

Department  
of State

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# Department of State, Foreign Operations, and Related Programs

## RECOMMENDATION

The Department of State, foreign assistance programs, and contributions to international organizations are the primary vehicles for advancing U.S. interests and policies through diplomacy, communications, and economic engagement, as well as initiatives and policies that contribute to those interests by encouraging market reforms, good governance, and the rule of law in developing countries. While America remains a global superpower, there is a clear sense that U.S. influence falls short of what it should wield, and that some of the blame is due to inefficiencies and structural problems in the Department of State and America's foreign-assistance programs. As a matter of due diligence, Congress and the Administration should evaluate these programs to determine which changes should be made to address those failings.

In this vein, the Trump Administration has proposed a number of reforms in its FY 2018 budget proposal. Congress should work with the Administration on crafting changes to:

- Restructure the Department of State;
- Clarify and, to the extent possible, codify the treaty process;
- Place U.S. economic and development assistance more directly under the control of the State Department to better coordinate its activities with U.S. policy priorities;
- Conduct an independent evaluation of all U.S. assistance programs;
- Replace or comprehensively update the 1961 Foreign Assistance Act;
- Reform America's food assistance programs;
- Establish a dedicated unit for international organizations in the Office of Inspector General for the Department of State;
- Conduct a periodic cost-benefit analysis of U.S. participation in all international organizations; and
- Enforce the 25 percent cap on America's peacekeeping assessment.

## RATIONALE

The perception that U.S. influence falls short of what it should wield is not new. Fifteen years ago, the U.S. Commission on National Security/21st Century (the Hart–Rudman Commission) described the State Department as a “crippled institution” suffering from “an ineffective organizational structure in which regional and functional policies do not serve integrated goals, and in which sound management, accountability, and leadership are lacking.”<sup>1</sup> As it further observed:

Foreign assistance is a valuable instrument of U.S. foreign policy, but its present organizational structure, too, is a bureaucratic morass. Congress has larded the Foreign Assistance Act with so many earmarks and tasks for the U.S. Agency for International Development ([US]AID) that it lacks a coherent purpose. Responsibility today for crisis prevention and responses is dispersed in multiple

[US]AID and State bureaus, and among State's Under Secretaries and the [US]AID Administrator. In practice, therefore, *no one is in charge*.

Neither the Secretary of State nor the [US]AID Administrator is able to coordinate these foreign assistance activities or avoid duplication among them. More important, no one is responsible for integrating these programs into broader preventive strategies or for redeploying them quickly in response to crises.<sup>2</sup>

Similarly, despite generally being the largest financial contributor, the ability of the U.S. to guide policy decisions and reform international organizations has proven to be limited. Efforts by multiple Administrations and Congress to convince international organizations to improve efficiency, exercise budgetary restraint, and enhance accountability have made only sporadic progress—often later reversed—despite repeated examples and reports of poor management,

limited impact, and even reprehensible behavior like ongoing revelations of sexual exploitation and abuse by United Nations civilian personnel and peacekeepers.<sup>3</sup> A complicating factor is that U.S. policy priorities must pass muster with other U.N. member states that often have countervailing interests, which leads to dilution of those policies or prevents their implementation entirely.

The Hart–Rudman Commission called for a significant restructuring of the State Department and America’s foreign-assistance programs stating that funding increases could only be justified if there was greater confidence that those institutions would use its funding more effectively. The opposite has occurred—with increased funding provided while reforms to improve focus and effectiveness and to establish clearer lines of authority and responsibility have languished.

The bureaucratic and institutional structure has become even more complex. For instance, in addition to the old foreign-assistance programs, new initiatives have been established, including the President’s Emergency Plan for AIDS Relief (PEPFAR) in 2003, the Millennium Challenge Corporation in 2004, and the President’s Malaria Initiative in 2005. Meanwhile, the Department of State has created new bureaus and offices absent explicit congressional authorization.

According to the Congressional Budget Justification for the Department of State, Foreign Operations, and Related Programs, the FY 2016 total budget estimate for International Affairs (150 Account), which provides funding to the State Department and USAID, was \$55.2 billion.<sup>4</sup> Between FY 2000 and FY 2016, the International Affairs budget increased by nearly 135 percent in nominal terms from \$23.5 billion.<sup>5</sup> The number of full-time permanent State Department employees in FY 2000 was 25,239, which included 9,023 Foreign Service members, 6,590 Civil Service members, and 9,852 Foreign Service Nationals.<sup>6</sup> An apples-to-apples comparison with current employment was not possible because the State Department would provide that data only through a FOIA request. However, State did report that Foreign Service employment in 2015 totaled 13,760 and Civil Service employees totaled 10,964. Thus, growth in these two categories was, respectively, 52.5 percent and 66.4 percent between 2000 and 2015.

Over the years, too much focus on reforming the State Department and assistance programs has concerned funding levels. While this is important, as demonstrated by the increases in staff and budgets over the past 16 years, insufficient resources have not

been the cause of of the problems in these institutions. In terms of personnel and funding, Congress and the Trump Administration should work together to implement reforms targeted to address more fundamental structural and legislative problems by:

- **Restructuring the Department of State.** This restructuring should strengthen U.S. bilateral and multilateral diplomacy over thematic bureaus and offices to ensure that the State Department’s focus is first on foremost on the interests and foreign policy priorities of the United States. State should work with Congress to eliminate unnecessary bureaus and offices, merge complementary bureaus and offices, and trim the use of special envoys to reduce costs and clarify lines of authority.<sup>7</sup>
- **Clarifying and, to the extent possible, codifying the treaty process.** The matter of which international agreements constitute treaties requiring Senate advice and consent in accordance with Article II of the Constitution is often subject to dispute. This ambiguity ill-serves the constitutional process and America’s negotiating partners who cannot be certain of the status, permanence, and legality of an agreement with the U.S.
- **Placing U.S. economic and development assistance directly under the control of the State Department to better coordinate its activities with U.S. policy priorities.** As noted by the Hart–Rudman Commission, “Development aid is not an end in itself, nor can it be successful if pursued independently of other U.S. programs and activities.... Only a coordinated diplomatic and assistance effort will advance the nation’s goals abroad, whether they be economic growth and stability, democracy, human rights, or environmental protection.”<sup>8</sup> The President’s FY 2018 budget proposal to merge several economic and development assistance programs into the Economic Support and Development Fund is a reasonable approach in addressing this problem.
- **Conducting an independent evaluation of all U.S. assistance programs to eliminate unnecessary U.S. assistance agencies and programs and merge duplicative ones.** As stewards of American taxpayer dollars, Congress and the Administration have a responsibility to ensure that assistance is effectively and

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efficiently achieving its intended purpose—whether it is augmenting economic development, alleviating suffering during a crisis, or supporting America’s national interests. As a matter of due diligence, Congress and the Administration should evaluate all U.S. assistance programs to determine whether they are doing what America needs them to do and, if not, implement changes to address those failings.

- **Replacing or comprehensively updating the 1961 Foreign Assistance Act.** This act, which is the legislative foundation of America’s foreign-assistance programs, is antiquated and burdened with 50 years of various instructions, reporting requirements, mandates, and tweaks added over time. Congressional earmarks (mandates that certain funds be spent in certain countries or on specific purposes) can exceed total available funds, can be contradictory, and undermine effective use of U.S. assistance.
- **Reforming America’s food assistance programs.** As the President’s FY 2018 budget proposes, the U.S. should make U.S. foreign-assistance programs more efficient—reaching more people with less money—by eliminating costly legal requirements for the use of U.S. food and shipping, or making use of the International Disaster Assistance program, which is not burdened by those requirements, instead of Public Law 480 food assistance programs, which are subject to those restrictions.
- **Establishing a dedicated unit for international organizations in the Office of Inspector General for the Department of State.** The U.S. remains dependent on the

internal U.N. oversight mechanisms, many of which lack independence, have inadequate resources, or face problems with competence, corruption, or bias.

- **Conducting a periodic cost-benefit analysis of U.S. participation in all international organizations.** Although a number of U.N. organizations provide important contributions to U.S. diplomatic, economic, and security interests, not all do. The U.S. lacks a comprehensive analysis of whether these contributions are advancing or undermining U.S. interests, or being used to maximum effect.<sup>9</sup> The last time the U.S. conducted a similar exercise, albeit in a far less rigorous manner, was under the Clinton Administration in 1995, which led directly to the U.S. decision to withdraw from the United Nations Industrial Development Organization. High on the list of international organizations from which the U.S. should withdraw are the United Nations Educational, Scientific, and Cultural Organization (UNESCO) and the United Nations Framework Convention on Climate Change (UNFCCC), to which the U.S. can no longer legally provide funding, due to their decision to grant full membership to the Palestinians.
- **Enforcing the 25 percent cap on America’s peacekeeping assessment.** As passed in the FY 2017 omnibus and recommended in the President’s FY 2018 budget proposal, the U.S. should resume pressure on the U.N. to fulfill its commitment to lower the U.S. peacekeeping assessment to 25 percent by enforcing the 25 percent cap enacted in 1994.<sup>10</sup>

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## ADDITIONAL READING

- The Heritage Foundation, “Solutions 2016: Foreign Assistance.”
- Brett D. Schaefer, “How to Make the State Department More Effective at Implementing U.S. Foreign Policy,” Heritage Foundation *Backgrounder* No. 3115, April 20, 2016.
- Brett D. Schaefer, “Key Issues of U.S. Concern at the United Nations,” testimony before Subcommittee on Multilateral International Development, Multilateral Institutions, and International Economic, Energy, and Environmental Policy, Committee on Foreign Relations, U.S. Senate, May 6, 2015.
- Brett D. Schaefer, “United Nations Peacekeeping Flaws and Abuses: The U.S. Must Demand Reform,” Heritage Foundation *Backgrounder* No. 3131, August 3, 2016.
- The United States Commission on National Security/21st Century, “Road Map for National Security: Imperative for Change,” Phase III Report, February 15, 2001, p. xi.

# Eliminate the Overseas Private Investment Corporation

## RECOMMENDATION

The Administration should work with Congress to eliminate the Overseas Private Investment Corporation (OPIC) by amending the statute to prohibit new financing, insurance, and reinsurance operations, and limiting its authority to managing its current portfolio. OPIC should be instructed to divest current activities where possible with the goal of winding down OPIC as quickly as practicable.

## RATIONALE

OPIC was created in 1969 at the request of the Nixon Administration to promote investment in developing countries. OPIC provides loans and loan guarantees; subsidizes risk insurance against losses resulting from political disruption, such as coups and terrorism; and capitalizes investment funds.

While there may have been legitimate need for government services of this kind in 1969, in today's global economy, many private firms in the developed and developing world offer investment loans and political-risk insurance. OPIC displaces these private options by offering lower-cost services using the faith and credit of the U.S. government (that is, the taxpayers). Indeed, OPIC products may actually undermine development by accepting customers who might otherwise use financial institutions in middle-income countries, such as Brazil and India, which have reasonably sound domestic financial institutions. Moreover, OPIC's subsidized prices do not fully account for risk. By putting the taxpayer on the hook for this exposure, OPIC puts the profits in private hands but places the ultimate risk on the taxpayer.

Worse, OPIC rewards bad economic policies. Countries with the best investment climates are most likely to attract foreign investors. When OPIC guarantees investments in risky foreign environments, those countries have less reason to adopt policies that are friendly to foreign investors. Companies that want to invest in emerging markets should be free to do so, but they are not entitled to taxpayer support. Investors should base their decisions not on whether a U.S. government agency will cover the risks, but on whether investment in a country makes economic sense.

OPIC directs only a small share of its portfolio to least-developed countries, even though OPIC was established to "contribute to the economic and social progress of developing nations" that lack access to private investment, which today are overwhelmingly the least-developed countries. Further undermining

the basis for OPIC's continuation, the need for OPIC even in least-developed countries is decreasing, as private capital investment has been increasing in those countries.

Finally, it is far from clear that OPIC projects support U.S. economic security or interests. OPIC claims of support for U.S. jobs are dubious and, even if valid, cost hundreds of thousands of dollars per job "supported." Thus, even if OPIC supports U.S. jobs, it is massively inefficient. Specific examples of projects that OPIC supports that should raise questions in Congress are:

- \$67 million to finance 13 projects in the Palestinian territories while a unity government was formed with Hamas;
- Financing for Papa John's pizza franchises in Russia; and
- \$50 million of financing for a Ritz-Carlton hotel in Istanbul, Turkey; and

In 1996, Milton Friedman concluded: "I cannot see any redeeming aspect in the existence of OPIC. It is special interest legislation of the worst kind, legislation that makes the problem it is intended to deal with worse rather than better.... OPIC has no business existing."

The Trump Administration's budget for FY 2018 "proposes to eliminate funding for several independent agencies, as well as funding to support new loans and guarantees at the Overseas Private Investment Corporation."<sup>11</sup> In pursuit of this goal, the budget requests sufficient funds for managing OPIC's portfolio and to "initiate orderly wind-down activities in FY 2018." Congress should support this request.<sup>12</sup>

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## ADDITIONAL READING

- Bryan Riley and Brett D. Schaefer, “Time to Privatize OPIC,” Heritage Foundation *Issue Brief* No. 4224, May 19, 2014.
- Brett D. Schaefer and Bryan Riley, “8 Reasons Congress Should End Taxpayer Support for the Overseas Private Investment Corporation,” *The Daily Signal*, September 30, 2015.
- Ryan Young, “The Case Against the Overseas Private Investment Corporation: OPIC Is Obsolete, Ineffective, and Harms the Poor,” *Competitive Enterprise Institute On Point* No. 208, September 24, 2015.

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## ENDNOTES

1. The United States Commission on National Security/21st Century, "Road Map for National Security: Imperative for Change," Phase III Report, February 15, 2001, p. x, <http://govinfo.library.unt.edu/nssg/PhaseIII/FR.pdf> (accessed June 12, 2017).
2. *Ibid.*, p. 53.
3. Brett D. Schaefer, "Key Issues of U.S. Concern at the United Nations," testimony before Subcommittee on Multilateral International Development, Multilateral Institutions, and International Economic, Energy, and Environmental Policy, Committee on Foreign Relations, U.S. Senate, May 6, 2015, <http://www.heritage.org/research/testimony/2015/key-issues-of-us-concern-at-the-united-nations>.
4. U.S. Department of State, "Congressional Budget Justification Department of State, Foreign Operations, and Related Programs: Fiscal Year 2018," Table: Diplomatic Engagement and Foreign Assistance Request FY 2016–FY 2018, pp. 2–4, <http://www.state.gov/documents/organization/252179.pdf> (accessed June 12, 2017).
5. U.S. Department of State, "Budget Tables: FY 2002 International Affairs Summary," <http://www.state.gov/s/d/rm/rls/iab/2002/2104.htm> (accessed June 12, 2017).
6. U.S. Department of State, "Accountability Report: Fiscal Year 2001," Table: Summary of Full-time Permanent Employees, p. 9, <http://www.state.gov/documents/organization/9373.pdf> (accessed June 12, 2017).
7. For more details, see Brett D. Schaefer, "How to Make the State Department More Effective at Implementing U.S. Foreign Policy," Heritage Foundation *Backgrounder* No. 3115, April 20, 2016, <http://www.heritage.org/research/reports/2016/04/how-to-make-the-state-department-more-effective-at-implementing-us-foreign-policy>.
8. The United States Commission on National Security/21st Century, "Road Map for National Security: Imperative for Change," p. xi.
9. An example of what the U.S. should do is the Multilateral Aid Review conducted by the United Kingdom's Department for International Development that assessed the relative value for U.K. aid money disbursed through multilateral organizations. This review identified those U.N. agencies providing poor value for money and led to the decision to zero-out funding for four U.N. agencies. United Kingdom Department for International Development, "Multilateral Aid Review," <https://www.gov.uk/government/publications/multilateral-aid-review> (accessed Jun 12, 2017). The original review cited was released in 2011. The review was updated in 2013 and followed by the "Multilateral Development Review" in 2016, <https://www.gov.uk/government/publications/raising-the-standard-the-multilateral-development-review-2016> (accessed June 12, 2017).
10. Brett D. Schaefer, "U.S. Must Enforce Peacekeeping Cap to Lower America's U.N. Assessment," Heritage Foundation *Backgrounder* No. 2762, January 25, 2013, <http://www.heritage.org/research/reports/2013/01/us-must-enforce-peacekeeping-cap-to-lower-americas-un-assessment>.
11. U.S. Department of State, "Congressional Budget Justification: Department of State, Foreign Operations, and Related Programs, Fiscal Year 2018," p. 390, <http://www.heritage.org/budget-and-spending/report/blueprint-reform-comprehensive-policy-agenda-new-administration-2017> (accessed June 5, 2017).
12. *Ibid.*