U.S. GLOBAL LEADERSHIP COALITION

GROUNDHOG BUDGET?

Despite Growing Dangers Facing America, Budget Request Once Again Calls for Draconian Cuts to International Affairs

Analysis of the Administration's FY19 International Affairs Budget Request

February 12, 2018

Introduction

The Administration's FY19 budget request, released today, comes just three days after Congress approved a landmark budget deal that increases the discretionary spending caps in FY18 and FY19 to alleviate the strain on discretionary spending programs including International Affairs.

Under the budget deal, total non-defense discretionary (NDD) spending in FY19 is increased by 12% above the FY17 level. Despite this significant increase to NDD spending, **the Administration's FY19 budget proposes to once again dangerously slash funding for the International Affairs Budget by 30% compared to FY17**. The proposal closely mirrors the Administration's FY18 request, which proposed a similar deep and disproportionate cut to America's development and diplomacy programs.

Specifically, the request **provides a total of $41.7 billion in base funding for the International Affairs Budget**. This includes $1.5 billion in funding that was added after Congress announced the two-year budget deal last week. For the first time since the State Department and USAID joined the Department of Defense in relying on Overseas Contingency Operations (OCO) funding eight years ago, the budget includes **no OCO resources for non-military programs**. This is a significant departure from the budget deal, which does cut OCO funding from FY17 levels but still includes $8 billion for FY19.

Last year, a powerful chorus of military, faith, and business leaders, and bipartisan Members of Congress spoke out against these same draconian cuts to our nation's civilian forces of development and diplomacy. This year's budget request has already been met with resounding opposition. **More than 150 retired generals and admirals** sent a letter to Congress urging them to "ensure a responsible commitment of resources for the International Affairs Budget that keeps pace with the growing threats we face." These retired military leaders were joined by more than **1,200 veterans from all 50 states and all branches of the military** who urged Congress to "strengthen, not weaken, our leadership around the world."

Bipartisan Members of Congress have been quick to criticize the Administration's budget proposal as dead on arrival, with **House Foreign Affairs Committee Chairman Ed Royce (R-CA)** noting that, "a strong, bipartisan coalition in Congress has already acted once to stop deep cuts… that would have undermined our national security. This year, we will act again."

Today, America is confronting unprecedented threats abroad – from terrorism to North Korea to severe famines in some of the most unstable countries in the world – all of which have the potential to directly impact the safety and prosperity of Americans here at home. **The USGLC released this statement urging Congress to once again reject the Administration's proposed deep cuts and fund the International Affairs Budget at no less than the total FY17 enacted level. The USGLC released a second statement applauding the Administration for its new efforts to strengthen America's development finance capabilities.**

Special Note on the FY18 International Affairs Budget

Before Congress can turn its full attention to FY19, it must complete work on FY18 spending bills that had been stalled while Congressional leaders negotiated higher spending levels. In the coming days, Congressional Appropriators are expected to make decisions on new topline spending levels – called 302(b) allocations – for individual appropriations bills including the State-Foreign Operations bill, which funds the vast majority of the International Affairs Budget.

Of particular concern is that while the budget deal includes a $63 billion increase to non-defense discretionary (NDD) spending for FY18, at the same time it **cuts non-defense Overseas Contingency Operations (OCO) funding by $8.8 billion**. Nearly one-third of the total International Affairs Budget is funded through the OCO account, which is not subject to discretionary spending caps and is used to provide funding to prevent or respond to crises abroad including armed conflict, humanitarian emergencies, and natural disasters.

In order to maintain current funding levels for the International Affairs Budget if OCO is cut by $8.8 billion in FY18, base funding would need to be increased to compensate for the cut to OCO by an additional 23%. Without this corresponding increase, the potential impact of this cut could be devastating to America's development and diplomacy programs.

As Congressional Appropriators finalize FY18 spending levels, **the USGLC urges full funding for the FY18 International Affairs Budget at no less than current levels**. We cannot afford to underfund our civilian national security toolkit at a time when America is facing urgent threats and challenges abroad.

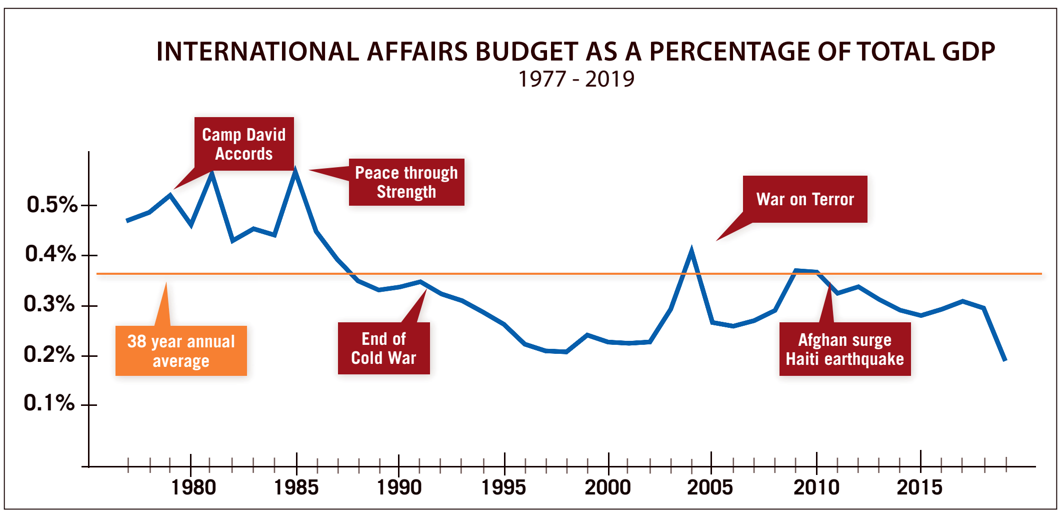
Key Takeaways

Below are nine key takeaways from the Administration's FY19 International Affairs Budget request.

1. Despite Strong Bipartisan Congressional Opposition, International Affairs Budget One of the Hardest Hit Again

The Administration's FY19 budget request includes a total of $540 billion in non-defense discretionary (NDD) spending – essentially level with FY17 and $65 billion (9.5%) below the FY19 level included in the budget deal. The budget would cut funding for most discretionary agencies, but once again the International Affairs Budget is one of the hardest hit with a proposed 30% cut. A cut of this magnitude would take funding back to levels not seen since 9/11 (inflation adjusted) and would cut funding for the International Affairs Budget as a percentage of GDP to its lowest level since World War II.

This proposal to again slash funding for development and diplomacy comes despite overwhelming bipartisan opposition in Congress to the Administration's proposed deep and disproportionate cut in FY18. Senator Lindsey Graham (R-SC) famously called that request "dead on arrival" and more than 230 Members of Congress – from the Freedom Caucus to the Progressive Caucus – spoke out against these dangerous cuts last year.

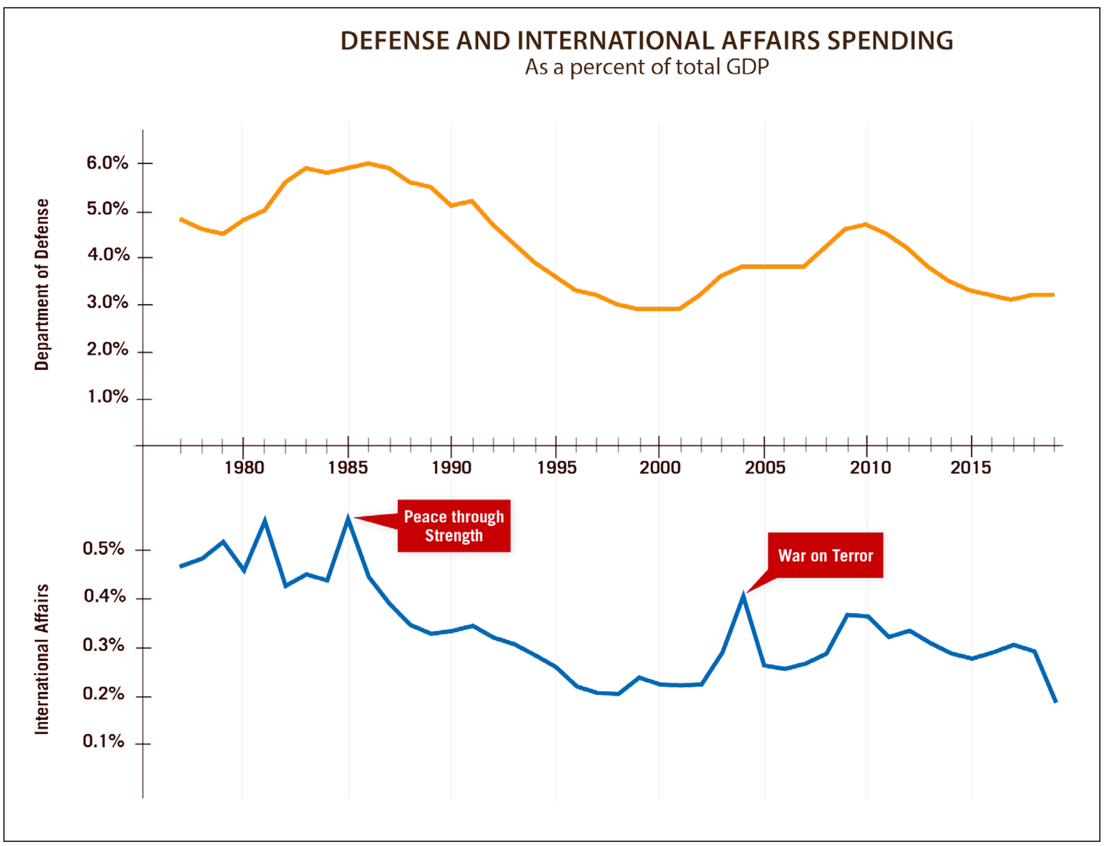


2. Administration Rejects Bipartisan Consensus for Resourcing Military-Civilian National Security Framework

The National Security Strategy released by the Administration in December calls for the integration of "all elements of America's national power—political, economic, and military." While the strategy does not refer specifically to development, diplomacy, and defense as the three pillars of national security – a cornerstone of bipartisan National Security Strategies since 9/11 – it does recognize a whole-of-government approach that includes both military and civilian tools.

However, the Administration's FY19 budget request rejects the decades-long bipartisan consensus that funding for defense and international affairs proportionally ebbs and flows together as a percentage of GDP. Additionally, for the first time since the State Department and USAID began relying on Overseas Contingency Operations (OCO) funding eight years ago alongside the Defense Department, the Administration's budget includes no OCO resources for non-defense programs, while at the same time proposing to maintain high levels of OCO funding for defense.

Defense Secretary Jim Mattis has said that America has "two fundamental powers, the power of intimidation and the power of inspiration." As our military continues to make battlefield gains against ISIS, our civilian forces must be able to maintain those hard-fought gains and prevent bad actors from filling the void. If enacted, the Administration's proposed deep cuts could severely cripple Secretary Mattis' vision to advance the "power of inspiration."



3. Administration Prioritizes Economic Competitiveness, Embraces Strengthening America's Development Finance Tools

Reflecting the priorities outlined in the National Security Strategy, the FY19 budget request emphasizes economic competitiveness as a guiding principle for U.S. national security and calls for "renewing America's competitive advantage." To advance these priorities and in line with the Administration's efforts to reform the federal government, the budget proposes to consolidate development finance functions – including the Overseas Private Investment Corporation (OPIC) and USAID's Development Credit Authority (DCA) – into a new standalone U.S. Development Finance Institution (DFI). The request includes $134 million in FY19 to resource the new DFI – including $96 million for administrative expenses, which is $16 million more than provided for OPIC and DCA in FY17 – and provides another $56 million in economic and development assistance for complementary programming.

This commitment to strengthening America's development finance tools is not only a welcome reversal of the Administration's FY18 budget request, which proposed eliminating OPIC, but an important opportunity to advance an effective development tool. With bipartisan Congressional interest in modernizing America's development finance capabilities, this proposal is expected to garner significant support and attention on Capitol Hill.

4. Redesign Impact Reduced, Refocused on Internal Processes

As part of an Administration-wide effort to create a more efficient, effective, and accountable federal government, the FY19 budget request presents the State Department's and USAID's plans to modernize processes, procedures and technologies. Last year's State Department Redesign has been replaced with a smaller-scale "Impact Initiative" to implement keystone modernization projects focused on three areas:

- Modernizing IT and HR operations
- Evaluating and modernizing America's global presence
- Improving operational efficiencies

Under the leadership of Administrator Mark Green, USAID has undertaken its own redesign effort, focused on implementing process and policy reforms to ensure USAID programs promote developing countries' "journey to self-reliance." Of particular note are the proposed consolidation of the Office of Food for Peace (FFP) and the Office of Foreign Disaster Assistance (OFDA), and the proposal to merge small grants functions and assistance carried out by the Inter-American Foundation (IAF) and the U.S. African Development Foundation (ADF) into USAID. Both reforms are intended to reduce duplication and strengthen USAID's humanitarian and development capabilities.

5. With Steep Cuts to Topline, New Winners and Losers at the Program Level

With another deep cut to the topline, the Administration once again proposes cuts to almost every program in the International Affairs Budget compared to FY17 levels. While most of the proposed cuts mirror those in the FY18 budget request, there are some differences worth noting.

Highlights of programs where more resources were added compared to last year's request:

- The Administration restored funding to 24 of the 37 countries slated to be zeroed out in the FY18 request.
- International family planning – which was eliminated in FY18 – is funded at $302 million, the same level included in the Bush Administration's FY09 budget request.
- The U.S. Institute of Peace (USIP) is not eliminated, but is cut by 49% compared to FY17.

Highlights of programs where more resources were cut compared to last year's request:

- Educational and Cultural Exchange (ECE) programs are cut by a staggering 75% compared to 55% in the FY18 request.
- The National Endowment for Democracy (NED) is slashed by 60% as opposed to a proposed 39% cut in FY18.
- The U.S. contribution to the Global Fund, a critical tool in the fight against HIV/AIDS, is cut by 31% compared to 17% in the FY18 request.

6. Despite Modest Improvements, Development Assistance Still Faces Deep Cuts

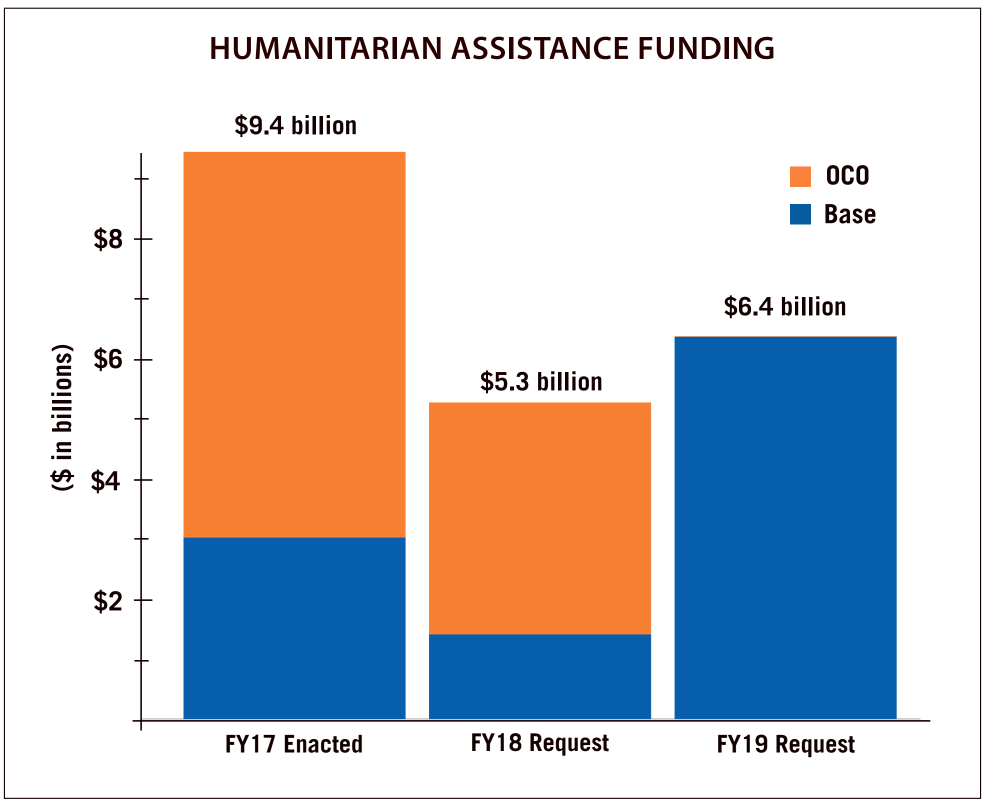
Like last year, the Administration's FY19 request consolidates economic and development assistance into a new Economic Support and Development Fund (ESDF) managed by the State Department. The Administration argues that this proposal to streamline four accounts – including the Economic Support Fund (ESF) and Development Assistance (DA) – will increase efficiency and ensure development is focused on strategic priorities.

The consolidated Economic Support and Development Fund is once again cut by a significant 43% compared to FY17 – a 1% increase from the FY18 request. This small improvement in funding allowed the Administration to restore some assistance to 24 of the approximately 37 countries that had been zeroed out in the FY18 request. Congress largely rejected the steep funding cuts and consolidation of these accounts in FY18, noting that the Administration's proposal had not been justified, and is likely to do so again this year.

7. Despite Urgent Needs, Humanitarian Assistance Sees Steep Drop Again

The Administration's budget proposes to cut humanitarian assistance by $3.1 billion (33%) in FY19 compared to FY17 levels. Even with this cut, the Administration states that "the U.S. will remain the largest single donor of global humanitarian assistance" while at the same time encouraging international partners to provide a greater share of this assistance. While this cut is less severe than the 44% reduction proposed in FY18, Congress is likely to express concern that the low funding level fails to keep pace with today's unprecedented global crises – including 30 million people facing famine and a historic number of displaced people around the world.

Once again, the request eliminates the Title II, PL 480 Food for Peace Program and shifts all emergency food assistance into the International Disaster Assistance (IDA) account. The Administration argues that this approach will provide greater flexibility to respond to food crises based on the unique circumstances on the ground. Notably, the Administration added $1 billion to its FY19 request for IDA after the budget deal was announced, although the request is still $569 million (14%) below FY17 levels. The Administration also proposes eliminating the Emergency Refugee and Migration Assistance (ERMA) account while cutting the Migration and Refugee Assistance (MRA) account by 17%.



8. Global Health Slashed Again as PEPFAR Marks 15th Anniversary

The FY19 budget proposes a $2.1 billion (23%) cut to Global Health Programs compared to FY17 despite bipartisan Congressional opposition to the Administration's proposed deep cuts in FY18. As PEPFAR marks its 15th anniversary, the Administration's request includes a $1.2 billion (20%) proposed cut to these live-saving programs even after receiving a $400 million boost when the budget deal was announced. Moreover, most other global health programs are cut even more deeply than PEPFAR, and taken as a whole are cut by 30%. Additional details on global health funding are included later in this analysis.

9. Core Operating Budgets for the State Department and USAID Remain on the Chopping Block

The FY19 request proposes cuts to several accounts that fund the U.S. diplomatic and development presence around the world and appears to implement the Administration's stated goal of reducing State Department and USAID personnel by 8%. Bipartisan Members of Congress have expressed concerns about the proposed reductions in career personnel and their impact on America's ability to conduct foreign policy. The request also includes $7.8 billion to cover the State Department workforce and related costs and $1.7 billion for the construction and maintenance of diplomatic facilities – 19% and 45% cuts respectively compared to FY17 levels. Similarly, USAID receives an 18% cut for its operating expenses, which could have a significant negative impact on USAID's capacity for implementing, monitoring, and evaluating a wide range of foreign assistance programs.

Included in this Analysis

I. Notable Policy and Program Issues

II. Snapshot of Regional and Country Funding

III. What's Ahead

IV. Additional Information and Resources

V. Account-by-Account Details

About this Analysis

The budget comparisons in this analysis generally compare the FY19 request to FY17 enacted levels, as FY18 appropriations are not yet complete. Shortly before the Administration submitted its FY19 budget request, Congress and the Administration reached a two-year budget deal. The agreement specifies overall spending levels for defense and non-defense discretionary programs, paving the way for eventual enactment of an FY18 omnibus appropriations bill. The agreement does not, however, identify funding levels for specific Departments and Agencies. Congress is expected to complete FY18 appropriations by March 23, 2018, which will specify funding levels by agency, account, and program.

It is also important to note that in some cases, the comparisons in this analysis may differ from those provided by the Administration in its budget documents, because in some cases the documents compare the FY19 request with the last FY18 Continuing Resolution (CR), or the FY18 request, rather than enacted FY17 levels.

I. Notable Policy and Program Issues

Protecting America's National Security Amid Growing Global Challenges

The Administration's FY19 budget request seeks to protect Americans at home and abroad, but reduces assistance to some important regions of the world where the U.S. faces security challenges. The proposal requests funding to counter the proliferation of weapons of mass destruction (WMD), defeat ISIS and other violent extremist groups, and counter underlying causes of national security threats including poor governance, lack of economic opportunity, and human rights abuses.

Combating ISIS and Other Terrorist Organizations: The FY19 request provides $3.7 billion to support efforts to defeat ISIS and other terrorist organizations, a $2.4 billion (40%) cut compared to FY17 levels and in line with the Administration's FY18 request. This total includes economic and security assistance provided to several key countries, but does not include humanitarian and global health assistance or traditional military training programs. The Administration argues that such a deep cut is feasible because of progress made in the fight against ISIS as well as the continued availability of funds approved in the FY17 counter-ISIS supplemental spending bill. The Administration's counter-ISIS strategy is funded through four elements:

- **Defeating ISIS in Iraq and Syria:** Provides a total of $373 million focused on the conflict in Iraq and Syria, $910 million (71%) less than in FY17. This comes on the heels of CENTCOM Commander General Joseph Votel's visit to Raqqa, Syria with USAID Administrator Mark Green and Votel's comments highlighting the importance of development programs in recovery efforts.

- **Degrading ISIS in Other Countries and Regions:** Includes $1.5 billion for Afghanistan, Pakistan, the Philippines, Libya, Yemen, and parts of Africa – a $910 million (38%) cut.

- **Supporting Regional Stability:** Requests a total of $1.5 billion for Jordan ($1.3 billion), Lebanon ($150 million), and Tunisia ($93 million) – overall, $211 million (12%) less than provided in FY17. Of note, Jordan would receive $1.26 billion, $260 million more than mandated under the FY15-17 Memorandum of Understanding (MOU), paving the way for negotiations on a new MOU. This funding is intended to address strains of regional instability and foster economic development, good governance, and related efforts.

- **Disrupting ISIS and Other Transregional Terrorist Networks:** Includes $147 million – $346 million (70%) less than in FY17 – to cover a range of programs including counterterrorism capacity building, relief and recovery programs, and efforts to prevent terrorist organizations from acquiring weapons of mass destruction.

Promoting Security in the Western Hemisphere: The Administration's request includes $1.1 billion to counter trafficking in humans, drugs, money, and weapons, and combat illegal immigration and other aspects of transnational crime, primarily in Latin America. The request is $609 million (35%) less than in FY17, on par with the Administration's FY18 request. Similar to other areas, the Administration argues the large increase in funding for the region in FY17 and prior years has created a pipeline of resources that will mitigate the impact of the proposed deep cut. The U.S. Strategy for Central America receives the majority of this funding ($436 million), but other top recipients include Colombia ($265 million), Haiti ($170 million), and Mexico ($79 million). This assistance is intended to support border security, economic development, improvements in governance, criminal justice reform and, in the case of Colombia, help implement its recent peace accord.

Supporting U.S. Strategy in the Indo-Pacific: The request includes $650 million to support the Administration's Indo-Pacific policy, but is a $640 million (50%) cut compared to FY17. The request proposes funding for a variety of initiatives, from strengthening democracy and bolstering economic growth to countering transnational terrorism.

Countering Russian Aggression: The FY19 request includes $490 million to support Ukraine and other countries in Europe and Eurasia, a significant $830 million (63%) reduction from FY17. Despite these reductions, the Administration will seek to counter Russian aggression and influence through economic reform, democracy, and good governance programs. The largest recipients of this assistance include Ukraine and Georgia.

International Security Assistance: Moderate Cuts and Policy Changes. The Administration's FY19 request sets out $7.3 billion for security assistance programs in FY19, $2 billion (22%) less than in FY17 but slightly higher than the FY18 request. Foreign Military Financing (FMF), by far the largest security assistance program, is cut by $965 million (15%). The request identifies specific funding levels for 10 countries:

- Israel would receive $3.3 billion, $125 million more than in FY17, and consistent with the new 10-year Memorandum of Understanding (MOU).

- Egypt would be provided $1.3 billion, roughly consistent with past levels, and Jordan would receive $350 million, a small decrease from recent levels enacted by Congress.

- Pakistan would receive $80 million, but the assistance would be conditioned on the country's support for anti-terrorism efforts.

- Other countries identified for specific funding levels include Lebanon, the Philippines, Tunisia, Ukraine, Vietnam, and Colombia – which have been identified as joint security sector assistance priorities by the Departments of State and Defense.

The Administration renews its proposal from last year to restructure the FMF program to include loans as well as grants. Under the request, $75 million would be available to provide FMF grants or loans to other, unspecified countries. Decisions regarding the mix of grants and loans that would be provided to countries under the proposal have not yet been made.

All other international security accounts would be cut significantly, except for the International Military Education and Training (IMET) program, which would receive a $15 million (14%) cut compared to FY17. Funding for International Narcotics Control and Law Enforcement (INCLE) would be cut by $375 million (30%), non-UN peacekeeping operations by $368 million (56%), and Nonproliferation, Anti-Terrorism and Demining (NADR) by $280 million (29%).

Peacekeeping: Deep Cuts Despite Continued High Demand. The FY19 request sets out a total of $1.5 billion for peacekeeping operations – a significant $1.1 billion (42%) cut from FY17 levels and in line with the Administration's FY18 request. This total includes $1.2 billion for the Contributions to International Peacekeeping Activities (CIPA) account, a $711 million (37%) cut. The CIPA account helps fund ongoing UN peacekeeping operations in more than a dozen countries.

The budget proposal would implement these deep reductions in part by cutting U.S. contributions to UN peacekeeping missions. Although the negotiated U.S. assessment rate is set at 28% of overall UN peacekeeping costs, the Administration has reduced America's contribution to 25%, consistent with the legislative cap enacted in FY17. The Administration has also sought to find savings by reducing the size and number of peacekeeping missions and seeking other efficiencies. According to the Administration, last year the UN reduced its estimate for 2017-2018 costs partly due to U.S. pressure.

The FY19 request also includes $291 million for the Peacekeeping Operations (PKO) account, a $368 million (56%) cut from FY17 levels. The PKO account covers the cost of non-UN peacekeeping operations and efforts to improve other countries' capacity to conduct these operations.

PEACEKEEPING FUNDING

	FY17 ENACTED	FY18 REQUEST	FY19 REQUEST	CHANGE FROM FY17
UN Operations (CIPA)	$1.91 billion	$1.2 billion	$1.2 billion	▼ 37%
Non-UN Ops (PKO)	$659 million	$301 million	$291 million	▼ 56%
Total	$2.57 billion	$1.5 billion	$1.49 billion	▼ 42%

U.S. Institute of Peace: Not Eliminated, But Deeply Cut. The FY19 request provides $20 million for the U.S. Institute of Peace (USIP), a step back from the FY18 request which targeted the institute for elimination, but still a deep $19.4 million (49%) cut from FY17.

Advancing Economic Security at Home and Abroad

The International Affairs Budget supports a number of critical agencies that promote sustainable economic growth in developing countries and advance American economic interests by expanding U.S. exports, trade, and investments around the world. To further American economic and national security interests and in accordance with the Administration's ongoing efforts to modernize the federal government, the Administration proposes the creation of a new standalone U.S. Development Finance Institution (DFI) to promote private-sector investment in developing countries. At the same time, however, the Administration continues to call for the elimination of another important agency focused on trade and development.

- **Development Finance Institution (DFI):** Although the Administration sought to eliminate the Overseas Private Investment Corporation (OPIC) in its FY18 budget request, this year the Administration has proposed to create a new Development Finance Institution (DFI) to carry out an expanded mission. The DFI would merge OPIC, which provides financing to companies that invest in developing countries, with USAID's Development Credit Authority (DCA), which provides loan guarantees for development efforts. The precise authorities of the new agency are not outlined in full, but would include the use of loans and loan guarantees, political risk and expropriation insurance, and project-specific feasibility studies. The request proposes $96 million for administrative expenses – $16 million more than what was provided for OPIC and DCA administrative expenses combined in FY17 – and $38 million for credit subsidies. It also provides transfer authority for USAID funding and $56 million in directly-related Economic Security and Development Fund (ESDF) assistance for complementary programming. The reform appears to have strong support in Congress, where bipartisan authorizing legislation is expected to be introduced shortly.

- **U.S. Trade and Development Agency (USTDA):** The FY19 request seeks once again to eliminate USTDA and includes $12 million for the agency to conduct an orderly shutdown. The agency funds pilot projects and other activities where there is a strong likelihood that U.S. goods and services will fit the needs of the agency's partners around the world. USTDA estimates that it generates over $95 in U.S. exports for every dollar programmed. Congress rejected this proposal in FY18, with both the House and Senate restoring funding for the agency in their State-Foreign Operations bills.

The FY19 request continues to fund three other agencies and accounts with a business, export, and investment focus at varying levels of support.

- **Millennium Challenge Corporation (MCC):** The Administration's request proposes $800 million for the MCC in FY19, a $105 million (12%) decrease from FY17 levels. This would represent the lowest funding level for the agency since its creation if enacted. As stated in the request, this level would allow the agency to fund new compacts with Burkina Faso, Sri Lanka, and Tunisia, as well as a new threshold program with the Gambia. The MCC continues to emphasize transparency and a data-centric model for tracking projects, results, and impact. It also prioritizes a rigorous monitoring and evaluation system.

- **Export-Import Bank (Ex-Im):** The request sets out $95 million for the Ex-Im Bank, a $31 million (25%) cut from FY17. The Bank supports the U.S. export sector through various types of financing, including loans, loan guarantees, and insurance programs, and has helped small- and medium-sized companies from all 50 states compete in the global marketplace for more than 80 years. Like OPIC, Ex-Im is self-funding. For FY19, the Administration projects the Bank's collections will exceed program costs by $633 million.

- **USAID's Development Credit Authority (DCA):** The FY19 request zeros out funding for the DCA, which would be incorporated into the new Development Finance Institution (DFI) discussed above. This program has helped leverage private financing for development efforts in several sectors, including health care, farming, infrastructure, and education.

Projecting American Values on the Global Stage

The Administration's FY19 budget request notes the importance of U.S. global leadership in providing life-saving global health, development, and humanitarian assistance, but at the same time makes deep cuts to these accounts. Congress is unlikely to implement these cuts given the long-standing bipartisan support these programs enjoy.

Development and Economic Assistance: Steep Cuts to Topline. The Administration has again proposed to merge all assistance currently provided through four separate accounts – Development Assistance (DA), Assistance to Europe, Eurasia and Central Asia (AEECA), Democracy Fund, and the Economic Support Fund (ESF) – into a new Economic Support and Development Fund (ESDF). The proposal has raised concerns in some sectors because the new account would be led by the State Department, as opposed to USAID, which could lead to a greater focus on strategic considerations, rather than traditional development objectives. So far this proposal has not gained traction in Congress.

The FY19 request would cut the new ESDF account by $3.8 billion (43%) compared to the four accounts' funding levels in FY17. This deep cut to economic and development assistance is significant and troubling, and nearly identical to last year's request. However, this year the Administration did restore some assistance to 24 of the 37 countries that had been zeroed out in the FY18 request.

Additionally, the Administration's request proposes a greater emphasis on food security, including a 3.6% increase for Feed the Future compared to the FY18 request. While the budget also supports resiliency programs to reduce chronic vulnerability to famine, it provides just $518 million for these efforts – a 50% cut from FY17. The request would cut other development-related accounts as well, including the Millennium Challenge Corporation (MCC) and USAID Operating Expenses (both of which are discussed in other sections of this report). The Peace Corps would receive a $14 million (3%) cut.

DEVELOPMENT AND ECONOMIC ASSISTANCE FUNDING

	FY17 ENACTED	FY18 REQUEST	FY19 REQUEST	CHANGE FROM FY17
Economic Support and Development Fund (ESDF)	$0	$4.94 billion	$5.06 billion	N/A
Development Assistance (DA)	$3.0 billion	$0	$0	▼ 100%
Economic Support Fund (ESF)	$4.67 billion	$0	$0	▼ 100%
Assist. for Europe, Eurasia, & Central Asia (AEECA)	$975 million	$0	$0	▼ 100%
Democracy Fund	$211 million	$0	$0	▼ 100%
Millennium Challenge Corporation (MCC)	$905 million	$800 million	$800 million	▼ 12%
Peace Corps	$410 million	$398 million	$396 million	▼ 3%

Humanitarian Assistance: Deep Reduction in the Face of Growing Challenges. The Administration's FY19 request would cut funding for humanitarian assistance by $3.1 billion (33%) compared to FY17. The proposal assumes Congress will reject the Administration's proposed steep cuts to these programs in FY18. If so, the Administration argues that it will have sufficient carryover resources from FY17 to meet FY19 requirements, especially given the existence of significant transfer authority.

However, given the unprecedented scope and scale of humanitarian crises around the world, including looming famines in multiple countries, it may be risky to assume that carried over funds could meet these needs. Moreover, the use of transfer authority could be insufficient to offset this cut to humanitarian assistance as other foreign assistance accounts are also facing deep cuts.

Similar to last year, the budget proposes to eliminate the Title II, PL 480 Food for Peace program, which utilizes U.S.-flagged ships to transport U.S.-produced food aid to those in need around the world. The request argues that it would be more cost-effective to fund all emergency food aid through the International Disaster Assistance (IDA) account. Notably, the Administration added $1 billion to its request for IDA after the budget deal was announced, just before it submitted its FY19 budget to Congress. However, even with the additional funding, the FY19 request cuts IDA by $569 million (14%) compared to FY17 levels. Given this cut, it is difficult to see how the Administration's request for IDA can offset the elimination of the Title II, PL480 program, which was funded at $1.9 billion in FY17 – even if significant efficiencies could be achieved.

The Administration also renews its FY18 proposal to eliminate the Emergency Refugee and Migration Assistance (ERMA) account. The budget would cut the Migration and Refugee Assistance (MRA) account by $566 million (17%), leaving enough funding to support a refugee admissions ceiling of 45,000 refugees and 10,000 Special Immigrant Visas. Of note, the request provides authority to transfer some of the additional funding requested for IDA to MRA.

HUMANITARIAN ASSISTANCE FUNDING

	FY17 ENACTED	FY18 REQUEST	FY19 REQUEST	CHANGE FROM FY17
Disaster Aid (IDA)	$4.13 billion	$2.51 billion	$3.56 billion	▼ 14%
Refugees (MRA)	$3.37 billion	$2.75 billion	$2.8 billion	▼ 17%
Emergency Refugees (ERMA)	$50 million	$0	$0	▼ 100%
Title II, PL 480 Food for Peace	$1.90 billion	$0	$0	▼ 100%
TOTAL	$9.44 billion	$5.25 billion	$6.36 billion	▼ 33%

Global Health: Significant Cuts to Nearly All Programs. Despite bipartisan Congressional opposition to the Administration's proposed deep cuts in FY18, the FY19 request provides $6.7 billion for Global Health funding, $2.1 billion (23%) below the FY17 level. The budget funds programs to treat HIV/AIDS at $4.8 billion, $1.2 billion (20%) below FY17. The State Department's bilateral program receives $3.85 billion of this total, including $400 million that was added after the budget deal was reached. Even with this additional funding, however, the program is cut by $470 million (11%) compared to FY17 levels.

The Administration argues that this funding level will allow for epidemic control in 13 priority countries designated in the Administration's new Strategy for Accelerating HIV/AIDS Epidemic Control, and maintain the current number of people on antiretroviral treatment in other countries receiving aid. Of note, the Administration decided on these goals before the additional $400 million was added.

Once again, the request eliminates USAID funding for HIV/AIDS, which received $330 million in FY17. It also cuts the U.S. contribution to the Global Fund by $425 million (31%) compared to FY17. The Administration contends that this contribution will still allow the U.S. government to meet its commitment to provide one dollar for every two dollars provided by other donors through the end of 2019 – the last year of the current replenishment. This argument is partially based on the assumption that Congress will not follow through on the Administration's proposed deep cut to the program in FY18.

Most other global health programs also receive significant cuts. The request:

- Cuts funding for Maternal and Child Health by $195 million (24%) compared to FY17 levels. Within the account, the request includes $250 million for Gavi, the Vaccine Alliance, which is a $25 million (9%) cut. Since FY18 is the last year of the current Gavi replenishment, this funding would be available to help meet the U.S. commitment to the next replenishment.
- Transfers $75 million in remaining FY15 Ebola balances to fund Global Health Security programs in FY19.
- Slashes funding for Tuberculosis ($63 million), Neglected Tropical Diseases ($25 million), and Nutrition ($47 million), and eliminates funding for Vulnerable Children.
- Funds international family planning at $302 million – a significant reversal from the Administration's FY18 request that zeroed out funding for these programs. The request notes that this funding will be consistent with the Administration's Protecting Life in Global Health Assistance policy.
- Cuts Malaria funding by $81 million (11%).
- The Administration's request for polio programs is unclear.

GLOBAL HEALTH FUNDING*

	FY17 ENACTED	FY18 REQUEST	FY19 REQUEST	CHANGE FROM FY17
Bilateral PEPFAR	$4.32 billion	$3.85 billion	$3.45 billion	▼ 11%
Global Fund	$1.35 billion	$1.13 billion	$925 million	▼ 31%
USAID HIV/AIDS	$330 million	$0	$0	▼ 100%
Malaria	$755 million	$424 million	$674 million	▼ 11%
Tuberculosis	$241 million	$178 million	$178 million	▼ 26%
Maternal/Child Health	$815 million	$750 million	$620 million	▼ 24%
Vulnerable Children	$23 million	$0	$0	▼ 100%
Nutrition	$125 million	$79 million	$79 million	▼ 37%
Family Planning	$608 million	$0	$302 million	▼ 50%
NTDs	$100 million	$75 million	$75 million	▼ 25%
Global Health Security	$143 million	$0	$0	▼ 100%
TOTAL	$8.76 billion	$6.48 billion	$6.70 billion	▼ 23%

**State Department and USAID Global Health accounts only, except for family planning.*

Educational and Cultural Exchange: The FY19 request provides just $159 million for Educational and Cultural Exchange (ECE) programs, $475 million (75%) less than in FY17. With this dramatic cut, the Administration states that it would focus resources more narrowly on U.S. foreign policy priorities and look to the private sector to facilitate exchanges. The request largely hollows out all major ECE programs. For example, the Fulbright program and other academic exchanges would be cut by $238 million (74%), while professional exchanges would be reduced by $164 million (76%).

Democracy Programs: The Administration's request includes $1.4 billion for democracy, human rights, and governance programs, a $900 million cut (39%) from FY17 – and a further reduction to the already substantial cut proposed in last year's budget. These programs are designed to help develop peaceful and democratic political processes, promote effective and accountable institutions, and demonstrate U.S. leadership in support of basic freedoms and human rights. By fostering civilian capacity, the Administration also sees these programs as encouraging countries to take greater responsibility for their own development, reducing their dependence on foreign assistance. Cuts of this magnitude could raise concerns about the U.S. commitment to democracy promotion. The request also reduces funding for the National Endowment for Democracy by $103 million (60%), with this cut only partially offset by the proposed redirecting of $36 million in ESDF funding towards similar programs.

Reform and Modernization: State's "Impact Initiative" and USAID's "Redesign"

The FY19 budget request presents the State Department's and USAID's plans to modernize processes, procedures and technologies – in line with the Administration's broader effort to create a more efficient, effective, and accountable federal government.

State Department "Impact Initiative"

The State Department budget includes $96.2 million to cover various aspects of the Secretary's "Impact Initiative," which includes 16 "keystone" projects grouped into three focus areas:

- **Modernizing IT and Human Resources Operations:** The State Department will seek to improve its aging IT architecture and reform workforce operations, including by transitioning systems to modern platforms. Workforce improvements include strengthening the performance review process, and making it easier for employees to work flexibly and remotely.

- **Modernizing Global Presence and Creating and Implementing Policy:** The State Department will aim to better align its overseas presence with broad U.S. national interests. The State Department will also develop a menu of alternative overseas presence models, or "archetypes," outside of traditional embassies and consulates.

- **Modernize Operational Efficiencies:** The State Department will seek to leverage leading industry practices in the agency's operations, including the management of agency properties, and particularly its HR services. This proposal is still under development and the Administration's budget does not describe in detail specific actions or reforms.

USAID Redesign

The budget request includes several process and policy reforms to USAID based on the agency's reform and modernization effort. It is unclear how much funding will be needed to implement these reforms as USAID is still developing its proposals. The request lays out five key focus areas for reform:

- **Journey to Self-Reliance:** USAID will develop a framework and set of principles on strategic transitions from assistance and encouraging country self-reliance, including through expanding access to private capital and deepening trade relationships. In a new initiative, USAID will also work with partner countries to improve domestic resource mobilization and help sustainably lead their own development.

- **Strengthen Core Capabilities:** USAID proposes consolidating its Office of U.S. Foreign Disaster Assistance (OFDA), which focuses on non-food assistance, and its Office of Food for Peace (FFP) to improve efficiency and effectiveness and promote improved support across the full cycle of a humanitarian crisis.

- **Advance National Security:** USAID will strengthen its work to prevent violent extremism and clarify its roles in operating environments marked by conflict and fragility. USAID also seeks to deepen engagement and coordination with the Department of Defense.

- **Empower People to Lead:** USAID will focus on improving its workforce management, including increasing flexibility and mobility for its personnel, streamlining its coordinator positions, and expanding leadership development programs.

- **Respecting the Taxpayer's Investments:** USAID will resolve a backlog of audits from the Inspector General and Government Accountability Office. It will also work towards procurement reform.

In addition to the State Department and USAID reform efforts outlined above, the Administration's budget request also proposes two crosscutting agency reforms. The first is the creation of a Development Finance Institution (DFI), which is discussed earlier in this analysis. The second is a proposal that would merge two smaller U.S. agencies, the U.S. African Development Foundation (ADF) and the Inter-American Foundation (IAF) into USAID to consolidate small grant functions and assistance. Specifically, the ADF would be merged into USAID's Bureau for Africa and the IAF into the Bureau for Latin America. The budget includes $8 million to cover one-time termination costs at IAF and ADF.

The reform and modernization proposals for State and USAID outlined in the FY19 request have a much narrower scope than initially expected and will likely continue to face tough scrutiny from Congress.

Impact on Civilian Capacity

The FY19 budget request proposes significant cuts to several accounts that fund the U.S. diplomatic presence around the world and the management, monitoring, and evaluation of U.S. foreign assistance. While generally less severe than what has been proposed for other parts of the International Affairs Budget, the cuts could hobble America's ability to advance its interests around the world through effective diplomacy and development.

State Department: The request would fund the State Department's Diplomatic and Consular Affairs (D&CP) account at $7.8 billion, $1.9 billion (19%) below the FY17 enacted level. This account covers the agency's personnel, infrastructure support, and operations costs. Last year, the Administration's budget set a goal of reducing the State Department and USAID workforces by 8% by the end of FY18, to be accomplished through attrition, targeted buyouts, and early retirement incentives. The FY19 request funds human resources at roughly the same level as the FY18 request, suggesting that the State Department still intends to implement this 8% reduction, but that no further staffing cuts beyond the 8% reduction may be planned.

The request includes $3.4 billion for the account's Worldwide Security Program (WSP), which represents a 27% reduction from FY17. The Department argues that the cut is appropriate, given the extra funding provided for this program in the FY17 ISIS supplemental.

The request also includes $1.7 billion for Embassy Security Construction and Maintenance (ESCM), $1.4 billion (45%) less than proposed in FY17. The account's Worldwide Security Upgrade program would be cut by $1.3 billion (59%). The Administration also argues here that the extra funding provided in the FY17 ISIS supplemental makes such a reduction appropriate. Consistent with the Benghazi Accountability Review Board, the request maintains the State Department's share of the $2.2 billion target for the construction of new, secure embassies.

USAID: The Administration's FY19 request includes $1.1 billion for USAID's Operating Expenses account, which covers the costs of implementing, monitoring, and evaluating a wide range of foreign assistance programs. This represents a $248 million (18%) cut from FY17 and could have a significant impact on USAID's ability to ensure foreign assistance programs are effective, efficient, and accountable. USAID funding levels in the FY19 request project no additional personnel cuts beyond the 8% reduction set out in the FY18 budget.

America's Engagement with Multilateral Institutions

The Administration's request proposes deep cuts to U.S. commitments to multilateral institutions. If these cuts were enacted, the U.S. would likely go into arrears for certain institutions and could lose an important platform of influence, which could result in long-term negative consequences.

International Financial Institutions: Significant Cuts Proposed. The FY19 request includes $1.4 billion for Treasury International programs, $354 million (20%) below FY17 levels, and roughly in line with last year's request. The bulk of this funding would go towards meeting the annual replenishment commitments of the World Bank's International Development Association, the

African Development Fund, and other International Financial Institutions (IFIs). As was the case in last year's request, the FY19 request includes no funding for the Green Climate Fund, which seeks to help countries address climate change.

Contributions to International Organizations: UN Faces Big Cuts. The request includes $1.1 billion for assessed Contributions to International Organizations (CIO), a $264 million (19%) cut from FY17 levels. This account funds the U.S. share of contributions to over 40 international organizations, including the UN and many UN-affiliated agencies. In nearly all cases, U.S. participation in these organizations is the result of ratification of a treaty or convention that commits the U.S. and other member countries to pay an assessed contribution. Partly due to U.S. pressure, the UN cut $285 million from its 2018-2019 budget approved in December. However, reductions as deep as those proposed in the Administration's request would not only result in the accumulation of significant arrears but could also undercut American leadership within these organizations and the broader international community.

International Organizations and Programs: Account Eliminated, Certain Contributions Shifted. The request eliminates funding for the International Organizations and Programs account, which received $339 million in FY17. This account covers the cost of voluntary contributions to a wide variety of UN-affiliated and other institutions. The request notes that a limited number of entities currently funded through this account would continue to be supported in FY19 through funding from other accounts. These institutions include:

- The Internet Governance Forum
- The UN Human Rights Commission
- The Montreal Protocol
- The International Chemical and Toxins Convention
- The International Maritime Organization
- The Asia Pacific Economic Cooperation
- The UN Office for the Coordination for Humanitarian Assistance

These institutions could be funded out of the new Economic Support and Development Fund, except for the last, which would be funded through the Migration and Refugee Assistance account. The request does not provide for voluntary contributions to UNICEF and does not specify funding for the World Food Program.

Agencies Slated for Elimination

The Administration proposes to eliminate several agencies that help promote U.S. economic, security, and humanitarian interests in the world. In most cases, the request includes some funding in FY19 to allow for the orderly closure of the agency or as a cushion to help it transition to other sources of funding. As discussed earlier in this analysis, the request calls for the Overseas Private Investment Corporation (OPIC) to be expanded into a new Development Finance Institution.

- The East-West Center
- The Asia Foundation
- The Inter-American Foundation
- The African Development Foundation
- The U.S. Trade and Development Agency

II. Snapshot of Regional and Country Funding

As in previous years, the FY19 budget request specifies funding levels for each country and region.

Africa: Prior to the last minute addition of $400 million to the request for PEPFAR funding discussed earlier in the analysis, the FY19 request specified $5.3 billion for programs in Africa, $3.1 billion (37%) less than FY17 levels. Even with additional PEPFAR funding—much of which is likely to go to African countries—these programs still suffer a deep cut. PEPFAR and other global health programs are the largest component of U.S. aid to Africa. Other key priorities include countering ISIS and other terrorist threats, especially in Mali, Nigeria, Niger, and Somalia, and assisting fragile states – including the Democratic Republic of Congo and South Sudan. The top recipients of U.S. foreign assistance in Africa include Kenya, Malawi, Mozambique, Tanzania, Zimbabwe, South Africa, and Liberia.

East Asia and the Pacific: The Administration proposes $431 million for assistance to East Asia and the Pacific in FY19, $386 million (47%) below the FY17 level. Even with the Administration's new Indo-Pacific policy, foreign assistance levels to East Asia and the Pacific remain relatively low compared to other parts of the world. The request includes funding for building good governance, open markets, freedom of navigation, and private sector-led economic growth as well as countering transnational threats. The countries receiving the most assistance include the Philippines, Vietnam, Indonesia, and Burma.

Europe and Eurasia: The request includes $424 million in foreign assistance funding for Europe and Eurasia, a significant $711 million (63%) cut from FY17. The funding is intended to help cultivate stronger and more stable allies, support greater Euro-Atlantic integration, and reduce vulnerabilities to Russian aggression. The top recipients include Ukraine, Georgia, and Moldova.

Middle East and North Africa: For FY19, the Administration proposes $7 billion for the Middle East and North Africa, $1.6 billion (18%) less than provided in FY17. The region remains the largest recipient of U.S. foreign assistance funding compared to other parts of the world. Israel and Egypt continue to receive the largest portion, accounting for 67% of the total. As in the recent past, much of the funding to the region is also focused on countering ISIS and resolving the conflicts in Syria and Iraq.

South and Central Asia: The FY19 request includes $1.3 billion in foreign assistance to South and Central Asia, representing a $769 million (38%) cut from FY17. Priorities include countering terrorism and violent extremism, improving governance, and helping meet education and health needs in the region. Roughly half of this funding is allocated to Afghanistan to support the President's new strategy to empower the people of Afghanistan and sustain improvements in education, health, and governance in the country. Other recipients in the region include Pakistan – which receives 26% of this assistance, as well as Bangladesh, India, and Nepal.

Western Hemisphere: The Administration's request proposes $1.1 billion in funding for Central and South America, a $609 million (35%) cut from FY17. This funding is largely focused on programs to counter trafficking in humans, drugs, money and weapons, and combat illegal immigration and other aspects of transnational crime as well as to address developmental challenges, including fostering economic growth and promoting democracy and human rights. Among the countries receiving the largest share of assistance are Colombia, Haiti, and Mexico.

III. What's Ahead

While bipartisan criticism of the FY19 budget request is starting to mount on Capitol Hill, Congress is unlikely to follow the Administration's budget closely as a guide and is expected to establish its own spending priorities in the weeks and months ahead.

The House and Senate Budget Committees have already begun drafting FY19 budget resolutions setting topline spending levels, although both **Senate Budget Committee Chairman Mike Enzi (R-WY)** and new **House Budget Committee Chairman Steve Womack (R-AR)** have expressed doubt that the Committees will take further action on these resolutions given the political realities in an election year. Moreover, the recently-passed budget deal lessens the need for an FY19 budget resolution as it already establishes topline spending levels for the fiscal year.

With a two-year budget deal now in place, House and Senate Appropriations Committees are focused on finalizing FY18 spending bills. They will then turn their attention to the process of drafting and approving FY19 spending bills. The Committees are expected to begin holding budget hearings on the Administration's FY19 request in the coming weeks. The topline spending levels included in the budget deal will guide Appropriators as they make decisions on spending levels for individual appropriations bills, including the State-Foreign Operations bill.

With Congress facing a shortened legislative calendar due to this year's midterm elections, it is unlikely that Congress will approve all 12 spending bills before the start of the new fiscal year on October 1. The majority of FY19 spending bills will likely be packaged into an omnibus to speed approval, although competing priorities and disagreements over unrelated issues could complicate that effort.

IV. Additional Information and Resources

OMB Budget Charts and Material

- https://www.whitehouse.gov/wp-content/uploads/2018/02/budget-fy2019.pdf
- https://www.whitehouse.gov/wp-content/uploads/2018/02/Addendum-to-the-FY-2019-Budget.pdf
- https://www.whitehouse.gov/wp-content/uploads/2018/02/FY19-Budget-Fact-Sheet_National-Security.pdf
- https://www.whitehouse.gov/wp-content/uploads/2018/02/sta-fy2019.pdf
- https://www.whitehouse.gov/wp-content/uploads/2018/02/agr-fy2019.pdf
- https://www.whitehouse.gov/wp-content/uploads/2018/02/msar-fy2019.pdf

State Department Budget and Material

- https://www.state.gov/s/d/rm/rls/ebs/2019/pdf/index.htm
- https://www.state.gov/r/pa/prs/ps/2018/02/278228.htm
- https://www.state.gov/documents/organization/277155.pdf
- https://www.state.gov/documents/organization/278401.pdf
- https://www.state.gov/documents/organization/278399.pdf

USAID Budget and Material

- https://www.usaid.gov/results-and-data/budget-spending
- https://www.usaid.gov/results-and-data/budget-spending/congressional-budget-justification/fy2019
- https://www.usaid.gov/sites/default/files/documents/1869/USAID_FY2019_Budget_Fact-sheet.pdf

V. Account-by-Account Details

Download the Account-by-Account Details:

- http://www.usglc.org/media/2018/02/Account-by-Account-Details-FY17-FY19-Request.xlsx