugee crisis is straining fragile states in the Middle East and Africa and causing political upheaval throughout the West. The United States is a nation founded by religious refugees and has opened the door to those fleeing persecution and war time and time again. We need to continue opening our doors to the most vulnerable and dramatically increase the amount of funding to multilateral organizations leading the humanitarian effort like the United Nations and the International Committee of the Red Cross.

- **America to the Rescue:** We need to finally wake up to the fact that disasters add to instability, and we need to act like it in our spending decisions. With climate change increasing the scale and frequency of extreme weather events and global conflict on the rise, the demand for disaster assistance has never been higher. By increasing funding in the International Disaster Assistance account, the United States would save lives, reduce suffering, and mitigate complex emergencies through relief, rehabilitation, and reconstruction assistance.
- **Preventing Crises through Agile Spending:** The United States often finds itself flat-footed when needing to respond to refugee crises, conflicts or political instability. But while we don't know exactly *when* or *where* an international emergency will occur, we know they *will* occur — and they can have a direct impact on our own national security. And on those occasions when we do have warning of trouble ahead — a brewing political crisis in a fragile state, for example — our diplomats abroad have very little ability to direct resources that can help head off an emergency. In order to be able to respond appropriately, we need to budget appropriately and provide flexible authority to be able to quickly allocate money where it's needed most. We should pool the accounts that already exist but that are perennially underfunded — such as the Complex Crises Fund and Emergency Refugee and Migration Assistance — into a new, flexible Crisis Prevention and Response Fund overseen by an interagency board with almost \$7 billion in spending authority over the next five years.
- **Lightning Fast Response to Global Health Epidemics:** As we have seen with Ebola and Zika, global health epidemics have no boundaries and can threaten our own national security with little warning. The vast majority of health-related funding currently provided to U.S. government agencies is reserved for specific purposes long in advance. By setting aside \$2 billion in a flexible emergency account, the United States will have the ability to provide fast, efficient responses when health crises inevitably arise.

Conclusion

The debate about America's foreign policy is too often presented as a false binary choice: military intervention or isolation. The disastrous invasion of Iraq and the costly, long-running military effort in Afghanistan have clearly shown the limits and the dangers of the first approach. We now find the pendulum of American politics swinging towards the second — but a retreat to isolationism is perilous in this hyperconnected world, increasing the risks to our own security and opening the door for competitors to assert their power.

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There is another approach, one that learns from our own post-WWII history, and that directly addresses the root causes of conflict, instability, and extremism. Investing a small percentage of our resources in the tools of smart power — economic development, diplomacy and humanitarian assistance — will be far less costly than a future military intervention, and more likely to produce a positive outcome. Finally providing our international affairs agencies with adequate resources to do their jobs will reduce our overreliance on the Defense Department to solve every international problem, complementing the military's mission rather than undercutting it.

This budget is a blueprint for a radically new approach to American foreign policy, one that will give us the best chance to address the threats that face us in the 21st Century.

Methodology

This proposal does not comprehensively include every account within the State, Foreign Operations, and Related Programs annual budget. Those accounts not explicitly affected by recommendations in this proposal were assumed to increase annually at the expected rate of inflation — approximately 2.25% — as a way for the accounts to continue operating with at least their present capacity. The baseline figures for fiscal year 2017 represent the funding levels carried over from fiscal year 2016’s enacted level because of the ongoing concurrent resolution.

Five Year Projected Budget Under This Proposal (in billions of dollars)¹

	FY17	FY18	FY19	FY20	FY21	FY22
Total State, Foreign Operations and related agencies budget	\$52.86	\$64.58	\$71.23	\$80.07	\$87.46	\$100.45
Percentage increase over FY17 level	N/A	22.2%	34.7%	51.5%	65.5%	90.0%

¹ The FY17 budget figures used as a baseline in this proposal refer to the State Department, Foreign Operations, and Related Agencies budget, which includes several international commissions under Function 300. It does not include Function 150 accounts such as P.L. 480 (Food for Peace) and the International Trade Commission.

Part one

A 21st Century Marshall Plan

The original Marshall Plan—which saw the United States contributing an average of 2% of its GDP in the years after World War II to help rebuild the economies and infrastructure of war-torn Europe—was not done out of altruism. It was a response to a lesson the world had just learned in the hardest of ways: that devastated economies and weakened institutions are the soil in which violent extremism flourishes. The punitive terms of the Treaty of Versailles, which ended World War I, had led directly to World War II, and the United States was determined to chart a different course this time. The best way to head off another war, we recognized, was to help dry up the conditions that led to it, before the military got called in.

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It's time for a bold, 21st Century version of the Marshall Plan as an investment in our own long-term security and prosperity.

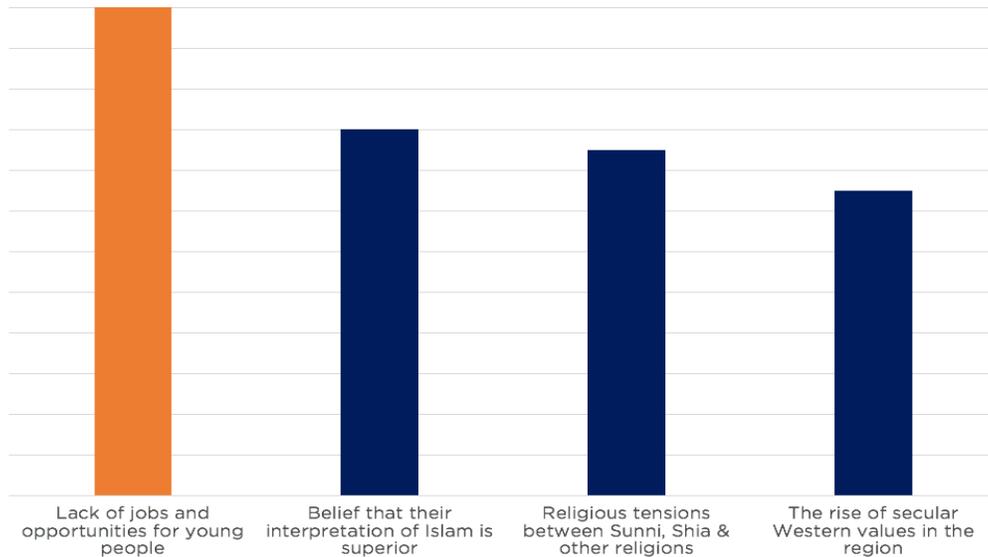
It worked. The \$13.3 billion (about \$130 billion in today's dollars) that the United States contributed toward European recovery is considered by many to have been the most effective U.S. foreign aid program ever. The program helped build stable, growing economies and in the process lifted millions of people out of poverty, strengthened democracies, and provided a bulwark against the threat of communism.

We've unfortunately forgotten the lesson of that success. Today we spend only about 0.2% (about \$36.5 billion⁵) of our GDP on foreign assistance, and little of

that is targeted at the type of economic revitalization efforts that worked so well in post-war Europe. It's time for a bold, 21st Century version of the Marshall Plan as an investment in our own long-term security and prosperity.

With few exceptions, countries experiencing broad-based, inclusive economic growth unimpeded by corruption are less likely to experience political instability and extremism than countries with governments unaccountable to their people. This economic growth model lifts people out of poverty, contributes to more stable and accountable governance, reduces youth unemployment, promotes gender equality, and boosts opportunities for trade. It also advances American national security objectives by reducing the incentive for young people to join radical extremist groups. For instance, the latest Arab Youth Survey found that almost a quarter of young people in the Arab world cited the lack of jobs and opportunities as the main reason why young people were joining the Islamic State.⁶ Fewer than half of all Arab youth believe they have decent prospects in the job market.⁷

Primary Reasons Young Men are Attracted to Join ISIS



Source: Asda'a Burson-Marsteller Arab Youth Survey 2016

Unfortunately, the need for economic assistance far outpaces the available resources. The amount of official development assistance (ODA) — a term generally including grants, technical assistance, debt forgiveness, and some very low interest loans with a grant component⁸ — provided by donor governments is only a tiny fraction of the funds needed by the developing world. According to

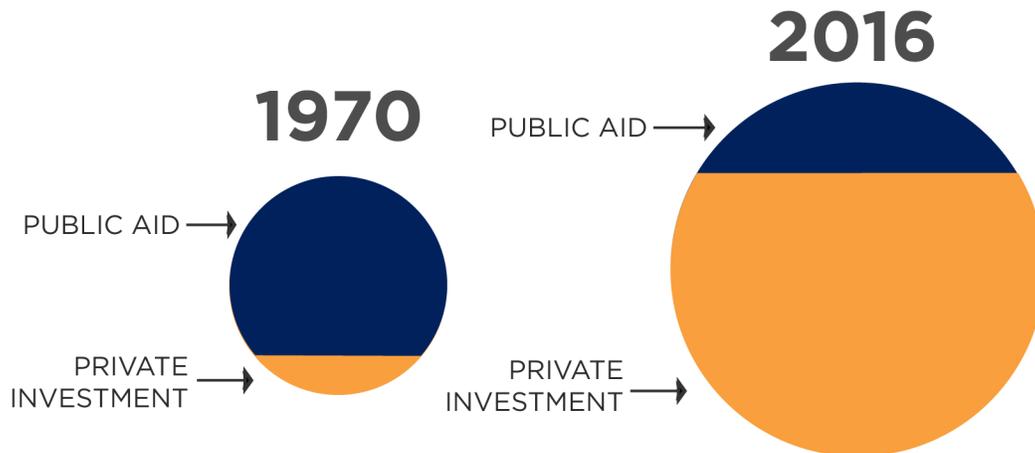
one estimate, there is an estimated \$2.5 trillion per year funding gap to implement the United Nations Sustainable Development Goals (SDGs), a set of goals adopted by member nations to improve lives in all countries.⁹ In order to bridge this gap, we not only need to increase the amount of incentive-based ODA the United States provides, but also look to other mechanisms for getting developing countries access to private sources of capital.

Creating a New, Powerful U.S. International Development Bank

While traditional foreign assistance resources such as bilateral or multilateral grants continue to lift many of the world's poorest people out of extreme poverty, foreign direct investment, remittances, private charitable giving, and other private sector sources are playing an increasingly important role in international development. In 2014, bilateral and multilateral organizations provided about \$181 billion in ODA to developing countries.¹⁰ In that year, remittances — funds sent by people living and working abroad to their home countries — totaled \$351 billion, and Foreign Direct Investment, export credits, and other private financial flows, such as charitable giving, totaled \$542 billion.¹¹ This relationship should have a heavier influence on how we approach development. As President Obama's Global Development Council found in 2014, the United States "will not achieve [its] ambitious goals for inclusive growth without better harnessing the private sector resources that are ultimately the drivers of development."¹²

Over the past 15 years, the development finance institutions (DFIs) — those entities that provide officially backed support (through direct loans, loan guarantees, etc.) or insurance for private sector investment in development countries — have become increasingly important to international development. DFIs' estimated commitments to the private sector were about \$90 billion in 2016, up from \$40 billion in 2010 and \$10 billion in 2002.^{13,14}

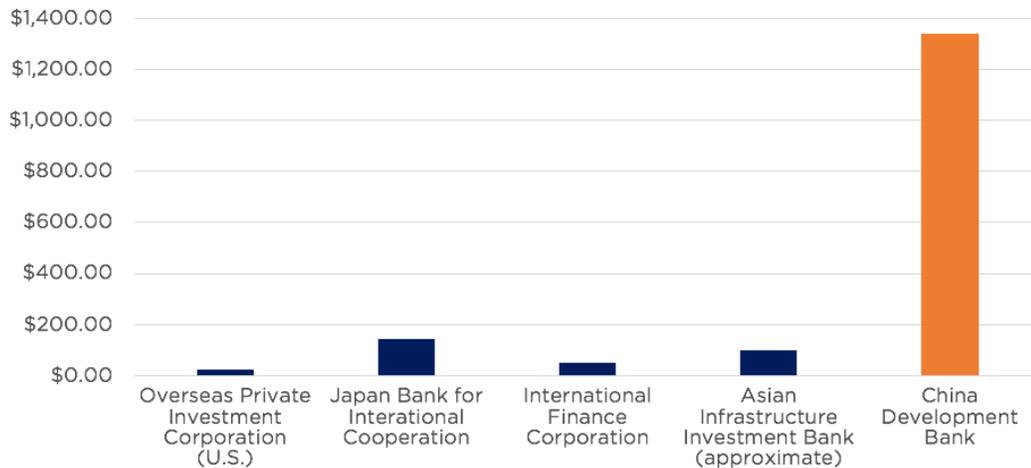
Aid and Investment in Global Development



Source: Organization for Economic Co-operation and Development (OECD)

Despite these trends, the United States has lagged far behind other donor countries in leveraging the power of private finance for development, ceding influence and a seat at the table. In January 2017, the United Kingdom voted to quadruple the budget of its development finance institution.¹⁵ Emerging market economies such as China and India are also ramping up their development finance activities, making those of the United States look minuscule in comparison. The China Development Bank, in operation since 1994, has a portfolio of loans to foreign countries totaling \$1.34 trillion.¹⁶ It's adding as many staff per year as Overseas Private Investment Corporation (OPIC) has in total.¹⁷ In 2016, China launched its own Asian Infrastructure Investment Bank (AIIB), seen as a rival to the World Bank for infrastructure projects in the Asia-Pacific region. With total capital at \$100 billion (half that of the World Bank), the AIIB is expected to lend \$10 to \$15 billion a year in its first five years.¹⁸

Comparing U.S. Development Investment (in billions)



Sources: OPIC: OPIC news release; Japan Bank for International Cooperation, International Finance Corporation: OPIC Fact Sheet; Asian Infrastructure Investment Bank: Reuters, Financial Times; China Development Bank: website of China Development Bank

Further, the DFIs of other countries generally have larger staffs and a wider range of tools to work with than our principal DFI, OPIC. OPIC provides U.S. companies with loans, loan guarantees, and political risk insurance, and makes loans to private equity investment funds to encourage investment in developing countries and emerging markets. Though OPIC is fully self-funded and actually contributes to federal deficit reduction — its operations netted \$239 million in 2016 even after administrative costs were taken into account — it has not been staffed proportionately to its growing portfolio and demand for its products overseas.

Further, OPIC lacks authorities that the DFIs of other countries commonly have, such as the ability to invest in private equity or other types of investment funds as a traditional limited partner, make direct equity investments in enterprises and projects, or invest in local companies or projects that do not have a majority American ownership. The DFIs of the UK, Netherlands, France, Germany and sixteen other countries all have the ability to make equity investments.^{19,20}

Not only is the United States failing to leverage capital for overseas development financing to an extent proportional to its sizable financial sector, its existing capabilities are scattered among several other agencies besides OPIC, including USAID’s Development Credit Authority (DCA) and the U.S. Trade and

Development Agency (USTDA), which each operate independently. This arrangement thins out management and oversight resources among several agencies and creates the potential for duplication. It also creates confusion for U.S. companies seeking to invest in business ventures overseas, forcing them to navigate an array of federal entities to find the most appropriate route to invest rather than going through a single office.

The DCA itself, which provides badly-needed guarantees to banks and local capital providers in developing countries to lend into markets underserved by formal financial institutions, is severely underfunded. DCA's portfolio has tripled in size over the past three years and offers a cost-effective way to mobilize around a billion dollars in local lending for nearly \$10 million in U.S. funding. The same can be said about the USTDA. USTDA's activities, on average, have generated over \$74 in U.S. exports for every dollar invested in the agency.²¹ The functions that both of these agencies provide are ripe for scaling up.

Recommendations:

- **Establish an integrated U.S. International Development Bank to harness the power of American finance for development.**

By 2020, Congress should establish a new U.S. International Development Bank that would combine existing U.S. development finance programs—including OPIC, USAID's DCA, and the USTDA. According to President Obama's Global Development Council, a development bank combining these three organizations would allow for a "far more logical, coherent, and consistent method for incorporating private sources of capital, infrastructure, and technology as a means to leverage government investments, foster public-private partnerships, and interact with local private sector actors." Such a bank, according to the Council, would be a "one-stop storefront that receives business inquiries through a single portal and responds to these opportunities quickly and in a coordinated fashion – something that the current system of finance spread across multiple agencies often fails to do."²²

To avoid starting from scratch, OPIC should serve as the foundation for the new institution. For this proposal, it was assumed that the Bank's administrative costs would be roughly triple that of OPIC's for each year

from 2020 to 2022, reflecting an expanded portfolio and larger staff. The Bank could assume DCA's current function providing guarantees to banks and other capital providers in developing countries and be given a portfolio limit significantly higher than DCA's current limit of \$2 billion. It could also absorb those functions of USTDA that provide small-scale financing, feasibility studies, and technical assistance programs that assist U.S. businesses boost their exports to markets in developing countries.

- **Allow the U.S. International Development Bank to grow based on the profits it produces.**

Currently, OPIC operates as a self-sustaining agency and has consistently produced a profit for the U.S. Treasury. Rather than automatically returning this money to the Treasury, Congress should permit the bank to retain a portion of its profits. This would allow the Bank to add staff as needed, grow commensurate with its profits, and permit it to support more projects in developing countries. OPIC has already shown that it can operate efficiently with a staff of only 257 people. The Government Accountability Office (GAO) found that the International Finance Corporation, a comparable development finance institution, uses about 17 times more resources than OPIC to manage a portfolio that is only about three times the size of OPIC's.²³

- **Give the new U.S. International Development Bank equity authority to diversify its portfolio and boost profits.**

The DFIs of other donor countries generally have significantly broader authority to make equity and equity-like investments overseas. In some cases, equity investments are the primary focus of their activity, such as is the case with the DFIs of Norway and the United Kingdom. Many projects in the riskiest emerging markets are at a stage where they need equity, not debt.²⁴ With a comparable ability to utilize equity, the Bank would be better positioned to partner in critical development projects with other DFIs and leverage additional interest from the private sector.

- **Enable the Bank to invest a portion of its portfolio in foreign companies.**

OPIC's current statute gives it the authority to support only those firms or investments with significant U.S. involvement or operational control.²⁵ A limited authority to support local companies, however, would allow

the new Bank to tackle critical development challenges in countries where U.S. investors are not active, often in the world's poorest countries. The DFIs of other OECD countries generally do not tie their support to only those firms from their own countries.²⁶

In supporting these projects, the bank should adhere to high environmental and social standards and respect human rights, including workers' rights. By mandating high standards, the Bank would help to raise the industry and regional standards of these countries, and demonstrate to the private sector that these markets are capable of rewarding sound investments. This could lead to further follow-on investments that would continue to bolster development in these countries.

- **Provide the Bank with permanent authorization to reassure potential investors of its long-term viability.**

The new Bank would need to have full permanent authorization from Congress. Prior to 2007, OPIC typically received multi-year authorizations. Since then, Congress has extended OPIC's authority annually.²⁷ By not giving OPIC permanent authorization, Congress sends the signal that it does not fully back its goals and activities, which may discourage potential investors from considering OPIC as a vehicle for long-term investments.

- **Ensure Bank is not limited to OPIC's present portfolio size limits.**

Current legislation, passed in 1998, limits the size of OPIC's "contingent liability," or size of its portfolio of loans, guarantees, and political risk insurance, to \$29 billion. While OPIC's current portfolio size is below the cap, at around \$21.5 billion, OPIC will quickly reach that limit if allowed to expand its lending activities. We should raise the cap to at least \$42 billion (the 1998 limit indexed to inflation), which would allow the Bank to grow commensurate with other DFIs.

**Table 1: Estimated Cost of Creating a U.S. International Development Bank
(in millions of dollars)**

	FY18	FY19	FY20	FY21	FY22
US International Development Bank			\$200.00*	\$200.00*	\$200.00*
• Overseas Private Investment Corporation (OPIC)	-\$283.21**	-\$283.21**			
• US Trade and Development Agency	\$60.00	\$60.00	-----	-----	-----
• USAID Development Credit Authority (admin expenses)	\$8.12	\$8.12	-----	-----	-----
Cost increase over FY17 level	\$0	\$0	\$200.00	\$200.00	\$200.00

**This level is approximately triple OPIC's administrative expenses in the FY17 level to account for the Bank's significantly larger staff and expanded portfolio. It does not factor in a prediction for the Bank's expected investment performance.*

***Assumes OPIC would have the same administrative expenses as FY16*

Creating a Next-Generation Millennium Challenge Corporation

While private finance is playing an increasingly important role in developing countries' economic growth, we cannot ignore the importance of traditional foreign assistance grants, which remain a stable source of resources to developing countries. Private investment flows often occur at the whims of the market and are thus more volatile than foreign assistance grants. Moreover, the world's poorest countries usually lack an attractive investment climate to potential investors. It is therefore essential that the United States and other donor governments continue to provide foreign assistance grants to bring about tangible outcomes in infrastructure, health, and education.

Established in 2004, the Millennium Challenge Corporation does just that. It provides grants to developing countries that demonstrate a commitment to good governance, invest in the health and education of their people, and adopt sound economic policies. The MCC enjoys broad bipartisan support because it creates incentives for countries to make critical institutional reforms resulting in a higher level of economic freedom, better governance, and improved rule of law even

before the first dollar of foreign assistance arrives—a phenomenon known as the “MCC effect.” Since its creation, the MCC has signed five-year compacts in 31 countries to deliver almost \$11 billion in grants to reduce poverty through economic growth.²⁸ The MCC’s country-led implementation model has improved the lives of an estimated 175 million people worldwide. About 65% of the MCC’s compact portfolio has been invested in Africa, mostly in large-scale infrastructure projects like roads, ports, and water systems, which enable long-term economic growth.²⁹

Despite the MCC’s success, it has received significantly less funding than was originally planned, and it remains limited by a number of outdated policies. When it was established, MCC was supposed to have an annual budget of \$5 billion, but its budget has hovered only around \$1 billion per year.³⁰

Recommendations:

- **Increase MCC’s funding to \$10 billion to reflect the strong link between economic growth and stability.**

A funding level of \$10 billion would allow MCC to hire more staff to establish and manage subsequent compacts in countries already benefiting from MCC compacts, as well as in countries new to the MCC. Scaling up the MCC is all the more important as China continues to loan billions of dollars in developing countries for infrastructure projects, especially in Africa. A bigger MCC would provide alternatives to Chinese loans and infrastructure development.³¹

One criticism of the MCC is that there are too few well-governed candidate countries eligible for its compacts. Each year, only around a third of countries that are eligible for MCC consideration actually pass the MCC’s eligibility criteria, which generally are a measure of the extent to which countries rule justly, invest in their people, and encourage economic freedom. And because only a few countries each year become eligible for MCC compacts as a result of improvements on these indicators, the pool of potential countries grows only by about one or two per year. To ensure that massive new MCC funding is committed to the greatest effect, MCC should establish subsequent compacts with countries that have already demonstrated that they can successfully manage compacts and have shown a strong commitment to good governance. The compacts could also focus on different sectors of the economy to ensure investment diversification.

- **Expand threshold programs that help developing nations qualify for full MCC compacts.**

Providing additional funding to the MCC would allow the organization to expand its threshold program, which provides relatively small grants for resolving policy constraints to economic growth in promising MCC candidate countries. Threshold programs help initiate a relationship with the recipient country that can help the MCC assess the country's fitness for a full MCC compact.³² By law, only 5% of the MCC's total budget can be applied to threshold programs. With the budget increase recommended in this proposal, raising this level to 10% would increase the number of countries eligible for threshold programs.

- **Extend MCC compact periods to reflect the reality that complex development projects take time.**

MCC compacts are limited to five years. However, complex infrastructure projects often take longer than five years to implement, especially when a project's planning phase is taken into account. To give compact countries more time to implement their projects, Congress should increase the maximum allowable time span for MCC fund disbursement to 10 years.³³ MCC should conduct interim reviews of compact progress as part of this longer compact period to ensure that it does not turn into a blank check for the recipient government.

- **Give MCC authority to enter into concurrent compacts.**

Currently, MCC does not have the ability to enter into more than one compact at a time within a given country. The inability to enter into concurrent compacts is a major barrier to regional economic development. For example, to make a coordinated regional investment work across several countries, the MCC would have to wait until any ongoing compacts in those countries are completed before the regional compact could be established, which could take almost five years. Regional compacts could help countries integrate their markets, facilitate trade and investment, and link regional power and transport networks.³⁴ Of course, the ability to enter into a second compact should be limited to countries that demonstrate progress toward meeting the objectives of the first compact and have sufficient capacity to successfully handle an additional compact.

**Table 2: Estimated Cost of Creating a Next-Generation Millennium Challenge Corporation
(in billions of dollars)**

	FY18	FY19	FY20	FY21	FY22
Millennium Challenge Corporation	\$1.50	\$3.00	\$5.00	\$6.00	\$10.00
Cost increase over FY17 level	\$0.60	\$2.10	\$4.10	\$5.10	\$9.10

Getting Fragile States on Track to Stability and Growth

Failed and fragile states pose a particularly vexing national security problem for the United States. As a whole, they are the source of much of the world’s instability and violent conflict. They produce massive numbers of refugees and economic migrants. In many cases, they are led by governments that provide little in the way of accountability, breeding resentment among citizens and fueling violent extremism in some regions of the world.

There are no easy solutions for helping fragile states achieve stability. Providing assistance to these states can be expensive and dangerous due to security conditions that make it difficult for diplomats and NGOs to operate. Moreover, the political systems of many of these countries are rife with corruption that siphons away foreign aid.

But just because providing assistance to these states is difficult doesn’t mean we should write them off. We cannot hope to improve our national security without addressing the challenges that failed and fragile states pose to global stability. While these states must take ownership of their own outcomes, there is a role for foreign assistance in reducing some of the drivers of instability. In states where the government has no control over large swaths of territory, or there is a large-scale violent conflict taking place, it may be more appropriate to direct our foreign assistance resources through the United Nations and other multilateral organizations. But in countries that have not reached this level of lawlessness or violence, direct assistance from the United States can provide a bridge to long-term political stability.

In these fragile – but not failed – states, the United States should focus its foreign assistance on mutually-agreed compacts designed to make progress toward good governance and inclusive economic growth. This would be a similar model to the

Millennium Challenge Corporation, but given the challenges fragile states face in meeting the MCC’s performance indicators on their own, the United States would provide targeted technical and financial assistance up front.

Recommendations:

- **Establish a Fragile States Economic Partnership Program.**

Recognizing that fragile states pose a challenge to American national security, the United States should by 2022 provide up to \$5 billion per year as part of new compacts with selected fragile states to help them overcome their most significant constraints to economic growth and political stability. Host countries and representatives from the United States would jointly identify these constraints, whether political, legal, or technical in nature. The United States would then fund the reforms necessary to overcome the constraints and offer graduated assistance throughout a five-year compact period based on the country’s track record of performance. This is essentially the reverse model of the MCC, which initiates compacts only after a country has passed performance indicators on its own.

The recipient country would need to be closely involved in all aspects of the compact, including identifying its constraints and laying out a transparent plan for how exactly to overcome them. Partnerships would involve heightened and sustained involvement from the U.S. government through a USAID-chaired board consisting of representatives from the Departments of State, Justice, and Treasury. The United States would also need to communicate its willingness to cancel its investments if the recipient government reverses the reforms.

**Table 3: Estimated Cost of Fragile States Economic Partnership Program
(in billions of dollars)**

	FY18	FY19	FY20	FY21	FY22
Fragile States Economic Partnership Program	\$1.00	\$2.00	\$3.00	\$4.00	\$5.00
Cost increase over FY17 level	\$1.00	\$2.00	\$3.00	\$4.00	\$5.00

Harnessing the Power of Global Health Programs to Drive Global Stability

A country's economic growth potential is largely a function of the health of its people. Countries with sicker populations tend to be more politically volatile, and therefore present a greater threat to the United States and our allies. Further, a global pandemic can start anywhere, and as we saw with the Ebola outbreak in 2014, diseases do not recognize national borders. U.S. health security is dependent on being able to build agile systems of public health in developing nations.

The United States has led the way in providing health-related foreign assistance to improve the lives of millions of people around the world. The President's Emergency Plan for AIDS Relief (PEPFAR), the President's Malaria Initiative (PMI), and other programs centered on maternal and child health have dramatically slowed the spread of those conditions overseas. But despite these targeted successes, too many countries still face diseases that have been virtually eradicated in the United States. For example, in 2015, 10.4 million people fell ill with tuberculosis and 1.8 million died from the disease.³⁵

Further, rare diseases, like Ebola, cannot be defeated without serious U.S. investment. USAID is collaborating with pharmaceutical companies to develop treatments for neglected tropical diseases, such as lymphatic filariasis and trachoma, and to direct donated drugs to affected populations.³⁶ Expanding these treatments could eliminate these two diseases globally, and reduce the threat to the United States and the world.

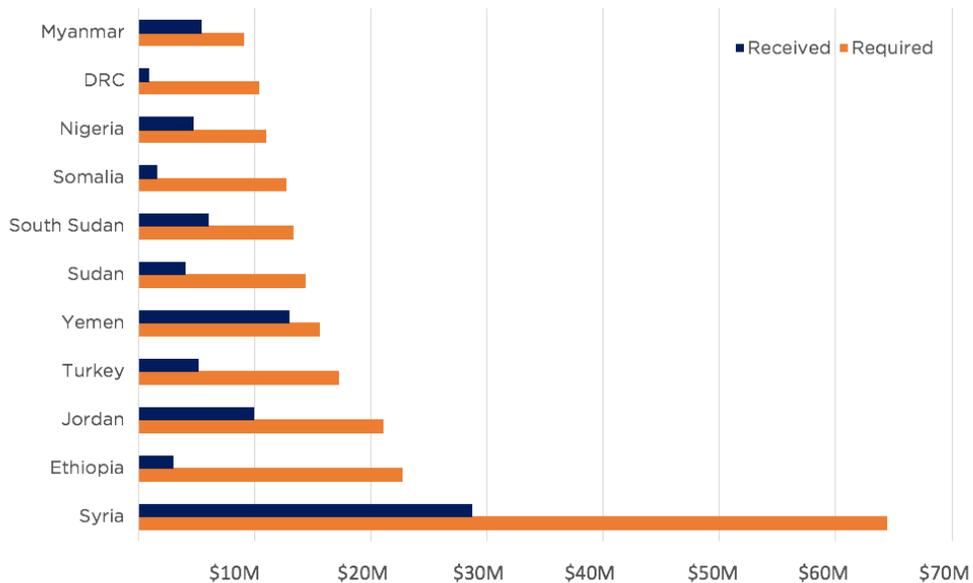
Finally, it is shocking that pregnancy is still the leading cause of death for millions of women in low to middle-income countries across Asia and Africa. In sub-Saharan Africa, a woman's risk of dying during childbirth is 1 in 38, compared to 1 in 3,700 in developed countries.³⁷ Experts say that if donor nations were able to help meet the contraception needs of women in developing countries, maternal mortality could be cut by a third and infant mortality by up to 20%. Not only would this save millions of lives, it would also set women and families on a path towards greater economic empowerment. Universal access to contraception is one of the most valuable investments we could make in international development, with returns as high as \$120 for every \$1 spent.³⁸

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Pregnancy is still the leading cause of death for millions of women in low to middle-income countries across Asia and Africa.

The United States provides a significant portion of its family planning and reproductive health funding through the UN Population Fund (UNFPA) the largest multilateral provider of family planning, reproductive health, and maternal health services. UNFPA works in more than 150 countries, including those affected by conflict and humanitarian crises, to prevent maternal mortality, expand access to contraceptives, and improve the overall status of women. Unfortunately, UNFPA faces significant funding shortfalls given the demand for its programs and activities. It has received only 51% of the funding it needs for the upcoming year.³⁹ On a country basis, it received only about 45% of the funding required for Syria, 13% for Somalia, and 8% for Democratic Republic of the Congo.⁴⁰

United Nations Family Planning and Reproductive Health Funding Shortfalls, 2016



Source: United Nations Population Fund, Humanitarian Action Overview 2017

Recommendations:

- **Increase funding for Global Health Programs from \$8 billion to \$15 billion over five years.**

A broad-based funding increase of this scale for health programs administered by USAID and the State Department will pay huge dividends for U.S. security and global stability. There are few things as important as preventing a global pandemic capable of mass casualty in the United States. Helping the world’s poorest countries improve health outcomes and life expectancy – by, among other things, providing vaccines now considered routine for American newborns; expanding the prevention and treatment of malaria, HIV/AIDS, and TB; and developing vaccines for neglected tropical diseases – would have an immediate, tangible impact on their economic and political security and reduce the risks to our own national security in the long term.

- **Increase funding for Family Planning and Reproductive Health programs.**

Family planning is one of the most successful and cost-effective paths to sustainable development, but more than 220 million women who want to utilize family planning lack access to these services. The United States should enhance its commitment to universal access to family planning by increasing annual Family Planning and Reproductive Health contributions from around \$600 million to \$1.0 billion by 2022. As part of this increase, the United States should provide significantly higher funding to the UNPFA.

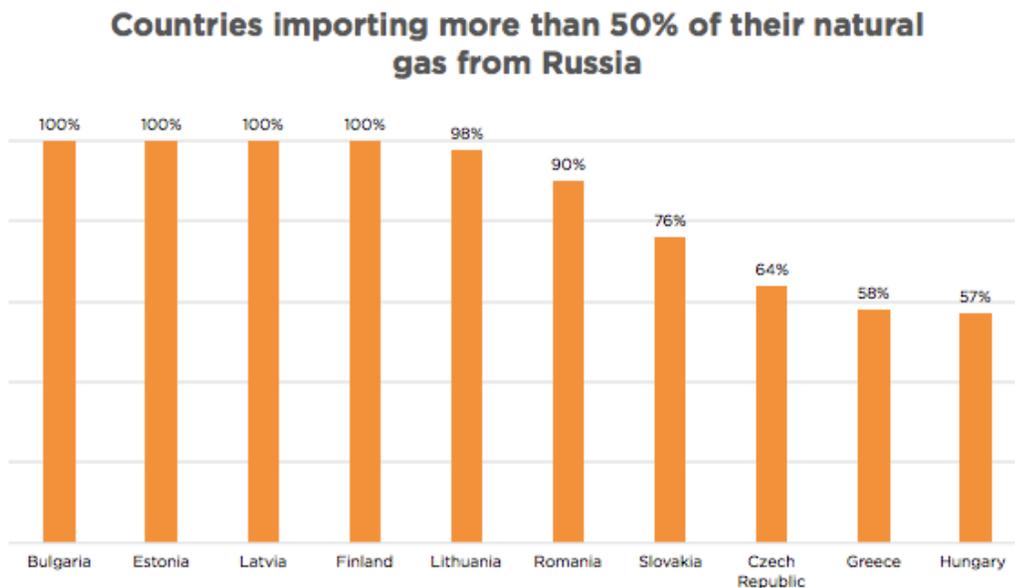
Table 4: Estimated Cost of Global Health Programs (in billions of dollars)

	FY18	FY19	FY20	FY21	FY22
Global Health Programs	\$10.00	\$11.00	\$12.00	\$13.00	\$15.00
Cost increase over FY17 level	\$1.50	\$2.50	\$3.50	\$4.50	\$6.50

Breaking the Grip of Petro-Dictators

The European Union and former Soviet Union states are dangerously dependent on Russian imports of natural gas and oil, leaving them vulnerable to supply disruptions and political influence from Moscow. In 2006 and 2009, Russia's state-owned energy company Gazprom stopped shipping fuel through Ukraine, leaving countries throughout Europe with a shortage of heating fuel in the middle of winter. Venezuela holds outsized influence in the southern hemisphere because of their oil deposits. And since the discovery of oil in the Middle East, U.S. policy has been compromised by our need to stay close to brutal regimes that control vast amounts of oil.

Amazingly, our foreign policy is still largely blind to this reality. As Russia uses its oil and gas to effectively blackmail countries to support its agenda, and as receipts from the sale of fossil fuels allow it pay for a variety of disruptive activities like Russia's massive propaganda effort or its invasion and occupation of Ukraine, the United States has no meaningful way to help countries become less dependent on Russian energy. We provide advice to nations that want to grow domestic energy sources, or create connections to non-Russian oil and gas, but we don't actually provide any tangible help to do so. And so, not coincidentally, Russia continues to dominate the energy market in and around its periphery.



Source: *International Trade Center*

Recommendations:

- **Make significant new investments in energy projects over five years to wean allies off petro-dictator reliance.**

The United States should establish a new vehicle for financing energy independence projects around the world that advance U.S. national security interests. By 2022, the vehicle would include \$5 billion to fund a variety of projects to increase allies' energy security. Projects could include: 1) key energy infrastructure, such as pipelines, reverse flow capacity, and gas storage facilities; 2) electricity sector upgrades to improve efficiencies in transmission and distribution; 3) energy efficiency programs for existing residential, commercial, and industrial properties; and 4) renewable electricity projects, particularly wind and solar.

The State Department and new U.S. International Development Bank working in tandem could fund these projects with a combination of traditional grant funding, matching grants, and low-interest loans. In short, eligible countries would propose energy projects and the United States would select those with the most significant potential to improve energy security. Whether the recipient government receives grants or loans should depend on countries' income level and expected ability to manage the funds for their intended purpose. Those countries with incomes over a pre-determined GDP level would be eligible for low-interest loans for projects, while those with lower per capita GDPs would be eligible for grants or matching grants using a sliding scale based on income level. For projects involving more than one country, the United States would fund the project according to the lowest per-capita income country involved.

The good news is that the United States already has experience facilitating investments in energy infrastructure projects worldwide through OPIC. Energy projects OPIC currently support in the developing world are expected to generate more than 3.5 gigawatts of electricity — enough to meet the power demand of roughly 3 million American homes per year.⁴¹ As is the case with OPIC, the energy projects called for in this proposal would benefit from having up to 20-year loan durations to reflect the complex nature of energy infrastructure investments. Of course, expanding our development finance portfolio to this extent would require a staff large enough to manage the new Bank's investments.

- **Establish a financing program for new LNG import terminals in countries heavily reliant on oil and gas from petro-dictatorships to facilitate U.S. gas exports.**

The shale revolution has dramatically changed U.S. natural gas production; we should be exporting our surplus gas as a way to diversify allies' energy sources and support our own economy. The United States could encourage the production of such facilities by offering allies low-interest loans over the next five years.

Table 5: Estimated Cost of Energy Assistance (in billions of dollars)

	FY18	FY19	FY20	FY21	FY22
Energy Assistance	\$1.00	\$2.00	\$3.00	\$4.00	\$5.00
Cost increase over FY17 request	\$1.00	\$2.00	\$3.00	\$4.00	\$5.00

Part Two

American Values, Forward Deployed

Today, the most important and vexing challenges the United States faces are not conventional military challenges. We face the rise of shadowy extremist groups using the dark internet to organize and recruit. We face emerging economic powers like China and India who are using their newfound resources to bully smaller nations. We face a global youth bulge that destabilizes poor nations where there aren't enough jobs to go around. We face the threat of global health pandemics. We face the catastrophe of climate change. We face the creeping influence of corruption, turning citizens against their governments and creating more instability.

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But often, the best foot forward for America is not a combat boot.

So, given all these non-military threats, does it really make sense that there are more people working in U.S. military run grocery stores than there are diplomats in the State Department? Of course not. Yes, the U.S. military is an important force for good. But increasingly, as military budgets soar at the expense of diplomatic funding, our soldiers and generals are the primary face of the United States abroad. But often, the best foot forward for America is not a combat boot. Most countries, in fact, want to see a different face of the United States – the economic development officer, the anti-corruption specialist, the public health professional. The values that draw the world to the United States are, in fact, not military-based. People look up to the United States because of the power of our economy, the impact of our culture, our spirit of entrepreneurship, our colleges

and universities, and our lack of tolerance for corruption in government, among other things. Evidence suggests that when our forward presence is solely based on military power, the positive perception of the United States wanes. When countries see us projecting non-military value, like during the time of the original Marshall Plan, our influence swells.

In a world where there are multiple global powers, the United States cannot expect to win friends simply because we have the biggest military. And with Russia, China, Saudi Arabia, and many others increasing their global footprint through non-military means, we need to assert our non-military presence as well. Aircraft carriers are important, but they don't win friends and scare adversaries like they used to. Not in today's changed world.

Ramping Up the Physical U.S. Presence – Everywhere

Foreign Service Officers (FSOs) at the State Department and USAID represent the United States to foreign populations and implement U.S. policies, but they are understaffed and overwhelmed. We need to hire more FSOs and equip them with all the resources they need to do their jobs. In a time of global political turmoil, the United States should be ramping up its engagement with the rest of the world, not pulling back.

Given the complexity and scale of the foreign policy challenges the United States faces in the 21st Century, our diplomatic corps is surprisingly small. A little over 8,000 FSOs carry out American foreign policy in more than 180 countries overseas, building relationships with their foreign counterparts, supporting peace and prosperity, facilitating commerce and travel, and protecting American interests.⁴² The entire State Department diplomatic corps could fit comfortably aboard two U.S Navy aircraft carriers.⁴³ That's insane given the non-military challenges that our nation faces overseas today.

While Foreign Service staffing levels have increased over the past 15 years thanks to recent State Department hiring initiatives, much of the increase was due to the hiring of Foreign Service Specialists, particularly those serving in diplomatic security or information technology roles. Consular staff, who are responsible for protecting and assisting American citizens abroad, adjudicating visas, and facilitating adoptions, among other things, also experienced a big increase in hiring. Those specialties that did not experience the same increases were officers

in the Political, Economic, and Public Diplomacy career tracks, who carry out our core government-to-government diplomacy, implement American policy, and advocate for U.S. policy positions abroad.

Lastly, the Foreign Service needs more FSOs who are proficient in critical foreign languages. A March 2017 GAO report found that 37% of the Foreign Service's positions requiring language proficiency in the Middle East and 31% of those in South and Central Asia were either vacant or being filled by FSOs who do not meet the requirements.⁴⁴ Almost 40% of Arabic-designated positions, more than 50% of positions designated for Dari-proficiency, and almost 50% of Urdu-designated positions were being filled by FSOs without sufficient proficiency in those languages. According to FSOs who the GAO interviewed, gaps in language proficiency have, in some cases, affected State's ability to, for example, properly adjudicate visa applications, develop relationships with foreign journalists, participate fully in meetings with foreign government officials, and perform other critical diplomatic duties.⁴⁵

Recommendations:

- **Increase the number of State Department FSOs by 50% over the next five years.**

We should increase the number of FSOs from approximately 8,000 to 12,000, and target fragile states for staffing increases. Hiring more FSOs would build our capacity to manage ongoing and future foreign policy challenges and contribute to a new push towards reducing corruption described later in this proposal. We should also ensure that a significant portion of the new FSOs bring with them proficiency in priority foreign languages, including Arabic and Chinese. Lastly, hiring more FSOs would also help the Department build a "training float," or additional staff that would allow a portion of FSOs at any given time to be in training or enrolled in education without hindering the Department's ability to fill critical positions.

- **Allot the majority of this increase to the Political, Economic, and Public Diplomacy career tracks of the Foreign Service.**

These three career tracks, considered “core diplomacy” functions, have not seen the same personnel increases as Foreign Service Specialists and Consular positions over the last ten years. This increase would alleviate vacancies in Public Diplomacy positions overseas. As many as one-third of Public Diplomacy career-tracked FSOs at any given moment are in serving in non-Public Diplomacy positions, reducing the State Department’s ability to inform and influence various foreign parties in a given country.⁴⁶

Table 6: Estimated Cost of Ramping up the Physical U.S. Presence (in billions of dollars)

	FY18	FY19	FY20	FY21	FY22
Ramping up the Physical U.S. Presence - Everywhere*	\$2.43	\$2.48	\$2.83	\$3.08	\$3.17
State Department Foreign Service Officers (FSOs)	9,000 FSOs	9,500 FSOs	10,500 FSOs	11,500 FSOs	12,159 FSOs
Cost increase over FY17 level	\$0.40	\$0.45	\$0.80	\$1.05	\$1.15

*Assumes that the cost of hiring new officers and placing them in their first assignments to be approximately \$400,000 per FSO in their first year, a figure that includes salary and benefits, recruiting, hiring, training, travel, security, and other operational costs. This figure drops to \$250,000 per year thereafter.

Increase the Effectiveness of U.S. Foreign Assistance through Oversight

USAID has a significantly smaller workforce today than it had in the 1960s and 1970s, even though global development is an essential component of our national security strategy. In 1965, there were over 6,800 U.S. permanent “direct hire” employees, consisting of Civil Service employees in Washington, D.C., and Foreign Service employees serving at overseas missions. The number of direct hires dropped steadily over the years, reaching about 2,100 in the year 2000.⁴⁷ While the total number of direct hires has risen to about 3,900 today, the agency

does not have enough permanent staff to manage its workload in a way that ensures sufficient oversight over foreign assistance spending.⁴⁸ The Congressional Research Service reported in 2015 that USAID still has difficulty sending a sufficient number of personnel to critical priority countries, such as Afghanistan and Sudan, or to countries undergoing unanticipated crises without causing detrimental vacancies elsewhere.⁴⁹ USAID's presence in Africa is particularly small, given the extent of our foreign assistance there. On the entire continent of Africa, USAID has 671 U.S. direct hire staff.⁵⁰ In comparison, U.S. Africa Command has assigned to it 2,000 personnel, including military, U.S. federal civilian employees, and contractors—a stark example of the priority we have placed on development versus military engagement.⁵¹

It is important to note that the reduction in permanent USAID staffing since 1970 has partly reflected a shift in how the United States implements foreign assistance. It used to be that USAID employees would directly manage development projects overseas; now, we often rely on contractors to do the job. However, reducing USAID permanent staff so significantly over the years while increasing reliance on contractors has caused gaps in contract oversight and created inefficiencies in the way we deliver foreign assistance.⁵² As a result, we end up paying for a lot of overhead that does not get to the people who need the assistance the most. Another way our implementation method has changed is that we now rely more heavily on foreign countries to manage their own development projects while we take more of an oversight and guidance role. This is a good practice, but one that should be accompanied by increased U.S. diplomatic attention in terms of contract management, oversight, and technical assistance where security conditions allow.⁵³ Despite these shifts, USAID still needs more development professionals who can effectively deliver foreign assistance in fields such as economic growth, health, education, and governance, and provide the oversight that American taxpayers deserve.

Recommendations:

- **Increase the number of direct hire employees at USAID by 50% over the next five years.**

Increasing the number of USAID FSOs from approximately 2,150 to 3,225² would improve the agency's capacity to manage its existing workload

² This number includes Foreign Service Limited staff, or non-career staff hired for specific appointments mainly in Critical Priority Countries.

and meet future requirements, especially in the poorest countries and others considered fragile. Hiring new FSOs, however, will create new training and support requirements, since new hires typically do not have the experience and skills gained from years on the job. It is therefore important to have a proportional increase in the size of the USAID Civil Service officers who provide policy oversight and operational support for overseas programs, among other things.

- **Provide USAID with expanded hiring authorities to facilitate recruitment of those with technical or other specialized skills.**

Because of current civil-service rules, USAID is often unable to quickly hire talented people to meet the demand posed by the agency’s development projects and expertise overseas. Because much of the work USAID does is very specialized and technical in nature, the agency would benefit from new hiring authorities that would streamline the application process for employees in certain professional specialties such as technology, engineering, and foreign languages. We also should expand USAID’s ability to provide shorter-term contracts to these specialists, as needed.

Table 7: Estimated Cost of Increasing USAID Direct-Hire Staff (in billions of dollars)

	FY18	FY19	FY20	FY21	FY22
USAID direct-hire staff*	\$1.10	\$1.20	\$1.29	\$1.40	\$1.58
USAID direct-hire workforce	- 4,080 Direct Hires - 2,000 FSOs, - 280 FS Limited, - 1,800 CSOs	- 4,410 Direct Hires - 2,200 FSOs, - 310 FS Limited, - 1,900 CSOs	- 4,730 Direct Hires - 2,400 FSOs, - 330 FS Limited, - 2,000 CSOs	- 5,150 Direct Hires - 2,600 FSOs, - 350 FS Limited, - 2,200 CSOs	- 5,840 Direct Hires - 2,844 FSOs, - 380 FS Limited, - 2,616 CSOs
Cost increase over FY17 request	\$0.12	\$0.23	\$0.32	\$0.42	\$0.61

*Assumes that the cost of hiring new officers and placing them in their first assignments to be approximately \$400,000 per FSO in their first year, a figure that includes salary and benefits, recruiting, hiring, training, travel, security, and other operational costs. This figure drops to \$250,000 per year thereafter.

Simplifying and Expanding One of the Best Tools We Have to Spread American Values and Understanding—Global Exchange Programs

People-to-people exchanges managed by the State Department encourage the spread of democratic values and increase mutual understanding by exposing foreign audiences to U.S. policies, values, and culture. Any U.S. ambassador will tell you that the quickest way to build political stability and affection for the United States is to invest in exchange programs. These academic and professional exchanges expose promising foreign civic leaders to American ideals of democracy and civic engagement and create long-lasting bonds with leaders that the United States can work with in the future to solve foreign policy challenges. Take, for example, the long list of alumni from our flagship professional exchange program, the International Visitors Leadership Program (IVLP), who have served as Chiefs of State or Heads of Government, including Tony Blair, Gordon Brown, Gerhard Schroder, Hamid Karzai, and Indira Gandhi.⁵⁴ It's also no coincidence that Russia recently canceled our bilateral exchange program for promising young students (known as FLEX)—Putin's authoritarian government recognized that exposing young Russians to the reality of American culture, governance, and freedom was dangerous to his agenda.

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Ask any U.S. Ambassador and he or she will tell you that the quickest way to build political stability and affection for the United States is to invest in exchange programs.

In addition to these academic and professional exchanges, the State Department manages several cultural exchanges that warrant additional attention in a new budget. For example, the U.S. Ambassadors Fund for Cultural Preservation awards grants through U.S. embassies for the preservation of cultural heritage of developing countries and is a good way for Ambassadors to show goodwill towards host countries and improve foreign perceptions of the United States.⁵⁵ Additionally, the State Department sponsors English Language training⁵⁶ and an

education advisory program that helps international students navigate the American college and university application process and advises students on testing requirements, student visas, and financial aid. Scaling up English language training overseas would come at a time when the Chinese have established 46 Confucius Institutes in Africa alone.⁵⁷

While people-to-people exchanges are one of our best tools for promoting American values and interests, the fact that the State Department now manages ninety-three different academic, professional, and cultural exchange programs dilutes their overall impact and makes effective management and oversight challenging. We should increase the amount of funding for exchanges at the same time we slash their number to a core few to ensure that the State Department can focus its management and oversight resources on the most effective programs.

Recommendation:

- **Double funding to State’s people-to-people exchange programs while reducing the number of exchanges over the next five years.**

Along with this increase, the State Department should eliminate the majority of exchange programs and focus on a handful of core exchange programs in the academic and professional categories. This consolidation would lead to the expansion of successful programs and improve the Department’s ability to manage and provide oversight over its exchange portfolio. When selecting participants for each exchange program, preference should be given to young people and women from developing countries, especially fragile states. Priority should also be given to strategically important countries, including Russia and Turkey.

Exchange programs could be consolidated into six or seven robust programs. This will help gain economies of scale in administration and marketing, and reduce the confusion many foreigners face in trying to choose the right exchange program. Flagship programs that have a proven track record of success include Fulbright, Kennedy-Lugar Youth Exchange Study (YES), Future Leaders Exchange (FLEX), and the International Visitors Leadership Program (IVLP).

Table 8: Estimated Cost of Expanding Global Exchange Programs (in billions of dollars)

	FY18	FY19	FY20	FY21	FY22
Global Exchange Programs	\$0.80	\$0.90	\$1.0	\$1.1	\$1.18
Cost increase over FY17 level	\$0.21	\$0.31	\$0.41	\$0.51	\$0.59

Establishing a 21st Century Anti-Propaganda Program

Countries like Russia and China are spending millions of dollars to manipulate public opinion and undermine democratic institutions around the world, while ISIS has proven adept at using the internet and social media to spread its poisonous message. Sunlight may be the best disinfectant, but without adequate resources, disinformation and propaganda can't be exposed for the distortions they are. To fight back against the proliferation of foreign propaganda from state and non-state actors, we need to ramp up the State Department's funding to identify and employ the most effective strategies for countering disinformation.

The United States has taken important, concrete steps over the last two years to develop a comprehensive strategy to counter foreign disinformation and propaganda and assert leadership in developing a fact-based strategic narrative about our nation and our policies. In March 2016, I was proud to introduce the *Countering Disinformation and Propaganda Act* bipartisan legislation with Republican Senator Rob Portman of Ohio to help the United States and our allies counter foreign propaganda. Our bill was eventually included as part of the 2017 National Defense Authorization Act (NDAA), which established an interagency center—the Global Engagement Center (GEC)—housed at the State Department to coordinate and synchronize counter-propaganda efforts through the U.S. government. It also authorizes grants for NGOs, think tanks, civil society groups, and other experts outside government that are engaged in counter-propaganda work to leverage existing expertise and empower local communities. The Secretary of Defense was given transfer authority for up to \$60 million to the State Department to accomplish these objectives.⁵⁸

Recommendation:

- **Bolster the capabilities of the Global Engagement Center to enhance our ability to fight disinformation and propaganda.**

Establishing the GEC and providing transfer funding authority were important first steps in coordinating the U.S. counter-propaganda effort, but we have to scale up rapidly if we are going to compete in this new media landscape. Given the nature and scale of the threat to American national security, we should provide direct funding to the GEC and steadily increase its authorization through 2022.

Table 9: Estimated Cost of Establishing a 21st Century Anti-Propaganda Program (in billions of dollars)

	FY18	FY19	FY20	FY21	FY22
Establishing a 21 st Century Anti-Propaganda Program	\$0.30	\$0.35	\$0.40	\$0.45	\$0.50
Cost increase over FY17 level	\$0.22	\$0.27	\$0.32	\$0.37	\$0.42

Cracking Down on Global Corruption

Corruption erodes trust between citizens and government, and cripples basic functions of the state. It creates openings for countries that make intimidation and bribery a central tool of their foreign policy, like Russia. And it undermines political stability, leads to humanitarian crises, and can cause those shut out from the market economy to become prime targets for radicalization. Further, corruption undermines the effectiveness of our foreign assistance — witness, for example, the hundreds of millions of dollars siphoned away by corruption in Afghanistan and Iraq.

We cannot fix these issues on our own, but we can create incentives for foreign governments to be more accountable to their people. We can also highlight corrupt practices that destabilize states and ultimately threaten our national security. And we can do more to spread the example of American government through technical assistance and dialogue.

Recommendation:

- **Create a pilot program for FSO positions focused on anti-corruption activities.**

As part of the called-for increase in the number of State Department FSO staff, the Department should in a five-year pilot program create FSO positions at select U.S. embassies responsible for analyzing and reporting on corruption and channeling U.S. technical assistance to support host nation anti-corruption activities. Though FSOs in the Political, Economic, and Public Diplomacy career tracks keep abreast of and report on corruption issues and work with host country counterparts to strengthen accountability, anti-corruption activities are not the focus of their day-to-day roles. These “Governance” FSOs would advise Chiefs of Mission and direct anti-corruption foreign assistance — in coordination with the host government — to areas or functions where it is most needed.

Governance FSO reporting would inform decision making by American policymakers and businesses. Reporting by Governance FSOs could be included in the State Department’s Human Rights Report for each country, as well as in the State Department’s Investment Climate Statements, which help American businesses make investment decisions in foreign countries. Governance FSOs would share best practices and enhance coordination among other technical experts in other federal agencies — the Departments of State, Treasury, Justice, and Commerce — currently helping foreign governments improve their justice systems and rule of law.

- **Scale up programmatic funding to root out global corruption**

Significantly scaling up funding devoted to State’s Democracy, Human Rights, and Governance program objective would help foreign countries institute political and legal reforms that improve governance and rule of law while allowing civil society organizations to operate freely. Funding would go towards supporting foreign countries in pursuing free and fair elections, promoting transparency and accountability through the work of civil society organizations, and strengthening human rights protections. Funds would come from the Economic Support Fund, Development Assistance, and International Narcotics Control and Law Enforcement accounts.

- **Make anti-corruption programming and analysis an automatic part of certain projects.**

Development projects that are launched in severely corrupt environments should be required to devote a greater proportion of funding to monitoring and evaluation. Additionally, for every assistance package of significant size, USAID should conduct a thorough analysis of corruption in political and economic networks and use it to inform spending decisions.⁵⁹

- **Enhance support to Open Government Partnership to enhance transparency.**

The Open Government Partnership is a multilateral initiative launched by the United States and seven other governments in 2011 to help reform-minded officials and citizens promote transparency, engage, and harness new technologies to fight corruption and improve governance. The Partnership now includes 75 member states and is funded primarily by grants from USAID and organizations such as the Hewlett Foundation and Ford Foundation.⁶⁰ Between 2014 and 2016, the U.S contributed \$700,000, the second-highest amount after the United Kingdom’s \$1.7 million in that same time period.⁶¹

Table 10: Estimated Cost of Democracy, Human Rights and Governance Programs (in billions of dollars)

	FY18	FY19	FY20	FY21	FY22
FSO Governance positions ³	\$0	\$0	\$0	\$0	\$0
Democracy, Human Rights, and Governance	\$3.0	\$3.5	\$3.75	\$4.5	\$5.0
Cost increase over FY17 request	\$0.28	\$0.78	\$1.03	\$1.78	\$2.28

³ Costs are included in the earlier Foreign Service Officer recommendation.

Achieving JFK's Peace Corps Vision

In a global fight of ideas, the Peace Corps represents the purest distillation of the idea of America – a generous, munificent nation that uses its resources and expertise to help build peace, stability, and prosperity outside its borders. Having Peace Corps volunteers on the ground in a country – whether they're in sub-Saharan Africa to help eradicate malaria, Central and South America to introduce more efficient and sustainable farming practices, or Eastern Europe to help educate and empower girls – draws countries closer to America and away from our adversaries.

The Peace Corps also works as a low-cost force multiplier by partnering with other federal agencies to increase the impact and sustainability of U.S. international development programs like PEPFAR. With a tiny budget, the Peace Corps helps execute our international development goals, promotes a positive image of the United States, and trains a cadre of people with foreign linguistic and cultural skills. But unfortunately every year we are forced to turn away thousands of volunteers because of a lack of funding, and the program's footprint is shrinking even as other countries are requesting more Peace Corps engagement.



**Peace Corps
Volunteers in 1966**



**Peace Corps
Volunteers in 2016**

Despite a 40-year high in applications for Peace Corps volunteer positions,⁶² and broad congressional support for its overwhelmingly positive contribution to American interests, the organization employs significantly fewer people (approximately 7,100 in fiscal year 2017⁴) than the 10,000 called for in the Peace Corps Act of 1961. The Peace Corps has recently undertaken a comprehensive reform effort to modernize the agency and strengthen the effectiveness of its programs, and is now well-positioned to grow its volunteer force.⁶³

Recommendations:

- **Increase the number of Peace Corps volunteers back to 15,000.**

Reaching a volunteer level of 15,000 employees by 2022 would allow the organization to have a greater impact in the countries where volunteers currently work and expand its reach to additional countries. This is perhaps the most cost effective way to promote American values, win friends, and help build more stable societies. In 2015, the Peace Corps received almost 25,000 applications.⁶⁴ The Peace Corps reports that it can grow its volunteer cadre in a “gradual and sustainable manner while maintaining the high quality of its work to train, safeguard, and ensure a productive service experience for its volunteers.”⁶⁵ Concurrent with the increase in the volunteer force, the Peace Corps must make the requisite investments to support the health, safety and security of all volunteers, especially those serving in higher-threat countries.

- **Expand program to facilitate short-term hiring of specialists to complement mission of Peace Corps volunteers.**

As part of this increase, the Peace Corps should expand its Peace Corps Response initiative, which sends former volunteers or those with significant professional and technical expertise to undertake short-term, high impact service assignments in communities around the world. In 2015, Peace Corps Response placed 332 volunteers—the highest number to enter duty in the program’s history.⁶⁶

⁴ Includes the number of trainees and volunteers, including Peace Corps Response, funded through Peace Corps’ appropriation.

Table 11: Estimated Cost of Achieving JFK’s Peace Corps Vision (in billions of dollars)

	FY18	FY19	FY20	FY21	FY22
Achieving JFK’s Peace Corps Vision*	0.46	\$0.49	\$0.64	\$0.75	\$0.87
Peace Corps Volunteers	8,000 volunteers	8,500 volunteers	11,000 volunteers	13,000 volunteers	15,000 volunteers
Cost increase over FY17 request	\$0.05	\$0.08	\$0.23	\$0.34	\$0.46

**Assumes operational and support costs of \$57,746 per volunteer (based on the total Peace Corps Budget divided by number of volunteers). This is a very rough estimate, as the cost to field a volunteer fluctuates greatly per country. This calculation also does not consider expected or unexpected factors when scaling up or agency improvements, including IT upgrades, programming upgrades, country evacuations and re-entries, country openings, etc.*

Part Three

Crisis Prevention, Crisis Management

Crises — whether due to flood, a famine, a civil war, or a destabilizing flow of refugees — can topple governments, fuel violent extremism, stifle economic productivity, and spread disease, all in ways that can very quickly wash up on our own shores. That’s why helping vulnerable, suffering populations in the wake of emergencies is not only a moral imperative, but also a selfish, national interest-driven one. We must help prevent humanitarian disasters from becoming strategic disasters. It will cost us pennies on the dollar, and it will help win us friends and allies at a time we desperately need them.

“

The United Nations recently announced that the world faces the largest humanitarian crisis since 1945.

The United States is currently the world’s largest humanitarian donor in absolute dollars, but as a percentage of GDP, we lag behind many other developed countries. As the world faces humanitarian crises on a scale not seen in generations, it’s imperative that the United States step up.

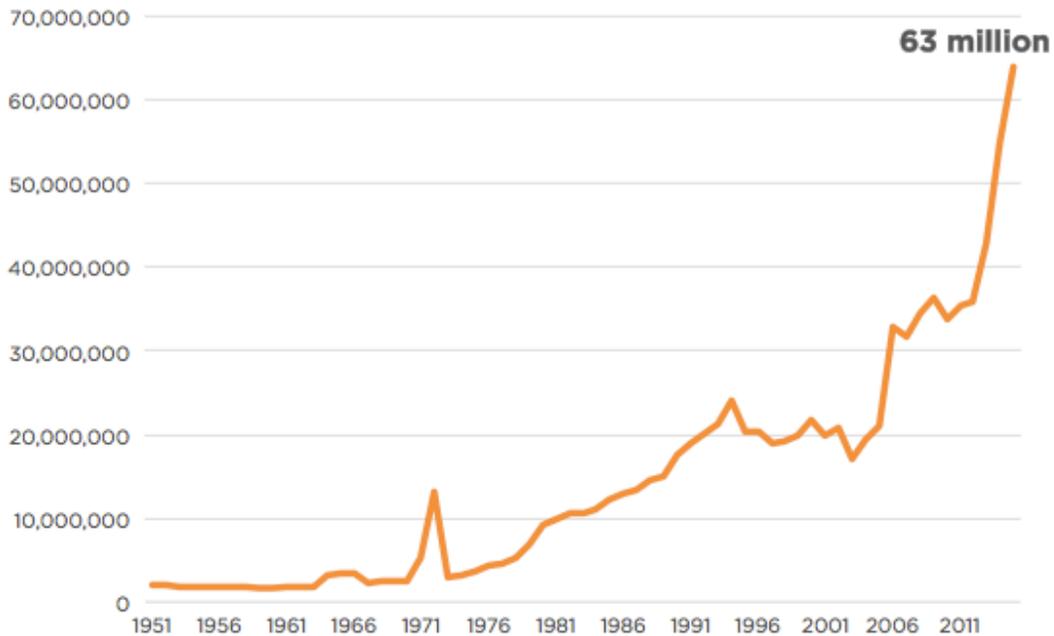
Stopping the Humanitarian Bleeding

Today nearly 65.3 million people worldwide have been forcibly displaced from their homes, including 21.3 million refugees. The United Nations recently announced that the world faces the largest humanitarian crisis since 1945, with over 20 million people suffering from starvation and famine. Unresolved

conflicts around the world will only add to these totals, forcing donor countries to make critical choices about how to respond.

UN-designated Persons of Concern Worldwide

Including Refugees, Internally Displaced Persons, Asylum Seekers, Returnees, and Others 1951-2015



Source: United Nations High Commissioner on Refugees (UNHCR)

The most significant contributor to displaced people in the past five years has been the ongoing war in Syria, which has claimed 400,000 lives, caused almost five million people to flee the country since 2011,⁶⁷ and led to an estimated seven million displaced within Syria's borders.⁶⁸ The majority of the nearly five million people who have fled Syria have gone to five countries in the region. Global humanitarian aid has flowed into these countries at unprecedented levels, but the region remains destabilized by an ongoing war that shows no sign of coming to a quick conclusion.

The presence of millions of refugees has overwhelmed local systems in these countries. Schools are overcrowded. Sanitation conditions have worsened with the inflow of refugees. High demand for shelter has led to housing shortages and an increase in rental prices, affecting host communities and refugees alike. If a country like Jordan or Lebanon collapses because of the burden of refugee flows, the impact on the United States is immediate, as the world will look to us to lead the response to the "next Syria."

Our policy, then, should be to confront humanitarian crises so that the “next Syria” never happens. The money spent on humanitarian response is well spent compared to the treasure and aggravation that would need to be spent to deal with another failed state.

In response to the massive Syria refugee flows, the UN High Commissioner on Refugees (UNHCR) created the Syria Regional Refugee and Resilience Plan (3RP), which integrates the humanitarian and resilience responses of more than 200 partners, including governments, UN agencies, and NGOs involved in the response in five host countries: Turkey, Lebanon, Jordan, Iraq, and Egypt. In 2017, the 3RP is calling for \$4.69 billion to support Syrian refugees and the communities hosting them.⁶⁹ But the Syria 3RP has been significantly underfunded since its creation in 2014, despite pledges from donors. Donor governments provided 56% of the funding appealed for (\$2.54 billion out of \$4.54 billion) by the United Nations in 2016.⁷⁰

Of course, Syria is not the only country in the world experiencing a refugee crisis. Other crises that have produced millions of refugees include the conflicts in Somalia, Afghanistan, South Sudan, and Yemen. The State Department, United Nations, and other international organizations need sufficient funding to respond to these refugee situations in a timely and effective manner.

Recommendations:

- **Provide significant amounts of new assistance to the United Nations to assist refugees and people displaced by conflict within their own countries.**

Funding to the State Department’s Migration and Refugee Assistance (MRA) account, which funds contributions to international organizations such as the UNHCR and the International Committee of the Red Cross, should be gradually increased from about \$3 billion in 2017 to \$10 billion in 2022.

- **Focus at least a third of the funding increase on the Syrian conflict.**

With respect to the war in Syria, the United States, along with other donor countries, should increase humanitarian assistance through the UNCHR’s 3RP to the five countries hosting the majority of Syrian

refugees: Lebanon, Turkey, Jordan, Iraq, and Egypt. For 2018, the United States should aim to fund the gap between the appeal and funding received in 2017 to encourage other donors to increase their contributions through 2022. If 2016's funding levels are an example, this would cost about \$2 billion through the MRA account. While spending an additional \$2 billion to aid Syrian refugees sounds expensive, it pales in comparison to the cost of letting the problem fester. As long as the needs of the countries hosting the majority of refugees go unmet, local systems in education, housing, sanitation, and transportation will continue to suffer undue burdens, further destabilizing societies. Uncontrolled migration to Europe and other places will continue.

- **Provide trade preferences for countries hosting the majority of Syrian refugees.**

The United States should grant the five countries special trade preferences for the next five years. Following the European Union's lead, the United States should relax trade barriers on certain goods to facilitate job creation for both locals and refugees. In exchange, the United States should encourage these countries to relax labor markets so that Syrian refugees are able to contribute to the economy and provide livelihoods for themselves.

- **Create additional refugee response positions at the State Department to reflect expanded refugee crises.**

As part of the expansion of the Foreign Service, the State Department should create additional refugee response positions to address its expanded workload in light of these crises. Almost one-third of State's refugee response employees cited excessive workload and inadequate staffing as a concern on a recent Office of Inspector General (OIG) questionnaire. In 2016, State had only one permanent refugee coordinator for the entire country of Turkey, which hosts the largest number of refugees and has received \$415 million in refugee assistance since 2012.⁷¹ That is unacceptable.

Table 12: Estimated Cost of Migration and Refugee Assistance (in billions of dollars)

	FY18	FY19	FY20	FY21	FY22
Migration and Refugee Assistance	\$4.00	\$6.00	\$7.00	\$8.00	\$10.00
Cost increase over FY17 level	\$0.93	\$2.93	\$3.93	\$4.93	\$6.93

America to the Rescue

We need to recognize the fact that disasters add to instability, helping to fuel conflict and extremism. With climate change increasing the scale and frequency of extreme weather events and global conflict on the rise, the demand for disaster assistance has never been higher. The International Disaster Assistance (IDA) account, which funds USAID’s Office of U.S. Foreign Disaster Assistance (OFDA), provides lifesaving assistance following natural disasters and conflicts. These funds have also been critical to meeting emergency food requirements in Syria, Iraq, South Sudan, the Democratic Republic of Congo, and the Central African Republic for local purchases of agricultural commodities and food vouchers. But every year the needs far outpace the available funding, and we are forced to make brutal decisions about which disasters get help. These decisions are ever more difficult at a time when the world is facing imminent famines in Yemen, Somalia, Nigeria, and an ongoing one in South Sudan. In total, these events could impact almost 20 million lives.

Recommendation:

- **Steadily increase funding for the International Disaster Assistance (IDA) account over the next five years to improve our ability to respond to disasters.**

Additional funding for IDA over the next five years would improve USAID’s ability to respond to rapid on-set disasters such as earthquakes, typhoons, and volcanos, as well as slowly developing crises such as droughts, famine, or conflicts. Quickly responding to devastating crises will not only save lives and reduce suffering, it will also prevent them from becoming strategic disasters that metastasize. The majority of the funding would go to OFDA, which deploys Disaster Assistance Response Teams (DARTs) to affected areas to coordinate and manage the U.S.

government’s response while working closely with local officials, the international community, and relief agencies.

This funding would also help countries build effective disaster preparedness and response systems at the national, provincial, and local levels, reducing reliance on international responses. Large-scale disasters such as the 2004 tsunami or the 2010 Haiti earthquake garner a lot of worldwide attention, but smaller, more localized disasters often have greater impact on people living in poverty. We know these smaller scale disasters will continue to occur as the climate changes, especially in low-income, disaster-prone countries. By helping these countries increase their own disaster readiness, the United States will be putting responsibility and decision-making in the hands of local organizations that are often best suited to respond immediately and recover quickly.

Table 13: Estimated Cost of International Disaster Assistance (in billions of dollars)

	FY18	FY19	FY20	FY21	FY22
International Disaster Assistance	\$5.00	\$5.00	\$5.50	\$5.50	\$6.00
Cost increase over FY17 level	\$2.21	\$2.21	\$2.71	\$2.71	\$3.21

Preventing Crises through Agile Spending

The United States often finds itself flat-footed when needing to respond to new refugee crises, conflicts, or political instability, largely because we do not budget appropriately for these contingencies. While we don’t know exactly when or where an international crisis will occur, we know they will occur, and they will likely have an impact on our own national security. But on those occasions when we do have warning of trouble ahead — a brewing political crisis in a fragile state, for example — our diplomats abroad have very little ability to quickly direct resources that can help head off an emergency. The largest funding mechanisms in the international affairs budget, such as the Migration and Refugee Assistance account, tend to be relatively inflexible when it comes to new or exacerbated crises not accounted for in the regular budget cycle. In order to be able to respond to emerging or full-scale refugee or political crises appropriately,

we need to budget for them appropriately. That means providing massive new amounts of crisis prevention and response funds that give the State Department and USAID the authority to quickly allocate money where it's needed most. The good news is that we already have several accounts in the international affairs budget that already provide such flexibility, including Emergency Refugee and Migration Assistance and the Complex Crises Fund. However, these funds are generally small in scale and insufficient for sustained responses. We should increase the share of the international affairs budget that allows for a higher level of flexibility in crisis prevention and response.

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While we don't know exactly when or where an international crisis will occur, we know they will occur, and they will likely have an impact on our own national security.

Recommendations:

- **Create a consolidated Crisis Prevention and Response Fund.**

There are simply too many existing funds and offices housed in various agencies that all seek to deal with emerging crises around the world. They overlap, are underfunded, and lack a coherent strategic focus. Pooling these accounts into a newly created Crisis Prevention and Response Fund would improve the integration of the diplomatic, development, and security components of our foreign policy and increase flexibility in responding to unforeseen or rapidly escalating events, especially in fragile states. This Fund should be robustly funded and incorporate at a minimum the following accounts or offices: Emergency Refugee and Migration Assistance (ERMA); Complex Crises Fund (USAID); Transition Initiatives (USAID); Conflict and Stabilization Operations (State Department); Mechanism for Peace Operations Response (State Department); and Overseas Humanitarian, Disaster, and Civic Aid (Department of Defense). These accounts would not be

eliminated, but rather included within the Fund and provided with flexible transfer authority. An interagency board, chaired by the Department of State and including representatives from USAID and the Department of Defense, should manage the Fund.

Table 14: Estimated Cost of Crisis Prevention and Response Fund (in billions of dollars)

	FY18	FY19	FY20	FY21	FY22
Crisis Prevention and Response Fund	\$0.65	\$1.00	\$1.23	\$1.50	\$2.20
Cost increase over FY17 level	\$0.50	\$0.85	\$1.08	\$1.35	\$2.05

Lightning Fast Response to Global Health Epidemics

The United States regularly provides humanitarian assistance funds to respond to disasters, aid refugees, and provide food assistance. However, when urgent and unexpected health crises arise beyond what was budgeted, we often not have the resources readily available to respond quickly, forcing us to reprogram funds away from other accounts or pursue a lengthy process to obtain supplemental appropriations.

The longer it takes humanitarian health aid to reach its intended recipients, the more money and other resources it takes to respond effectively over time. For example, it is estimated that it would have cost only \$5 million to contain the 2014 Ebola crisis a month after it was detected in Guinea. Instead, the United States ended up spending \$1 billion to contain the disease as it spread to other countries.⁷²

Recommendation

- Create an Emergency Health Response Fund to improve our ability to quickly respond to health emergencies.**
 The Fund would enable fast, flexible, and un-earmarked responses to urgent and unexpected global health emergencies, and be supplied with regular appropriations each year and operate as a revolving account with

a limit of \$2 billion. The Fund would provide Congress with the predictability that comes with regularly paying into a fund rather than needing to fund ad hoc events. For this proposal, an average drawdown rate of 12% per year was assumed, requiring \$250 million per year to maintain a \$2 billion level.

The Fund would be included in the international affairs account but be managed by the Department of Health and Human Services and have to be disciplined by strong internal controls. Funds would only be used when the Secretary of State declares an emergency. The Secretary would be required to notify Congress of that decision and report how the money was spent within 90 days of the end of the fiscal year.

Table 15: Estimated Cost of Emergency Health Response Fund (in billions of dollars)

	FY18	FY19	FY20	FY21	FY22
Emergency Health Response Fund	\$2.00	\$0.25	\$0.25	\$0.25	\$0.25
Cost increase over FY17 level	\$2.00	\$0.25	\$0.25	\$0.25	\$0.25

Conclusion

The debate about America's foreign policy is too often presented as a false binary choice: military intervention or isolation. The disastrous invasion of Iraq and the costly, long-running military effort in Afghanistan have shown clearly the limits and the dangers of the first approach. We now find the pendulum of American politics swinging towards the second — but a retreat to isolationism is perilous in this hyperconnected world, increasing the risks to our own security and opening the door for competitors to assert their power.

“

Investing a small percentage of our resources in the tools of smart power will be far less costly than a future military intervention, and more likely to produce a positive outcome.

There is another approach, one that learns from our own post-WWII history, and that directly addresses the root causes of conflict, instability, and extremism. Investing a small percentage of our resources in the tools of smart power — economic development, diplomacy, and humanitarian assistance — will be far less costly than a future military intervention, and more likely to produce a positive outcome. Finally providing our international affairs agencies with adequate resources to do their jobs will reduce our overreliance on the Defense Department to solve every international problem, complementing the military's mission rather than undercutting it.

This budget is a blueprint for a radically new approach to American foreign policy, one that will give us the best chance to address the threats that face us in the 21st Century.

Appendix

**Table 1: Cost breakdown of recommendations contained in this proposal
(in billions of dollars)⁵**

	FY17	FY18	FY19	FY20	FY21	FY22
Total cost of recommendations*	N/A	\$11.03	\$16.96	\$24.86	\$31.51	\$43.74
Total cost of accounts/programs affected by recommendations**	\$22.00	\$33.02	\$38.96	\$47.07	\$53.72	\$65.95
Total costs of accounts/programs not addressed in this proposal (with 2.25% annual inflation) †	\$30.87	\$31.56	\$32.27	\$33.00	\$33.74	\$34.50
Total State, Foreign Operations and related agencies budget ‡	\$52.86	\$64.58	\$71.23	\$80.07	\$87.46	\$100.45
Percentage increase over FY17 level	N/A	22.2%	34.7%	51.5%	65.5%	90.0%

* Total additional cost of all recommendations included this proposal.

**Total cost of the accounts or programs included in this proposal (original funding plus cost of recommendations)

†Total cost of the accounts or programs not included in this proposal, which were assumed to increase annually at an expected inflation rate of 2.25%.

‡ State, Foreign Operations, and Related Agencies budget totals

Due to rounding, numbers may not add up

⁵ The FY17 budget figures used as a baseline in this proposal refer to the State Department, Foreign Operations, and Related Agencies budget, which includes several international commissions under Function 300. It does not include Function 150 accounts such as P.L. 480 (Food for Peace) and the International Trade Commission.

Table 2: Cost of Programs/Initiatives cited in proposal including change over FY17 level (in billions of dollars)

	FY17 level	FY18	FY19	FY20	FY21	FY22
A 21st Century Marshall Plan						
U.S. International Development Bank	N/A			\$0.2 (+\$0.2)	\$0.2 (+\$0.2)	\$0.2 (+\$0.2)
<ul style="list-style-type: none"> Overseas Private Investment Corporation (OPIC) 	-\$0.283	-\$0.283 (+\$0)	-\$0.283 (+\$0)			
<ul style="list-style-type: none"> US Trade and Development Agency 	\$0.06	\$0.06 (+\$0)	\$0.06 (+\$0)			
<ul style="list-style-type: none"> USAID Development Credit Authority 	\$0.00812	\$0.00812 (+\$0)	\$0.00812 (+\$0)			
Millennium Challenge Corporation	\$0.901	\$1.5 (+\$0.60)	\$3.0 (+\$2.1)	\$5.0 (+\$4.1)	\$6.0 (+\$5.1)	\$10.0 (+\$9.1)
Fragile States Economic Partnership Program	N/A	\$1.0 (+\$1.0)	\$2.0 (+\$2.0)	\$3.0 (+\$3.0)	\$4.0 (+\$4.0)	\$5.0 (+\$5.0)
Global Health Programs	\$8.503	\$10.0 (+\$1.50)	\$11.0 (+\$2.50)	\$12.0 (+\$3.50)	\$13.0 (+\$4.50)	\$15.0 (+\$6.50)
Energy Assistance	N/A	\$1.0 (+\$1.0)	\$2.0 (+\$2.0)	\$3.0 (+\$3.0)	\$4.0 (+\$4.0)	\$5.0 (+\$5.0)
American Values, Forward Deployed						
State Department Foreign Service Officers (FSO)	\$2.027	\$2.43 (+\$0.40)	\$2.48 (\$0.45)	\$2.83 (\$0.80)	\$3.08 (\$1.05)	\$3.17 (\$1.15)
USAID Direct-Hire staff	\$0.973	\$1.10 (\$0.12)	\$1.20 (\$0.23)	\$1.29 (\$0.32)	\$1.40 (\$0.42)	\$1.58 (\$0.61)
Global Exchange Programs	\$0.591	\$0.80 (+\$0.21)	\$0.90 (+\$0.31)	\$1.0 (+\$0.41)	\$1.1 (+\$0.51)	\$1.18 (+\$0.59)

Establishing a 21 st Century Anti-Propaganda Program	\$0.08	\$0.30 (+\$0.22)	\$0.35 (+\$0.27)	\$0.40 (+\$0.32)	\$0.45 (+\$0.37)	\$0.50 (+\$0.42)
FSO Governance positions	N/A	\$0.0 (+\$0.0)	\$0.0 (+\$0.0)	\$0.0 (+\$0.0)	\$0.0 (+\$0.0)	\$0.0 (+\$0.0)
Democracy, Human Rights, and Governance	\$2.720	\$3.00 (+\$0.28)	\$3.50 (+\$0.78)	\$3.75 (+\$1.03)	\$4.50 (+\$1.78)	\$5.0 (+\$2.28)
Peace Corps Volunteers	\$0.41	\$0.46 (+\$0.05)	\$0.49 (+\$0.08)	\$0.64 (+\$0.23)	\$0.75 (+\$0.34)	\$0.87 (+\$0.46)
Crisis Prevention, Crisis Management						
Migration and Refugee Assistance	\$3.066	\$4.0 (+\$0.93)	\$6.0 (+\$2.93)	\$7.0 (+\$3.93)	\$8.0 (+\$4.93)	\$10.0 (+\$6.93)
International Disaster Assistance	\$2.794	\$5.0 (+\$2.21)	\$5.0 (+\$2.21)	\$5.5 (+\$2.71)	\$5.5 (+\$2.71)	\$6.0 (+\$3.21)
Crisis Prevention & Response Fund						
<ul style="list-style-type: none"> Emergency Migration and Refugee Assistance (ERMA) 	\$0.05	\$0.10 (+\$0.05)	\$0.20 (+\$0.15)	\$0.25 (+\$0.20)	\$0.30 (+\$0.25)	\$0.5 (+\$0.45)
<ul style="list-style-type: none"> Conflict Stabilization Operations (CSO) 	\$0.0	\$0.05 (+\$0.05)	\$0.08 (+\$0.08)	\$0.10 (+\$0.10)	\$0.13 (+\$0.13)	\$0.2 (+\$0.2)
<ul style="list-style-type: none"> Complex Crisis Fund (CCF) 	\$0.03	\$0.10 (+\$0.07)	\$0.25 (+\$0.22)	\$0.35 (+\$0.32)	\$0.50 (+\$0.47)	\$0.75 (+\$0.72)
<ul style="list-style-type: none"> Transition Initiatives 	\$0.067	\$0.2 (+\$0.14)	\$0.25 (+\$0.18)	\$0.28 (+\$0.21)	\$0.30 (+\$0.23)	\$0.40 (+\$0.33)
<ul style="list-style-type: none"> Mechanism for Peacekeeping Response (MPOR) 	N/A	\$0.20 (+\$0.20)	\$0.23 (+\$0.23)	\$0.25 (+\$0.25)	\$0.28 (+\$0.28)	\$0.35 (+\$0.35)
	Subtotal	\$0.65	\$1.0	\$1.23	\$1.55	\$2.20
Emergency Health Response Fund	N/A	\$2.0 (+\$2.0)	\$0.25 (+\$0.25)	\$0.25 (+\$0.25)	\$0.25 (+\$0.25)	\$0.25 (+\$0.25)

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