

THE AID FOR SECURITY DILEMMA:  
THE DISTORTIVE IMPACT OF U.S. NATIONAL SECURITY INTERESTS ON DEVELOPMENT ASSISTANCE

A Thesis  
submitted to the Faculty of the  
Graduate School of Arts and Sciences  
of Georgetown University  
in partial fulfillment of the requirements for the  
degree of  
Master of Arts  
in Security Studies

By

Daniel R. Mahanty, B.A.

Washington, DC  
November 16, 2010

UMI Number: 1483131

All rights reserved

INFORMATION TO ALL USERS

The quality of this reproduction is dependent upon the quality of the copy submitted.

In the unlikely event that the author did not send a complete manuscript and there are missing pages, these will be noted. Also, if material had to be removed, a note will indicate the deletion.



UMI 1483131

Copyright 2010 by ProQuest LLC.

All rights reserved. This edition of the work is protected against unauthorized copying under Title 17, United States Code.



ProQuest LLC  
789 East Eisenhower Parkway  
P.O. Box 1346  
Ann Arbor, MI 48106-1346

Copyright 2010 by Daniel R. Mahanty  
All Rights Reserved

**THE AID FOR SECURITY DILEMMA:  
THE DISTORTIVE IMPACT OF U.S. NATIONAL SECURITY INTERESTS ON  
DEVELOPMENT ASSISTANCE**

Daniel R. Mahanty, B.A.

Thesis Advisor: Dr. Jennifer Sims, Ph.D.

ABSTRACT

The goal of U.S. Official Development Assistance in the context of national security policy has changed in many ways since 9/11, but in no way more important than a shift from “strategic bribery” to “development outcomes”. The conventional Cold War purpose of using development aid to secure cooperation from developing countries has been abandoned in favor of a paradigm that emphasizes and advocates aid’s importance and ability in mitigating national security concerns (e.g. terrorism) that stem from poorly governed and impoverished countries. But this new paradigm exists in tension with the prevailing wisdom of modern development economics that accepts certain maxims about the importance of selectivity (i.e. selecting the right countries for aid), predictability, and political will to the effectiveness of aid. Suddenly, variables that may not matter to the Cold War policy-maker when using aid as a blunt instrument of coercion or persuasion begin to matter when using aid to achieve real development outcomes. Therefore, national security policymakers, advocating a greater emphasis on development in poorly-governed countries, may actually be championing policies that have little chance of being effective - or could even prove to be detrimental by creating unreasonable expectations among foreign audiences, creating inefficiencies, and hurting the credibility of development assistance. A brief probe of US development policy and national security interests in Yemen assesses the

approach of the U.S. government to a critical partner in the War on Terror, where indicators suggest development assistance may not have much chance of sustainable outcomes. Yemen provides a compelling example of how National Security interests may make it more likely that the United States will provide aid despite poor policy environments, and could expose aid policies to problems of moral hazard and instability.

Dedicated to my incredible wife Laura. With gratitude to my sisters, brothers, nephews, and parents. Special thanks to my thesis advisor, the remarkable, patient, and fastidious Dr. Jennifer Sims, and my classmates at Georgetown for their insights, edits, and encouragement. And to the poor of the world, whose hopes may rise and fall with the whims of our security addiction.

Many thanks,  
Daniel R. Mahanty

## TABLE OF CONTENTS

Introduction: The Crucible of Aid and Security .....	1
I: Concepts of Aid Effectiveness.....	6
The Concept of Selectivity.....	8
The Concept of Predictability .....	11
The U.S. and Aid Effectiveness .....	12
II. Yemen: Politics, Economics, and the Historical Connections to U.S. Security .....	14
Vanguard of the Frontline States in the War on Terror .....	18
III. Yemen and the Problems of Development Assistance .....	20
The Problem of Policies: Worse Governance, More Aid .....	21
The Problem of Partnership: Meet the Old Boss .....	28
The Problem of Predictability: Security Interests Change .....	31
The Problem of Promise: The Risk of Unmet Expectations .....	32
IV. Conclusion: The Impact of National Security Objectives on Development.....	35
Appendix A: QuODA Dimensions and Categories .....	41
Bibliography .....	44

## **INTRODUCTION: THE CRUCIBLE OF AID AND SECURITY**

On December 25, 2009, a young Nigerian student named Umar Farouk Abdulmutallab managed to attract the entire world's attention to the country of Yemen. Abdulmutallab had gained instant notoriety as the "Underwear Bomber" for attempting to detonate explosives concealed underneath his clothing on a Northwest Airlines flight over Detroit on Christmas day. Shortly after the attempted attack, U.S. government authorities discovered that the would-be terrorist had trained with, or had been influenced by, members of a new branch of Al Qaeda that operated out of Yemen known as Al Qaeda in the Arabian Peninsula (AQAP), which had announced its own creation by virtue of the merger of Saudi and Yemeni branches of the terrorist organization a year prior, in January 2009.<sup>1</sup>

The public spotlight suddenly thrown on Yemen also started a frenzy of attention to the myriad problems the country faces, including an insurgency in the north, a dissident movement in the South, water shortages, and precipitous population growth. The media, think tanks, and U.S. government officials rushed to analyze the depth and breadth of the AQAP threat and the conditions in Yemen that allowed that threat to thrive. In the days and weeks that followed, arguments and debates about what the United States should and could do about Yemen and the Al Qaeda problem seemed ubiquitous. Comedy shows like Saturday Night Live and the Daily Show with Jon Stewart, through their satirical depictions of Yemen's President Ali Abdullah

---

<sup>1</sup> Sharp, Jeremy. *Yemen: Background and U.S. Relations*. Washington, DC: Congressional Research Service, 2010.



Saleh and the media's coverage of the country, made Yemen a household name for several weeks after the Christmas Day attempt.<sup>2</sup>

Less than a month later, on January 20, 2010, witnesses and the presiding leadership of the Senate Foreign Relations Committee drew connections between the growing terrorism problem emerging from Yemen and the country's development challenges. The Senator John Kerry, the Democratic Chairman of the committee, opened the session with comments suggesting a connection between Al Qaeda's appeal and the lack of employment opportunities in the notoriously poor country, suggesting through his remarks that development aid was part of the counterterrorism solution. "If our development efforts can deliver concrete benefits not just to the ruling elite, but to a Yemeni society hungry for better job prospects, that will undercut the appeal of the extremist narrative".<sup>3</sup> Adding a note of bipartisan concurrence, Senator Lugar, the ranking Republican on the committee, elaborated on the Chairman's remarks by noting that "the appeal of Islamic extremism in Yemen is heightened by the country's staggering unemployment rate."<sup>4</sup> On cue, the Department of State's Coordinator for Counterterrorism, Daniel Benjamin, and the Assistant Secretary for Near East Affairs, Jeffrey Feltman drew attention to the Administration's response to the terrorism problem with a description of an ambitious strategy intended to use development assistance as a tool of national power to do nothing less than alter the conditions in which Al Qaeda was able to exist in Yemen:

---

<sup>2</sup> Quipped Stewart following a montage of menacing Yemen clips from news media outlets: "That's Yemen. A place we'll be hearing about for 24 hours a day until we get bogged down there and the insurgency moves to Oman." The Saturday Night Live skit can be found at <http://www.nbc.com/saturday-night-live/video/yemen-press-conference-cold-open/1191637/>

<sup>3</sup> Kerry, John F. "Chairman Kerry Opening Statement At Hearing on Yemen." Washington, D.C.: U.S. Senate Committee on Foreign Relations, January 20, 2010.

<sup>4</sup> Lugar, Dick. "Opening Statement for Hearing on Yemen." Washington, DC, January 20, 2010.

“Recognizing the growing threat emanating from Yemen, the United States has been significantly ramping up levels of both security and development assistance since FY 2008. In addition, this administration has developed a new, more holistic Yemen policy that not only seeks to address security and counter terrorism concerns, but also the profound political, economic, and social challenges that help Al-Qaeda and related affiliates to operate and flourish.”<sup>5</sup>

In a rare consensus between parties and branches, all seemed to agree that Yemen provided the perfect opportunity to promote and validate the importance of development as a tool in the effort to confront violent extremism and terrorism.

To publicize its response to the threat, the White House noted not long after the hearing on its website that *“the United States has greatly expanded its economic and humanitarian assistance to the Yemeni people, to approximately \$110 million over the past 12 months up from \$14.3 million two years before”*.<sup>6</sup> The tone of the hearing and the subsequent rise in aid to Yemen certainly appeared consistent with broader tenets of the Obama administration’s new Global Development Policy, premised on the first of its kind Presidential Policy Directive on Development released nine months later on September 22, 2010:

*“The directive recognizes that development is vital to U.S. national security and is a strategic, economic, and moral imperative for the United States. It calls for the elevation of development as a core pillar of American power and charts a course for development,*

---

<sup>5</sup> Benjamin, Daniel and Jeffrey D. Feltman. "Testimony Before the Senate Committee on Foreign Relations." Washington: Senate Foreign Relations Committee, 20 January 2010. (Benjamin and Feltman 2010)

<sup>6</sup> The aid numbers suggest an aggregation across Foreign Assistance accounts, to include military and security assistance training. This project is concerned with only “Official Development Assistance”, which, in the U.S. context includes the Development Assistance (DA) account and the Economic Support Fund (ESF) Account of the U.S. Foreign Affairs Budget, and the term development assistance will be used to generally describe these accounts throughout this paper. Programs associated with economic development, as opposed to security assistance, “include funding that focuses on “long term poverty reduction and economic growth.” Adams, Gordon, and Cindy Williams. *Buying National Security*. New York: Routledge, 2010.

*diplomacy and defense to mutually reinforce and complement one another in an integrated comprehensive approach to national security.”<sup>7</sup>*

Not publicly advertised were other facts about Yemen that fit much less comfortably with another major aspect of the President’s policy. In addition to elevating the importance of development in a national security context, the Global Development Policy also suggests that development resources will be spent in the places where they have the best chance of creating sustainable outcomes, and as such, the U.S.

*“...will increase the focus of resources, policy tools, and engagement in support of select countries and sub-regions where the conditions are right to sustain progress.”<sup>8</sup>*

Believing this particular tenet of the policy important enough to elaborate in an article in *Foreign Affairs*, Secretary of State Hillary Clinton pointed out that the Presidential Policy Directive and the Global Development Policy “emphasizes the importance of targeting countries with responsible governments and favorable conditions for development.”<sup>9</sup> And earlier in the year, Secretary Clinton had made specific and deliberate reference to the importance of selecting good partners in her first hallmark speech on “Development in the 21<sup>st</sup> Century”, telling the audience that:

“We want partners who have demonstrated a commitment to development by practicing good governance, rooting out corruption, making their own financial contributions to their own development. We expect our partners to practice sound economic policies, including levying taxes on those who can afford them, just as we do; or, in countries rich in natural resources, managing those resources sustainably and devoting some of the

---

<sup>7</sup> The White House. "www.whitehouse.gov." *Fact Sheet: U.S. Global Development Policy*. September 29, 2010. <http://www.whitehouse.gov/the-press-office/2010/09/22/fact-sheet-us-global-development-policy> (accessed September 29, 2010).

<sup>8</sup> (The White House 2010)

<sup>9</sup> Clinton, Hillary Rodham. "Leading Through Civilian Power." *Foreign Affairs*, 2010: 13-24.

profits to people's development. The American taxpayer cannot pick up the tab for those who are able but unwilling to help themselves."<sup>10</sup>

However, during the same time as the United States Government advocated and provided an increase in aid to Yemen, the Millennium Challenge Corporation (MCC), a semi-independent but official U.S. development entity created to award aid grants to countries with good or improving governance, rated Yemen well below the median in 13 out of 17 categories that the MCC determines are important for sustainable growth and aid effectiveness.<sup>11</sup> More troublingly, in the same time span that the White House suggests aid increased nearly ten times, Yemen's governance performance actually declined in ten out of seventeen categories, including fiscal policy, regulatory quality, primary education expenditures, and government effectiveness.<sup>12</sup> From the perspective of aid effectiveness, the increase in assistance in Yemen, while consistent with policy in one sense, could also be seen as contradicting stated U.S. government aid policies and assumptions about what it takes to make aid "effective".

Thus, hidden beneath the surface of a few short lines of a Presidential Directive, and brought to life by the U.S. response to a security threat from Yemen is the essence of a significant paradox faced by U.S. policymakers in both Executive and Legislative branches of government: deserving partners in the war on terror may be the worst prospects for effective development aid. By promoting development as a national security imperative, building on an emerging mainstream viewpoint that development matters to security, the United States may

---

<sup>10</sup> Clinton, Hillary. "Remarks on Development in the 21st Century." *U.S. Department of State*. January 26, 2010. <http://www.state.gov/secretary/rm/2010/01/134838.htm> (accessed March 3, 2010).

<sup>11</sup> Millennium Challenge Corporation. "Country Scorecards MCC." *Millennium Challenge Corporation Website*. October 21, 2009. <http://www.mcc.gov/documents/scorecards/score-fy10-yemenrep.pdf> (accessed October 22, 2010).

<sup>12</sup> *Ibid.*

look to development as a legitimate tool of statecraft in states where it perceives its national security interests to be greatest. Yet the states implicated by such a view, such as Yemen and Pakistan, may be places where governance is poor and corruption is rampant -- circumstances that economists and policymakers agree threaten development's effectiveness. Therefore, national security policymakers may actually be championing a greater role for development aid without a proper understanding of its limitations, thereby creating unreasonable expectations among foreign audiences, creating inefficiencies, and possibly hurting the credibility of development assistance in the long run.

## **I. CONCEPTS OF AID EFFECTIVENESS**

Understanding how the U.S. can simultaneously promote two different, and possibly contradictory, angles of development policy requires stepping back to understand the difference in perspectives on aid held by national security and development professionals. To the national security policymaker and practitioner, the language of national security is one of utility, and thus involves employing national security "tools" such as diplomacy, development, and defense (or the "3 D's" in modern jargon) to implement a national security strategy. During the Cold War, the United States primarily used aid as a tool of leverage and influence with states to achieve political objectives and counter Soviet influence in the developing world.<sup>13</sup> But for the national security community, 9/11 signaled a departure from this perspective toward a view of aid as a tool in a new security environment characterized by threats from non-state actors. Steven

---

<sup>13</sup> Graff and Pascual write "During the cold war, aid was primarily utilized by donors to support client states in regions of strategic concern, rather than to promote development and alleviate poverty in poor states". Pascual, Carlos, and Corrine Graff. "Conclusion and Policy Implications." In *Confronting Poverty*, by Susan E. Rice, Corinne Graff and Carlos Pascual, 202-226. Washington, D.C.: Brookings Institution Press, 2010. 204-205.

Radelet, wrote in *Foreign Affairs* in 2003 that the increase in aid during the Bush administration reflected a “reluctant acceptance of the fact that poverty and inequality around the world generate hostility and resentment toward the United States and thereby weaken national security.”<sup>14</sup> But in either context, development to the national security practitioner is still a tool in a policymaker’s toolbox. Believing that national security problems derive from economic challenges in poor countries is sufficient to recommend development as a part of the solution.

Development professionals view aid differently. Unlike the language of national security, the language of development economics is an extremely technical dialect, and the canon of related research and literature contains all of the requisite econometric models and Greek symbols characteristic of its mother discipline. In an interview, Andrew Natsios, the USAID administrator during the George W. Bush administration explained:

“If you look at the 3 D’s, the volume of material, of research, of program documents, for the smallest “D”--which is development--is much larger than all of the military science literature and writing on diplomacy that has ever been written. It’s massive. Why? Because it’s so complicated. You’re trying to intervene in the internal affairs of other countries to restructure their social, political, and economic orders.”<sup>15</sup>

Similar to the use of defense or diplomacy, however, development assistance may only work to achieve long term sustainable growth or poverty reduction when it is applied in certain circumstances and under certain conditions.<sup>16</sup> According to the literature, this finding is particularly important as the intent of aid changes from an instrument of strategic bribery to an instrument of developmental change. Variables, such as how a dictator governs a country or the

---

<sup>14</sup> Radelet, Steven. "Bush and Foreign Aid." *Foreign Affairs*, September/October 2003: 104-117.

<sup>15</sup> Natsios, Andrew, interview by Author. *former USAID Administrator* (October 18, 2010).

<sup>16</sup> Development effectiveness should not be confused with the effectiveness of other humanitarian aid programs, such as food aid or disaster relief.

level of corruption in a country that may have mattered little to the national security establishment during the Cold War may become critical when the use of aid becomes to mold and transform environments. Determining which variables are most important to development outcomes is then clearly the domain of development economists, and was the subject of some controversy and debate in the first decade of the century.

### THE CONCEPT OF SELECTIVITY

In 2000, two World Bank economists, Craig Burnside and David Dollar, published a working paper for the World Bank, “*Aid, Policies, and Growth*”, which correlated aid effectiveness to policy and governance indicators developed by the World Bank in its Country Policy and Institutional Assessment (CPIA) tool.<sup>17</sup> The CPIA uses an indexed score based on 16 criteria, further divided into four “clusters”, that “measure the extent to which a country’s policy and institutional framework supports sustainable growth and poverty reduction, and consequently the effective use of development assistance.”<sup>18</sup> The avalanche of academic papers that followed in response provided the modern academic foundation for the concept of “selectivity”, i.e. the notion that aid partners should be selected by donors on the basis of good economic policies and demonstrated commitment to good governance.<sup>19</sup> Although economists

---

<sup>17</sup> Burnside, Craig, and David Dollar. "Aid, Policy, and Growth." *The American Economic Review*, Vol. 90, No. 4, 2000: 847-868.

<sup>18</sup> World Bank. "IDA Resource Allocation Index." *World Bank International Development Association*. 2010. <http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/IDA/0,,contentMDK:21378540~menuPK:2626968~pagePK:51236175~piPK:437394~theSitePK:73154~isCURL:Y,00.html> (accessed August 18, 2010).

<sup>19</sup> Many of the papers accepted that policies and governance were important, but differed on how important, and whether or not aid should or could be conditioned on reforms. See Collier, Paul, and David Dollar. "Development Effectiveness: What Have We Learnt?" *The Economic Journal*, 2004: 244-271.; Mosley, Paul, John Hudson, and Arjan Verschoor. "Aid, Poverty Reduction, and the 'New Conditionality'." *The Economic Journal*, 2004: 217-243.; Collier, Paul, and David Dollar. "Aid Allocation and Poverty Reduction." *European Economic Review*, 2002: 1475-1500.; Svensson, Jakob. "When is foreign aid policy credible? Aid Dependence and Conditionality." *Journal of*

challenged the robustness of Burnside and Dollar's initial conclusions that aid can work if the policy environments are correct, even William Easterly – one of the study's most ardent critics – agreed that the nature of the recipient country does affect its prospects for economic development. Easterly dryly noted in one article that “some combination of free markets and good institutions has an excellent track record of achieving development (as opposed to say, totalitarian control of the economy by kleptocrats)”.<sup>20</sup>

The World Bank, which had already developed the practice of using indicators to make decisions about concessional lending to the world's seventy nine poorest countries through the International Development Association (IDA), also began to focus more on indicators of governance than macroeconomic policies as important for economic development.<sup>21</sup>

Governance, according to the World Bank:

“...consists of the traditions and institutions by which authority in a country is exercised. This includes the process by which governments are selected, monitored and replaced; the capacity of the government to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them.”<sup>22</sup>

---

*Development Economics*, 2000: 61-84.; and Svensson, Jakob. "Why Conditional Aid Does Not Work and What Can be Done About It." *Journal of Development Economics*, 2003: 381-402.

<sup>20</sup> Easterly, William. "Was Development Assistance a Mistake?" *American Economic Review*; Vol. 97, No. 2, 2007: 328-332. As Brainard, Graham et al note, "Several studies challenge the finding that the positive aid-to-growth relationship depends on good policies, finding that aid is positively correlated with growth regardless of the policy environment. Moreover, the focus on the quality of policies in the recipient country, however important, only takes us so far in considering aid effectiveness. Other factors strongly influence the impact of aid, including the quality of the bureaucracy in donor countries, reporting requirements, coordination across donors, and the capacity of the recipient country to manage aid money. Brainard, Lael, Carol Graham, Nigel Purvis, Steven Radelet, and Gayle E. Smith. *The Other War: Global Poverty and the Millennium Challenge Account*. Washington, D.C.: Brookings Institution, 2003:31.

<sup>21</sup>World Bank International Development Association. *IDA Country Policy and Institutional Assessment*. 2010. <http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/IDA.html> (accessed November 12, 2010).

<sup>22</sup> Ibid.



The conclusions from a joint working paper on governance prepared for the World Bank offered six aggregate measures that captured dimensions of governance that the authors determined have “a strong causal relationship from better governance to better development outcomes”.<sup>23</sup> The Bank used the indicators to develop another assessment tool, known as the “Worldwide Governance Indicators”, which theoretically allows donors to focus on and isolate endogenous variables that the recipient governments may be able to improve (as opposed to exogenous variables, like natural disasters, macroeconomic shocks, and a lack of natural resources), so as to avoid penalizing countries for things their governments can’t control.<sup>24</sup> Donors can use the indicators to control for governance in selecting aid partners.

Selectivity also provided a technocratic escape hatch for donors who may have sought reasons to avoid providing aid to “bad” leaders, defined as such by the use of human rights abuse, the suppression of civil and media freedoms, the suppression of due process, the suppression of freedoms to criticize and the freedom to choose elected representatives.<sup>25</sup>

According to a study conducted by Christopher Coyne and Matt Ryan, the world’s worst living dictators, from Belarus to Zimbabwe, have received \$105 billion dollars in official development assistance from the OECD Development Assistance Committee (DAC) countries in during their reigns.<sup>26</sup> Beyond the moral or ethical reasons to avoid providing aid to dictators, there is potentially an important economic reason not to do so as well. By foregoing selectivity and choosing to provide development assistance in the absence of demonstrated commitment to

---

<sup>23</sup> Kaufmann, Daniel, Aart Kray, and Pablo Zoido-Lobaton. *Governance Matters: World Bank Policy Research Working Paper No. 2196*. Washington, DC: Policy Research Dissemination Center, 1999.

<sup>24</sup> (World Bank International Development Association 2010)

<sup>25</sup> Coyne, Christopher, and Matt Ryan. "Working Paper No. 08-41." *With Friends Like These, Who Needs Enemies?* Fairfax, Virginia: Mercatus Center, George Mason University, October 2008.

<sup>26</sup> (Coyne and Ryan 2008)

needed reforms, donors might adversely affect a government's or a leader's incentives, effectively becoming a disincentive to state transformation.<sup>27</sup>

### THE CONCEPT OF PREDICTABILITY

In addition to the concept of selectivity, economists have also developed other guiding principles of aid effectiveness. One of the principles derived from an interest in minimizing macroeconomic distortions on a country's economy. Some economists, whose perspectives have been summarized by Moss, Pettersson, & van de Walle, argue that large amounts of aid can represent an unearned rent to governments and can create adverse macroeconomic problems, such as currency destabilization, fiscal indiscipline, and distortions in the national budget cycle.<sup>28</sup> Furthermore, "volatility", or "instability", can result when aid fluctuates drastically over time compared with domestic revenue collection (taxes), or when commitments to provide aid are not held.<sup>29</sup> This volatility, produced by variations in aid disbursements and under-fulfilling commitments of development assistance can unnecessarily distort the national budgeting mechanisms of a country's economy and can create problems affecting sustainable service delivery.<sup>30</sup> To avoid or at least mitigate the potential for macroeconomic distortions, the

---

<sup>27</sup> Collier and Dollar believe that incentives have been exaggerated, but accept that a sensible constraint on any aid allocation formula is that it should not systematically reward bad policy. (Collier and Dollar, *Aid Allocation and Poverty Reduction* 2002)

<sup>28</sup> Moss, Todd, Gunilla Pettersson, and Nicolas van de Walle. "An Aid-Institutions Paradox?" In *Reinventing Foreign Aid*, by William Easterly and ed., 255-281. Cambridge, Massachusetts: The MIT Press, 2008.

<sup>29</sup> (Bulir and Hamann, *Volatility of Development Aid: From the Frying Pan Into the Fire?* 2008); (Agénor and Aizenman 2010) and (Bulir, Gelb and Mosely, *Introduction: The Volatility of Overseas Aid* 2007); (Moss, Pettersson and van de Walle 2008)

<sup>30</sup> I.e. including regular allocations in the national budget for government provided services, or sustaining an aid-funded program over the long term. In a thirty seven country survey, Bulir and Lane found that aid is more volatile than domestic fiscal revenues and that this volatility of aid leads to poor budgeting and underestimation of revenues, since aid commitments tend to overestimate actual disbursements. Heller and Gupta argue that fiscal uncertainty of dependence on external assistance makes long-term planning extremely difficult. (Moss, Pettersson and van de Walle 2008)

Organization for Economic Co-Operation and Development (OECD), in its 2008 Accra Agenda for Action (the follow-up to the 2005 OECD Paris Declaration on Aid Effectiveness) encouraged the donor community to incorporate predictability and stability in aid disbursements, and “predictability” became another hallmark of good aid practice.<sup>31</sup>

Predictability seemingly conflicts with efforts to condition aid on governance reform. If conditioning further assistance on reforms creates incentives for a recipient country, promising a continuation of aid regardless of reforms reduces those incentives. Indeed, scholars have noted that high levels of aid in countries where the political leadership does not have reform on the agenda are likely to marginally reduce the incentive to cooperate in the sacrifices necessary for reform to occur.<sup>32</sup> However, competing scholarship has demonstrated that the decision calculus of recipient countries to change policies is not robustly dependent on conditions of aid, and therefore donors may be best served by ensuring that some minimal threshold of good policies exist in the first place.<sup>33</sup>

#### **THE U.S. AND AID EFFECTIVENESS:**

The “new” perspective on the importance of governance and strong democratic institutions to development was warmly embraced by the George W. Bush administration.<sup>34</sup> The

---

<sup>31</sup> The Paris Declaration and the Accra Agenda principles can be found at [http://www.oecd.org/document/6/0,3343,en\\_2649\\_3236398\\_18638150\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/6/0,3343,en_2649_3236398_18638150_1_1_1_1,00.html)

<sup>32</sup> Brautigam, Deborah, and Stephen Knack. "Foreign Aid, Institutions, and Governance in Sub-Saharan Africa." *Economic Development and Cultural Change*, Vol. 52, No. 2, Jan. 2004: 255-285.

<sup>33</sup> It is precisely for this reason that “Selectivity” has replaced “Conditionality” as the model for development decision criteria. See: (Svensson, *Why Conditional Aid Does Not Work and What Can be Done About It* 2003) and Mosley, Paul, John Hudson, and Arjan Verschoor. "Aid, Poverty Reduction, and the 'New Conditionality'." *The Economic Journal*, 2004: 217-243.

<sup>34</sup> Many scholars point out that these observations are not entirely “new” per se. The World Bank’s International Development Association had developed the Country Policy and Institutional Assessments in the 1970s, noting that “At the broadest level, experience has taught the development community that good policies and institutions lead, over time, to favorable growth and poverty reduction, notwithstanding possible yearly fluctuations arising from

administration saw development as a critical component of its foreign policy following 9/11. Some reform of the system, including aid based on good governance, offered a way to assuage aid critics in light of a purported history of under-performance and waste, and possibly to make aid work more effectively.<sup>35</sup> The 2002 National Security Strategy mourned the failure of “decades of massive development assistance” to spur economic growth in the poorest countries, and claimed that “Sustained growth and poverty reduction is impossible without the right national policies”. The Strategy further specified that the United States would henceforth work to incorporate selectivity more comprehensively in its development agenda.

As a first tangible step in the direction of improving aid effectiveness, in March of 2002, at the UN Conference on Financing for Development in Monterrey, Mexico, President Bush announced the creation of a new \$5 billion bilateral development program, the Millennium Challenge Account (MCA) and the concurrent creation of an independent aid agency, the Millennium Challenge Corporation (MCC) to oversee its programs.<sup>36</sup> Rather than using diplomatic or national security interests to guide its allocations, funding would be provided on the basis of objective selection criteria, including economic policies, social investment, and good governance in the recipient countries.<sup>37</sup> The aforementioned World Bank’s “Worldwide Governance Indicators” were accepted and used by the Millennium Challenge Corporation in the

---

internal and external factors.” World Bank. “IDA Resource Allocation Index.” *World Bank International Development Association*. 2010.

<http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/IDA/0,,contentMDK:21378540~menuPK:2626968~pagePK:51236175~piPK:437394~theSitePK:73154~isCURL:Y,00.html> (accessed August 18, 2010).

<sup>35</sup> Lancaster, Carol. *George Bush's Foreign Aid: Transformation or Chaos*. Washington, DC: Center for Global Development, 2008. 3-5.

<sup>36</sup> (Brainard, Graham, et al. 2003, vii)

<sup>37</sup> Ibid,

formulation of the country score cards that determine eligibility for its grant compacts.<sup>38</sup> At the time of the MCA's creation, the underlying principles behind the concept of selectivity weren't necessarily "new", but the difficulty in insulating aid from political interests of the State and Defense Departments suggested additional benefits for designing a new approach.<sup>39</sup> "What we did was to articulate selectivity in a way that people from the other two D's [defense and diplomacy] could understand," recalled Andrew Natsios, the USAID Administrator for President Bush when the MCA was created. "Now, did they understand it? No. They just don't accept it."<sup>40</sup>

Although the United States signed on to the OECD Paris Declaration and the Accra Agenda for Action, and seemed readily and enthusiastically to accept what development economists determined was important to the effectiveness of aid, putting these core tenets to practice has proven especially difficult when U.S. national security interests are directly implicated. The story of U.S. policy in Yemen is a good example.

## **II. YEMEN: POLITICS, ECONOMICS, AND THE HISTORICAL CONNECTIONS TO U.S. SECURITY**

Victoria Clark, a journalist, begins her recent book on Yemen with a somber and poignant description of Mocha port, which sits on the south-Western coast of modern Yemen astride the Bab al Mandab Straits – a modern casualty of globalization:

---

<sup>38</sup> A central tenet of the MCC's programs is that aid can be more effective in achieving development goals if it is focused on nations with governments that are committed to establishing policies and institutions conducive to economic growth and poverty reduction. Brainard, Lael. *Security by Other Means*. Washington, DC: Brookings Institution, 2007.

<sup>39</sup> Lancaster, Carol. *Foreign Aid: Diplomacy, Development, Domestic Politics*. Chicago: University of Chicago Press, 2007.

<sup>40</sup> (Natsios, former USAID Administrator 2010)

*“Nothing is left of what was once the busiest and richest port on the Red Sea – just sand and a few crumbling facades, the abandoned homes and ‘factories’ (trading posts) that used to ‘display a very handsome appearance towards the sea.’”<sup>41</sup>*

Coffee, once the primary export of what has become one of the 35 poorest countries in the world, had exposed Yemen to the same “Dutch Disease” that would affect its colonial cousins in Africa and Southeast Asia throughout the 19<sup>th</sup> century and after.<sup>42</sup> East India Company merchants first arrived in Mocha, then an Ottoman sultanate, in 1609. By the middle of the century, Mocha was exporting some ten million kilos of coffee a year.<sup>43</sup> However, according to Clark, the removal of coffee plants by Dutchman Peter van der Broeck in 1616 led to the spread of the commodity’s cultivation in Africa, South America, and Sumatra. The ability of competing markets to sell at lower prices led to the impoverishment of Yemen’s northern highlands, and Qat, the mild stimulant chewed by Yemenis as a matter of cultural imperative, became and has remained Yemen’s principle domestically cultivated commodity.<sup>44</sup>

During the Cold War, Yemen largely served as one of many frontline states in a proxy turf battle between super powers. At the outset of the Cold War, royalist forces loyal to Yemen’s central government in the North, backed by Saudi Arabia created a new Yemen Arab Republic. Meanwhile a socialist movement, initially created to oppose British occupation of Aden, became

---

<sup>41</sup> Clark, Victoria. *Yemen: Dancing on the Heads of Snakes*. New Haven: Yale University Press, 2010.

<sup>42</sup> Dutch Disease, as described by Christine Ebrahim-zadeh “is generally associated with a natural resource discovery... it can occur from any development that results in a large inflow of foreign currency, including a sharp surge in natural resource prices, foreign assistance, and foreign direct investment. Economists have used the Dutch disease model to examine such episodes, including the impact of the flow of American treasures into sixteenth-century Spain and gold discoveries in Australia in the 1850s.” Ebrahim-zadeh, Christine. "Dutch Disease: Too Much Wealth Managed Unwisely." *Finance and Development*, 2003: Volume 40, Number 1.

<sup>43</sup> (Clark 2010) quoting Macro, Eric. *Bibliography on Yemen and Notes on Mocha*. Miami: University of Miami Press, 1966.

<sup>44</sup> U.S. Senate. Committee on Foreign Relations. *Following the Money in Yemen and Lebanon: Maximizing the Effectiveness of U.S. Security Assistance and International Financial Institution Lending*. Washington, D.C.: U.S. Government Printing Office, 2010.

a full-blown communist insurgency that succeeded in creating the People's Democratic Republic of Yemen in the South, with ties to, and receiving support from, the Soviet Union.<sup>45</sup> The two sides would fight two civil wars, one between 1962 and 1970, and a second between 1990 and 1994. Meanwhile, in 1978, Ali Abdullah Saleh, who at the time ran the Army, came to office as President of the Yemeni Arab Republic. Saleh, then and now, was known for his savvy use of Yemen's unique tribal patronage system to consolidate power through a "mix of persuasion, sparing use of force, and appointment to key posts of a tight circle of loyalists, many of them members of his family, tribe, and clan."<sup>46</sup>

In the 1970s and 1980s, Yemen had its second experience with the Dutch Disease; only this time the export was not coffee, but its ready supply of cheap labor. According to some estimates, at least one million or more Yemenis migrated to wealthier Arab States, chiefly Saudi Arabia, during the 1970s during the Gulf Oil Boom. The same estimates suggest that in 1975, Saudi Arabia alone had a labor requirement of nearly two million workers, which it was not able to support with a national work force of only around 1.3 million.<sup>47</sup> The population in 1975 of North Yemen was recorded at 6,492,530, out of whom 1,234,000 were assumed to be migrants working abroad (including 740,000 short-term migrants).<sup>48</sup> Their remittances, came to account for 40 percent of Yemen's economy, and brought rapid economic growth without straining Saleh's national budget.<sup>49</sup> However, according to one economic analysis of the effects of the labor migration, the labor exodus also contorted the structure of the Yemeni economy in a way

---

<sup>45</sup> Sharp, Jeremy. *Yemen: Background and U.S. Relations*. Washington, DC: Congressional Research Service, 2010.

<sup>46</sup> Rodenbeck, Max. "Yemen, al-Qaeda, and the US." *The New York Review of Books*, September 30, 2010.

<sup>47</sup> Colton, Nora Ann. "Yemen: A Collapsed Economy." *Middle East Journal*, 2010: 410-426.

<sup>48</sup> (Colton 2010)

<sup>49</sup> Ibid.

that persists to modern times by distorting the balance of service and industrial sectors.<sup>50</sup>

Nonetheless, during this time, North Yemen also discovered modest oil reserves, and began exporting the commodity in 1986. Saleh was able to use the attendant budget infusions from predictable income tax revenue and oil rents to build an army, recruit a circle of rent-seeking loyalists, and extend his tribal patronage.<sup>51</sup>

Following the end of the Cold War, and buttressed by the discovery of oil, the unified Republic of Yemen was formed by the shaky merger of the formerly separate states of North Yemen and South Yemen in 1990.<sup>52</sup> Not long thereafter, the first of two major events took place that would define and dramatically affect Yemen's economy and its relationship with the United States. On September 19, 1990, in retribution for Saleh's refusal to condemn the Iraqi invasion of Kuwait, the Saudi government revoked the terms of employment of some 800,000 Yemenis working in the Kingdom, providing one month for workers to liquidate their businesses and sell their assets and return to Yemen. Two months later, over a Thanksgiving dinner in Sana'a, President Saleh informed then Secretary of State James Baker that Yemen, at the time a rotating member of the UN Security Council, would not be supporting UN Security Council Resolution 678, sanctioning U.S. and British-led invasion of Iraq.<sup>53</sup> In retribution, The United States halted all development assistance to the country.

As a result of the Saudi and American actions, according to some studies, Yemen absorbed 880,000 workers in 1990 and experienced an overall increase in its population of 7%

---

<sup>50</sup> In North and South Yemen in 1970, the percentage shares of GDP for services and industry were, respectively, 39.4% 10.0% in the North, and 58.2% and 23.6% in the South. By 1980, these numbers had changed to 55.5% and 16.2% in the North and 83% and 6.7% in the South. (Colton 2010)

<sup>51</sup> (Rodenbeck 2010)

<sup>52</sup> (Sharp 2010)

<sup>53</sup> (Colton 2010)



along with an increase of 30% in its labor force.<sup>54</sup> In large part as a result of this shock, the unemployment rate was unofficially estimated to be as high as 30-40 by the mid 1990s<sup>55</sup>. All development assistance in 1991, including loans, facilities, and foreign aid, hit a dismal low of \$191, 364.<sup>56</sup>

#### VANGUARD OF THE FRONTLINE STATES IN THE WAR ON TERROR

By the late 1990's, as the United States triumphantly surveyed the global landscape following the fall of the Berlin Wall, the small gulf country was still reeling from the devastating economic impact of its decision to support Saddam Hussein. But before long, Yemen would be among the first countries to violently detach itself from the blurry patchwork of developing countries left behind after the Cold War.

Like a number of other countries in the Arab and larger Muslim world which spanned the globe from Morocco to the Philippines, Yemen, under the leadership of President Saleh, and with some quiet support from the United States, had encouraged Yemeni youths to join the anti-Soviet Mujahedeen in Afghanistan during the Soviet Occupation. According to some analysis, “exiles from the Marxist south proved especially enthusiastic volunteers” and trained in the camps set up by Osama bin Laden, “...who held added appeal to Yemenis because his family hailed from the Hadramut.”<sup>57</sup> When the Afghanistan campaign had concluded, the Yemeni jihadists returned home, and Saleh was only too willing to put them to work as army irregulars during the 1994 Civil War.<sup>58</sup> The connection between Saleh and Salafi-minded extremists would

---

<sup>54</sup> Ibid.

<sup>55</sup> Ibid.

<sup>56</sup> Ibid.

<sup>57</sup> (Rodenbeck 2010)

<sup>58</sup> Ibid.

be at the heart of a complicated and thorny relationship between the United States and Yemen starting in the late 1990s and throughout the following decade.

On October 12, 2000, Yemen's role as a harbor for extremists became an official problem for the U.S. government. Yemeni terrorists used an explosives-laden boat to attack the U.S. Navy destroyer USS Cole while it was docked at the Yemeni port of Aden, killing 17 U.S. servicemen and wounding 39 others.<sup>59</sup> After 9/11, as Yemenis who had been captured as foreign fighters in Afghanistan and Iraq filled the cells of the prison of Guantanamo Bay, Cuba, Yemen became one of the first official "fronts", in the Bush administration's global confrontation with Al Qaeda. In response, the United States began to ramp up military assistance and counterterrorism activity in the country, with lukewarm support from President Saleh.<sup>60</sup>

In the ten years that followed, Al Qaeda's presence waxed and waned in Yemen, and despite counterterrorism success that eliminated the key leadership of an Al Qaeda cell in Yemen in 2002, the group has been able to reconstitute. This has been due, in large part, to both the return of Yemeni fighters from Iraq and the Saudi crackdown on Al Qaeda's presence in the Kingdom, which flushed Al Qaeda members into its southern neighbor, where the mountains, weak governance, and perhaps local government support, provide some refuge. For its part, the United States had largely viewed the threat from Yemen as a serious threat, but one that was mostly confined to the Arabian Peninsula. When AQAP made an attempt on the U.S. homeland, Yemen once again found itself near the top of the list of American national security concerns.

---

<sup>59</sup> (Sharp 2010)

<sup>60</sup> (Sharp 2010)

### III. YEMEN AND THE PROBLEMS OF DEVELOPMENT ASSISTANCE

Up until the Christmas Day attempt, Yemen's relationship with the United States had been largely defined by quid pro quo transactions that reflected the contours of American foreign policy and strategic interests. During the Cold War, the United States supported Yemen with military and intelligence support as one of many proxies in a global confrontation with the Soviet menace, while quietly encouraging Yemen to send violent extremists to Afghanistan to fight the Soviets. During the Gulf War, Yemen aligned with the wrong power in a confrontation among states, and the United States pulled aid as a result of Yemen's choice, and stood by as the Gulf States sent Yemeni workers packing back to Yemen, inflating its ranks of unemployed and dispossessed. In the initial stages of the "Global War on Terror", the United States once again rewarded Yemen for its cooperation against al Qaeda with military assistance and development aid. When AQAP attempted to attack the U.S. homeland, pundits called for a more strategic approach to dealing with Yemen as a security environment, rather than simply pursuing tactical success against terrorists. Wrote Corrine Graff at the Brookings Institution,

"If we want to take Al Qaeda down and keep them down, we need to build state capacity in Yemen through sustained economic assistance and good governance programs. They're ambitious objectives, especially in a failing state. But if the underwear bomber taught us anything, it's that the stakes warrant the effort."<sup>61</sup>

The latest manifestation of the American view toward the development relationship, evidenced by new policy proclamations and budget commitments, suggests a view more reflective of a new foreign policy consensus, one that places less emphasis on the relationship with the government and more on addressing the conditions that terrorists are said to exploit.

---

<sup>61</sup> Graff, Corinne. *What You Should Know About Yemen: Brookings Institution*. January 8, 2010. [http://www.brookings.edu/opinions/2010/0108\\_yemen\\_graff.aspx](http://www.brookings.edu/opinions/2010/0108_yemen_graff.aspx) (accessed November 13, 2010).

Unlike a scenario in which the allocation of development money is intended to achieve a concrete political objective as a tool of influence or persuasion, now the aid money is supposed to achieve real development outcomes not unlike those that development professionals have long sought to achieve in the poorest countries of the world for decades.

Having successfully advocated for a development approach, policymakers are perhaps becoming less sanguine about the chances of success when considering many challenges confronting them. Secretary Clinton acknowledged in her speech on Development in the 21<sup>st</sup> Century, “In countries that are incubators of extremism, like Yemen, or ravaged by poverty and natural disasters, like Haiti, the odds are long.”<sup>62</sup> And the U.S. architects charged with constructing an aid policy for Yemen must overcome at least three problems if aid is to be effective: the problem of Yemen’s governance policies, the problems of partnering with President Saleh, and the problem of making aid to Yemen predictable and stable over the long term given the peaks and troughs of America’s interest in the country. The reality of these problems, when combined with increased American aid, could create a fourth problem, that of unfulfilled promises.

#### **THE PROBLEM OF POLICIES: WORSE GOVERNANCE, MORE AID**

If, as implied by the scholarship cited in earlier sections, governance and government policies are important to achieving development outcomes, then those aid donors seeking to improve conditions in Yemen may face an uphill battle. Governance and policy indicators in Yemen have provided a significant disincentive in recent years for donors to follow through on aid commitments, even in the face of Yemen’s abysmal poverty and economic hardship.

---

<sup>62</sup> (H. Clinton, Remarks on Development in the 21st Century 2010)

Concerns that aid will not be used properly have prevented donors from delivering 5.2 billion dollars in commitments made at a London donors conference in 2006.<sup>63</sup> Corruption, one of the primary obstacles to economic development, is one of the main governance indicators causing concern among donors. A 2006 USAID report characterizes corruption in Yemen and is worth quoting at length to describe the depth of the phenomenon:

“A system of grand corruption has emerged over the last several decades thriving on the combination of weak state institutions and a fragmented elite structure. In the absence of strong state institutions, informal patronage networks have proliferated. Indeed, patronage networks cripple what little capacity state institutions have....The state’s military and security apparatuses have come to reflect tribal interests, and a tribal parasitic bourgeoisie reliant on state contracts has emerged and further captured state resources for private gain. Economic growth, not compatible with grand corruption, is needed for basic needs and services to be met and for the state to be sustainable in the near term.”<sup>64</sup>

Demonstrating the acute impact of corruption on the economy, the flight of capital and major international investments out of Yemen exceeded foreign direct investment in the year of the USAID report’s writing. Singapore Port Authority, Proctor and Gamble and Cable and Wireless all left Yemen, citing as the primary reason the loss of investor confidence due to corruption.<sup>65</sup> And while corruption is the obvious and frequently cited governance indicator getting in the way of Yemen’s development, Yemen has also consistently fallen short across the board on most if not all of the governance indicators that the development community believes are important to “sustainable” development outcomes. In its October 2010 Country Report, The Economist Intelligence Unit recently described the impact of poor governance and political will on Yemen’s economy in bleak terms:

---

<sup>63</sup> (Benjamin and Feltman 2010)

<sup>64</sup> USAID. *Yemen Corruption Assessment*. Assessment, United States Agency for International Development, 2006.

<sup>65</sup> Ibid.

“Concern is growing over Yemen’s worsening economic fundamentals. As a result, there are moves to introduce more far-reaching reforms, including an attempt to end fuel and electricity subsidies, together with more prosaic measures, such as improving tax collection. However the unstable political climate will continue to hinder implementation and the government’s stated intention to press ahead with the elimination of fuel subsidies will prove a major test of will.”<sup>66</sup>

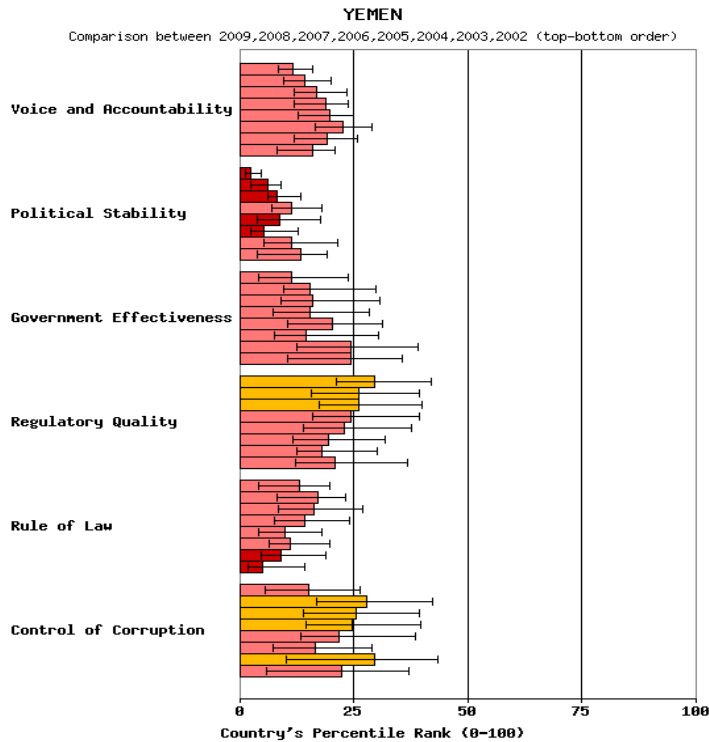
Data collected by the World Bank seems to further support that Yemen has not created a good governance environment for development. As the Bank’s Worldwide Governance Indicators demonstrate in the chart below (Chart 1), Yemen scored in the lowest quartile throughout most of the decade in all categories, and its scores deteriorated in four out of six of the categories between 2002 and 2009.<sup>67</sup>

---

<sup>66</sup> Economist Intelligence Unit. *Yemen Country Report October*. London: Economist Intelligence Unit, 2010.

<sup>67</sup> Copied and pasted directly from The World Bank. "Governance and Anti-Corruption." *Worldwide Governance Indicators*. 2010. [http://info.worldbank.org/governance/wgi/sc\\_chart.asp](http://info.worldbank.org/governance/wgi/sc_chart.asp) (accessed November 7, 2010).

**Figure 1:**



Source: Kaufmann D., A. Kraay, and M. Mastruzzi (2010), The Worldwide Governance Indicators: Methodology and Analytical Issues  
 Note: The governance indicators presented here aggregate the views on the quality of governance provided by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries. These data are gathered from a number of survey institutes, think tanks, non-governmental organizations, and international organizations. The WGI do not reflect the official views of the World Bank, its Executive Directors, or the countries they represent. The WGI are not used by the World Bank Group to allocate resources.

:

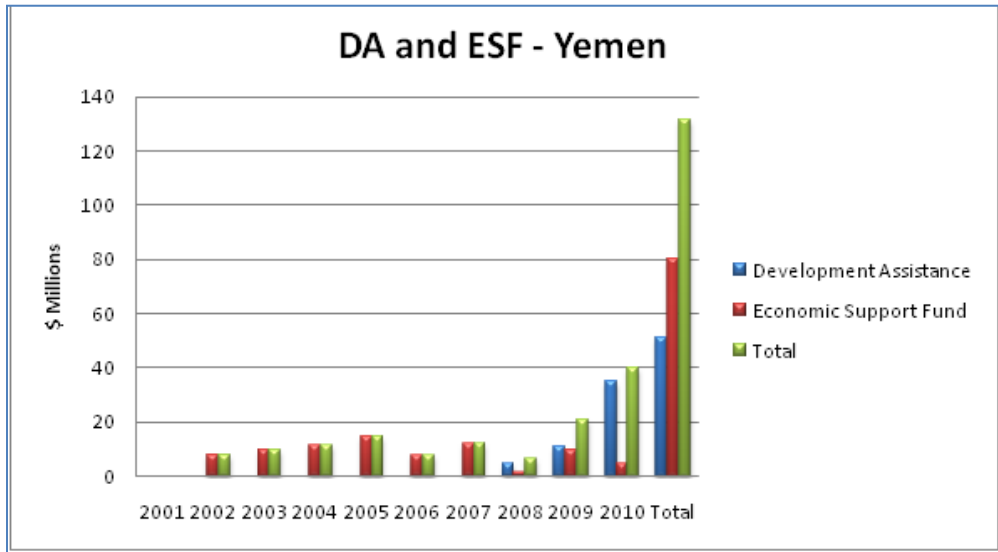
■ 90th-100th Percentile ■ 50th-75th Percentile ■ 10th-25th Percentile ■ 75th-90th Percentile ■ 25th-50th Percentile ■ 0th-10th Percentile

A country in which “the combination of the absence of strong state institutions and the presence of a fragmented elite in Yemen have given rise to a ‘mogul’ or ‘bandit’ state in which predatory elites are encouraged to appropriate state resources for private gain”<sup>68</sup> is hardly the kind of investment climate that private investors will find attractive, and thus will also have difficulty attracting donors who accept the importance of governance looking to capitalize on

<sup>68</sup> (USAID, Yemen Corruption Assessment 2006)

their global aid investments. Nonetheless, between 2002 and 2005, U.S. Official Development Assistance (ODA) to Yemen from the U.S. Development Assistance (DA) account and the Economic Support Fund (ESF) account increased almost 100 percent, from 8 million in 2002 to 14.8 million in 2005, and then following a short drop-off in 2007, aid again increased between 6.4 million in 2008 to 21 million in 2009. USAID planning documents also show that on September 16, 2009, USAID signed a \$31 million bilateral assistance agreement with the government of Yemen as part of an anticipated three year assistance total of at least \$121 million.<sup>69</sup> The chart below depicts the precipitous increase between 2007 and 2010, the same period that most governance indicators worsened.

**Figure 2**<sup>70</sup>



<sup>69</sup> USAID. "USAID Yemen 2010-2012 Strategy." [www.usaid.gov](http://www.usaid.gov). 2010. [http://www.usaid.gov/locations/middle\\_east/documents/yemen/USAIDYemen2010-2012Strategy.pdf](http://www.usaid.gov/locations/middle_east/documents/yemen/USAIDYemen2010-2012Strategy.pdf) (accessed October 11, 2010).

<sup>70</sup> Chart created by author using figures from (Sharp 2010)



Finding an explanation for the increase in U.S.-provided aid does not require much searching. The USAID Congressional Budget Justifications in the years immediately following 9/11 leave little doubt that the primary driving factor behind the increase was a response to the terrorism threat. The annual budget justifications include language suggesting a need to reward Yemen for its counterterrorism cooperation, but also steer toward an emphasis on changing the social and economic conditions that could create “fertile ground” for terrorists, justifying the expansion of the aid program based on “our improved understanding that countries with weak economies in which large segments of the population have only limited access to social services and economic opportunities provide fertile ground for furthering terrorist objectives.”<sup>71</sup>

Despite the commitment to working with States who have demonstrated commitment to governance, the basic U.S. development assistance trends from USAID in Yemen seem to provide a clear example of how difficult it is to avoid the temptation to increase aid when national security interests are at stake. One could argue, based on the budget justifications cited above, that USAID makes little effort to conceal the strategic interests of its allocation decisions. However, Yemen’s experience with the Millennium Challenge Corporation provides more stark evidence of the strength of national security’s gravitational pull on the American development

---

<sup>71</sup> The quote is from the 2003 USAID Congressional Budget Justification (CBJ): “In the near term, the U.S. will continue expanding its engagement and support for the Government of Yemen given its support in the war on terrorism and our improved understanding that countries with weak economies in which large segments of the population have only limited access to social services and economic opportunities provide fertile ground for furthering terrorist objectives.” In the 2005 CBJ, USAID notes that “USAID’s overall goal in Yemen is to support USG foreign policy objectives in the war on terrorism by helping to develop a healthy and educated population with access to diverse economic opportunities.” And again in the 2009 CBJ, “The overall FY 2009 increase will enable the U.S. to advance critical objectives and assist in moving this desperately poor, vital counter-terrorism partner to a more economically and democratically developed status.” USAID Congressional Budget Justifications from 2001 to 2010 can be found at: <http://www.usaid.gov/policy/budget/cbj2011/>.

agenda, showing how difficult it may be to ever make development decisions on the basis of development, rather than strategic, goals.

Between 2003 and 2007, Yemen scored well below the median score required for Millennium Challenge Corporation (MCC) funding on at least half of the MCC scorecard indicators every year (Yemen fell short on eight out of sixteen indicators in 2004, nine out of sixteen indicators in 2005, and fourteen out of sixteen indicators in 2006.)<sup>72</sup> Yet in 2004, despite falling short on eight (50%) of the selection criteria for eligibility, the MCC determined that Yemen would receive a \$21 Million Millennium Challenge Account threshold program, ostensibly to reward it for its cooperation in the Global War on Terror. One U.S. Government Official with knowledge of the program who asked to remain anonymous told me, “You know, they qualified for it by the skin of their teeth...and a close a scrupulous look probably would have argued that they hadn’t even gotten over the threshold, but there was a desire to reward Yemen’s efforts.”<sup>73</sup> A staff aide from the Senate Foreign Relations Committee with development expertise who asked to remain anonymous substantiated the claim, and somewhat dismissed the notion that the MCC was ever realistically immune from the political and strategic pressures of American foreign policy. “We’ve often times brought political decisions into play when making (MCC) selections; the threshold accounts in Niger and Yemen for example.”<sup>74</sup> But Yemen’s experience with the MCC not more than three years later shows why concessions made on the basis of political interests could cut both ways. In 2007, Yemen had its threshold program

---

<sup>72</sup> Millennium Challenge Corporation. "Country Scorecards MCC." *Millennium Challenge Corporation Website*. October 21, 2009. <http://www.mcc.gov/documents/scorecards/score-fy10-yemenrep.pdf> (accessed October 22, 2010).

<sup>73</sup> Anonymous, interview by Author. *U.S. Government Official* (October 13, 2010).

<sup>74</sup> Interview by Author. *Staff Aide, U.S. Senate Committee on Foreign Relations* (10 20, 2010).

stripped after Jamal al Badawi, one of the suspects in the attack on the USS Cole “escaped” (or was released) from prison, showing - much like in the case of the gulf war - that American aid in any form is sensitive to the prevailing winds of political favor.<sup>75</sup>

### **THE PROBLEM OF PARTNERSHIP: MEET THE OLD BOSS**

President Saleh has managed to stay in power through savvy manipulation of Yemen’s patronage system, a style that he himself has likened to “dancing on the heads of snakes”.<sup>76</sup> While his acumen for political survival has kept him in power, some argue that Yemen’s institutions and its people have suffered from the endemic graft and brutality that have become the hallmark of Saleh’s tenure.<sup>77</sup> Saleh’s security forces have committed documented human rights violations and abuses, including unlawful killings, arbitrary detentions, beatings, crackdowns on freedom of assembly and speech, arrests of journalists, and others, which some analysts believe have “created a climate of fear, but have also increased bitterness and alienation among southerners, who say the north economically exploits and politically marginalizes them”.<sup>78</sup> So for those who argue that the United States should avoid rewarding strong-men and kleptocrats with increases in aid in the absence of commitment to reform, there would seem to be little reason that the U.S. should be increasing aid in the way that it has. Some even argue that

---

<sup>75</sup> (Sharp 2010)

<sup>76</sup> (Clark 2010)

<sup>77</sup> In Yemen’s first popular election in 1999, Saleh won 96.3% of the vote and in 2006, Saleh stood for reelection and received 77% of the vote. According to Jeremy Sharp of Congressional Research Service, “Ali Mohsen al Ahmar, the President’s half-brother, is a brigadier general whose forces have fought in Sa’da and who is charged with protecting the capital. President Saleh’s three nephews also hold senior positions in the military and intelligence services. His nephew Colonel Amar Saleh is Deputy Chief of the National Security Bureau (NSB), an intelligence agency formed in 2002 designed to work in closer cooperation with foreign governments. Another nephew, Yahya Mohammed Abdullah Saleh is Chief of Staff of the Central Security Organization (CSO), a division of the Ministry of the Interior, which maintains an elite U.S-trained Counter Terrorism Unit (CTU). Tariq Saleh is head of the Presidential Guard, and the President’s half brother Ali Saleh al Ahmar is the commander of the Air Force.”

(Sharp 2010)

<sup>78</sup> (Sharp 2010)

increasing aid could aggravate the problem by diluting the pressure from countervailing forces, such as legitimate political opposition. “Simply put,” writes one commentator,

“...providing more aid to Yemen will make the situation worse...Saleh will use U.S. funds to continue to monitor and repress his domestic opponents...An increase in aid and intelligence will provide him with more fungible resources to use as he sees fit. In contrast, the democrats struggling to challenge him stand to suffer irrevocable damage...Saleh sucked hundreds of millions of dollars from the budget to buy arms that were [only] used for internal purposes to secure his rule and his family.”<sup>79</sup>

A Faustian bargain created by providing aid to Saleh has implications beyond the moral hazard of rewarding bad governance. It also has potential implications for the prospects of development and potentially negative national security consequences for the United States. In the first instance, not only does the United States face the possibility that the President may misuse assistance, or at least that aid will embolden his regime, but also that the transparency of American national security interests combined with the attendant commitment to increasing aid without conditions could reduce leverage in coercing Saleh to make necessary reforms, ironically making development conditions in the country worse. At least one analyst has characterized Saleh as a marginal satisfier who is willing to meet the demands of the United States or other donors, so long as it doesn't force him to exacerbate political opposition.<sup>80</sup> Human Rights Watch implored leaders gathered in London in January of 2010 to understand and consider the perspectives of Yemenis.

“Most Yemenis do not see AQAP as a threat to them. They are more concerned about the government's repressive practices and rampant corruption, as well as the lack of jobs

---

<sup>79</sup> Yadav, Stacey Philbrick. "No Blank Checks for Yemen." *Foreign Policy*. January 11, 2010. [http://www.foreignpolicy.com/articles/2010/01/11/no\\_blank\\_checks\\_for\\_yemen](http://www.foreignpolicy.com/articles/2010/01/11/no_blank_checks_for_yemen) (accessed October 9, 2010).

<sup>80</sup> (Sharp 2010)

for the country's booming population, a looming water crisis, and rapidly depleting oil reserves, the main source of revenue, along with the conflicts in the north and south.”<sup>81</sup>

Based on the West’s need for Saleh to counter the AQAP threat, “It is not surprising,” writes one analyst, “to see that President Ali Abdullah Saleh probably has more international support within the Middle East, the U.S., and Europe than at home.”<sup>82</sup>

Some also argue that partnering with Saleh and increasing support for him in the absence of demonstrated improvements in governance could compromise U.S. legitimacy and undermine the intended effects of the development assistance, paradoxically playing into the hands of Al Qaeda. A U.S. Government official described the problem, in terms that extend beyond Yemen suggesting a deeper and broader paradox for development policy:

“These governments tend to be, to a great extent, dysfunctional – maybe even repressive in their relationship with their population, so in doing so [supporting the government] we divorce ourselves from the population, because they see us not aligning ourselves with them, they see us aligning ourselves with the powers that be, with a regime that has demonstrated, to one extent or another, a lack of interest in their well-being.”<sup>83</sup>

Anwar Aulaqi, the American-born cleric and prominent member of AQAP, released a recording in July, 2010 over the internet congratulating Saleh on having succeeded in “swindling” western donors, a comment that fits within their narrative that emphasizes both the illegitimacy of the Saleh government and the naiveté and complicity of the U.S. in supporting him.<sup>84</sup>

---

<sup>81</sup> Human Rights Watch. "Seven Principles for Effective International Engagement in Yemen." *Human Rights Watch*. January 22, 2010. <http://www.hrw.org/en/news/2010/01/22/seven-principles-effective-international-engagement-yemen> (accessed November 13, 2010).

<sup>82</sup> (Colton 2010)

<sup>83</sup> (Anonymous 2010)

<sup>84</sup> (Rodenbeck 2010)

## THE PROBLEM OF PREDICTABILITY: SECURITY INTERESTS CHANGE

If predictability and sustainability are the hallmarks of good aid programs, then the precipitous ramping up - or cutting off - of aid can throw a wrench in the proverbial development works. The large extent to which development flows to Yemen seem to have always derived from security interests, e.g. the increase of aid during the cold war, the cutting off of aid before the Gulf War, the increase in aid following 9/11 and the Christmas Day attempt, and the agreement then rescission of the MCA threshold program, provides evidence to imply that national security interests can distort the predictability, and therefore the stability, of aid.

Once more, showing commitment to doing something about the problem in the wake of the resurgence of Al Qaeda, a U.S. administration is quick to allocate new and additional development resources to the problem. Following the December 25 attempt, one U.S. Government Official with knowledge of the situation told me, vis-à-vis our relationship with Yemen after the Christmas Day attempt:

“Suddenly we were all over that government again. And this is the problem: our interest and our engagement in a place like Yemen tends to be so episodic. And it is driven by circumstances external to the relationship – other things happen – you get a USS Cole bombing or you get a terrorist attack, even against our Embassy or against an airliner coming into Detroit, and suddenly we throw away any sense of coherence in our assistance. ‘What can we do as quickly as we can do it? Yemen is once again going up in flames, or it’s going to fall off of a cliff’. We are pulling our hair out trying to get in there with as much, as fast, as possible, and that’s incredibly distorting to any kind of relationship you build up that says you have to get a coherent, comprehensive, understandable, and transparent policy, because you cannot do this when it’s driven by crises. It also tends to then force a shift in terms of allocation from what you have sat down and decided are the appropriate mix of assistance.”<sup>85</sup>

---

<sup>85</sup> (Anonymous 2010)

The same Senate staff aide cited earlier agreed with this assessment: “I think if a seesaw or a yo-yo of assistance flows that come in and out of a place like Yemen is not good for anyone involved.”<sup>86</sup>

### **THE PROBLEM OF PROMISE: THE RISK OF UNMET EXPECTATIONS**

Like its predecessor, the Obama administration does not shy away from ambitious goals in Yemen, and conveys a sense that radical changes in the country are both necessary and within the grasp of American power. USAID proclaims that “The United States is determined to halt and reverse troubling socio-economic dynamics in Yemen”, and other administration officials note that the U.S strategy “seeks to address the root causes of instability, encourage political reconciliation, improve governance, and build the capacity of Yemen’s government to exercise its authority, protect and deliver services to its people, and secure its territory”. Priorities for doing so include “political and fiscal reforms and meaningful attention to legitimate internal grievances; better governance through decentralization, reduced corruption and civil service reform; economic diversification to generate employment and enhance livelihoods, and strengthened natural resource management.”<sup>87</sup> The strategy includes coordinating with other donors and requiring Yemen to make difficult reforms to qualify for assistance and programs provided by the International Monetary Fund (IMF). However, there are real limitations that deserve mention when considering how likely that rapid transformative outcomes may be by any standard of analysis.

To accomplish their many assistance goals, the United States and the donor community provide relatively low amounts of aid to Yemen as a proportion of its national budget and GDP.

---

<sup>86</sup> (Staff Aide, U.S. Senate Committee on Foreign Relations 2010)

<sup>87</sup> (Benjamin and Feltman 2010)

Total donor assistance has never exceeded .25 percent of Yemen's GDP, and 2009 disbursements of about \$222 million hover around the one percent level. U.S. assistance is an even smaller portion, never having exceeded .04 percent.<sup>88</sup> Furthermore, if aid is perceived both a tool of influence and an instrument of change, American leverage, real or perceived, may be compromised by the fact that it is one of many donors to Yemen, and not nearly the largest. It is suggested that the Gulf nations, particularly Saudi Arabia, dwarf the United States in donor assistance, and are not likely to require that Saleh make any meaningful reforms to continue receiving it. A U.S. Government official with knowledge of diplomatic deliberations told me, "The problem was that we could never get the Gulf countries to sit at the table in a transparent donor coordination effort, no matter how hard we tried...and they would basically continue to do their bilateral assistance programs, with no transparency, and that was a frustration because that's an enormous amount of money."<sup>89</sup>

President Saleh also faces significant domestic political opposition in making the reforms needed to create sustainable development outcomes, even beyond the complications of reducing corruption in Yemen's patronage system. One of the reforms called for by the IMF as a condition of approval of Yemen's pending request for assistance is the phased adjustment in domestic fuel prices, i.e. the reduction or elimination of the fuel subsidy.<sup>90</sup> Cutting the subsidy, argues the IMF, could achieve "a net fiscal savings of nearly 1 percent of GDP", and therefore "should create

---

<sup>88</sup> Organization for Economic Co-Operation and Development. *Query Wizard for International Development Statistics*. November 11, 2010. <http://stats.oecd.org/qwids/> (accessed November 11, 2010).

<sup>89</sup> (Anonymous 2010)

<sup>90</sup> International Monetary Fund: Middle East and Central Asia Department. *IMF Country Report No. 10/300: Republic of Yemen: Request for a Three-Year Arrangement Under the Extended Credit Facility*. Washington, DC: International Monetary Fund, 2010.



fiscal space for higher social spending and largely safeguard the level of capital spending.”<sup>91</sup> If past serves as prologue in Yemen, eliminating the subsidy may be easier said than done. The IMF required similar reduction in the subsidies as part of its Structural Adjustment Program which ran in Yemen from March to October of 1995.<sup>92</sup> Retrospective analysis following the eventual failure of the program and the abandonment of the reforms determined that the reduction of spending at the government level did not make a difference for the poor, who could ill afford the impact of the subsidy elimination, and further made it politically untenable for the regime.<sup>93</sup> Ironically, some academic analysts have suggested that many in Yemen actually blame the country’s current economic problems on the IMF reform programs of the 1990s.<sup>94</sup> These realities may further complicate efforts by the West to persuade Saleh to make politically risky choices, especially if he already feels confident that aid will continue in the absence of major changes because the West stands too much to lose with a further destabilized country.

Could the promise of rapid and transformative change in Yemen by Western donor efforts hurt? If the prospects are as bleak as they appear to be, then it seems possible. William Easterly suggests that setting unrealistic expectations can actually harm development efforts.

“Are utopian ambitions the best way to help the poor-world majority? Unfortunately, no. In reality, they hurt efforts to help the world's poor. What is utopianism? It is promising more than you can deliver. It is seeing an easy and sudden answer to long-standing, complex problems.”<sup>95</sup>

---

<sup>91</sup> (International Monetary Fund: Middle East and Central Asia Department 2010)

<sup>92</sup> (Colton 2010)

<sup>93</sup> Ibid.

<sup>94</sup> Ibid.

<sup>95</sup> Easterly, William. "The Utopian Nightmare." *Foreign Policy Magazine* No. 150, Sep. - Oct. 2005: 58-64.

Each time a new idea in aid is oversold or under performs, writes Carol Lancaster, “...it erodes the confidence of Congress, the public, and the foreign policy community in aid in general.”<sup>96</sup>

For whatever benefits aid brings, the United States may be better advised to temper expectations to avoid delegitimizing donor efforts and its own reputation.

#### **IV. CONCLUSION: THE IMPACT OF NATIONAL SECURITY OBJECTIVES ON DEVELOPMENT**

The case of Yemen seems to imply that national security interests affect development policies. National security interests make it more likely that the United States will provide more aid to countries despite poor policy environments (and bad leaders). The inherently transitive nature of the security landscape in which those interests exist suggests that aid targets will change over time, thereby making aid less predictable. Over-promising development in the face of bleak conditions may reduce aid’s credibility. But do these phenomena matter, and do they apply more broadly to U.S. development policy? At least one study may suggest that they do.

In October of 2010, the Center for Global Development created a “Quality of Development Assistance” (QuODA) assessment tool to assess the practices of donors, using, among other criteria, the principles of the OECD Paris Declaration on Aid Effectiveness (to which the United States is a signatory). The diagnostic tool analyzes the quality of development assistance practices using four primary dimensions of quality: Maximizing Efficiency, Reducing Burden, Fostering Institutions, and Transparency and Learning. Within each of the four “dimensions” are categories of ways that donor countries can be assessed for their development programs. (A description of the tool and a full table of the categories and dimensions as well as their guiding principles is provided as Appendix A). While no determination of significance is

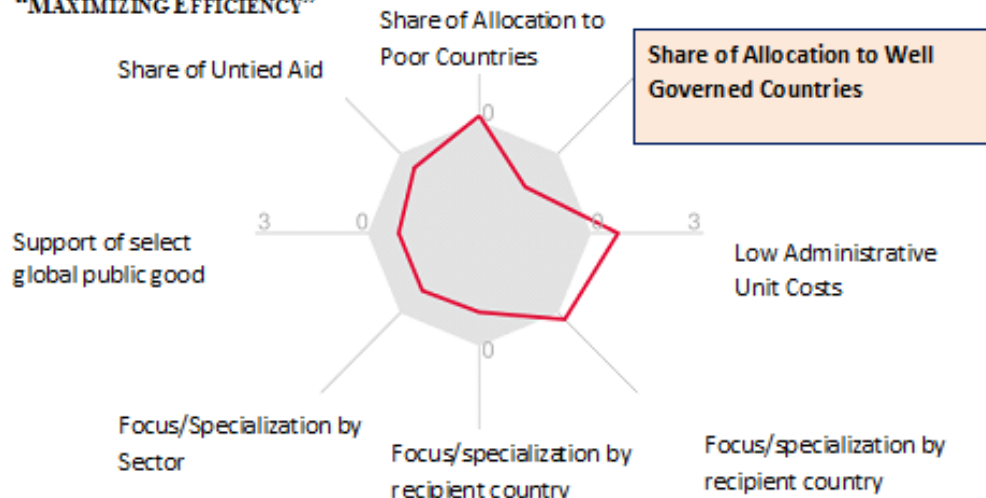
---

<sup>96</sup> (Lancaster, George Bush's Foreign Aid: Transformation or Chaos 2008, 54)

assigned to the national security interests of the donor in impacting any of these categories, an assessment of U.S. aid practices using the tool (Figures 3 and 4 below) does validate the fact that the United States performs poorly in both “Selecting Well-Governed Countries”, and “Predictability” categories, affecting U.S. aid’s ability to maximize aid efficiency and foster institutions.

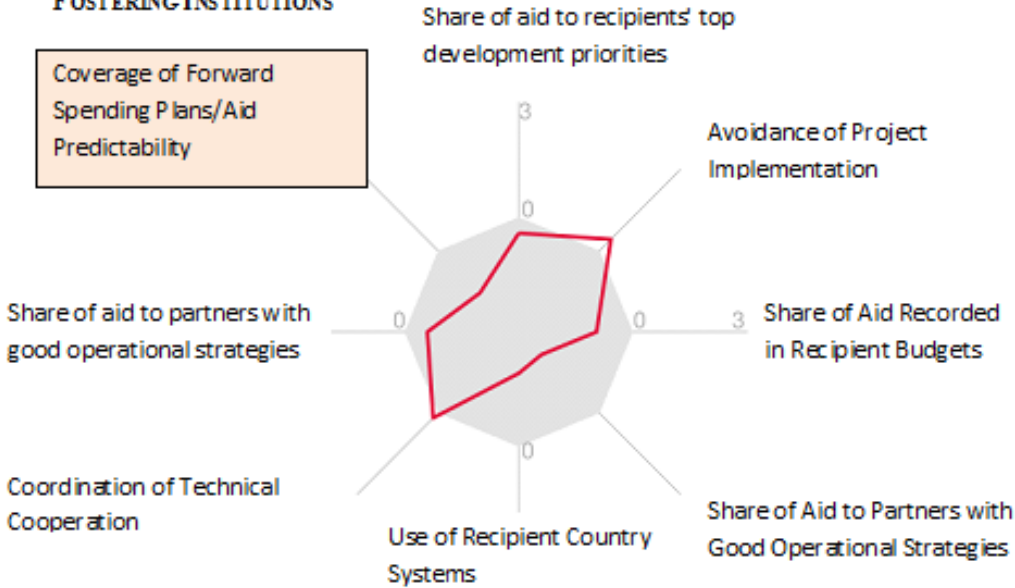
American scores within the dimension are indicated by the red line, which touches on each of the categories at different levels relative to the mean score among donors and the maximum possible index score out of 3. The “zero” marker along the perimeter of the chart’s grey diamond represents the average score of donors in each category. Scores within the gray diamond are below the mean and scores outside it are above the mean. Further research would be required to determine how significant national security interests are in the impact on these, or any other, assessments of aid effectiveness.<sup>97</sup>

**FIGURE 3: 2010 QUODA RANKINGS FOR UNITED STATES DEVELOPMENT ASSISTANCE: “MAXIMIZING EFFICIENCY”**



<sup>97</sup> QuODA Tool accessible at the Center for Global Development, [http://www.cgdev.org/section/topics/aid\\_effectiveness/quoda](http://www.cgdev.org/section/topics/aid_effectiveness/quoda)

**FIGURE 4:2010 QUODA RANKINGS FOR UNITED STATES DEVELOPMENT ASSISTANCE:  
FOSTERING INSTITUTIONS**



Making sub-optimal aid decisions at the strategic level (assessed as such by tools such as the QuODA) does not necessarily guarantee - or even suggest - that implementation of aid projects at the tactical level will not provide benefits. Country level implementation can produce development benefits to institutions, ministries, and sectors, such as health and education. Furthermore, the elusiveness of solutions to difficult development problems does not necessarily mean that the United States should stop trying to find them. The problem of “fragile states”, has been acknowledged and discussed by the donor community at length, recognizing that, on the one hand, donors don’t want to forego a humanitarian or strategic need to assist the most conflict-prone and weakest states; on the other hand, donors want to create institutional incentives for weak states to improve governance.

There don't appear to be any easy answers to this problem of fragile states, but the principles developed by the OECD for dealing with them at least suggest that donors should harmonize their efforts, be considerate of the local conditions and the potential impact of aid on local incentives, and stabilize their donorship to create some sense of predictability.<sup>98</sup> Once the decision is made at the strategic or policy level to allocate additional aid to Yemen, the development agency, in this case USAID, must proceed to develop the best country plan possible. USAID's program in Yemen, which focuses on building government capacity and improving community livelihoods, should be judged by development professionals in light of the guiding principles of development implementation recommended by the OECD and others.

The findings of this paper suggest the importance of raising and addressing additional issues and questions among the academic and policy communities, as decision makers seek to incorporate development as a tool in the construct of American national security policy. For the better part of the last decade, the assumption that development should be integrated in "holistic" approaches to national security has largely gone unchallenged. National security policymakers seem to be defaulting to a position that believes that development aid, when mixed with diplomacy and/or defense, helps resolve security problems. While this may be the case, it may also be the case that development aid and the other tools of national security could interact in unpredictable ways, and in some cases, could produce undesirable outcomes.

As the Yemen case demonstrates, the changing nature of the "milieu" threats of terrorism, piracy, and transnational crime, will present problems for creating long term

---

<sup>98</sup> Organization for Economic Cooperation and Development (OECD). "Fragile States Principles." *OECD Website*. 2007. [http://www.oecd.org/site/0,3407,en\\_21571361\\_42277499\\_1\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/site/0,3407,en_21571361_42277499_1_1_1_1_1,00.html) (accessed October 22, 2010).

development programs. Al Qaeda is resurgent in Yemen, and in fact, recent events seem to suggest that they pose a greater threat now than ever. But there is no guarantee that the Al Qaeda problem in Yemen will outlive the country's economic woes. Will policymakers in the United States, in the absence of Al Qaeda and any other ostensible security interest, be able to justify continuing to provide aid to Yemen? Will the conditions of Yemen's governance and institutions become an impediment to U.S.-provided assistance when U.S. security interests evaporate?

Second, incorporating selectivity in national aid policy may seem like the prudent course of action in theory, but the gravitational pull of national security is likely too strong to be able to incorporate selectivity in practice. The United States will continue to increase aid in countries where governance suggests that aid would be better invested elsewhere, at least from a development standpoint. The United States therefore will continue to try to find ways to circumvent or innovate around governance problems. The likelihood of achieving sustainable development outcomes does not seem promising, but the policy of foregoing selectivity on the basis of national security also raises additional questions. If poor governance can be circumvented in countries like Yemen, shouldn't the United States abandon the charade of selectivity altogether in favor of an aid policy that provides development opportunities to other countries whose populations suffer from bad governance or poverty? If assertions of the relevance of poor development to national security concerns are valid, should the United States not look at *any* country with similar conditions as the source of a potential *future* threat?

Finally, if U.S. aid increases as a matter of policy in places where security concerns develop, is it possible that current policy provides perverse incentives for countries to demonstrate their relevance to U.S. national security? Is it possible that countries might seek to

create or amplify their Al Qaeda problem, for example? Is it also possible that country teams and Ambassadors or those with bureaucratic or parochial interests could aggravate the “national security” imperative of increasing aid budgets?

Development assistance may very well be in the national interest, and it could very well serve a broader ethical and moral obligation that satisfies the American domestic political conscience. However, responding to security threats with aid as a tool of national security should be more carefully considered for the likelihood of unintended consequences.

## Appendix A: QuODA Dimensions and Categories<sup>99</sup>

According to the Center for Global Development Policy, QuODA is an assessment of the Quality of Official Development Assistance (ODA) provided by 23 donor countries and more than 150 aid agencies. Aid quality is assessed using 30 indicators grouped in four dimensions that reflect the international consensus of what constitutes high-quality aid:

- *Maximizing Efficiency*
- *Fostering Institutions*
- *Reducing Burden*
- *Transparency and Learning*

Dimension	Category	Principle
<b>Maximizing Efficiency</b>	Share of Allocation to Poorest Countries	Aid should go to the world's poorest countries
<b>Maximizing Efficiency</b>	Share of Allocation to Well-Governed Countries	Aid should go to well governed-countries
<b>Maximizing Efficiency</b>	Low Administrative Unit Costs	Donors can have a larger contribution to development programs by increasing their program support to partner countries relative to their administrative costs.
<b>Maximizing Efficiency</b>	High Programmable Aid Share	Donors should increase the share of ODA that is directly used to support development programs or projects.
<b>Maximizing Efficiency</b>	Focus/specialization by recipient country	Donors can have a greater impact by promoting development in countries where they have a revealed comparative advantage (RCA).
<b>Maximizing Efficiency</b>	Focus/specialization by sector	Donors can have a greater impact by promoting development in sectors where they have a revealed comparative advantage (RCA).
<b>Maximizing Efficiency</b>	Support of Select Global Public Good Facilities	Donors should support poverty-reducing global public good (GPG) initiatives
<b>Maximizing Efficiency</b>	Share of untied Aid	Donors should avoid tying aid to the purchase of goods and services

<sup>99</sup> (Center for Global Development 2010)



		procured from donor country suppliers
<b>Fostering Institutions</b>	Share of aid to top development priorities	Donors should support and respect recipient country priorities for development.
<b>Fostering Institutions</b>	Avoidance of Project Implementation Units	Donors committed to capacity building should reduce their dependence on PIUs
<b>Fostering Institutions</b>	Share of Aid Recorded in Recipient Budgets	Donors can better align their efforts with recipient country policies and systems by increasingly reporting aid commitments to recipient country governments for inclusion in their budgets.
<b>Fostering Institutions</b>	Share of aid to partners with Good Operational Strategies	Donors can both increase support to partners with good operational strategies and continue to support partners engaged in the process of designing a unified operational strategy.
<b>Fostering Institutions</b>	Use of Country Recipient Systems	Increased use of partner country PFM systems enables donors to support the institutions critical for long-run development.
<b>Fostering Institutions</b>	Coordination of Technical Cooperation	To increase the utility of TC, the international community called on donors to align TC with the capacity development objectives and strategies of partner countries.
<b>Fostering Institutions</b>	Share of Aid Recorded as Received by Recipients	Donors can support partner country systems and promote long-term development by disbursing funds, and notifying partners of those disbursements, within the year they are scheduled.
<b>Fostering Institutions</b>	Coverage of Forward Spending Plans/Aid Predictability	Donors should provide forward spending plans three years in advance to improve planning and decision making.
<b>Reducing Burden</b>	Significance of Aid Relationship	Donors should have a higher concentration of aid in a smaller number of countries
<b>Reducing Burden</b>	Fragmentation Across Donor Agencies	To reduce the number of donor-partner relationships and the

		administrative burdens associated with them, donors can limit the institutional channels through which they deliver aid.
<b>Reducing Burden</b>	Median Project Size	Donors should increase the size of projects, rather than having many small projects
<b>Reducing Burden</b>	Contribution to Multilaterals	Donors should delegate to multilateral agencies to harmonize, reduce administrative burdens, and to specialize in sectors
<b>Reducing Burden</b>	Coordinated Missions	Donor agencies should coordinate missions with other donor agencies
<b>Reducing Burden</b>	Coordinate Analytical Work	Donors should coordinate analytical work to reduce burden
<b>Reducing Burden</b>	Use of programmatic aid	Donors should use program-based approaches (PBAs), which are aid programs and projects delivered through common arrangements that increase country ownership and reduce administrative burdens on partner countries.

## Bibliography

U.S. Agency for International Development (USAID). *Policy Framework for Bilateral Foreign Aid*. Washington, D.C.: U.S. Agency for International Development, 2006.

Adams, Gordon, and Cindy Williams. *Buying National Security*. New York: Routledge, 2010.

Adelman, Carol. "Foreign Aid Effectively Advancing Security Interests." *Harvard International Review*, 2007: 62-67.

Agénor, Pierre-Richard, and Joshua Aizenman. "Aid Volatility and Poverty Traps." *Journal of Development Economics*, 2010: 1-7.

Anonymous, interview by Author. *U.S. Government Official* (October 13, 2010).

Banerjee, Abhijit, and Ruimin He. "Making Aid Work." In *Reinventing Foreign Aid*, by William Easterly, 47-92. Cambridge, Massachusetts: The MIT Press, 2008.

Benjamin, Daniel, and Jeffrey D. Feltman. "Testimony Before the Senate Committee on Foreign Relations." Washington, DC: Senate Foreign Relations Committee, January 20, 2010.

Bodine, Barbara, Ambassador. "Beware of False Analogies: Why Yemen is Not Iraq, Afghanistan, or Somalia...It's Yemen." *Testimony Before the Senate Foreign Relations Committee*. Washington, DC: Senate Foreign Relations Committee, January 20, 2010.

Brainard, Lael. *Security by Other Means*. Washington, DC: Brookings Institution, 2007.

Brainard, Lael, Carol Graham, Nigel Purvis, Steven Radelet, and Gayle E. Smith. *The Other War: Global Poverty and the Millennium Challenge Account*. Washington, D.C.: Brookings Institution, 2003.

Brautigam, Deborah, and Stephen Knack. "Foreign Aid, Institutions, and Governance in Sub-Saharan Africa." *Economic Development and Cultural Change*, Vol. 52, No. 2, Jan. 2004: 255-285.

Bulir, Ales, Alan Gelb, and Paul Mosely. "Introduction: The Volatility of Overseas Aid." *World Development*, 2007: 2045-2047.

Bulir, Ales, and Javier Hamann. "Volatility of Development Aid: From the Frying Pan Into the Fire?" *Global Development* (International Monetary Fund; Elsevier Inc.), 2008: 2048-2066.

Burnside, Craig, and David Dollar. "Aid, Policy, and Growth." *The American Economic Review*, Vol. 90, No. 4, 2000: 847-868.

Center for Global Development. *Quality of Official Development Assistance*. October 5, 2010. [http://www.cgdev.org/section/topics/aid\\_effectiveness/quoda](http://www.cgdev.org/section/topics/aid_effectiveness/quoda) (accessed October 22, 2010).  
Clark, Victoria. *Yemen: Dancing on the Heads of Snakes*. New Haven: Yale University Press, 2010.

Clinton, Hillary. "Nomination to be Secretary of State: Statement before the Senate Foreign Relations Committee." *U.S. Department of State*. January 13, 2009. <http://www.state.gov/secretary/rm/2009a/01/115196.htm> (accessed March 3, 2010).  
—. "Promoting Security Through Diplomacy and Development: The Fiscal Year 2011 International Affairs Budget: Opening Remarks Before the House Foreign Affairs Committee." *U.S. Department of State*. February 25, 2010. <http://www.state.gov/secretary/rm/2010/02/137280.htm> (accessed March 10, 2010).  
—. "Remarks on Development in the 21st Century." *U.S. Department of State*. January 26, 2010. <http://www.state.gov/secretary/rm/2010/01/134838.htm> (accessed March 3, 2010).  
—. "Leading Through Civilian Power." *Foreign Affairs*, 2010: 13-24.

Collier, Paul, and David Dollar. "Aid Allocation and Poverty Reduction." *European Economic Review*, 2002: 1475-1500.

Collier, Paul, and David Dollar. "Development Effectiveness: What Have We Learnt?" *The Economic Journal*, 2004: 244-271.

Colton, Nora Ann. "Yemen: A Collapsed Economy." *Middle East Journal*, 2010: 410-426.

Coyne, Christopher, and Matt Ryan. "Working Paper No. 08-41." *With Friends Like These, Who Needs Enemies?* Fairfax, Virginia: Mercatus Center, George Mason University, October 2008.

Dalgaard, Carl-Johan, Henrik Hansen, and Finn Tarp. "On the Empirics of Foreign Aid and Growth." *The Economic Journal*, 2004: F191-F216.

Easterly, William. "The Utopian Nightmare." *Foreign Policy Magazine No. 150*, Sep. - Oct. 2005: 58-64.

Easterly, William. "Introduction." In *Reinventing Foreign Aid*, by William Easterly, 1-44. Cambridge, Massachusetts: The MIT Press, 2008.

Easterly, William. "Was Development Assistance a Mistake?" *American Economic Review; Vol. 97, No. 2*, 2007: 328-332.

Easterly, William, Ross Levine, and David Roodman. "Aid, Policies, and Growth: Comment." *The American Economic Review, Vol. 94, No. 3*, 2004: 774-780.

Ebrahim-zadeh, Christine. "Dutch Disease: Too Much Wealth Managed Unwisely." *Finance and Development*, 2003: Volume 40, Number 1.  
Economist Intelligence Unit. *Yemen Country Report October*. London: Economist Intelligence Unit, 2010.

Fleck, Robert, and Christopher Kilby. "Changing Aid Regimes? U.S. foreign aid from the Cold War to the War on Terror." *Journal of Development Economics*, 2010: 185-197.

Graff, Corinne. "Poverty, Development, and Violent Extremism in Weak States." In *Confronting Poverty*, by Susan Rice, Corinne Graff and Carlos, ed. Pascual, 42-90. Washington, DC: Brookings Institution, 2010.  
— . *What You Should Know About Yemen: Brookings Institution*. January 8, 2010.  
[http://www.brookings.edu/opinions/2010/0108\\_yemen\\_graff.aspx](http://www.brookings.edu/opinions/2010/0108_yemen_graff.aspx) (accessed November 13, 2010).

Hattori, Tomohisa. "Reconceptualizing Foreign Aid." *Review of International Political Economy*, Vol. 8, No. 4, 2001: 633-660.

Human Rights Watch. "Seven Principles for Effective International Engagement in Yemen." *Human Rights Watch*. January 22, 2010. <http://www.hrw.org/en/news/2010/01/22/seven-principles-effective-international-engagement-yemen> (accessed November 13, 2010).

International Monetary Fund: Middle East and Central Asia Department. *IMF Country Report No. 10/300: Republic of Yemen: Request for a Three-Year Arrangement Under the Extended Credit Facility*. Washington, DC: International Monetary Fund, 2010.

Kaufmann, Daniel, Aart Kray, and Pablo Zoido-Lobaton. *Governance Matters: World Bank Policy Research Working Paper No. 2196*. Washington, DC: Policy Research Dissemination Center, 1999.

Kerry, John F. "Chairman Kerry Opening Statement At Hearing on Yemen." Washington, D.C.: U.S. Senate Committee on Foreign Relations, January 20, 2010.

Kharas, Homi. *Trends and Issues in Development Aid: Working Paper 1*. Washington, DC: The Wolfehnsen Center: The Brookings Institution, 2007.

Kremer, Michael, and Edward Miguel. "The Illusion of Sustainability." In *Reinventing Foreign Aid*, by William Easterly, 201-253. Cambridge, Massachusetts: The MIT Press, 2008.

Lancaster, Carol. *Foreign Aid: Diplomacy, Development, Domestic Politics*. Chicago: University of Chicago Press, 2007.  
— . *George Bush's Foreign Aid: Transformation or Chaos*. Washington, DC: Center for Global Development, 2008.

Lugar, Dick. "Opening Statement for Hearing on Yemen." Washington, DC, January 20, 2010.  
Macro, Eric. *Bibliography on Yemen and Notes on Mocha*. Miami: University of Miami Press, 1966.

Michaelowa, Carsten Hefeker and Katharina. "Can Process Conditionality Enhance Aid Effectiveness?: The Role of Bureaucratic Interest and Public Pressure." *Public Choice, Vol. 122, No. 1/2* (, 2005: 159-175).

Millennium Challenge Corporation. "Country Scorecards MCC." *Millennium Challenge Corporation Website*. October 21, 2009. <http://www.mcc.gov/documents/scorecards/score-fy10-yemenrep.pdf> (accessed October 22, 2010).

Mosley, Paul, John Hudson, and Arjan Verschoor. "Aid, Poverty Reduction, and the 'New Conditionality'." *The Economic Journal*, 2004: 217-243.

Moss, Todd, Gunilla Pettersson, and Nicolas van de Walle. "An Aid-Institutions Paradox?" In *Reinventing Foreign Aid*, by William Easterly and ed., 255-281. Cambridge, Massachusetts: The MIT Press, 2008.

Moyo, Dambisa. *Dead Aid: Why Aid Is Not Working and How There Is a Better Way for Africa*. New York: Farrar, Straus and Giroux, 2010.

Natsios, Andrew. "Fighting Terror With Aid." *Harvard International Review*, Fall 2004: 87-88.

Natsios, Andrew, interview by Author. *former USAID Administrator* (October 18, 2010).

Organization for Economic Cooperation and Development (OECD). "Fragile States Principles." *OECD Website*. 2007.  
[http://www.oecd.org/site/0,3407,en\\_21571361\\_42277499\\_1\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/site/0,3407,en_21571361_42277499_1_1_1_1_1,00.html) (accessed October 22, 2010).

Organization for Economic Co-Operation and Development. *Query Wizard for International Development Statistics*. November 11, 2010. <http://stats.oecd.org/qwids/> (accessed November 11, 2010).

Pascual, Carlos, and Corrine Graff. "Conclusion and Policy Implications." In *Confronting Poverty*, by Susan E. Rice, Corinne Graff and Carlos Pascual, 202-226. Washington, D.C.: Brookings Institution Press, 2010.

Pillar, Paul. "Who's Afraid of A Terrorist Haven?" *Washington Post.com*. September 16, 2009. <http://www.washingtonpost.com/wp-dyn/content/article/2009/09/15/AR2009091502977.html> (accessed August 5, 2010).

Pritchett, Lant, and Michael Woodcock. "Solutions When the Solution is the Problem: Arraying the Disarray in Development." In *Reinventing Foreign Aid*, by William Easterly, 147-177. Cambridge, Massachusetts: The MIT Press, 2008.

Radelet, Steven. "Bush and Foreign Aid." *Foreign Affairs*, September/October 2003: 104-117.

Reinikka, Ritva. "Donors and Service Delivery." In *Reinventing Foreign Aid*, by William Easterly, 179-199. Cambridge, Massachusetts: The MIT Press, 2008.

Rodenbeck, Max. "Yemen, al-Qaeda, and the US." *The New York Review of Books*, September 30, 2010.

Sen, Amartya. "The Man Without a Plan: Can Foreign Aid Work." *Foreign Affairs Vol. 85, No. 2*, 2006: 171-177.

Shah, Rajiv. "Testimony of Dr. Rajiv Shah, Administrator, U.S. Agency for International Development: Before the Subcommittee on State, Foreign Operations: US House of Representatives." *USAID.gov*. March 4, 2010.  
<http://www.usaid.gov/press/speeches/2010/ty100304.html> (accessed March 10, 2010).

Sharp, Jeremy. *Yemen: Background and U.S. Relations*. Washington, DC: Congressional Research Service, 2010.  
Interview by Author. *Staff Aide, U.S. Senate Committee on Foreign Relations* (10 20, 2010).

Svensson, Jakob. "When is foreign aid policy credible? Aid Dependence and Conditionality." *Journal of Development Economics*, 2000: 61-84.

Svensson, Jakob. "Why Conditional Aid Does Not Work and What Can be Done About It." *Journal of Development Economics*, 2003: 381-402.

The White House. "www.whitehouse.gov." *Fact Sheet: U.S. Global Development Policy*. September 29, 2010. <http://www.whitehouse.gov/the-press-office/2010/09/22/fact-sheet-us-global-development-policy> (accessed September 29, 2010).

The World Bank. "Governance and Anti-Corruption." *Worldwide Governance Indicators*. 2010. [http://info.worldbank.org/governance/wgi/sc\\_chart.asp](http://info.worldbank.org/governance/wgi/sc_chart.asp) (accessed November 7, 2010).

"Treaty of Jeddah." <http://www.al-bab.com>. 2000. <http://www.al-bab.com/yemen/pol/int5.htm> (accessed October 22, 2010).

U.S. Agency for International Development (USAID). *Foreign Aid in the National Interest*. Washington, D.C.: U.S. Agency for International Development, 2002.

U.S. Agency for International Development (USAID). *Strategic Plan 2007-2012*. Washington, DC: U.S. Department of State, 2007.

U.S. Senate. Committee on Foreign Relations. *Following the Money in Yemen and Lebanon: Maximizing the Effectiveness of U.S. Security Assistance and International Financial Institution Lending*. Washington, D.C.: U.S. Government Printing Office, 2010.

USAID. *Fiscal Year 2011 Congressional Budget Justification for Foreign Operations*. 2010. <http://www.usaid.gov/policy/budget/cbj2011/> (accessed November 12, 2010).

—. "USAID Yemen 2010-2012 Strategy." *www.usaid.gov*. 2010.

[http://www.usaid.gov/locations/middle\\_east/documents/yemen/USAIDYemen2010-2012Strategy.pdf](http://www.usaid.gov/locations/middle_east/documents/yemen/USAIDYemen2010-2012Strategy.pdf) (accessed October 11, 2010).

—. *Yemen Corruption Assessment*. Assessment, United States Agency for International Development, 2006.

Villanger, Espen. "Company Influence on Foreign Aid Disbursement: Is Conditionality Credible When Donors Have Mixed Motives." *Southern Economic Journal*, Vol. 71, No. 2, 2004: 334-351.

Williamson, Claudia. "Exploring the Failure of Foreign Aid: The Role of Incentives and Information." *Review of Austrian Economics*, 2009.

Woods, Ngaire. "The Shifting Politics of Foreign Aid." *International Affairs*, 2005: 393-409.

World Bank. "IDA Resource Allocation Index." *World Bank International Development Association*. 2010.

<http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/IDA/0,,contentMDK:21378540~menuPK:2626968~pagePK:51236175~piPK:437394~theSitePK:73154~isCURL:Y,00.html> (accessed August 18, 2010).

World Bank International Development Association. *IDA Country Policy and Institutional Assessment*. 2010. <http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/IDA.html> (accessed November 12, 2010).

World Bank Yemen Country Management Unit. *Yemen Country Assistance Strategy*. The World Bank, 2009.

Yadav, Stacey Philbrick. "No Blank Checks for Yemen." *Foreign Policy*. January 11, 2010. [http://www.foreignpolicy.com/articles/2010/01/11/no\\_blank\\_checks\\_for\\_yemen](http://www.foreignpolicy.com/articles/2010/01/11/no_blank_checks_for_yemen) (accessed October 9, 2010).