ADVISORY COMMITTEE ON VOLUNTARY FOREIGN AID

Public Meeting
February 16, 2005

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OPENING REMARKS

William S. Reese, ACVFA Chair, welcomed the ACVFA Members, the U.S. Agency for International Development (USAID) staff, and the meeting participants, remarking that while this is the first meeting in a new administration, fortunately the Agency doesn't have a new Administrator. This meeting is a chance to build on the momentum of the last four years and the initiatives and reforms already begun and to look toward the future.

KEYNOTE ADDRESS

Andrew Natsios, Administrator, USAID

USAID recently released a white paper describing five purposes of foreign aid in the post–September 11 world:
- Transformational development
- Humanitarian relief
- Addressing global issues such as global warming, human trafficking, HIV/AIDS
- Aid to geostrategically important states, tied to State Department operations
- Support of fragile states: failing, failed, collapsed, or recovering

Of these, USAID has the fewest tools to accomplish the last, and yet supporting fragile states is important for a number of reasons. Fragile states have the potential to create humanitarian disasters that dwarf even the greatest natural calamities: hundreds of thousands of people died in the recent tsunami in Asia, but more than 3 million have died in Congo in recent years, and 2.5 million have died in Sudan. At the same time, as the National Security Strategy of 2002 described, "America is now threatened less by conquering states than we are by failing states." This important foreign policy theme also underscores the importance of development, given the relationship between the failure of development and state failure.

And it is possible to have a profound effect on states that would otherwise slide into chaos. For example, in Colombia the Agency is funding *Casas de Justicia*, one-stop shops for judicial and social services that mediate property, family, and other disputes in places where poor people do not have access to courts. To date 1.8 million people have used them, helping reintroduce the rule of law into regions that had been ruled by paramilitary groups.

The Fragile States Strategy will require close coordination, both among U.S. government agencies and between the United States and other countries. Cooperating with the U.S. military, for instance, will be indispensable to USAID's work: if there are warlords on the loose, non-governmental organizations (NGOs) can do very little. Other U.S. departments are genuinely interested in cooperating in this area.

One reform will be to refashion USAID budget accounts to more closely approximate the five priorities described in the white paper. Toward that end, the 2006 budget moved $275 million from Development Assistance (DA) to the Transition Initiatives Account. The goal is to increase flexibility in USAID's programming and budgeting and move more rapidly, since fragile states, if unsupported for too long, may simply fail. Too much money is now disbursed based on earmarks, with too little ability to adjust programs to rapidly changing realities. The Office of Management and Budget (OMB), former Secretary of State Colin Powell, and current Secretary Condoleezza Rice are all enthusiastic. The idea is garnering support in Congress as well.

A second reform moves $300 million from Title II food aid to Food for Peace (FFP) to the International Development and Famine Assistance account. This will allow us to purchase food from local sources in the most time-sensitive emergencies rather than shipping all food from the United States. This will reduce shipping costs (now as much as 50% of total expenses), help support agricultural economies in fragile states, and deliver food more rapidly in humanitarian crises. If local food can't be found, the money will return to Title II. USAID will not buy food from developed countries.

A third reform will involve a major internal reorganization of the Bureau of Democracy, Conflict and Humanitarian Assistance (DCHA). This will encompass the following measures:
- A task force of two people, one from the pertinent Regional Bureau and one from DCHA, will coordinate responses to crises. The DCHA representative will lead until the effort shifts to reconstruction, at which point the Regional Bureau representative will take over.
- DCHA will try to expand the pool of technical experts on whom it can call in a crisis.
- DCHA will improve coordination with the military, leading an operational planning unit to deal with complex emergencies, and building a common structure for working with each field combatant command. This is particularly important as the military becomes more focused on the requirements of nation building, a task for which USAID is better equipped.
- Global and Regional Bureau staff will be better integrated for crisis response.
- DCHA will recruit, train, and deploy a new cadre of Crisis, Stabilization, and Governance Officers.

These and other changes will require a good deal of planning for implementation. Public policy often fails not in its design but in the way it is put into practice. It will be important to develop and implement these new initiatives with the help of all USAID staff.

QUESTIONS AND ANSWERS

Ted Weihe, ACVFA Member, asked about USAID's plans to implement the part of the Fragile States Strategy relating to infrastructure, as in the past the agency's infrastructure-building capabilities have been limited.

Mr. Natsios replied that last year USAID created an Office of Infrastructure and Engineering, which will allow the agency to hire engineering contractors and staff more easily. USAID has already hired three people, and is now deciding in which bureau to house the Office. The Agency has also created a new backstop of Crisis, Stabilization, and Governance Officers within the Foreign Service and wants to better integrate DCHA approaches throughout the Agency.

Mary McClymont, ACVFA Member, noted that the Fragile States Strategy focused on four states, and asked how many countries it will ultimately address.

Mr. Natsios replied the strategy does NOT focus on four countries. Specific countries are not identified in the strategy. In the FY 06 budget presentation, USAID has identified four countries—Ethiopia, Afghanistan, Sudan and Haiti—as pilot tests to provide more flexibility in its programming. These are countries of strategic importance to the U.S. and where the U.S. is investing heavily. Ultimately, other countries will be added to or taken away from the account. The Fragile States Strategy will not issue lists of countries, as this is politically sensitive.

Ms. McClymont then asked how USAID will relate to the Reconstruction Office in the Department of State.

Mr. Natsios replied that USAID considers itself the operational arm of the Reconstruction Office. When crises reach the headlines every office wants to get involved, but many have no practical experience with failed states. OMB is exercising leadership to ensure that the agencies with experience in these settings get money.

Michael Nyenhuis, ACVFA Member, asked what, aside from domestic politics, are the limits of the new cash for food program.

Mr. Natsios replied that many famines are the result of massive crop failures due to drought, conflict, disease, or pests. When that happens there is no surplus food to buy—droughts don't end at national borders. In addition, it probably

simply is not possible right now to buy $1.2 billion (the total amount in Title II) worth of surplus food in Africa, but $300 million worth is available.

Stephen Moseley, ACVFA Member noted that there is a slippery slope to closer alliances with the U.S. military, and asked what USAID can do to guard against that, so that the outcome is a better meeting of minds, not a subjugation of long-term development needs to military or foreign policy needs.

Mr. Natsios replied that greater problems will come if USAID does not reach out to the military. In Afghanistan, for instance, because of security restrictions, the military began much of the work USAID and NGOs usually do but without the benefit of experience in these areas. A unit might want to dig wells but fail to assess how many the aquifer could handle. A month later the wells would be dry and the villagers angry. USAID will not allow itself to become an intelligence agency, but it is useful to report when USAID people are being shot at. USAID staff members and partners invited to join in military training exercises should go. The military officers who go through them do behave differently in the field; they understand USAID and respect its people more.

John Sullivan, ACVFA Member, asked how, in the absence of the U.S. Information Agency (USIA), USAID plans to get people to understand democratic values.

Mr. Natsios replied that many people recognize that this issue needs to be addressed. For its part, USAID is getting more involved with media. It has funded twenty-eight radio stations that have national reach in Afghanistan, and will also put a Communications Officer in each USAID mission.

THE NEW USAID ANTICORRUPTION STRATEGY

Barbara Turner*, Deputy Assistant Administrator, Bureau for Policy and Program Coordination, USAID*

It used to be taboo to talk about corruption. That is fortunately no longer the case. The Monterrey Consensus, arrived at in 2002 by over fifty heads of state, recommends directing foreign aid resources to those states that improve their governmental response to corruption. The Millennium Challenge Account (MCA) does just that, stating that reforms work best when a country works well. That is not to suggest that USAID abandon countries with corrupt practices. Rather, the Agency has to figure out how to take it on, in concert with the Department of State, their Bureau for International Narcotics and Law Enforcement Affairs (INL), and other agencies.

Corruption is a problem in fragile states, of course, but it isn't limited to them. In Nigeria's oil-producing regions, for instance, it is clear that heavy investments in development are not having the impact they should because a lot of money is

siphoned off in corrupt systems. And it can appear in many sectors, not just government: banking, extractive industries, agriculture, education. In the medical sector drugs and medical supplies are as good as cash. In banking, there are opportunities every step of the way for bribes to redirect money. The presence of corruption can strongly discourage foreign direct investment.

Currently USAID spends about $200 million each year on controlling corruption through checks and balances, audits, and management. It asked its Field Officers what works in fighting corruption. Their responses included:
- It is important to find local groups that understand their regions' corrupt practices and are willing to take them on.
- It requires a long-term focus.
- It requires a multipronged approach, using many programs across a variety of sectors at once.

Conversely, anticorruption strategies are not likely to work if:
- Local people lack the political will to implement them.
- They are simply public awareness campaigns not tied to specific reforms; people will see them simply as propaganda covering for the same old practices.
- Reforms are implemented *without* public awareness campaigns, since bureaucrats who want to reform need public support.
- They fail to plan for the long term, providing training, support for transparency, computer equipment, and other resources.
- Donors do not work together. If USAID refuses to support something because of a lack of transparency but another donor transfers money to that government on the same day, USAID's stand is ineffective.

The new Anticorruption Strategy itself consists of the following key elements:
- Simultaneously address grand (or elite-level) and administrative (or low-level) corruption. Grand corruption can be difficult to attack, but it's very hard to reduce administrative corruption if low-level officials see large amounts of money leaving at the top. USAID will train its staff in recognizing the signals of grand corruption and in drawing in the diplomatic community to help deal with it.
- Take advantage of opportunities quickly. Very often, real anticorruption reformers in government are vulnerable and need to be supported quickly.
- Integrate anticorruption strategies into all USAID programs, not only governance programs promoting the rule of law but also in banking, health systems, agricultural development, and other sectors.
- Build USAID's knowledge by reporting on its anticorruption measures and their successes or failures.

Operationally, USAID must:
- Draw in staff members and accustom them to incorporating anticorruption awareness in their work.

- Coordinate with the diplomatic community, as accusations of corruption are sensitive matters.
- Work with local press and NGOs to spotlight problems without putting reporters and NGO workers in physical danger.
- Strengthen the ability of local Missions to identify problems.

QUESTIONS AND ANSWERS

Wendy Cox asked how the new Anticorruption Strategy relates to federal procurement.

Ms. Turner replied that USAID has its own high standards for procurement. For instance, the Inspector General (IG) staff audits its programs. USAID has had mixed success in applying the U.S. procurement model and standards in other countries, because it lacks the necessary oversight capability. The goal is to develop transparent procurement processes in the host countries themselves.

Alexander Kravitz of the International Executive Service Corps asked whether the strategy includes a warning system similar to that in the Fragile States Strategy.

Ms. Turner replied that USAID is not necessarily in a position to come up with those indicators yet.

Neil Levine, Chief of the Governance Division, DCHA, added that the Agency is trying to develop a broader methodology that assesses corruption by looking at the underlying economic and governmental factors driving it, across multiple sectors and at different levels of government.

Margaret Goodman of World Learning asked what priority anticorruption strategies will have in countries where USAID has interests in conflict with them.

Ms. Turner replied that USAID is not setting aside money specifically to fight corruption. Rather it is trying to accustom its officers to thinking about transparency in every program area. In extractive industries in countries with large national resources, for example, the Agency promote transparent and accountable management of these revenues and to strengthen the role of civil society in overseeing them. In all areas this will include promoting budget transparency, procurement reform, and the involvement of civil society.

Steve Redding of Management Sciences for Health asked how the Anticorruption Strategy will link to other, more traditional sectors of engagement with foreign governments, including governance and economic development. In his view, grand corruption is relatively rare compared to the weight of petty corruption people engage in to survive.

Ms. Turner replied that USAID cannot address administrative corruption without removing the incentives that foster it. For instance, in the health care sector, pharmaceuticals must be transparently inventoried and tracked. The salaries of public servants—health workers, teachers, and especially police officers—need to be made not just adequate but *regularly paid*, so that those people can be sure of feeding their families from week to week.

As to grand corruption, while the number of people engaged in it may be small, that small number can remove a huge amount of money from a country.

Elise Fiber Smith, ACVFA Member, asked whether USAID has any plans to use indexes similar to those used by human rights groups to rank countries on a corruption scale.

Ms. Turner replied that USAID is not likely to rank other countries. The indicators are not yet adequately defined, and such an index could be an impolitic thing for the U.S. government to do publicly and officially.

Frank Tugwell, President and CEO of Winrock International, asked whether anticorruption strategies will be a U.S. government–wide initiative; in particular, whether the United States will begin to take the lead in the fight against corruption through such other institutions as the Asian Development Bank and the World Bank.

Ms. Turner replied that while addressing corruption is a government-wide commitment, the Strategy discussed today applies only to things USAID is doing. The next step for the Agency will be to work with other parts of the government to help implement it more broadly—and there is support in other areas of government. On the international front, fighting corruption was a major focus of last year's G8 summit, with discussions on transparency in public revenue and immigration policies and other areas.

PVO/NGO ANTICORRUPTION PANEL

Moderator: John Sullivan
Executive Director, Center for International Private Enterprise (CIPE)

The Anticorruption Strategy unveiled today culminates a change in thinking that began fifteen years ago. Traditionally it was accepted in some economic circles that you needed grease to facilitate development, and in the World Bank and other institutions it was taboo to talk about "the c word." Daniel Kaufmann, one of the panelists here today, helped to debunk that idea through his work in the Ukraine and elsewhere, and Transparency International has successfully challenged the assumption that corruption was simply endemic in some places, and could never be dislodged. Today the world economic development culture

has changed, and corruption has become a big obstacle to international investment in many countries.

One important advance in the Strategy is that it discusses "state capture," or grand corruption, as well as low-level corruption. Another is that it moves from the traditional definition of corruption (the use of public office for private gain) to a broader one (the use of any *entrusted authority* for private gain).

Nancy Zucker Boswell
Managing Director, Transparency International (TI)

The anticorruption strategy demonstrates that we have made good progress since TI was formed in 1993, when no one would talk about corruption. TI's first task was to demonstrate that corruption was an economic problem, not just an issue of ethics, politics, or differing values. At the organization's inception, USAID was one of the only agencies to support an untested little NGO like TI in taking on such an unpopular challenge. Today 90% of USAID Missions see corruption as a key obstacle, and addressing corruption is not just a goal in its own right but an important part of reaching the goals of the MCA.

It's good that the Strategy acknowledges the need to keep learning, and includes a mechanism for doing so. Its focus on grand corruption and elites is also very timely. At TI's recent annual meeting the head of the Kenyan anticorruption effort talked about how entrenched were the interests he was up against, including whole networks of professionals, in the private sector and in government. Last week he resigned and left Kenya. Reformers taking on grand corruption face real dangers: they are smeared in the media, made the subject of lawsuits, and threatened with bodily harm. USAID must factor this into its strategies.

The Agency is in the lead with its Strategy, but it will take all the donors working together with a consistent message to secure the desired impact. TI co-sponsored a recent meeting with the Development Assistance Committee which identified important obstacles: competing political interests and reluctance to admit corruption exists. Better cooperation is needed in the G8 and among multilateral organizations. For one, in egregious situations, all donors should try to develop consistent reactions. Cooperation on preventive measures can also be effective. For example, currently the United States is the only country to include legal and regulatory transparency requirements in trade agreements. It would be helpful if the European Union and others did as well.

Other challenges include implementing preventive measures and building the political will to enforce anticorruption laws and prosecute people. The Strategy makes note of "asset recovery," a commitment from banking countries under the new UN Convention Against Corruption to help developing nations get their assets back. This removes a major incentive to kleptocracy at the outset. But some governments were reluctant to agree to binding UN Convention

requirements to implement strong preventive mechanisms that would keep the money from leaving in the first place. More should be done to strengthen local anticorruption systems and civil society and to require governments to make routine information, such as budgets, publicly available.

The report notes the increasingly important role of civil society in monitoring and promoting anti-corruption reforms. Nonetheless, to date, the resources committed to supporting local civil society groups and to enhancing their capacity has been inadequate to the task at hand.

More work is also needed in the private sector. Major multinationals and local businesses become a part of the problem when they pay bribes. A growing number of companies do want to do the right thing, but they need an environment that supports them. USAID needs to look at what it can do to support companies that work in the right way.

Kenneth Wollack
President, National Democratic Institute for International Affairs

In the past, the international community has focused on establishing regulatory frameworks, but on their own these will not reduce corruption. Political actors need to believe it is in their interest to adhere to the rules.

Corruption doesn't merely weaken a democracy. In fact, the condition of democracy in a given country will determine its ability to address corruption. The condition of a democracy depends on the prevalence of corruption. The least corrupt countries are generally the most democratic, and vice versa. That is not to say that democracy is a perfect insulator against corruption (as can be seen in Costa Rica) or that autocracies cannot fight corruption effectively (as can be seen in Singapore). But generally autocracies do foster corruption.

Democracies are generally more successful than autocracies at fighting corruption thanks to:

- Interparty competition: When political parties compete, they are more likely to monitor each others' behavior and can report them to the public through the free press. In Mexico, Ukraine, and Georgia, voter frustration with corruption led to a change in political leadership. Elite leaders realize that rivals will use their corrupt behavior to try to unseat them, and that the voters will withhold their support.

- Legitimacy of elected leaders and political institutions: These leaders and their parties, acting through the legislative process, must be relied on to develop solutions to corruption.

- Diffusion of power: Democratic governance allows laws to be debated and passed, exposes politicians through an independent media, and punishes them through an independent judiciary.

This means that, in some places, democratic reform must precede anticorruption efforts. If a regime is willing to steal or coerce an election, there will be little to prevent it from stealing money. In the past, the donor community often focused solely on building state institutions and civil society, thereby marginalizing political parties and parliaments. This has unintentionally weakened democratic institutions and led to the rise of populist leaders.

Neil Levine
Chief, Governance Division Office, DCHA, USAID

USAID has solicited a variety of opinions on its Anticorruption Strategy and will continue to do so during its dissemination and implementation. The Agency is pleased to be launching the Strategy before ACVFA, which represents a broad spectrum of opinion, and USAID's success in fighting corruption will be dependent on its partners' actions in their work with NGOs and other agencies. Development assistance programs in all areas need to take corruption into account in designing and implementing their programs.

Why is fighting corruption important? USAID believes it can get better development results if it addresses the problem of corruption, and corruption affects the poor most severely. But corruption also has a corrosive effect on democracy. "No problem does more to alienate citizens from their leaders," according to the USAID paper *Foreign Aid in the National Interest*. Often the threats in failing states can be traced to failures of governance and the prevalence of corruption.

USAID cannot know yet whether its efforts will make a difference. But, for the first time, the nation has commitment at the highest levels of government to take the problem head on. The most significant reform of foreign aid since the Marshall Plan, the MCA, sets anticorruption strategies as the center of its policy. As recently as a few years ago the United States did not deny visas for suspicion of participation in corruption. Today it does, and that has had a significant effect in specific cases in Latin America.

That new commitment has been expanded by multidonor action: the G8 Comprehensive Transparency Initiative focuses on transparency in the revenue and expenditures of governments, with a particular focus on extractive industries. This is a pilot effort in four countries—Nigeria, Peru, Nicaragua, and Georgia— and will likely be expanded to include other countries that have made a political commitment to fight corruption.

The Agency is now evaluating the threshold country programs undertaken under the MCA. The most compelling country approaches are those that take on a whole range of societal reforms and checks and balances. Access to information in particular is crucial. When institutions are weak, the first step to strengthening them is to make information available, convincing public officials that information is a public good that belongs to citizens.

Daniel Kaufmann
The World Bank Institute

The Strategy has several positive aspects in particular:
- Its focus not only on economic development but also on social and political issues, and the emphasis on how rampant corruption creates disillusionment with democracy. There are many more representative democracies in the world today than there were thirty years ago. But many of these are sliding toward becoming "managed democracies," largely in reaction to popular disillusionment.
- The treatment of both grand and administrative corruption.
- The commitment to link development aid with anticorruption programs. There is an absurd international argument over which is more important, increasing aid or reducing corruption. Obviously we need both: the rich world needs to be less stingy, but corruption also needs to be reduced.
- The discussion of the relative ineffectiveness of anticorruption commissions and national campaigns.

In the future, however, USAID might pay greater attention to the following:
- Country typology, so it is clearer which types of corruption are most prevalent under which forms of government.
- Localized knowledge. There is no substitute for work with local NGOs, and the Strategy does not yet make clear how the Agency plans to elicit information from its local partners.
- The power of data and diagnostics. A body of toolkits already exists for evaluating corruption, although each method needs to be adapted for each country.
- The use of overall indicators and data for planning an overall strategy. For example, in threshold countries, the MCA takes into account levels of corruption. But it is equally important to be aware of *trends* in levels of corruption.
- Leadership, especially bold leadership. When Mikhail Saakashvili, the new president of Georgia, took office he didn't merely reform the traffic police but abolished it. By contrast, we see what has happened lately in Kenya, where there is a lack of leadership.
- A second generation of transparency measures using the tools of the internet (e.g., Mexico's online procurements, or putting the assets, incomes, and voting records of politicians online).

- Top priorities. What are the top eight actions for the next year? How does one arrive at that list with the leadership of a country?

QUESTIONS AND ANSWERS

Ben Homan, ACVFA Member, asked what has allowed the anticorruption issue to gain traction over the last years.

Ms. Boswell replied that it was difficult to put her finger on specific events. Leaders at the top levels of government have slowly come around over the last twelve years, including many people in the current administration. James Wolfensohn of the World Bank has been an invaluable ally.

Mr. Sullivan asked what reaction TI had gotten to its *Bribe Payers Index*.

Ms. Boswell replied that when TI first developed its *Perception of Corruption Index* it wasn't sure it should even release it. But it got out anyway, and because it resonated with people it became a big story. Those in the developing world felt it was unfair to focus all the blame on them when bribe payers constituted half the crime. So TI developed that too, and is pushing for an international convention to make criminal the paying of bribes. It is important for the whole burden not to be on those in the developing world.

Frances Johnson asked for examples of countries with adequate financing, staff, and cooperation as opposed to those without.

Ms. Boswell replied that now that corruption issues have been brought into the open, TI is getting calls from many organizations asking for help in designing anticorruption strategies, especially in connection with tsunami relief. But it's difficult to do these assessments, and the resources required to do real oversight can vary dramatically.

For instance, TI is working with its chapters throughout the Americas to track how governments are progressing with their obligations under the Organization of American States' Inter-American Convention Against Corruption. This has been an opportunity to let citizens know how well their governments are keeping their promises, and has cost maybe $5,000. The *Bribe Payers Index*, on the other hand, cost hundreds of thousands of dollars.

Mr. Sullivan asked about the impact of the World Bank's publicly listing companies that engage in corrupt practices, and whether it would be worthwhile to convince G8 countries to do the same.

Mr. Kaufmann replied that while that list has been controversial, it has also been an extremely powerful tool. Today the World Bank has an investigative arm to look into corruption in Bank-funded projects, with an anonymous phone line and

investigation offices separate from the projects. If companies are found to be corrupt they are sanctioned. Separate from that, the Bank makes the list of sanctioned companies public, and in today's world the loss of reputation is extremely punitive. Many of the companies so listed have gone bankrupt or had to reinvent themselves. There are legal issues involved in this kind of listing, and fortunately the Bank has the resources to defend itself.

It is possible to get off the list, depending on the sentence and what practices a company engaged in. Some companies are listed for three years; others are there for life. The Bank is also considering making it possible for firms to report on their own past corruption in exchange for more lenient treatment, which would allow the Bank access to a lot more information.

Mr. Sullivan asked whether USAID had considered doing something similar.

Mr. Levine replied that it had not.

Ted Weihe, ACVFA Member, raised the issue of a "culture of corruption" and asked how it might be broken. In the USSR, for example, business was corrupt for generations.

Mr. Sullivan replied that many histories of corrupt systems—Enron and WorldCom, German construction companies, or Tammany Hall—show the same pattern: a taboo is broken, and then the problem is discussed openly. Years ago CIPE had a conference on "transaction costs" in Brazil, after being told that it couldn't have a conference on corruption there. By the middle of that conference the participants brought up corruption on their own. There isn't a culture in the world where the underlying societal values are accepting of corruption, and once people begin to demonstrate political leadership things do begin to change.

Mr. Wollack added that in Georgia, the first president after the fall of the Soviet Union understood early on that power should be diffused. Parliament had real power: it passed budgets, fired cabinet ministers, and drew strength from that political space. Ultimately that president, Eduard Shevardnadze, abandoned the young reformers, but because of that history these reformers had a chance to develop constituencies.

Electoral democracies do stand up better to corruption in general. Many of the countries Mr. Kaufmann referred to as "electoral democracies" are not democracies at all. The regimes in Central Asia and the Caucasus hold elections, but these are sham elections.

Mr. Kaufmann remarked that it would be interesting to know how NDI might rate democracies, because it would be valuable to be able to categorize democracies quantitatively. Culture is too often used as an excuse. Incentives will drive culture. Investors used to believe Chile's culture made it impossible to develop.

The World Bank said the same thing in its first report on Japan. Cultures can change very quickly once leadership is in place and the incentives are right.

Mr. Wollack added that democratic change can come quickly — from a fraudulent election one month to a legitimate one the next. Georgia and Ukraine are recent examples. Autocratic leaders like to argue that change needs to be gradual, but the real issue is political will to do what is right.

USAID'S NEW GLOBAL BRANDING AND CHANGES TO MARKING POLICY

Joanne Giordano, *Senior Advisor to the Administrator, USAID*

Last year the U.S. government spent $14 billion through USAID alone for foreign assistance, and people in countries receiving the aid do not even know that the assistance is from the United States.

As part of the remedy, USAID has launched a global branding campaign and is now requiring a consistent visual identity. Today the Agency's communications are managed by thousands of contractors around the world with very little guidance and no consistency.

That's why the Agency has created a *Graphic Standards Manual*, which sets compulsory guidelines for all communications produced by employees and Agency contractors. It applies to programs, projects, activities, and communications funded entirely by USAID. Communications funded only in part by USAID, through cooperative agreements, will be co-branded under regulations to be spelled out under the *Partner Branding Guide*, currently being reviewed and revised and slated for release by summer 2005.

The *Graphic Standards Manual* includes the following changes:
- Updated the logo to improve reproduction and readability by changing to a sans serif typeface, repositioning the Agency's name for right reading, and redrawing the handclasp.
- Added a brand name, USAID, as a graphic representation of U.S. foreign assistance, symbolizing that the aid is from the United States, as distinct from other sources.
- Added a tagline: "From the American People." This communicates clearly the message that U.S. aid is funded by U.S. taxpayers, as a gesture of U.S. citizens, and in the U.S. interest. (In Latin America the translation will be "From the People of the United States of America" to distinguish the source from other American nations.)

This standard graphic identity is designed to work together as a unit, and must be used consistently and persistently to gain traction. The brand (USAID) will from now on be the primary identifier; the Agency name (U.S. Agency for International Development) will be secondary, and placed only on the back of publications.

The USAID identity is available in full color, two colors (red and blue), or black only, and in horizontal and vertical arrangements. No other color combinations or orientations are permissible.

Mission directors are currently authorized to provide waivers from marking requirements for contractors, and similarly will be able to grant waivers from branding requirements for grantees. For example, election materials or items produced directly for government ministries may not be appropriate for branding. For security reasons the goal is to mark projects and programs, not people or buildings. Branding will be addressed on a case-by-case basis, which will require thoughtful judgment.

There will be sub-brands for countries and places that receive U.S. assistance, for example, USAID│JORDAN. Nothing else can be used as an extension of the identity—bureaus, programs, and offices are presented as headlines or text, not sub-brands. The country name and tagline can be translated, but a single translation should then be used consistently.

The *Graphic Standards Manual* is raising standards for all communications from the agency and its contractors:
- The brand identity will always appear on the top left, in a white field.
- A single, powerful image is strongly encouraged for the cover.
- Publications may be printed using full color, two colors (USAID blue and red) or black only.
- A standard palette with primary and secondary colors must be followed; other colors should be introduced through the use of photographs.
- Within these guidelines, communications should be customized to reflect local culture.
- Gill Sans is the family type font for professionally printed publications; Arial can be used for desktop publishing.

These and other guidelines and templates for graphic designers are available at the Agency website (www.usaid.gov/branding).

Special guidance is included for contractors. Publications not authored by USAID must have a cover note and a disclaimer. Contractors must seek approval to use a USAID identity on business cards or letterhead, and then they may do so only within certain guidelines: they must identify themselves as "USAID Contractors," and may not claim status as U.S. government employees.

The Agency also has a new standard for plaques and project signs. These must now demonstrate partnership by using the U.S. and host-country flags and messages in both English and local languages. Contractors can be included at the bottom if appropriate.

Program materials, however, do not need to follow brand standards for color or font. The brand identity should be included at the bottom or where appropriate. Separate program logos should be used minimally if at all.

It will take some time to get all of this done. The agency is simply requiring that it be done "with all reasonable dispatch." Contractors and Missions can use up supplies of old stickers, letterhead, etc., as the Agency would like to avoid spending a lot of money on this effort. In fact, so far it has invested very little—only $100,000—on developing the brand identity and the manual. This cost also includes producing the *Partner Branding Guide* and a series of communications templates.

USAID MARKING INITIATIVE: THE LEGAL FRAMEWORK

John Niemeyer
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Marking is required in USAID's framework legislation: the 1961 Foreign Assistance Act (FAA), Section 641, requires all overseas programs be identified as American Aid. USAID's new standard graphic identity, with the tagline "From the American People," accomplishes this quite literally.

Current regulations (AIDAR 752.7009) and Agency policy (ADS 320) require marking by contractors, and USAID is requiring contractors to follow new branding guidelines "with all reasonable dispatch." There is no marking requirement in current regulations (22 CFR Part 226) or Agency policy (ADS 320) that covers administration of grants and cooperative agreements.

USAID issued a notice of proposed rulemaking (a draft rule) in the *Federal Register*, December 20, 2004. The proposed rule amends 22 CFR Part 226 to require marking by recipients of grants and participators in cooperative agreements. The period for public comment closed February 3, 2005. USAID received just over forty comments.

USAID is currently reviewing those comments as part of the process of preparing a final rule, which will include further explanations of the Agency's decisions. During the review, USAID is required to prohibit so-called ex parte contacts—discussions with non-Agency personnel on the substance of the rule under deliberation—in order to protect the integrity of the rulemaking process, especially the principle that the final rule, if any, will be based only on Agency expertise and public comments.

COMMENTS

Eric Walker of the Association of PVO Financial Managers (APVOFM) commented that his members are those who have to deal with auditors when

they come in and "ding" their organizations for not being in compliance. And not having the proposed regulations leaves them in a difficult void: even though the proposed rule is not yet official, he fears auditors are likely to use the next closest basis for comparison, the new *Graphic Standards Manual*. APVOFM further requests that USAID put waiver authority even closer to the field than the Mission office, perhaps to the Agreement Officer. They are warranted and have a lot of authority, issuing letters for every award that give specific guidance to Cognizant Technical Officers (CTOs) under assistance instruments. Discussion of branding could be included nicely in those letters. Third, APVOFM would like a discussion of marking and branding included in the Request for Application (RFA) process, because waivers take time and some groups might be better off not working with USAID at all on some projects should the branding requirements be too onerous.

Mr. Niemeyer expressed sympathy for those "dinged by auditors." The Agency is working with the IG up front to avoid such problems, perhaps by developing a checklist for CTOs and IG offices.

The idea of including a discussion of branding in the RFA process is an interesting one, but may be at variance with the goal of granting waivers at a local level, based on the best, newest local information. An RFA may come out six months to a year before a program starts, during which time a local security situation might change.

Mr. Walker responded that under OMB 133, most private voluntary organizations (PVOs) are audited routinely by auditors outside the U.S. government. A compliance guide for A133 auditors would therefore also be of great help.

Ms. Giordano emphasized that the process is meant to be cooperative and judgment calls will be needed for each program or project. A hospital, for instance, could be "branded" with as little as a plaque on an inside wall—the Agency is not going to require a sticker on every scalpel. It will work with its partners to get the right balance.

Mr. Niemeyer added that once an award is made, the awardees' representative, the CTO, and the Agreements Officer (or the Contracts Officer) will meet to arrange the details of the branding. The rule is drafted as it is now because the drafters felt the CTO would be in a position to have the most up-to-date information. The Agency is trying to err on the side of safety. As the process is now envisioned, it is through the initial consultation when the award is made and through the consultation with the Mission Director and the Diplomatic Security Officer that the Agency will really get the best information possible.

Mr. Walker applauded the cooperative approach and spirit, but added that "compliance geeks" want to see something in writing.

Mary McClymont, ACVFA Member, underscored the need for a consultative mechanism rather than a rule, because the exceptions may ultimately outnumber the rule itself. Unless USAID's partners can see the whole package at once, it is difficult to know what the Agency wants. At this meeting USAID says there will be consultation in each case, and that is reassuring, but it is in conflict with the proposed rule itself, which is very specific that if USAID provides X amount of the funding, Y amount of the result will be marked. The proposed rule also suggests that everything will be marked, in contrast to what Ms. Giordano just said. Branding shouldn't override legitimate aid objectives, as in materials for democracy promotion, as mentioned earlier. InterAction and others in attendance would like another opportunity to comment on the rule, taking into account these new things they heard today.

Mr. Niemeyer replied that USAID needs to proceed with creating a general regulation and a mechanism for exceptions. The waivers should provide flexibility.

Ms. Giordano added that the Agency will detail practical examples in the *Partner Branding Guide*. It is in the move from broad policy to specific practices that flexibility and cooperation will enter.

Traer Sunley, Communications Vice President of Pact, asked whether the *Partner Branding Guide* will be a part of the final rule, and whether it too would go through a comment period.

Mr. Niemeyer replied that the *Branding Guide* will be outside the rule. The Agency is allowing public comment on the "what," but the agency will decide the "how."

Ms. Giordano added that the funding agreement will ultimately determine actual practice by requiring adherence to the standards in the *Partner Branding Guide*.

Ted Weihe, ACVFA Member, commented that it was understandable that the Agency does not wish to begin general rulemaking with exceptions, and added that it made sense to exclude contractor brands. But perhaps there are categories that shouldn't be excluded from branding prior to a negotiated exception. For instance, no democracy programs should be branded, and neither should human rights programs, or if they are branded it should be by exception.

Mr. Niemeyer replied that the Agency has received other comments to that effect and is looking at the issue. The waiver authority included in the rule is very broad, not just applicable by country but also sector and program.

A participant suggested that the same kind of exception be applied to social marketing and items. For example, in a Muslim country where USAID and its

partners are trying to prevent the spread of AIDS, putting the USAID brand on every condom would be counterproductive.

Melanie Chen of CARE commented that while it is important to make it clear that resources are coming from the American people, this must be accomplished safely, fairly, and effectively. What was said today was reassuring, but very different from the text of the rule itself. CARE and others would appreciate the opportunity to review the rule again; although this might make it more difficult for USAID, a further review would help the Agency's partners continue to feel that they were just that, partners, rather than feeling that something's being thrust upon them.

Stephen Moseley, ACVFA Member commented that USAID's ability to deliver the best assistance programs in the world rests on both NGOs and contractors, and that the Agency should keep in mind that its high-quality aid reflects not just a government program but the partnership of people in the United States. Contractors, too, are proud to be associated with USAID, and the Agency should take this opportunity to motivate them to be associated with its brand. USAID contractors make the lowest profit margin of any government contractors, and the Agency should not alienate them by making them feel they are not partners as well. The logo itself is not a problem, but contractors don't want to feel that USAID is restricting the range of their creativity.

Margaret Goodman of World Learning commented that there is a danger in relying too heavily on waivers: people are sometimes scared to exercise their authority to grant them, even in situations where they are supposed to. A structure has to be in place to encourage people to use that authority.

Mr. Niemeyer replied that the Agency will direct USAID personnel implementing marking requirements to err on the side of safety.

David Lovo of the Department of Agriculture asked how specific the branding policy will be with respect to food packaging.

Mr. Niemeyer replied that the Agency is developing a separate set of regulations for the Freedom Food Program, informed by the results of the current rulemaking process. The contracts there will have exclusions for products it doesn't make sense to mark, such as commodities, condoms, and perishable goods.

Ms. McClymont mentioned a proposal InterAction made for a general blanket waiver that could be extended for security reasons, separate from any specific waivers. For instance, that branding requirements be waived in any places where employees collect danger pay. She also asked about the timing of the final rule, noting that many participants had asked for the opportunity to comment again.

Mr. Niemeyer replied that the schedule has not yet been finalized.

William Reese, ACVFA Chair, said he was reminded of the serious work ACVFA did around issues of procurement and travel regulations. To drive recommendations through to effective change takes solid implementation and often behavior change; in that spirit, the training of CTOs will be hugely important to the success of this endeavor. Concerns about compliance control are well founded, as many auditors care little for mitigating circumstances, and a lot of people could end up getting in trouble or at least being made to look bad. Waivers can also be problematic, because, first, an organization asking for one may look like it is trying to evade the requirement, and second, they can take a long time to grant. A program may be well underway by the time a waiver comes through.

It is important for USAID to have the most effective partnerships possible, and that requires effective consultation. The PVO, NGO, and contractor communities often have communications specialists far more knowledgeable and experienced than those in government, because they deal with branding issues with the media and large corporate partnerships. They should be part of the solution rather than simply be asking for waivers.

Ms. Giordano reiterated that she will not be able to create the *Partner Branding Guide* without the cooperation of the partners.