

**DISCUSSION PAPER #1:
DEVELOPMENT ASSISTANCE REFORMS
10-6-09**

After decades of project-driven, top-down, input-oriented development assistance, many countries are poorer than ever. While foreign assistance is only one tool for poverty reduction – any development effort must also take account of trade flows, private investment, remittances and debt, as well as the country's own resource base and policy environment – it is important to reexamine the model on which aid is based. The current approach has several shortcomings: First, U.S. assistance programs often diverge from the development strategies and priorities set by partner countries, and are not coordinated with other donors. Second, USAID field missions have limited flexibility in determining how funds should be spent and in responding to changing situations on the ground. Third, it is difficult to conduct long-term planning – and to hold anyone accountable for results -- when budgets are decided on an annual basis, and programs can be interrupted or terminated mid-cycle. Fourth, the lack of real-time information on outlays and expenditures hinders program monitoring and evaluation, and creates demand for expensive and time-consuming reports. Finally, pressure to achieve short-term results precludes building the local capacity that is essential to long-term economic growth.

To remedy these problems, several competing objectives must be balanced:

Country needs and U.S. interests: Under the Paris Declaration and Accra Agenda for Action, the U.S. is committed to strengthening local ownership by supporting country strategies and using country systems for distributing aid. Yet the processes through which developing countries determine their priorities are not always democratic, their strategies often leave out key components such as good governance and gender equality, and their distribution systems are often plagued by corruption.

Field-driven and Washington-driven: While centralized decision-making can leave field missions without the resources to address the real and current needs on the ground, mission-driven processes can be insensitive to the policy priorities of Congress and the administration.

Flexibility and accountability: Opportunities can open up quickly following elections and peace agreements, and unexpected challenges can arise from conflicts and natural disasters. Without some risk-taking and innovation, the United States may miss out on the chance to make a real difference. Yet partner countries need to be able to predict aid flows in order to budget responsibly. And American taxpayers have a right to know how their aid dollars are being spent and what results are being achieved, which requires effective Congressional oversight.

Political and developmental: The United States has a national security interest as well as a moral interest in reducing poverty. From a strategic perspective, aid should be concentrated in countries where U.S. security interests are at stake. From a moral perspective, aid should flow to those who need it most. Either way, investments should

be focused where they will do the most good, and many countries lack the political will and institutional capacity to use funds effectively.

Results and sustainability: The fastest and most reliable way to complete a project may be to do it ourselves -- often with the help of a contractor. But the “service-delivery” model of development is unlikely to bring self-sufficiency and sustained economic growth. Ultimately, the measure of aid’s success is its ability to help people help themselves.

The following reforms could provide greater support for country-owned plans while serving U.S. national interests; allow greater input from field missions while advancing policy priorities; offer greater flexibility while demanding greater accountability; respond to the areas of greatest need while rewarding good performance and addressing security threats; and achieve a measurable impact that leads to sustained economic growth:

1. Set aside the vast majority of economic assistance for country-based strategies.

Currently most bilateral economic assistance is divided according to sectors, such as health, agriculture or education, and then these sectoral funds are allocated by country. Under a reformed system, most assistance would be divided by countries, while the remainder would be divided by sectors. The country-based fund would be allocated to USAID field missions to support country strategies (and regional programs, as appropriate); the sectoral fund would be programmed in Washington to ensure that critical thematic priorities are met.

2. Create a flexible formula for country allocations. In determining levels of development aid for each country, the starting point would be the level of need, as measured, for instance, by the number of people living in poverty, the country’s per capita income and its ranking on the Human Development Index. Adjustments would be made based on performance, on resources available from other sources, and where there is a high level of U.S. foreign policy or security interest. Countries below a certain level would be “graduated”. Efforts would be made to ensure regional balance.

3. Make a clear distinction between development assistance and strategic assistance.

Instead of transferring money from the Economic Support Fund (ESF) – the State Department’s political account – to USAID for developmental purposes, which creates confusion about objectives, ESF would be reserved for non-project assistance to build and reinforce strategic partnerships. Where the United States has a strong foreign policy interest in poverty reduction, additional funding would be requested and provided in the form of development assistance.

4. Develop and use coordinated, concise and results-oriented strategies. Every 3-5 years, each USAID Mission would produce an 8-10 page Country Investment Strategy for Development (CISD). The CISD would be based, whenever possible and appropriate, on the country’s own strategy for development or Poverty Reduction Strategic Plan, and would identify the most effective and appropriate ways the U.S. could contribute to

implementing that strategy. It would be carefully coordinated with the host country and with other donors, as well as with all other U.S. agencies working on the ground.

The CISD would include information such as: an analysis of the process that went into creating the host country development strategy; an evaluation of the progress the country has made towards meeting its development goals; an assessment of the country's vulnerability to a natural or human-caused disaster and the steps being taken to prevent, prepare for or mitigate such a disaster; a description of the roles of the various donors and the areas of United States comparative advantage; a description of the mechanisms for interagency and international donor coordination; a measurable, results-oriented set of goals and objectives for U.S. assistance; and the outcome of the previous 3-5 year strategy. The CISD would not go into effect until 15 days after it had been notified to Congress. Ultimately, it would be incorporated into a country strategic plan covering all forms of U.S. assistance.

By the same token, USAID's functional offices and bureaus (on an interagency basis, as appropriate) would establish 3-5 year strategies in areas such as global health, food security, education, gender equality and governance. Like the CISDs, the sectoral strategies would be subject to 15-day Congressional notification.

5. Obligate development assistance up-front for the entire 3-5 year period. Rather than "sprinkling" money around to fund multiple projects one year at a time, USAID would set aside the full amount of funding for a multi-year activity at the outset. This is the same system used by the Millennium Challenge Corporation. There would need to be a transition process to move from the current system to the new one.

6. Reserve 5-10% of all country budgets for unanticipated contingencies. USAID Missions would be encouraged to create a reserve, to which money could be added each year up to a certain ceiling. Funds would not expire and thus could be used in the critical period between the end of the fiscal year and the arrival of the next year's funds. Obligations from the reserve over a certain level would be notified to Congress.

7. Revitalize an interagency coordination mechanism. To oversee the development and implementation of the sectoral strategies, and to review and update a national strategy for global development, the Development Coordination Committee (composed of representatives of all relevant departments and agencies, with the chair selected by the President) would be reestablished and would report directly to the President. It would not have separate offices or staff; administrative functions would be performed by a support office within USAID.

8. Obtain Congressional buy-in for country and sectoral strategies, rather than individual projects and activities. Strategies (and any revisions thereto) would be sent to Congress as they are completed, on a rotating basis, rather than all at once in an annual budget justification. Obligations in accordance with those strategies would not be subject to prior Congressional notification, although detailed obligation information would be

available online. The annual Congressional Budget Justification would still be submitted, containing planned obligations by country and by sector.

9. Provide public access to real-time information about outlays and program results.

Comprehensive information about all foreign aid spending – including project descriptions, implementing partners, objectives, obligations, expenditures, conditionality, monitoring and evaluation plans, and results – would be entered into a database immediately upon approval, and updated regularly. The database would be publicly accessible online on a read-only basis, word-searchable, and sortable by field. Individual fields could be classified or kept confidential to protect the security of partners or other sensitive information. Users could activate an RSS-feed or other tools to generate automatic tracking reports. A large number of Congressional reports would be eliminated upon implementation of the database, since the information would now be readily available.

10. Prioritize interventions that build local capacity. Currently USAID relies heavily on large “indefinite quantity contracts” that bring in outside experts for short periods, rather than on small grants and direct partnerships that expand the knowledge, technical skills and access to productive resources of poor people. Such an approach is neither cost-effective nor sustainable. A restructured contracting system would make it easier to invest in local partners from the bottom up – helping individuals to achieve self-sufficiency, civil society organizations to implement projects for the common good, and change agents to act as catalysts for systemic reform. At the same time, a strengthened system of monitoring and evaluation would focus on achieving measurable and sustained impact rather than on delivering short-term outputs.