

ADVISORY COMMITTEE ON VOLUNTARY FOREIGN AID

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OPENING REMARKS

Dr. John Sullivan, ACVFA Chairman, welcomed attendees and outlined the day's agenda. In particular he welcomed the new members of ACVFA: **Ritu Sharma Fox**, President, Women's Edge; **Nancy Lindborg**, President, Mercy Corps; **Constantine Triantafilou**, Executive Director and CEO, International Orthodox Christian Charities; **Aaron Williams**, Vice President for International Business Development, RTI International; and **Sam Worthington**, President and CEO, InterAction.

GLOBAL DEVELOPMENT ALLIANCE: LESSONS LEARNED AND THE WAY FORWARD

Daniel Runde, *Director, Global Development Alliance Initiative, USAID*

In the 1970s about 70 percent of the aid provided by the United States was official development assistance (ODA) and the rest came from other sources: private philanthropy, remittances, etc. By the 1990s that ratio had flipped: only 15 percent of U.S. aid to other countries originated with the government, 25 percent was remittances, and the rest was a combination of philanthropy and especially foreign direct investment—corporate involvement in developing countries. USAID recognized this shift and began to consider how it could work with all these communities—philanthropic, faith, and corporate.

The creation of the Global Development Alliance (GDA) initiative represented a formal commitment to work more closely with corporations and philanthropies to take advantage of their reach, buying power, and supply chains. USAID has undertaken such efforts on an ad hoc basis for forty years, but GDA focuses new attention and resources on the method. Initially there were doubts within USAID and in the nongovernmental organization (NGO) community about whether the Agency should focus so much on corporate partners. In particular, there were fears that the United States was trying to dodge its ODA commitments. Over time it became obvious, however, that these fears were unfounded. Today, the idea of working with all available actors to solve problems has found mainstream acceptance.

Many of the private voluntary organizations (PVOs) in the audience helped assemble the deals and projects that have changed people's minds—because what changes minds is seeing success at the field level. Through GDA, USAID has built 400 public/private alliances and invested \$1.4 billion in them, attracting \$4.7 billion in cash and in-kind investments from corporations, philanthropies, and other donors.

As important has been the organizational change within USAID. GDA has conducted forty workshops and trained 1,200 USAID staff members around the world (of 8,000 total) in techniques for public-private alliances. Alliance-building is now included in the foreign-service precepts, meaning that for the last two years promotions in foreign service have taken note of success in building public-private alliances. USAID has staff dedicated to alliance building in five regions of the world and will add a sixth office soon. Finally, through GDA, companies and philanthropies have a single point of contact in dealing with the Agency.

Thanks to GDA, USAID has been a finalist for Harvard University's Innovations in American Government Award, the first time a foreign-service agency has placed so high, and last year GDA earned USAID the first ever Lewis and Clark Award for Innovation in Collaborative Governance from the John F. Kennedy School of Government. Representatives of many other nations now come to USAID to learn from the GDA example.

An example of the power of this approach can be found in the work GDA has done in Rwanda with Starbucks. In 2000, Rwanda had no quality-coffee industry. GDA funded an initiative to connect small farmers in Rwanda with the Starbucks supply chain, which has doubled the income of 40,000 people.

GLOBAL DEVELOPMENT ALLIANCE PANEL DISCUSSION

Moderator: British Robinson, *Director of Public-Private Partnerships, Office of the U.S. Global AIDS Coordinator, U.S. Department of State*

GDA has been a model for the President's Emergency Plan for AIDS Relief (PEPFAR). It set such a strong example that Congress required the U.S. Global AIDS Coordinator to establish an Office of Public-Private Partnerships, which has led in turn to two joint efforts: an effort with the Case Foundation to bring clean water to ten sub-Saharan African countries by 2010 and an incubator project with the Nike Corporation using sports for development in Kenya, Tanzania, and Uganda.

William Reese, *ACVFA Member and President and CEO of the International Youth Foundation*

The program "entra21" combines public- and private-sector investments to help young people prepare to enter the twenty-first-century job market. The goal is to improve the employability of Latin American and Caribbean youth through innovative education strategies, life skills, information technology training, and job placement, looking beyond the first job to a whole career. The program focuses on disadvantaged youth aged 16 to 29 and aims for an equal mix of young men and women.

The first step was labor-market studies to identify sectors of job growth. Training includes both information-technology (IT) skills, which are broadly applicable across all areas of the economy, and life or “soft” skills, such as showing up on time, dressing properly, and working in teams. Participating companies offer internships and job placement to graduates.

Local NGOs implemented the projects. The International Youth Foundation (IYF) made grants to support those projects and provided technical assistance to improve them. Ultimately thirty-five projects were funded in eighteen countries, each of which defrayed at least 20 percent of the project costs. Monitoring and evaluation were conducted by a labor economist from the Inter-American Development Bank (IDB), and the evaluation results were used in part to inform future projects and open new policy dialogues.

In every one of its evaluation categories, entra21 exceeded its original goals:

ORIGINAL TARGETS	ACCOMPLISHMENTS
\$23.75 million total investment	\$29.2 million invested
12,000 youth enter program	19,332 youth trained
20 percent dropout rate	10 to 15 percent dropped out
40 percent placement rate	51 percent placed
Even gender balance	55 percent of beneficiaries were female
High reenrollment rate	22 percent reentered school
High employer satisfaction	92 percent satisfaction with interns

Investors included:

- The Multilateral Investment Fund of IDB
- USAID
- The municipality of Medellín
- The Brazilian ministry of tourism
- Nokia
- Microsoft
- Merrill Lynch
- Lucent Technologies Foundation
- Nike
- Chevron
- Compañeros de las Americas
- Counterpart
- Gap, Inc.
- Pan American Development Foundation
- Telefonica Chile

USAID's participation was very important. The \$3 million from GDA was a vital seed investment that led to many more. USAID missions in Nicaragua, Colombia, Brazil, and Guatemala invested another \$1.4 million.

IYF has learned that efforts with multiple stakeholders, while rewarding, can be complicated to manage. In particular, issues of branding and marking can be very challenging. Managing efforts across several countries adds another layer of complexity but allows for richer policy discussions based on the successes or failures of different methods attempted in different locations. Corporations learned to deal with USAID better, USAID learned to work better with corporations, and the same was true between corporations and NGOs. IYF publishes a series called *What Works* to communicate these lessons more broadly.

The global cohort of those now 15 to 25 years old is the largest in history. Accordingly, the World Bank's 2007 Development Report is subtitled *Development in the Next Generation*, focused on integrating these young people into the economy and into stable, democratic societies. That report cites entra21 as a proven, best-practices program, even though the World Bank was not an entra21 investor. The World Bank has also issued a paper in its *Youth Notes* series on entra21.

Philip Henderson, Vice President of the German Marshall Fund

The thirty-four-year-old German Marshall Fund is a product of a gift from the German government on the twenty-fifth anniversary of the Marshall Plan. Its intent is to continue to foster transatlantic cooperation in the spirit of the Marshall Plan. Much of the German Marshall Fund's recent work has aimed at helping those European countries that had been excluded from the world economy to become a part of the transatlantic partnership: first the central European countries, then those in the Balkans, and now those around the Black Sea. These efforts include a family of partnerships with USAID, facilitated through GDA.

The first of these partnerships was called the Balkan Trust for Democracy, based in Belgrade. It started simply: the German Marshall Fund wanted to make available a pool of money to help Balkan nations transition to being strong partners of the United States. USAID was interested in the idea, as was the Charles Stewart Mott Foundation. After a three-year process of working out the details the group established an initiative that has since been joined by the Netherlands, Greece, Sweden, and two private European foundations, growing the pool of funds from an initial \$25 million to now more than \$35 million.

Since that success the German Marshall Fund and the U.S. government have started a new initiative called the Fund for Belarus Democracy, since joined by Sweden and the Bradley Foundation. The next effort will be the Black Sea Trust, to be based in Bucharest in a building donated by the Romanian government. The German Marshall

Fund fully expects to draw many partners to this new project as well. Everyone is looking for a good way to do good work, and there are surprisingly few new, exciting methods out there.

Partnerships provide a number of important benefits:

- They combine cash from several entities, no one of which could provide enough to make the difference all wish for.
- They combine good ideas from many sources and provide fertile ground for discussion.
- They make it possible for the joint effort to profit from the separate credibility and constituency of each partner institution.
- They provide a test market for ideas. The German Marshall Fund knows its plans are good and solid if other organizations are willing to join; conversely, if no one else is willing to join, it knows that perhaps it needs to rethink its approach.

The German Marshall Fund has learned a great deal over the last few years. First, its view of USAID as a partner has evolved. USAID brings institutional heft: it is a big organization with many field offices. This can be a blessing, because USAID has solid information about conditions in the field. It can also be difficult, however, to deal with all those local offices. It is much easier when USAID provides a single point of contact. For its part, the German Marshall Fund offers speed, flexibility, and the use of its own networks, different from any USAID can employ.

Alliances require great patience. Those involved must be prepared for considerable negotiation over working details. This is not easy for a private institution. It took three years to launch the Balkan Trust for Democracy, and the Black Sea Trust will take a similar amount of time. That is a very long incubation time for the German Marshall Fund, which is used to conceiving of programs and issuing grants within three months.

For its part, in the last few years USAID has begun to grow more flexible. When the German Marshall Fund began working with USAID, GDA did not exist. The only mechanisms USAID had its disposal were those developed for grantee relationships, and those were not flexible enough for true partnerships. USAID had to realize that an institution investing its own money could not be treated the same way as one merely implementing USAID policy.

Tam Robert Nguyen, *Policy Advisor for Corporate Responsibility and Global Issues, Chevron*

Facilitated by GDA, Chevron has now worked in partnership with USAID on three programs:

- The Angola Partnership Initiative, which combines \$25 million each from USAID and Chevron over five years
- Post-tsunami relief and reconstruction in Indonesia, which combined \$5 million each from USAID and Chevron

- An effort currently under negotiation in Guatemala

The common denominator of these programs from Chevron's point of view is that they build local economies and improve the environment where Chevron operates.

These experiences have led to four key lessons:

- Engage early to define and develop projects, securing consistent commitment and support from the highest levels at headquarters and from those in the field.
- Take time to learn partners' internal structures, because they can be very different, both the business processes and the politics involved. Know each others' priorities and what each partner wishes to avoid from the very beginning. Chevron and USAID both have goals on which they will not compromise.
- Identify and work with internal champions, those committed to moving the project forward through different cycles. Each project passes through cycles within Chevron and within USAID, and getting these aligned takes work.
- Be transparent and flexible in order to break conceptual barriers, and then try to break internal ones. These will be incremental steps.

On the whole, Chevron's experience with GDA has been positive, not only leading to better projects on the ground but enhancing Chevron's own organizational capabilities. Chevron can plan, design, and implement community-development projects in new ways, and do it better than ever before. Strategically, Chevron began working with USAID at a time when it was engaged internally in rethinking its philosophy of community development. Its partnership with USAID has helped validate its new focus on building local economic systems rather than offering charity—an important result for Chevron's shareholders, employees, management, external stakeholders, and business partners. At a tactical level, Chevron is now better staffed, with more resources available and more confidence not only to develop projects but to select the right partners for implementation.

Questions and Answers

Michael Nyenhuis, ACVFA Member, asked about the role of the corporations participating in entra21.

Mr. Reese said that while corporations did not help in the initial design of entra21, those involved in that design knew that companies would have to be recruited. Corporations invested in countries that were of interest to them, at which point IYF discussed with them what kinds of projects they were interested in and what kind of internships and mentoring they would offer. Now, however, those corporations are helping to plan the next five-year phase of the program.

Mr. Runde added that it was important to attract corporations not merely to gain their investment but also to gain access to their up-to-date IT training curricula and offer possible internships or jobs as incentives to participants.

Sam Worthington, ACVFA Member, noted that many of the lessons of these projects were applicable to any type of partnership. He asked how GDA was helping to apply these lessons broadly.

Mr. Runde said that GDA aims to expose as many people as possible to the lessons it learns. It has both an internal newsletter and an external one. To subscribe to the external newsletter, visit www.usaid.gov/gda.

Mr. Henderson added that GDA is merely the tool that allows the German Marshall Fund and others on the panel to develop relationships with other parts of USAID or of the U.S. government. GDA is the single point of contact whose primary function is to spread the idea of working in partnerships and methods for doing so.

John Sullivan, ACVFA Chairman, asked whether GDA planned to build more robust knowledge-management systems, surveying all of its partnerships to distill the core management principles involved.

Mr. Runde said that GDA recently issued a report entitled *Public-Private Alliances for Transformational Development* (available at www.usaid.gov/gda) that includes twenty-two case studies of GDA's work with various companies. GDA also keeps an internal database. Other bureaus in the U.S. government have expressed strong interest in its work. GDA has published one article detailing some of its findings in the *OECD Observer* (a publication of the Organisation for Economic Co-operation and Development) and another in *The Public Manager* about relationships and organizational change (available at www.usaid.gov/gda).

Mr. Reese added that one proof of ideas' worthiness comes when they are absorbed into public discourse. Today several of the world's leading business and public-policy graduate schools offer courses on partnerships, which was not the case ten years ago.

Kenneth Wollack, ACVFA Member, asked whether GDA had considered extending its work to include public-public partnerships of several aid agencies.

Mr. Runde said that there are examples, most notably the \$60 million commitment of the Clinton Global Initiative, which takes in pledges from the U.S. government, Germany, and several private philanthropies.

Rabia Mathai of the Catholic Medical Mission Board thanked IYF for its work with entra21 and asked that HIV/AIDS prevention be made a part of the effort's next phase.

Mr. Reese said that in fact entra21 already includes twenty hours of HIV/AIDS prevention in all of its training programs.

Christine Morfit of Higher Education for Development (HED) asked about the difference between a “partnership” and an “alliance.” She noted that her organization has long built “partnerships” with Mexican universities, especially through the TIES program. Yet HED often now hears that TIES is in fact an “alliance” of the GDA model.

Mr. Runde said that there are several key elements to an “alliance”:

- Joint design and planning
- Shared risks and rewards
- Combined resources
- Innovative methods

By that definition, HED’s TIES program is an alliance. It is an example where universities have brought together many partners. Seven hundred Mexicans will train at community colleges in the United States through the program, and many Mexican companies that wanted people to get that education supported the effort.

Will Elliott of Crown Agents asked whether the Overseas Private Investment Corporation (OPIC) has been involved in any GDA activities.

Mr. Runde said that GDA has done innovative work with OPIC in Zambia, where credit guarantees from OPIC and USAID’s Development Credit Authority (DCA) were combined with grant funds to build housing. In general, GDA sees opportunities for partnerships with OPIC in the housing, small-business, and financial-services sectors.

A participant asked about Chevron’s philosophy of development now that it has moved away from a charitable model, in particular how it conceives of return on investment.

Mr. Nguyen said that measuring return is difficult. Chevron is using methods developed by USAID and other philanthropies, selecting those appropriate for its purposes. For example, if Chevron builds a school, it would like to know how many students are entering, staying in, and getting jobs. In addition, it has measurements that it uses internally with its board members and shareholders. Chevron isn’t the only company moving away from a charitable model. Many other companies are also moving toward a model of strategic community investment and local systems building, especially in the extractive industries.

USAID IN AFGHANISTAN

James Kunder, *Acting Deputy Administrator, USAID*

Five important points to understand about the current situation in Afghanistan:

1. The security situation is deteriorating. As the news media have reported, the number of attacks is rising, and many believe the violence will surge yet more after the spring thaw.
2. Public confidence in the current government is also deteriorating, as shown by polls. This is related to the deteriorating security situation as well as frustration with the slower-than-hoped pace of reconstruction. Most people remain hopeful, but their expectations were perhaps unrealistic and in any case have not been met.
3. Economic growth has been strong, especially in Kabul where a new industrial park just opened, home to thirty-four new businesses already in operation or just getting underway. Business investors have shown confidence that Afghanistan's security problems are not insurmountable: no one starts a business or invests in one when he or she has substantial fears about security. Another industrial park will open soon in Kandahar.

In general the licit economy continues to outperform the opium poppy economy, making opium production a shrinking part of the overall economy. Although poppy production continues to increase, USAID is less concerned than before that Afghanistan will devolve into a narcotics-based economy and state, though concerns remain about the effects of widespread criminality on the polity.

4. Democracy is thriving. The Karzai government has received criticism, but criticism is possible largely because Afghanistan has a vibrant, multiparty parliament, which recently completed the first-ever compilation of Afghan law.
5. PVO-military relations seem to be going well overall, bumps notwithstanding. Each side has a mature understanding of the role the other plays and respects it, despite the problems there have been. This relationship requires constant upkeep in part because new military units are routinely rotated into the country. But the military does understand at its highest levels that the work of the PVO community is ultimately what will undermine the insurgency.

In summary, the picture is mixed but hopeful. The United States' commitment will continue to be substantial. It will be a tough fight and a surge in violence is likely to come this summer, in part directed at PVO efforts because the insurgents understand that PVO efforts are vitally important.

Questions and Answers

John Sullivan, ACVFA Chair, noted that newspapers have reported that the Taliban has returned to Afghanistan's southern provinces and in some places taken control. He asked what was responsible for this change.

Mr. Kunder said that the answer had many layers. One layer relates to the reaction of an isolated society against modernization or Westernization. In some isolated valleys where USAID is building girls' schools, conservative elements simply do not welcome them. In a second layer, people with an ideological agenda prey upon that reaction. Third, some forces have crossed the border from Pakistan. Fourth, some forces are remnant elements of the Taliban. Fifth, there are tribal, ethnic, and regional tensions at work, as many Pashtuns in the south worry about other groups dominating the government. There are also tribal conflicts among Pashtuns. Finally, military occupation always provokes a reaction.

Michael Nyenhuis, ACVFA Member, asked whether economic growth was reaching all levels of society or whether it was primarily an upper-class phenomenon.

Mr. Kunder said that the economic growth will take some time to trickle down. USAID does not anticipate a transformation of the primarily agricultural economy any time soon. But light-manufacturing investment has the potential to create substantial numbers of full-time jobs. USAID's emphasis on electrical supply and road building represents an attempt to attract investment by supplying the basic infrastructure that the private sector needs. This is not uncontroversial: some would recommend a focus on schools, hospitals, and the like.

Nancy Lindborg, ACVFA Member, asked if there were any updates on a renewed effort to attract commitments from additional donors.

Mr. Kunder said that the first step was to receive payment on existing, outstanding commitments, and the U.S. government was working on that diplomatically. After those are paid, the international community continues to have a strong interest in Afghanistan and there are possibilities for future investments.

Catherine Schenck-Yglesias of USAID's Global Health Bureau asked whether there was a role for diplomacy in dealing with the Taliban or some of the other insurgent forces, or whether they were not organized enough to negotiate with.

Mr. Kunder said that there is a vigorous debate within Afghan society about how to reintegrate armed elements into society, preeminently but not exclusively the Taliban. The diplomatic community is playing a role in that discussion. There are also bilateral negotiations to facilitate: Afghans tend to view the violence as a problem arising from Pakistan, and vice versa. President Bush recently held a meeting with presidents Hamid Karzai and Pervez Musharraf to begin to deal with those issues. Finally, there are regional diplomatic issues of interest as, for example, USAID aims to bring electrical power to Afghanistan from Central Asia.

U.S. FOREIGN ASSISTANCE BUDGET

Dirk Dijkerman, *Chief Operating Officer, Office of the Director of U.S. Foreign Assistance, U.S. Department of State*

At the last ACVFA public meeting, Mr. Dijkerman reviewed some of the new processes being adopted for the foreign-assistance budget. Today, the Office of the Director of U.S. Foreign Assistance is about to begin reviewing the FY2007 Operational Plans prepared by embassies and USAID missions.

The FY2008 budget was prepared according to six principles:

- Integrate planning based on the totality of U.S. government assistance
- Achieve the greatest possible progress in each country by integrating with and complementing the activities of host governments and other donors
- Focus resources on countries and states critical to regional stability and prosperity
- Focus on demand-driven interventions
- Allocate funds intended for country programs to country-level budgets
- Match funding accounts to country circumstances and intent they are designed to address

The Secretary of State wanted the budget to include as full a picture as possible of all U.S. foreign-assistance activities in each country. The FY2008 Congressional Budget Justification (CBJ) therefore includes analysis in the introduction of projected FY2008 Millennium Challenge Corporation (MCC) disbursements. The overall foreign assistance budget declined slightly from \$17.7 billion in FY2006 to an estimated \$15.8 billion in FY2007 (not counting supplemental appropriations, which could be as high as \$4 billion), but the FY2008 request asks for an increase to \$20.7 billion. At 12 percent this is the single greatest percentage increase of any U.S. agency, in a year when funding for many agencies actually decreases in the administration's budget request. (All comparisons are to FY2006 because at the time the FY2008 budget was prepared, FY2007 appropriation had not been passed.)

In the FY2008 budget request, about 68 percent of total foreign-assistance money goes to thirty countries receiving large or very large amounts of funds, including 36 percent to six countries receiving very large amounts. These programs include longstanding commitments to Israel and Egypt, and also large commitments to Afghanistan, Pakistan, and Sudan. Some other large recipients are PEPFAR focus countries. This represents a modest increase over FY2006, when large and very large recipients received 55 percent of all funds.

The overall goal of the FY 2008 process was to write a budget that helps countries achieve the transformational diplomacy goal. One of the initial fears many had was that in the process, the immediate political priorities of the State Department would outweigh the long-term development priorities of USAID, resulting in a concentration of assistance in peace and security programs. In fact, however, from FY2006 to FY2008 the assistance concentrated in the middle three objectives (Investing in People,

Economic Growth, and Governing Justly and Democratically) increased from 51 percent to 57 percent, a reflection of where country teams agreed resources would be best spent to advance toward the overall goal. Most of the increase in Investing in People is accounted for by PEPFAR, and some of the increase in Economic Growth reflects growth in the MCC.

The bulk of foreign assistance remains concentrated in the Rebuilding and Developing country categories, which together account for over 50 percent of U.S. foreign aid. All country categories receive increased aid, however, with the exception of regional programs, due to the choice to focus resources intended for countries into bilateral budgets.

In the Rebuilding country category, the funding allotted to Peace and Security declined from 40 percent in FY2006 to 35 percent in FY2008. The amount for Governing Justly and Democratically, Economic Growth, and Investing in People all increased slightly. The largest increase came in Governing Justly and Democratically, reflecting a renewed effort to work through local and provincial governments. Details in the CBJ (available online at www.state.gov/f) reveal substantial investment in infrastructure within Economic Growth.

In the Developing country category, between the FY2006 and FY2008 budgets there was an increased concentration in Investing in People in particular, from 30 percent to 44 percent, partly reflecting the increased activity of PEPFAR. Meanwhile investment in Economic Growth declined slightly from 21 percent to 17 percent. Details in the CBJ reveal that this decline is largely accounted for by the continuing “glide path” reduction in aid to Egypt and Israel, both of which invested heavily in economic-growth activities in FY2006. The amount going to Peace and Security remains high at 35 percent, but much of that is accounted for by aid to countries such as Egypt and Pakistan that are both in the Developing country category and partners in the Global War on Terror, along with focused counterdrug assistance to certain countries in Latin America.

In the Transforming country category, allotments are again close to expectations. Investing in People declined from 56 percent to 49 percent of the budget, while Economic Growth went from 19 percent to 40 percent. The bulk of that change is accounted for by increased MCC disbursements, from \$32 million in FY2006 to roughly \$880 million in FY2008.

In the Sustaining Partnerships category, the only surprise is that 21 percent of funds are allotted to Investing in People, up from 9 percent in FY2006. This is entirely due to the HIV/AIDS program in South Africa, whose budget under PEPFAR is requested to be \$550 million.

The budget request includes a significant increase in aid to Africa, reflecting the President’s stated desire to double aid to Africa over ten years. There are modest increases in aid to East Asia and the Pacific, South and Central Asia, the Near East,

and the Western Hemisphere, and a modest decrease to Europe and Eurasia, reflecting progress in those regions.

Within Africa, increased spending in Governing Justly and Democratically reflects expanded anticorruption programs; markedly increased spending in Investing in People reflects PEPFAR spending; and increased spending in Economic Growth reflects MCC programs. A decline in Humanitarian Assistance funding from FY2006 to FY2008 reflects a quirk of budgeting: emergency assistance cannot be allocated to a region for the purposes of the budget until it is spent on a given emergency. The overall amount of emergency assistance available has not declined, and ongoing crises in Africa make it likely that much of that money will in fact end up there.

Questions and Answers

James Painter, *Senior Advisor for Operational Management, Office of the Director of U.S. Foreign Assistance, U.S. Department of State*, took questions along with Mr. Dijkerman.

Sam Worthington, ACVFA Member, noted a diminution of funds to USAID. He asked how those in the PVO community can find out about the development activities of the Department of Defense (DOD) in detail and take advantage of them.

Mr. Dijkerman responded that it was not correct to draw the conclusion that USAID's funds will diminish; the funds managed by USAID will actually increase under the FY2008 budget. In addition, USAID participated in the creation of the entire foreign-assistance budget, which expands the Agency's influence within the State Department. The State Department in turn has had the opportunity to opine on the FY2008 budget as a whole, including the DOD budget. USAID was asked for its opinion within the State Department for a specific purpose, however, just as the State Department gave its opinion within the U.S. government: all programs were measured against the single goal of transformational diplomacy.

With respect to DOD funding, the Office of the Director of U.S. Foreign Assistance has been meeting with Defense representatives to learn what DOD plans to do and how USAID can complement its efforts. This is all the more important as DOD will soon create a separate Africa command. The hope is to achieve the degree of cooperation already in effect with the MCC.

Kenneth Wollack, ACVFA Member, asked about the rationale for providing aid to countries that are not now governing justly and democratically. The U.S. government may have other priorities in those countries, but how does it avoid sending mixed messages?

Mr. Dijkerman said that those would be countries in the Restricted category. In such nations USAID aims to determine what it can do to begin to have an impact. The overall amount of resources going to such countries is quite modest and the programs are intended to foster relationships: in civil society, human rights, the media, and so on. Cultural-exchange programs may also be involved. The new Framework will allow for a stronger analysis of whether those programs are indeed yielding results.

Mr. Painter added that the CBJ presents the reasoning behind these country programs in an interesting way. For the first time in decades, the CBJ presents analysis of the entire foreign-assistance program separate from the account structure.

Sam Worthington, ACVFA Member, agreed that that shift was quite impressive. He noted that many of the organizations in attendance have traditionally done “people-centered development,” in turn traditionally associated with Developmental Assistance (DA) accounts. As the State Department and USAID move from DA accounts to Investment in People, there are two concerns broadly shared: 1) That this shift could narrow the number of countries involved as, for example, education funds shift from thirty or so countries under DA to a much smaller number under the Economic Support Fund (ESF). 2) That USAID’s engagement will shift from long-term partnerships with civil society to direct aid to host governments.

Mr. Dijkerman said that the CBJ is for the most part clear about who will receive funds. The Operational Plans identify not only the programs and their objectives but also the partners. What might not be clear at this point, however, is the extent to which the State Department and USAID plan to work more than ever before through local groups to build local abilities in order to empower people. That should be clearer by the time Congressional Notifications are prepared and Operational Plan reviews are complete.

Mr. Painter added that in the case of basic education, notwithstanding the decrease in DA, funds from which largely shifted to ESF, basic-education spending as a whole increases in the FY2008 budget. A table toward the front of the CBJ examines combined DA and ESF investment in the three program areas that have traditionally seen the most DA funds (Governing Justly and Democratically, Investing in People, and Economic Growth). The total amount in those three areas increases from less than \$900 million in FY2006 to \$1.2 billion in FY2008. Though there is a reduction in DA, it is more than made up for with increases in ESF, usually because that account has been determined to be more appropriate. On a regional basis, even though DA overall is going down, if one accounts for the reductions that result from moving large programs such as the Sudan from DA to ESF, one sees that the balance for the rest of Africa in DA actually increases from FY2006 to FY2008. Examining the budget on an account basis is no longer the best way to understand it.

John Sullivan, ACVFA Chair, said that ACVFA has been told that USAID has made larger and larger awards because the Agency has relatively few people to handle contracts compared to other parts of the government. He asked whether that was likely to change.

Mr. Dijkerman said that Ambassador Tobias and USAID are working to improve procurement instruments. The percentage of USAID's budget going to operating expenses and management has been increasing—in other words, it costs more today to deliver a dollar of service than it has in the past. USAID, the Office of Management and Budget, and others are trying to determine why. The Senegalese government recently evaluated all foreign donors in Senegal to see which managed assistance most effectively, not merely in terms of dollars disbursed per cost but also in terms of the quality of interaction with the host government. It concluded that USAID was the most cost-effective and beneficial donor: it disbursed more money, on schedule, with clear plans, in-country support, and local authority to respond to changing conditions. That is a more inherently costly model than that of the European Union, for example, which has few people on the ground and makes all of its decisions in Brussels.

Eileen Cosby of the Filipino Family Fund said that what developing nations need is not condoms and assistance to family-planning programs but microfinance in rural areas. She asked if such programs will be a priority in the budget.

Mr. Dijkerman said that the Office of the Director of U.S. Foreign Assistance has challenged those on its country teams to conduct a multilayer exercise that examines all types of programs—including microfinance and health—to determine how they fit into the five main program goals. Some country teams might have made one trade-off or another among those programs to address one or another of the goals. The point is that they be able to explain how they made their choices so that those at the State Department and USAID can determine if they are reasonable.

KEYNOTE: U.S. FOREIGN-ASSISTANCE REFORMS

Ambassador Randall L. Tobias, *Director of U.S. Foreign Assistance and Administrator, USAID*

At the last ACVFA meeting foreign-assistance reform was discussed at some length, a discussion that has continued over the past few months. The concerns of the PVO community come down to three main elements:

- Concern that foreign aid will become increasingly politicized, with pressing diplomatic issues overriding long-term development objectives
- Uncertainty about the status of regional and crosscutting initiatives
- Desire to give host countries and the PVO community more structured opportunities to advise reformers

USAID and the State Department have attempted to address these concerns in the recently released budget, with the collection of Operational Plans, and through continued communication with the PVO community.

The budget should make it clear that long-term development remains very much the focus of foreign assistance. The country pages and regional sections of the CBJ discuss the obstacles to and opportunities for progress, and identify the funding that will help to overcome obstacles and take advantage of opportunities. Further, this year's budget includes a 20 percent increase in funds to low- and lower-middle-income countries, those in the Rebuilding, Developing, and Transforming country categories. In addition, the objectives of Governing Justly and Democratically, Investing in People, and Economic Growth—those most often associated with reducing poverty—have increased from 51 percent of the FY2006 budget to 57 percent of FY2008. In short, addressing the needs of the poor sustainably is at the heart of this year's budget. The budget also identifies where funds are aimed at regional and crosscutting objectives.

Since October, State Department and USAID staff members have tried to show that they are listening to the opinions of the PVO community. Those opinions drove the decision to change the top-line mission of transformational diplomacy. The new version reads as follows: "To help build and sustain democratic, well-governed states that respond to the needs of their people, *reduce widespread poverty*, and conduct themselves responsibly in the international system." The PVO community helped the Office of the Director of U.S. Foreign Assistance formulate its first list of indicators, and PVOs are encouraged to continue to offer their opinions on the value of those indicators in measuring progress (using the email address "findicators@state.gov").

In response to the desire for more regular consultation the Office of the Director of U.S. Foreign Assistance will hold monthly public sessions, organized by InterAction, on topics of particular relevance to the reforms. There will also be opportunities for more regular meetings between Amb. Tobias and the members of ACVFA. ACVFA has agreed to set up working groups to solicit opinions on the range of initiatives underway.

On the day that President Bush submitted the first-ever integrated foreign-assistance budget request to Congress, a little over two weeks ago, Amb. Tobias addressed the Center for Strategic and International Studies. His message there, which bears repeating today, is that we are all in this together, and ACVFA is very much a part of that "we." We all must have a united front if we are to be successful in determining the forces that create poverty and breaking the cycles that sustain it. The time is ripe for a New Deal for poverty reduction. We are seeing unprecedented attention to foreign assistance and poverty right now, and are seeing around the world the undeniable positive contribution that foreign assistance makes to national security. More and more members of Congress see our world's profound and complex interconnectivity, and are correspondingly funding foreign assistance at unprecedented levels. Nothing illustrates this better than the FY2007 continuing resolution that President Bush signed into law last week: in a complex, politically challenging environment, the resolution makes priorities of HIV/AIDS relief, malaria reduction, and assistance to Darfur.

We have made great progress, though not enough people appreciate that U.S. government ODA has nearly tripled in the last five years, from approximately \$10 billion in 2000 to \$28.5 billion in 2005. Yet after years of effort and billions of dollars of

assistance, some countries remain in the same position they were in forty years ago, or in some cases worse. What is impeding progress, and where have we seen success?

Amb. Tobias said he has met with leaders across the U.S. government in the last few months, including 120 of the 173 U.S. ambassadors and sixty-five of USAID's eighty mission directors. Across the board, those leaders identify the primary problems as the fragmentation of foreign assistance—the fact that multiple, changing priorities set by multiple actors make it impossible to focus predictably on critical barriers to progress. Without predictability, these leaders cannot form meaningful partnerships with their host counterparts, other donors, or NGOs on the ground. They cannot make sustained commitments to address the root causes of poverty in the countries where they work.

The first factor contributing to this unpredictability is a failure in the executive branch to put systems in place that allow for a demand-driven, collaborative process for allocating funds to shared goals, let alone the right shared goals. The second factor is sector-driven allocations; types of funding that do not always match the most compelling needs in a given country. For example, a country may need basic-education funds but only be able to get family-planning funds. Year after year those in the field cobble together a program that indeed alleviates some suffering but tends to yield patches of green rather than flowing, interconnected pastures of green, which really leads to sustainability.

No one group, organization, agency, or administration is to blame for the lack of a coordinated system of foreign assistance. All sides have been trying to work within the existing balance of power to do what is right. But we can and must do better. There are three ideas we should all support.

First, we must focus on individual country progress. Transformational diplomacy explicitly aims to move countries from a relationship defined by dependence on foreign assistance to one defined by whole, sustaining participation in the world community of nations. In past budget years, when the State Department or USAID decided to allocate a certain amount of funds to a sector the decision was based on what it meant for the State Department or USAID instead of what it meant for the partner countries. This year foreign-assistance planning and budgeting were country-focused from the beginning. The Office of the Director of U.S. Foreign Assistance brought together teams of experts from USAID and the State Department, in consultation with their field counterparts, and gave them an overall-target budget number for each country, not amounts by account or sector. Each team was asked to allocate its budget to the areas that would best help that country advance given its particular needs.

Second, as the United States helps countries advance in their development, it must focus its resources on the interventions that will have the largest sustainable effect. If it continues to pursue a thousand agendas, anything it does will have only a diluted, diffuse effect. No one could characterize most of what USAID or the State Department does as bad. Someone, some community, is benefiting from the services provided, the interventions supported. But the real question is whether countries are gathering the tools they need to make further progress and sustain it on their own. The new country-

centered budget concentrates resources in those areas most likely to achieve such results.

Third, together those in the State Department, USAID, and in the audience need to fight for every penny of the foreign-assistance budget. As all in this community know, the United States is in a climate of fiscal restraint, and for too many, foreign assistance is a politically easy target for budget-cutting. Many of us have in fact been told to expect a lower budget level from the President's request. But the U.S. government's ability to advance country progress will be severely hampered unless foreign assistance receives the full amount in the request.

There might be a temptation in such a climate to fight for "traditional" development assistance, but what is "traditional" assistance? Tradition implies ritual or convention; is that how we want foreign assistance to be considered? What is needed is *progressive* development assistance: assistance focused on helping countries progress. Democracy programs that help build institutions of accountability for health-service delivery are every bit as integral to sustainable development as the service delivery itself. The U.S. government cannot continue to provide funds for service delivery at the expense of building the institutions to deliver those services. We need to rid ourselves of that tradition if we are to convince the American people and Congress that they should support foreign assistance. All the resources in the budget are needed, and Congress needs to hear the voice of the PVO community in support of the entire request.

Questions and Answers

Sam Worthington, ACVFA Member, thanked Amb. Tobias for inserting language on poverty alleviation into the transformational diplomacy goal. That change reflects positive engagement with the PVO community. He also thanked him for the ongoing reforms and the increased funding represented by this budget request. He said that it is inevitable to look for winners and losers when large changes occur, and pointed in particular to the shift from DA to ESF funds in the category of Investing in People. He asked whether there will be losers among those organizations involved in people-centered development.

Amb. Tobias said that the overall foreign-assistance budget represented a 12 percent increase from FY2006 to FY2008 despite a tight fiscal environment, the largest increase of any federal agency. If the FY2008 budget had followed exactly the same countries, priorities, and proportions as FY2006, about \$4.5 billion would have been allocated differently. He argued, though, that those receiving less money are actually winners because they are in a position to receive less. India, for example, has the fastest-growing economy in the world—at 8 percent per year, some would say overheated—and it has recently become a donor nation. India still has severe poverty and needs, but those needs are perhaps not as severe as some other nations'. The CBJ presents the budget by traditional accounts alongside the new categories and country allocations, so

it should be obvious where the money has gone and the reasons for changes when they appear.

Nancy Lindborg, ACVFA Member, noted that several coalitions in attendance support the highest possible budget number. She asked where and by whom the country targets were established. She also asked how much of the 12 percent increase from FY2006 to FY2008 was accounted for by the MCC and PEPFAR, and whether the commitment to keeping MCC and PEPFAR funds additive to the basic aid budget will remain in effect.

Amb. Tobias said that country targets were initially set using the most objective measures possible of each country's current condition in each of the new categories of aid: Governing Justly and Democratically, Economic Growth, and so on. The Office of the Director of U.S. Foreign Assistance knew it had a finite amount of money, and considered how acute each country's needs were in relation to others—except, Amb. Tobias added, that he put an arbitrary floor in place, stipulating that no country's allocation should be cut by more than 20 percent. This protected many countries from being zeroed out completely.

The core teams working out these details included staff from USAID and the State Department with technical and geographic expertise. After that, groups of mostly career staff at the Deputy Assistant Secretary and Deputy Administrator level gathered in meetings chaired by Amb. Tobias himself, to consider within each region whether the core teams' allocations among countries seemed correct. Then came a series of senior meetings with the Secretary of State for each region that included the Regional Assistant Secretary of State and the Regional Assistant Administrator, along with the Assistant Secretaries and Assistant Administrators with functional responsibility for the programs in that region. Such reviews had never happened before with all parties in the room. Finally, Amb. Tobias and the Secretary of State adjusted allocations somewhat based on an intuitive analysis.

In the future, the process will involve people on the ground in more detail earlier in the process. That was not possible to the extent desired this year since the reform process started midyear.

With respect to the additive nature of MCC and PEPFAR funds, the Office of the Director of U.S. Foreign Assistance is trying to consider the totality of U.S. foreign assistance in each country, regardless of the source: State Department, USAID, MCC, or PEPFAR. In fact, in every single MCC Compact country the total amount of resources from the U.S. government has increased significantly from FY2006 to FY2008. Since \$4.5 billion moved from one place to another based on the new budget's analysis of needs, it is difficult to determine what is meant by "additive" on a country-by-country basis. In Benin, for example, assistance not including the MCC declines 20 percent from FY2006 to the FY2008 budget request. But including the MCC, the total amount of assistance to Benin is up over 400 percent.

Victoria Sheffield of the International Eye Foundation said that her organization helps build institutions around eye hospitals in developing countries. While it is relatively easy to report such statistics as “amount of revenue generated” or “number of cataract surgeries performed,” it is difficult to report the kind of information Congress often wants to hear, for example, “how many children were able to go to school because their sight was restored.” She asked what was being done to continue to educate Congress about the kind of data on infrastructure creation that is actually available.

Amb. Tobias replied that when Secretary Rice came into office, one of her first questions was “How much are we spending on democracy-building worldwide?” That question was unanswerable for two reasons. First, USAID and the State Department did not have the necessary data systems. Second, even if they had had the data systems, they did not have an agreed-upon definition of “democracy building.” Now at least there is a compendium of definitions of those kinds of terms, which will make it easier to collect meaningful data and inform Congress about foreign-assistance activities.

PRESENTATION OF THE GLOBAL DEVELOPMENT ALLIANCE EXCELLENCE AWARD

Ambassador Randall L. Tobias, *Director of U.S. Foreign Assistance and Administrator, USAID*

Public-private partnerships are a vital part of making the greatest possible use of resources to advance human potential. One of the ways the U.S. government will make more money available for foreign assistance is by attracting other funds. The GDA Excellence Award is offered annually to showcase exemplary alliances that assemble resources with innovative approaches to solve particular development challenges. This year’s award goes to the International Youth Foundation for entra21.

The entra21 program has brought together a diverse group of public- and private-sector partners to support thirty-one locally conceived and executed projects in twenty Latin American and Caribbean nations. The program has trained nearly 20,000 disadvantaged urban and rural young people for jobs related to information technology and other sectors. To date, entra21 has placed nearly 55 percent of its graduates in jobs or paid internships.

This \$30 million alliance has had more than 70 percent of its resources provided by the private sector, from companies such as Nokia, Lucent, Nike, and many others. The private sector has been critical in providing up-to-date training materials and curricula, and most importantly in offering graduates of the training program internships and real jobs.

The President made the following proclamation congratulating entra21:

I send greetings to those gathered for the presentation of the 2006 Global Development Alliance Excellence Award. Congratulations to entra21 for being honored for your efforts to make a difference in the lives of disadvantaged youth in Latin America and the Caribbean. Our nation is committed to building a brighter future for the people of the Western Hemisphere. As citizens of the Americas see their lives improve and opportunity become more abundant, their faith in a free and democratic society will grow and our hemisphere will become a more secure, hopeful, and prosperous place for all people. Initiatives such as entra21 contribute to this progress by helping youth gain technical skills and placing them in jobs within the field of information technology. These efforts strengthen local economies and help young people throughout the Americas realize a promising future for themselves, their families, and their communities. I appreciate the efforts of the entra21 initiative and all those who give their hearts, resources, and energy to enhancing the lives of people throughout the Western Hemisphere. Your commitment to others demonstrates the compassion and generosity of the human spirit and makes the world a better place. Laura and I send our best wishes.

President George W. Bush

Amb. Tobias presented William Reese with a commemorative plaque.

Recipient: William Reese, ACVFA Member and President and CEO of the International Youth Foundation

The creation, purpose, and record to date of the GDA are a tremendous legacy of this administration that ought to go down with the MCC and PEPFAR as new ways of doing business. This morning's presentation included statistics about the entra21 that were clear measures of the program's success. And those are important. But on a personal level, we also have to listen to people's voices. The biggest thrill in this program is in going to graduations, seeing a young woman, her spouse, and her employer all there, to hear her or her parents say how much her life has changed because of entra21—or really because of her new job. Often these kids come from families no member of which has ever held a job in the formal economy.

Her Majesty Queen Rania once said that it was not the “digital divide” that concerned her, it was the hope gap. A young person who does not see a reason to stay in school, who does not see a job at the end of the schooling or a way to raise her or his family in a peaceful community, does not have hope. That leads to a lack of aspirations, a lack of a sense of future, and a lack of a stake in the community that at the very least becomes a horrible self-fulfilling prophecy for those people, and for our nations become social, political, and economic threats.

IYF accepts the award not for what has already been done, but for what it is about to do. It is now ready to move the program to a larger scale, to take successful projects that trained 500 or 1,000 young people and make them the center of whole new

systems, to change how things are done in the long term. And then it is ready to take the program to Africa.