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Advisory Committee on Voluntary Foreign Aid:

Reviewing the Foreign Assistance Framework

February 2008

USAID/A/AID
Room 6.9-073 RRB
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Executive Summary



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Transformational diplomacy is "...to work with our many partners around the world to build and sustain democratic, well-governed states that will respond to the needs of their people – and conduct themselves responsibly in the international system. It is rooted in partnership, not paternalism – doing things with other people, not for them."

-Secretary of State Condoleezza Rice's "Transformational Diplomacy"

"I would like to ask you to join me in forging a New Consensus about the future of international development. If, as I believe, we are entering a new era of international development, a Global Development Commons where the connections between businesses, organizations, and resources matter more than ever, an era when we need tolerant information, ideas, technology and public-private partnerships to spur innovation and deliver results, when host countries must be at the center of our collective thought and action."

-USAID Administrator and Director of Foreign Assistance Henrietta H. Fore's
"New Consensus in International Development"

ADVISORY COMMITTEE ON VOLUNTARY FOREIGN AID: REVIEWING THE NEW FOREIGN ASSISTANCE FRAMEWORK

Established by Presidential directive after World War II, the Advisory Committee on Voluntary Foreign Aid (ACVFA) serves as a link between the U.S. Government and private voluntary organizations (PVOs) active in humanitarian assistance and development work overseas. Comprised of 25 private citizens with extensive knowledge of international development, ACVFA helps provide the underpinning for cooperation between the public and private sectors in U.S. foreign assistance programs.

In February 2006, the Committee was invited to comment on major changes in foreign assistance reforms announced by Secretary Rice earlier in the year. In order to help shape a more effective foreign assistance framework, ACVFA asked its members to review the new framework and provide feedback. ACVFA members were organized in five working groups, consistent with the new proposed structure of foreign assistance. Through consultative sessions, each working group produced a set of recommendations on the foreign assistance framework and its implementation. These recommendations, in the form of working group papers, were made available for public comment through ACVFA public meetings, working group sessions, and electronically. After soliciting comments from the public, ACFVA working groups finalized their recommendations for economic growth, governing justly and democratically, humanitarian assistance, investing in people, and foreign assistance implementation mechanisms.



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COMMON THEMES

In reviewing ACVFA's observations and recommendations, one common theme emerges - interdependency. Although each paper focuses on its own set of topics (economic growth, governing justly and democratically, humanitarian assistance, investing in people, and implementation mechanisms of foreign assistance), in many instances the recommendations highlight the interdependency of these different topics.

On the issue-based level, particularly striking are the common themes that emerge from governing justly and democratically and economic growth groups. One of the focus points of both papers is that democratic political systems as well as economic growth must provide opportunities for and improve livelihoods of all the people in society, particularly the marginalized poor. These goals lie at the heart of humanitarian assistance and investing in people as well. Such emphasis on the common goals shared by these separate parts of the foreign assistance framework, as well as common mechanisms for achieving these goals, suggests that there should be greater cooperation and integration within the separate components of the proposed structure.

Further, relating to the seemingly common objectives underlying the foreign assistance framework, ACVFA expresses concern over the lack of cohesive strategy in achieving those objectives. Similar concerns emerge over funding mechanisms and priorities identification.

Several papers cite the favoring of large contracts, for-profit companies, and other acquisition mechanisms over assistance grants to PVOs, NGOs, and smaller co-ops. This trend, observed as a negative pattern, results in the loss of vital networks and agency effectiveness. Speaking to increased aid effectiveness, ACVFA suggests better information gathering and program analysis that utilize new technologies in knowledge management. Another common theme is the desire to raise the overall capacity of USAID staff, including increased staffing levels, training, and operational budget.

Analysis of the recommendations suggests that there should be greater cooperation and integration between the different components of the foreign assistance framework at the strategy formulation, program design, program implementation, and program evaluation stages. The success of foreign assistance also hinges on the ability of USAID to develop and retain talented staff as well as attract a diverse set of experienced implementing organizations with local knowledge of development processes.



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RECOMMENDATION SUMMARIES

ECONOMIC GROWTH

ACVFA argues that economic growth should be more closely tied to poverty reduction through more focus on rural enterprises, staple crops and livestock for local and regional markets. It should also emphasize SME development and job creation with embedded services as well as changes in competitiveness and trade promotion programs that rely more on democratic trade associations, rather than unsustainable clusters. Additionally, more programs should address the “poverty penalty” or the bottom of the economic pyramid, and preparing youth for the job market. There is too much emphasis on top-down approaches to government reforms, rather than bottom up business advocacy..

ACVFA observes an over-reliance on a limited number of large, for-profit contractors; USAID is losing the valuable networks of smaller PVOs, NGOs, and specialty co-ops. Coops have a special niche since they combine grassroots democratic ownership with broad-based economic development. This current trend towards large contacts often hinders current USAID operations, and does not take into consideration the specific country’s level of development or complexities of the local situations.

ACVFA strongly supports an increase in the Operating Expense budget, but recommends a review and reform of proposal methodology and implementation including greater emphasis on project leadership with practical business experience.

GOVERNING JUSTLY AND DEMOCRATICALLY

ACVFA notes that democracies must deliver at all levels of society, especially for the poor. The ACVFA has concerns over the rigid compartmentalization of development activities, citing the potential limitations of vital, cross-sectoral cooperation. The ACVFA also recommends the addition of “Donor Coordination Activities” as a sub-element in the foreign assistance framework in order to increase coordination on the ground, and recommends an increased focus on the promotion of political parties and incentives for political reform. Finally, the ACVFA stresses the crucial role of women and business associations in the creation of civil society and democracy building.



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HUMANITARIAN ASSISTANCE

The ACVFA recommends the maintenance of a robust central emergency fund with notwithstanding capabilities, solely dedicated to humanitarian assistance. Additionally, funding of humanitarian assistance programs ought to come from core budgets and shift away from an over-reliance on supplemental funding, which results in uncertainty in maintaining effective emergency programming.

The ACVFA recommends the creation of a clear strategy, including appropriate funding mechanisms, to ensure that transitional programming provides an effective transition from relief to development.

The Committee desires to assert the central role USAID plays during emergency responses. It hopes to ensure a strong, well-funded civilian capacity for future responses in complex emergencies, thus reducing the growing reliance upon military capacity in a range of humanitarian and complex emergency environments.

INVESTING IN PEOPLE

ACVFA asserts that IIP must have a foundational role in all U.S. foreign assistance initiatives; including the creation of a policy-level IIP position and the integration of IIP into budget planning.

ACVFA recommends the development of incentives for cross-sectoral work, the establishment of specific long-term priorities, and the affirmation of the key role of the Education Offices at USAID. USAID should enhance its structural capacity by increasing U.S. direct-hire staffing, mandate program monitoring and evaluation, utilize technology for information collection and analysis, create a process for determining country-level priorities, and increase public-private partnerships. The group stresses the prioritization of investment in women and youth programs, as well as health and educational funding, specifically for the Education for All initiative (EFA). This focus will build institutional capacity, leadership, and technical capacity across the board. Equally important, ACVFA recognizes the important role of NGOs in delivering wide-ranging health interventions and believes that these should be strengthened; assistance through U.S. PVOs to community- and faith-based organizations is essential to long-term advances in behavior change, immunization and nutrition.



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IMPLEMENTATION MECHANISMS

ACVFA observed two current trends. The first trend is that the use of acquisition and assistance mechanisms often appears to be inconsistent with the Federal Grant and Cooperative Agreement Act (FGCAA), which states that the choice of mechanisms is dependent upon the nature of the relationship created between USAID and the non-federal party, as well as the intended purpose of the award. Current USAID guidelines do not adequately reflect these provisions, as they suggest that no activities are better suited for one type of instrument over the other. However, ACVFA argues that for some activities, there is an inherent logic in the choice of instruments that flows from project's relationship vis-à-vis the U.S. government and the purpose of the award, particularly programs that require a degree of separation from direct U.S. government control and those that build the capacity of local institutions and NGOs operating at the community level.

Secondly, there is a propensity to bundle multi-sectoral program components under omnibus Requests for Proposals (RFPs) and Requests for Assistance (RFAs). ACVFA found the perceived benefits of “bundling” are often outweighed by the problems that it creates. These include creating unnatural partnerships between implementing organizations, fostering conflicts of interest among local beneficiaries, and building complicated lines of communication between project managers and program partners.

ACVFA recommends the restoration of adequate staffing levels and enhancing current staff capacity to accurately implement the proper selection criteria for award selection, as well as providing additional training to USAID contracting and agreement officers on instrument selection. In addition, ACVFA recommends that USAID clarify sections of ADS 303 and 304 to ensure greater compliance with the Federal Grant and Cooperative Agreement Act. Finally, the preference of large, cross-sector contracts and omnibus-type programs creates potential inefficiencies and threatens the effectiveness of USAID foreign assistance programming.



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CONCLUSION:

ACVFA appreciates the opportunity to provide USAID's leadership with advice and counsel on the foreign assistance reforms. We believe that a vibrant and effective U.S. foreign assistance program benefits from the diverse partners that the ACVFA community represents. The work of our member organizations on the ground with USAID is a privilege and one which we believe provides a unique set of values, tools, and knowledge for the betterment of those we serve. A key theme of ACVFA's recommendations is the desire to see USAID strengthened and equipped for the unique challenges presented in the 21st century. We would hope that our support for a vigorous U.S. foreign assistance program will continue to embrace the contributions of USAID's partners and a revitalized agency.



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Recommendations In Order:

Economic Growth

Governing Justly and Democratically

Humanitarian Assistance

Investing in People

Implementation Mechanisms



July 2007

ACVFA RECOMMENDATIONS

ECONOMIC GROWTH

As defined by the F process, economic growth has three components: rapid, broad-based and sustainable. Under the matrix, the goal is to put countries on a trajectory when they no longer need foreign assistance. The matrix assumes a strategy for economic and political progress to achieve transformational development. The Working Group is concerned that there is no overall strategy for economic growth, nor an generally-agreed process to apply lessons learned and shared knowledge management for economic growth programs. The matrix also emphasizes capacity building in various program areas. Programs vary by country and region, but there should be consensus on over arching issues, such as sound monetary policy.

The Working Group has some concerns about economic growth goals. In many unstable countries (e.g. southern Sudan, DRC) “rapid” growth is not possible, and longer term programs, such as building private and public institutions are required. We see broad-based as meaning poverty reduction with a special attention to women and women entrepreneurs who are the vast majority of the poor. However, we think that there are adverse trends that focus more on export opportunities, such as fruit and vegetables, rather than staple crops (e.g. rice, maize, roots and tubers), livestock, agro-tourism and rural SMEs for domestic markets that, in turn, reach the most rural poor. Urban food markets in Africa are expected to grow by \$100 to \$150 billion by 2030 compared to horticulture exports which are estimated to grow at about \$7 billion.

In our opinion, sustainability is a critical element. The focus in sustainability should be on private sector drivers of growth, and sustainable private enterprises, all the time recognizing that many SMEs will fail under a functioning capitalist system. We have found that subsidized SME centers have not been sustainable; rather programs need to emphasize “embedded service” models in which buyers and sellers provide consulting services on a commercial basis. Sustainability should also take into consideration undue exploitation of natural resources, promotion of conservation, and have safeguards for labor and environmental standards.

While we strongly agree on the importance of macro-economic reforms and policies; we think that many of these program elements should be left to the IFC and multilateral agencies, and in some cases, Treasury. We see too many government reforms stymied by changes in ministries and governments, rather than addressing basic constraints such as those pointed out by DeSoto on land ownership and moving informal businesses into the formal sector.

We think that USAID has a major role to play in micro-economic reforms such as privatization support, legal and regulatory reform, corporate governance, and institutional reforms to build a better investment climate. We think USAID should focus more on firm level assistance, especially programs that directly help farmer organizations and rural and peri-urban SMEs.

Micro credit programs have been quite successful at poverty reduction, reaching millions in the informal economy. We believe it is now time to put more resources and attention behind growth-oriented SMEs that will promote broader based job creation and growth with a segment of businesses that will increasingly be part of the formal and tax paying economy.

Further, we encourage more programs that address the “poverty penalty” where those at the bottom of the economic pyramid pay more for basic needs and have difficulty in obtaining credit and growing their businesses. More affordable services can help the poor obtain safe drinking water, health care, transport, electricity and telecommunications. The InterAmerican Development Bank estimates a huge untapped market of \$509 billion in purchasing power from the “bottom of the pyramid” of 360 million people with incomes under \$300 a month. Thus, we encourage innovative solutions in reaching low income people so that they develop their economic potential and accumulate assets, including use of new technologies like cell phones and debit cards, and public-private partnerships for basic services. Rather than halving poverty, we endorse the poverty gap message of “opportunities for the majority” where students can attend school, workers have jobs and low income people can have hope and aspirations for themselves and their families.

We believe that competitiveness, trade, SME, informal sector and other micro-economic projects should demonstrate a direct linkage or require contractors/grantees to demonstrate that the project activities directly (and not indirectly) benefit the less well off in urban and rural areas. Currently, many “competitiveness” programs focus on the cluster approach in which some evaluations have been unable to demonstrate lasting impacts. The lens of poverty reduction should be used in the selection of clusters or subsectors for contractors/grantees to advance. For example, less than 2% of African small holder farmers participate in international trade. While there are some opportunities to link these farmers with larger firms for exports, we see the development of local and regional markets as more promising in generating economic growth. Basically, economic growth should focus on the entrepreneur, firm level assistance, and sector specific trade associations as more likely to have results and to move large numbers of less well people into a growing middle class. In this regard, strong financial institutions are necessary so that SMEs have access to loans and individuals loans for home ownership.

We see too much top down “economic reform” efforts through technical assistance to government, rather than bottom up business advocacy. Too frequently, governments may institute reforms, but their capacity to implement them is very weak, and they result in reforms in name only. Business groups are better able to know what they need from government in terms of an enabling environment and corruption free supportive institutions.

We believe that USAID relies too heavily on a few contractors for its economic growth programs which are usually led by former USAID staff without direct business experience. We would like to see modifications in proposals that placed a greater emphasis on practical business experience than USAID knowledge or academic degrees. The most effective programs are led by Chief of Parties who have sound business experience in commercial operations and an ability to identify and solve key business programs of client firms. We also strongly support the use of U.S. business volunteers in economic growth projects since they often bring lifelong experience to SME challenges.

We think that the current USAID approach to economic growth tries to fit the same activities into all countries, no matter their level of development within the matrix. Too many current programs focus on exports and larger firms with an ability to get investment. Few of these programs filter down to lower income people. These types of economic programs are not appropriate for most of the “rebuilding states” and many of the “developing states” in the matrix

that have had little ability to broadly enter into international markets. Export-oriented programs are more appropriate for sustaining partnerships with linkages to U.S. investment and trade.

For rebuilding states, we believe that USAID and development experts do not have a handle on how elites and warlords manage the economy in ways that maintain their monopolies on power. These groups benefit from conflict, and we do not have successful models for how to “democratize” economic development programs. We suggest more work on linkages between economic growth and democracy programs in such countries. We also believe that economic and democratic programs need to be integrated since most reforms take place within a few months after the election of new governments (e.g. Georgia).

Given USAID management units and reliance on large contracts, smaller PVOs and cooperatives with specialized business knowledge are becoming less competitive. We believe that USAID is losing a major resource when so many of the projects are operated through large contracts to a few for profit companies. Current IQC and large contracting mechanisms discriminate against smaller PVOs, NGOs and specialized cooperatives. The choice is basically to fight over declining opportunities or change the basic mission of the organization to be able to compete for more generalized and larger contracts. In addition, more resources need to be provided for economic growth programs which are too concentrated in a few countries; are relatively less costly in terms of critical technical assistance at the right time; and can have major transformational impacts that make possible more sustainable government funding in social, education, health and other critical fields.

We strongly support an increased USAID Operating Expense budget that can reduce management workloads, assure adequate field missions, and provide senior managers with sufficient staff to be able to oversee multiple, smaller contracts and grants. In particular, we are concerned about the loss of experienced USAID economists, dwindling number of USAID private enterprise officers and the need for training all USAID managers in basic economic development literacy so that programs are better integrated across all sectors. We believe that more USAID private sector officers are needed in the field to take advantage of local opportunities.

The World Bank’s 2007 World Development Report, entitled “Development and the Next Generation,” discusses how the youth bulge entering the work place in the next 10 years “must be better trained, supported and financed.” Unemployment and underemployment are already dangerously high for the under 30 cohort in most developing countries. Without investment and broad-based economic growth, there is no way to bring these rates down in countries where the numbers of people entering the job market is growing. Job creation has a “bonus” through increasing the tax roles and addressing social and political instability in most developing countries. We think that USAID should consider the allocation more basic education funding to out-of-school youth so they are work ready and employable. Such training should be done in close coordination with employers to make sure that youth training meets their employment gaps. More attention needs to be given to human capacity development in the business sector in developing a cadre of owners/managers and employees. Higher education programs are also important in building a country’s human and institutional capacities, and have been neglected in recent years.

The ACVFA’s Economic Growth Working Group wishes to thank all those who submitted feedback and thoughts. While all comments were appreciated and considered, they may not have been deemed appropriate for incorporation into the final recommendations of the working group.



July 2007

ACVFA RECOMMENDATIONS

GOVERNING JUSTLY and DEMOCRATICALLY

The Framework defines the goal of governing justly and democratically as promoting and strengthening effective democracies by moving recipient states along a continuum toward democratic consolidation. While the Framework does not say much about the continuum, experience demonstrates that there is not a single trajectory that applies to all countries or categories of countries, nor is that trajectory a linear one. The working group recognizes that while the Framework may not be very dimensional, USAID and its implementing partners of democracy and governance programs understand the need for flexibility, adaptability and dynamism. Our comments refer to the perceived rigidity of the framework.

The overarching theme of the framework is to promote, build, or consolidate democracy in its various forms. However, we must avoid the dangerous assumption of the process moving only in one direction. The reality is that along with democratic success stories there are democratic reversals in countries around the world. As semi-authoritarian regimes continue to roll back freedoms and as populists reduce the political space, we must recognize the underlying reasons for these processes and develop strategies to prevent democratic reversals.

One of the key issues to address here is the fact that democracies must deliver at all levels of society, especially for the poor. Similarly, we must understand the *incentives* that drive democratic reform and local as well as global trends that affect the pace of reforms. The broader point here is the need to recognize the importance of country conditions in approaching democracy building. The framework, in its design but most importantly in its application, must not be technocratic as if the same set of strategies will work across the different spectrum of countries. While key democratic governance and rule of law institutions may be very similar regardless of the country in question, strategies for building and strengthening those institutions will certainly vary. In other words, there is a key difference between *what* we are trying to accomplish and *how* it can be accomplished.

While the F staff should be applauded for its focus on attempting to achieve strategic coherence in the course of foreign assistance reform, the group expressed concern about the obvious stove-piping or compartmentalizing that the Framework appears to embrace. One cannot intervene in any one development area in isolation; economic growth or improvements in education, or gender integration, for example, are inextricably linked to democracy building. Further concerns were expressed about the stove-piping within DG programming with little or no regard for the natural linkages between and among the various program elements.

This being said, we also recognize that the needs of key beneficiaries, the poor, not be compromised or ignored if assistance requires the promotion of the rule of law and human rights, laudable goals in their own right, as preconditions to helping the poor. USAID is an agency with a long history of serving the needs of the poorest of the poor, and we seek to ensure that a clear distinction is made between the core elements of a D&G project, and a project whose primary focus is addressing the social needs of beneficiaries.

As good democratic governance is key in generating the societal pressure to reform and address key developmental issues such as corruption, more attention should also be paid to the development of political parties that focus on concrete programs and issues rather than personalities and slogans. In many cases, this involves not only technical capacity-building and knowledge sharing, but also the development of incentives to build political will to reform. Free and independent media, for example, has proven to be an effective way to create such incentives. Similarly, other ways to generate incentives to reform can include trying aid more closely to concrete commitments and development progress of countries.

Currently the framework recognizes cross-cutting functions as “program design and learning” and “personnel.” While programs must be tailored to country-specific circumstances, USAID should consider how to promote those essential governance priorities that should apply across every country, such as combating corruption and gender equality. It is widely understood, that citizen access to information, transparent procurement processes, capacity building for citizen oversight of government, etc, impact the effectiveness of assistance in all sectors.

USAID should also consider adding “donor coordination activities” as an element or sub-element of each applicable program area. A fundamental element of every USAID governance program should be coordination with other donors working in the field. Experience in recipient countries shows that recipient governments have difficulty fulfilling the sometimes different or overlapping governance programming and reporting requirements of donors working in their countries.

While USAID may in practice address this issue on an ad hoc basis, its foreign assistance framework should explicitly express its commitment to gather information about other donor activities and work to ensure complementary in programming. Such efforts will

help ensure that governance programming is effective, consistent, and comprehensive. Furthermore, USAID should join other donors in mainstreaming initiatives to facilitate the implementation of the UN Convention Against Corruption and other similar initiatives into its country programs, including capacity-building for government and civil society as well as support for participation in peer review monitoring.

The private sector must be considered as an integral part of civil society. It is ironic that one of the best descriptions of what constitutes “civil society” – as incomplete as it is, in our view – comes in the section on security sector governance (**Program Sub-Element 2.5.3: Civil Society Capacity to Engage the Security Sector**). Perhaps there is a more appropriate and effective place for a more complete explanation of who makes up civil society, and we would hope that the private sector, including entrepreneurs and representative organizations such as voluntary business associations, would fit into that matrix. Especially with the explicit reference to “Democratic Trade Unions”, the lack of any reference to business associations, the private sector, or entrepreneurs, even if inadvertent, may lead some to believe that these groups were purposely omitted and are not integral components of civil society. We would propose the following new Sub-Element:

Program Sub-Element 2.4.1.6: Business Associations and the Private Sector

Definition: Develop and strengthen independent and democratic business associations and other private sector and professional (e.g. lawyers, accountants, engineers) organizations to promote transparent policymaking, strengthen accountability and governance, and improve standards of living. This includes, but is not limited to, protecting and promoting laws and legal environments which guarantee the rights of freedom of association and access to information; building capacity of the private sector to advocate for reform within a democratic process; promoting the understanding and use of mechanisms for transparent private sector participation in the policy process; and protecting key political and economic freedoms.

In the new framework, there is practically no mention of the very crucial role women play in democracy building and good governance. Yet increasing women’s participation and access to basic rights and promoting gender equality will further the democratic process, and are essential to good governance. There has been a rapid increase in new women’s organizations world wide, and these non-governmental organizations have increased their advocacy work. Therefore, more emphasis is needed on gender focused strategies and agency wide use of gender analysis in strategic planning. We see gender as a cross-cutting issue and one that should be considered in all the program areas, with appropriate indicators.

Among lessons from rebuilding countries, like Iraq and Afghanistan, that are emerging is the limitations of external intervention to put in place the building blocks of democratic governance. In countries with long histories of authoritarian state-society relations, the dismantling of repressive institutions, while necessary to create the space for the eventual emergence of new, more democratic forms of governance, often increases, rather than decreases instability in the short term. USAID and other donors can play an important

role in buffering that space while providing support to reformers, but the re-establishment of the social pact that underpins stability is fundamentally a process that country actors must lead and manage. Our concern with the framework is that it implies that the rebuilding process is much more amenable to a generally applicable template than experience on the ground reveals. The compartmentalization issue mentioned above applies here as well. Identifying what works requires that State and USAID do a lot more learning through analysis and research, which seem to have been dramatically reduced under the State/USAID reorganization.

In addition to the structural changes needed for governing justly and democratically, we think it is important to pay attention to the policymaking process in a democratic system. Inclusive processes that recognize the roles and responsibilities of the full range of societal actors—government, NGOs, the private sector, labor, and other civil society representatives—contribute significantly to achieving stability, effective service delivery, and legitimacy. Transparent policymaking and various accountability measures are the building blocks of effective democratic governance that makes democracy work not only during but between the elections as well.

As such, transparent and inclusive policymaking is a crosscutting component in the framework, which allows for the development of sustainable democratic governance institutions. Experience with numerous USAID projects confirms the importance of recognizing and capitalizing on the synergies that can emerge between sectoral interventions and D&G. Sector-specific projects often set up structures and mechanisms that promote participation, empower citizens (especially women), realign responsibilities, and introduce new interaction patterns. It is within these structures and mechanisms that people gain the experience with democratic governance. Examples include local health committees, parent-teacher associations, natural resource community co-management councils, policy dialogue forums, contracting-out with NGOs or private enterprises for service delivery, decentralization arrangements, and so on.

The ACVFA's Governing Justly and Democratically Working Group wishes to thank all those who submitted feedback and thoughts. While all comments were appreciated and considered, they may not have been deemed appropriate for incorporation into the final recommendations of the working group.



December 2007

ACVFA RECOMMENDATIONS HUMANITARIAN ASSISTANCE

Since USAID's inception in 1961, humanitarian assistance has been a core objective of the agency. In today's complex global environment, effective humanitarian assistance has become increasingly challenging and more important than ever. As the F process goes forward, USAID's ability to respond effectively to humanitarian crises should not only remain a core objective, but also be enhanced. The ACVFA Humanitarian Assistance Working Group recommends that USAID consider four important recommendations to ensure its continued ability to provide rapid, effective and high impact humanitarian assistance:

1. **Maintain a central emergency fund** with "notwithstanding capabilities", dedicated to humanitarian assistance;
2. **Fund humanitarian assistance programs through core budgets** and shift away from an over-reliance on supplemental funding;
3. **Create a clear strategy and appropriate funding mechanisms for transitional programming** to provide an effective transition from relief to development;
4. **Assert the central role played by USAID during emergency response and ensure a strong, well-funded capacity** for response in complex emergencies to reduce a growing reliance upon military capacity in a range of humanitarian and complex emergency environments.

I. Maintain a central emergency response fund

An important pillar of effective USAID response has been the availability of immediate emergency funding through dedicated funding mechanisms that have "notwithstanding capabilities". Continuation of these central funds is essential for a continued ability to respond quickly and without regard to constraints imposed by other potential legislation limitations.

We are concerned however about the seeming reduction in the quantity and flexibility of funds available for contingency and rapid response in emergencies. Increasingly, funds are being pulled out of the central emergency fund and “locked up” in country budgets where money is less flexible and less available for subsequent allocation to burgeoning crises elsewhere around the globe. In certain cases, pulling money into country budgets for long standing crises, such as in Sudan, may in fact make considerable sense, but we would argue against doing so in way that undercuts the central emergency fund. Allocating potential emergency response funds to country budgets can inhibit effective non-programmed responses to slowly evolving challenges such as the IDP crises in Iraq and DRC as well as rapid-onset emergencies like the recent floods in south Asia and East Africa.

We therefore recommend the F process maintain a robust central emergency fund with “notwithstanding capabilities”, available for rapid response.

II. Fund Humanitarian Assistance through core accounts and reduce reliance upon supplemental funding

Increasingly, the Administration and Congress are using budgetary supplementals to provide emergency and contingency funding for crises around the world. Consistent with the F process goal of creating a more logical and harmonized approach to foreign assistance programming, we recommend the core humanitarian budget line items in the 150 account (IDFA, MRA, ERMA, and PL 480) be fully funded through core budgets to meet emergency needs more quickly and effectively. While it is important to maintain the ability to use budgetary supplementals in the event of a truly overwhelming emergency, the current over-reliance on this mode of funding frequently creates political uncertainties and delays in developing, financing and implementing programming.

Unpredictable and unreliable funding presents significant challenges and inefficiencies for planning and programming on the ground, including a stop-start dynamic, breaks in critical activities, and an inability to plan for and maintain well-designed and implemented programming. Implementing agencies must frequently rely on short-term contracts for staff, often resulting in reduced staff capacity, and leaving needy beneficiaries without critical assistance. Many NGOs and other service providers also find themselves having to apply continually for new grants, a process that absorbs valuable person hours that might otherwise be devoted to providing assistance. In other cases, agencies are forced to make strategic decisions to divert money from programs where funding pipelines are most vulnerable, essentially pitting beneficiaries against each other. In short, the supplemental process threatens many effective programs with closure or fitful stops and starts, a process that fractures relationships with beneficiaries, damages the reputation of implementers, and in some cases increases the possible loss of life. Overall, the current funding approach has direct costs to the most vulnerable groups through disrupted and delayed programs and benefits.

We strongly recommend that the central humanitarian assistance accounts be fully funded through the core budget in order to maintain a continuous and reliable funding stream for humanitarian assistance.

III. Create a clear strategy for transitional programming

More than a decade ago, the Brookings Process called for a more informed understanding of how to enable a smoother, more effective transition from relief to recovery. Despite many years and much discussion of the importance of “bridging the gap,” little has been done to ensure effective funding and strategies are in place to link emergency and longer term recovery activities.

In 1994, USAID created its Office of Transition Initiatives (OTI). From the start, OTI was intentionally and narrowly focused on the political challenges of a transitioning environment. Although an important tool, despite its name, it has never purported to accomplish the larger requirements of an effective transition, nor could it do so with the current structure and mandate. Serious and significant gaps persist in most countries recovering from emergencies, with many USAID missions unprepared to build upon and transition from programs funded by emergency mechanisms.

The need to “bridge the gap” between relief and development activities must first be addressed strategically through program design that more effectively links relief and longer term recovery programs, bolstered by funding mechanisms that enable a smoother transition. Under current circumstances, USAID programs clearly distinguish between funding for relief programming through central emergency funding and funding for development programming through the country missions, an approach that too often results in significant gaps in momentum and lost opportunities to build upon initial investments, trained staff, community relationships and trust earned during critical emergency periods.

We therefore recommend that the F process (1) enable OFDA to focus on a mandate of both relief and longer term recovery through provision of longer term, more flexible grants that promote programs that can and should evolve in response to quickly changing emergency environments; and (2) promote a more comprehensive transitional strategy that requires a firmer “handshake” between emergency activities and longer term mission funded programming.

IV. Ensure a robust capacity within USAID to respond fully to humanitarian crises without over-reliance on military capacity

As USAID’s budget, size and operational capabilities have declined over the last decade, its reach and effectiveness in complex emergencies and conflict environments have been increasingly strained. In particular, the declining operational and expense budgets have limited staffing and training critical to meeting the demands of these more challenging environments. In the resulting void, the US military is increasingly stepping into key program areas to provide both emergency and increasingly longer term recovery

assistance. We believe firmly in the need to improve coordination between humanitarian aid agencies and military actors to ensure that military engagement in humanitarian spheres is responsive to the needs of beneficiaries. The military possesses unique capabilities, specifically airlift capacity that should be employed during life-saving situations. However, we believe that the central role USAID and other civilian arms of the U.S. government with specialized assistance capacity should be maintained and enhanced. Instead, according to a recent report released by Senator Lugar, the Pentagon's share of the foreign aid budget has risen from seven percent of the total in 2001 to about 22 percent in 2007.

Therefore, we recommend that the F Process assert the primary role of USAID/OFDA in providing primary response to emergencies and prioritize a robust operating budget for USAID to ensure that it has the capacity to respond fully to humanitarian needs with appropriate staffing, planning and training capacities. We further recommend that USAID's specialized civilian response capabilities be strengthened and enhanced. A more robust, professional civilian capacity within USAID will help ensure the optimal program and cost effectiveness of humanitarian assistance provided by the American people.

The ACVFA's Humanitarian Assistance Working Group wishes to thank all those who submitted feedback and thoughts. While all comments were appreciated and considered, they may not have been deemed appropriate for incorporation into the final recommendations of the working group.



December 2007

ACVFA RECOMMENDATIONS INVESTING IN PEOPLE

INTRODUCTION

Investing in People (IIP) is the crucial foundation for any effective development strategy and must be at the heart of U.S. foreign assistance. Without effective IIP investments to promote healthy and educated populations, lasting gains in democracy, economic growth and poverty reduction become all but impossible. Economic growth, for example, will fail to reduce widespread poverty, unless people are given the opportunity to develop their capacity to participate in the economic system. The mandate for IIP is broad and complex requiring carefully coordinated strategic responses to address multiple needs of different populations. In many ways the effectiveness of U.S. foreign assistance as a whole hinges on the success of IIP investments. In this paper, the IIP ACVFA Working Group aims to affirm the centrality of IIP to U.S. foreign assistance and build on past achievements in education and health for the future.

RECOMMENDATION HIGHLIGHTS

Clarity of Mission

The working group believes that IIP plays a foundational role in the success of all U.S. foreign assistance initiatives and it is critical to make this clear throughout the Agency. We recommend:

- **Creating a policy level leadership position** to coordinate and promote the IIP objective
- **Fully integrating IIP into budget planning** to ensure the availability of adequate resources
- **Establishing specific long-term foreign assistance priorities** in alignment with the Millennium Development Goals and the Paris Declaration to address the full range of education requirements, gender equity and child and maternal health needs
- **Developing incentives and high-level support for cross-sectoral work** to facilitate integrated programming which take advantage of synergies between different sectors and objectives in the framework
- **Making explicit the key role and distinct identity of the Education Offices** at USAID, parallel to those in global health

Organizational Capacity

In order to effectively design, coordinate and support the diverse array of IIP investments, USAID must notably increase its structural capacity. This should include:

- **Revitalizing the USAID workforce** by increasing U.S. direct-hire staffing levels in education, health and trainings
- **Mandating rigorous monitoring and evaluation** at all stages of program implementation
- **Collecting and disseminating information** using new knowledge management technologies
- **Defining a set of processes to determine country level priorities** which includes the participation of host-country stakeholders
- **Pursuing public-private partnerships** to leverage experience, skills and resources of the private sector

Programmatic Definition and Quality

Clearly defining the programmatic objectives of IIP is necessary to promote coherence and suitability of IIP initiatives. The working group recommends:

- **Prioritizing investments for critical populations such as women and youth** whose cross-sectoral needs require targeted, holistic responses
- **Addressing under funded areas of significant need in health** including maternal and child health, chronic malnutrition and an increased emphasis on prevention, including behavior change, to keep pace with the expansion of treatment services within the health sector
- **Continuing to meet the EFA (Education for All) commitment** to achieve quality basic education by 2015 and expanding efforts to address EFA goals on secondary education, early childhood development, adult literacy, and special needs including disabilities and HIV education.
- **Building institutional capacity in health and education systems** through long-term degree training for country personnel from ministries of health, education, and other sectors in the U.S. and third countries for senior public policy and technical positions
- **Invest in greater leadership development and technical capacity** for all social and economic development sectors by strengthening universities within countries by investing more in long-term participant training programs in the United States and third countries

BACKGROUND SUPPORT AND DISCUSSION

Leadership in Investing in People: The importance of effective IIP programs for other foreign assistance investments requires that IIP be a central focus of USAID. In order to promote the role of IIP within the framework, we recommend establishing a new policy level leadership position to focus on health and education investments. This is necessary to ensure that there is coherence both within IIP programs and between IIP and the other sectoral programs. Coordinated health and education programming is also dependent on adequate resources being directed to IIP during the budgeting process.

Staffing: We strongly advocate for the deepening of technical expertise within the agency to position USAID as a thought-leader in development for IIP. U.S. direct hire staffing levels must be significantly increased to support internal capacity in strategic planning, effective management and active field level support. To support staff, the OE budget should be sufficiently robust to enable the long-term planning and policy formation essential to effective, coordinated investments in lasting IIP improvements. Personnel additions should address both specific sectoral and discipline requirements as well as include key personnel who can operate across and among sectors. We also propose reviewing other government agency approaches to meet staffing needs which take advantage of personnel exchanges with universities, businesses, and NGOs, and have demonstrated proven opportunities for mutual advantage through these partnerships.

Long-term policy goals and priorities: For IIP to be truly effective, there must be a vision for broad, long-term commitment. The U.S. has always been a leader in foreign assistance reflecting the American people's top priority to help people to build their own capacity. USAID must be a leader in establishing long-term, holistic U.S. foreign assistance priorities within the globally embraced Millennium Development Goals (MDGs) framework through strategic planning and visionary policy formulation. By aligning its contributions with the MDGs, USAID will be able to better coordinate its investments in IIP with other donor countries, leverage the impact of its funds by building on the efforts of nations with MDG plans, partner effectively with developing countries efforts, and play a leading role in the first truly global effort to improve the well-being of the world's poorest and most vulnerable people. Aligning IIP with the MDGs would further advance the F framework top-line goal to reduce poverty and it would make addressing the causes and consequences of poverty the core objective of IIP efforts. Increased dialogue with the development community is critical to collaborative agreement on priority areas for long-term IIP investment.

Integrated programming: With the framework's vertical divisions by sector, we are concerned that integrated (cross-sectoral) programming is unintentionally inhibited. It seems that the system of accounting which requires funding to neatly fit into budget boxes has resulted in a decreased ability or commitment to design, implement and monitor integrated programs. In IIP, for example, synergies between basic education and nutrition programs should be integrated to address hunger in the classroom, improve basic nutrition and contribute to better attendance rates and learning outcomes. Education also plays a crucial role in any effective response to HIV and AIDS. We support creating linkages between objective areas to facilitate cross-sectoral work that is not naturally fostered by the framework or USAID's organizational units. In addition to high-level support, overcoming fund authorization barriers will require the creation of incentive mechanisms to reward initiatives which undertake challenging cross-sectoral work. A commitment to these cross-cutting themes and programs should be reflected in foreign assistance strategic planning and for future budget support requests. It is important to remember, however, that not all programming needs to be cross-sectoral. There is a need to establish criteria to determine when single sector approaches may be more valuable, such as when attempting to measure change over the medium and short term.

Sustained Resources: We believe that achieving effective programming in IIP which is responsive to the increasing complexity of development concerns will require innovative approaches and sustained funding. USAID can benefit from the lessons learned with

PEPFAR and the many successful examples of multi-year funding in addressing the HIV and AIDS pandemic. Sustained funding allows for the development of solid partnerships with local NGOs and national governments, strategic and coordinated planning and a greater emphasis on institutional strengthening and capacity building. Many IIP programs require a 10- to 15-year implementation horizon with clear-cut, 3- to 5-year benchmarks to ensure opportunity for course correction, modification, and measurement on progress. Such long-term horizons also enable private sector and NGO partners to be more effective in their planning program design and implementation. We also believe that USAID should remain the lead agency of U.S. government foreign assistance for IIP programs with development resources managed by civilian organizations.

Monitoring and Evaluation: To design and implement effective IIP programs, it is critical to know what works. USAID must engage in the development of quality outcome indicators, especially for the education sector, to enable useful and regular performance monitoring at all stages of implementation. Indicators of progress need to recognize and reflect the complexity and variety of IIP programs, rather than single, simplistic indicators. Quality indicators should be coupled with a commitment to devote 3 to 5 percent of program funds to support monitoring and evaluation. Resources for monitoring and evaluation should take advantage of host-country expertise. Often in-country evaluators are able to deliver quality assessment that is grounded in an understanding of the local situation as well as cost-effective. Objective monitoring and evaluation provides relevant, accurate and timely information essential to improving effectiveness and impact.

Knowledge Management: USAID and the F Bureau should establish strong knowledge management resource bases that capture and maintain current development experiences in IIP for easy analysis and dissemination within its organizational structure. This should also allow USAID to easily access and integrate experiences and share best practices from other agencies and its partner institutions including universities, NGOs, and businesses. Utilization of easy access portals, new data distribution, and management systems should be acquired or contracted to take advantage of the existing state-of-the-art knowledge management programs.

Public-private partnerships: Actively engaging private sector institutions in development work has the power to create mutually beneficial partnerships improving health outcomes and supporting quality education. USAID should continue its current focus on partnering with the private sector to leverage skills and technologies and pool resources. The ability of private sector corporations to partner with NGOs and government makes it possible to bring innovation, technology know-how, and efficiency, and also to relate IIP to economic growth. The three-way partnership among USAID, NGOs and corporations is increasingly successful for long-term development

Host-country input: As USAID knows, the inclusion of host country input in establishing priorities is essential. This becomes especially important in IIP where program quality and results depend most visibly on local perceptions. The process of determining priorities should be as transparent as possible and involve mechanisms to solicit feedback and input from country level stakeholders including mission staff, host country government staff, international and local NGOs and the private sector. Funding mechanisms must also be flexible to effectively respond to changing host country priorities. The accomplishment of significant, at-scale development for IIP requires collaboration and partnership by the U.S. for assistance with other donor agencies,

working in concert with overall leadership from the country itself. Open planning discussions within countries between USAID and the clusters of social and economic development ministries with civil society participation should be held at the start of the program design and annual budget process

Youth and secondary education: Given the framework's organization by sector, as opposed to population segments, we are concerned that critical populations for development are not adequately addressed. This is especially true with regard to youth. The youth cohort, currently the largest in the world's history with 1.5 billion people ages 12-24, faces tremendous challenges and will require sustained, strategic, multi-sectoral investments if young people are to become healthy, engaged, productive adults. We recommend that youth become an agency priority within the framework in order to address critical concerns of education, workforce development, health and civic engagement in a comprehensive and cohesive way. As countries succeed in meeting their universal basic education goal, USAID, together with other development agencies, must also support new, innovative, and more effective means to meet the growing secondary education and technical skills development needs of youth. Youth development must also include employability skills development which recognizes that many young people have not been reached previously by the formal education system. These programs must take advantage of the new learning technologies and private sector training capacity and utilize technical trainers from all sectors. The youth emphasis will require new and additional resources so that investment is not at the expense of investment in children's education and health priorities.

Women: Women constitute another population not sufficiently highlighted within the framework. While we recognize that the framework's people-level indicators require disaggregation by sex, we would argue for a full integration of gender into the IIP objective. The range of critical IIP investment in women and girls which results in greater peace and stability, global citizenship, future generations' health and education, and improved economic growth requires leadership through a strong office within the U.S. foreign assistance program which is given high priority. In recent years this attention has diminished while the critical importance and need for such leadership continues to increase and be a central accomplishment of development objectives. Despite recent gains, education of women and girls must be clearly presented as a strategic and operational priority. This could include the formulation of indicators appropriate for gender analysis of programs as well as an increase in the capacity for gender work at all levels.

Critical areas in health: Within the health sector, important gains made in HIV and AIDS, malaria, child immunization and family planning require continued support and attention. Alongside initiatives targeted at specific diseases, it is essential to focus also on gaps between current investments as well as emerging critical needs. Malnutrition, for example, receives less attention than more visible diseases even though nutrition is a necessary condition for good health and impacts learning outcomes. Reproductive and maternal child health also should be more closely integrated into HIV and AIDS services. The health benefits of improved housing, especially in urban areas, has not been given due recognition. Along with clean water and sanitation, improved housing has been linked to lower incidences of malaria, respiratory and gastrointestinal diseases. Greater focus on the impact of climate change, which disproportionately affects poor populations in developing countries, is similarly needed. In all of its health, nutrition, malaria, and

HIV and AIDS programs, equivalent attention should be given to prevention strategies, as well as treatment and care, in order to ensure lasting impact of these investments. Finally, the important role of NGOs in delivering these wide-ranging health interventions should be strengthened; assistance through U.S. PVOs to community- and faith-based organizations is essential to long-term advances in behavior change, immunization and nutrition.

Emerging concerns in education: Impressive gains in access have been made in primary education; however, there is still a need to carry forward the commitment to Education for All in poor countries where the need is great. With the expansion of access, we have also seen overcrowding in classrooms, scarcity of resources and inadequate teacher training demonstrating the need to focus on excellence in education. In a rapidly globalizing world it is essential that education emphasize values of tolerance and citizenship alongside literacy and numeracy skills to develop engaged national and global citizens. Major emphasis must be given to quality improvement of learning materials, teaching methods, tests and measurement, as well as management systems, and curriculum relevance to workforce needs. In addition to the continued support of primary education, new investment in quality education should be expanded to the full spectrum of educational needs and settings, including critical needs in higher education, the growing demand for secondary education, and revitalized international participant training. International training is essential for host country professional capacity building and strengthening of local institutions. Training and capacity building of local school boards and parent-teacher organizations and education provision in emergency, conflict, post-conflict and high migration settings are also areas of emerging importance.

The ACVFA's Investing in People Working Group wishes to thank all those who submitted feedback and thoughts. While all comments were appreciated and considered, they may not have been deemed appropriate for incorporation into the final recommendations of the working group.



July 2007

ACVFA's Analysis and Recommendations of Trends in USAID Implementation Mechanisms

The Implementation Mechanisms Working Group of ACVFA notes two recent trends in USAID's use of implementation mechanisms: a shift toward the selection of acquisition (contracts) versus assistance mechanisms (cooperative agreements and grants); and a "bundling" of multi-sectoral program components under omnibus Requests for Proposals (RFPs) and Requests for Applications (RFAs). Following is a brief synopsis of the trends and recommendations for USAID to consider in redressing them. Two annexes are provided at the end of this paper, including specific recommendations to USAID on how the Agency can address concerns about instrument selection and bundling, and explanations of the relationship that contractors and NGOs have with USAID under acquisition and assistance mechanisms.

I. Shift toward Acquisition (Contracts and Indefinite Quantity Contracts, "IQCs") vs. Assistance (Cooperative Agreements and Grants)

To design effective development programs, USAID should determine the nature of the desired relationship between the U.S. government and the implementing organization, as well as the purpose of the award, before it selects the appropriate award instrument. This determination should not create a sense of entitlement for either the NGO or contracting communities, but rather lead to appropriate development solutions based on the most appropriate relationship among the Federal Agency, the beneficiary, and the implementing organization.

In the selection of an award instrument, USAID is governed by the Federal Grant and Cooperative Agreement Act (FGCAA) of 1978 (PL 95-224), which defines the selection in terms of both the nature of the *relationship* being created between the U.S. Government and the non-federal party, and the intended *purpose* of the award. Section 4 of the Act requires the use of "procurement contract" when the "principal purpose is to acquire by purchase, lease or barter property or services for the direct benefit or use of the U.S. Government." In contrast, Sections 5 and 6 require the use of a cooperative agreement or grant "when the principal purpose of the relationship is to transfer a thing of value to the recipient to carry out a public purpose of support or stimulation authorized by a law of the United States." Subsequent guidance by the Office of Management and Budget in the Federal Register on August 17, 1978 and in 22 CFR 226 instructs Agency officials to follow the basic principles of the statute. Reference to the Act also is made in USAID's internal guidance contained in Automated Directives Systems (ADS) Chapters 303 and 304.

ADS Chapter 304 provides guidance to USAID personnel in the selection of appropriate acquisition and assistance instruments. According to Section 304.3.4.a, "there are no distinct categories of activities that are better suited for one type of instrument over the other. In fact, at the very

earliest stages of activity planning, the design can be tailored toward the use of either type of instrument.” In some situations, however, the choice of funding vehicle can affect the very nature of the program and influence program results and the sustainable contribution to development in the recipient country. Indeed, for some activities, there is an inherent logic in the choice of instruments that flows from the relationship between the U.S. government and the non-federal party as well as the purpose of the award. This is even suggested in Section 304.3.4.d, “Operating Units should consider the context in which the proposed activity will be implemented, and answer questions such as ‘Are there any issues that support the use of one instrument type over the other?’”

The Implementation Working Group is concerned that USAID appears to be moving more toward selecting contracts as the implementation mechanism. The Working Group finds that in some instances, USAID has failed to assess the nature of the relationship with the implementing organization and the purpose of the award when making its instrument selection decisions, and therefore has ignored the spirit, if not the letter, of the FGCAA. Instead, decisions are based, per actual experiences and anecdotal information shared with the Working Group, on preferences by Mission personnel for contracts, a desire to assert federal control over an activity, and/or the misconception that results are not attainable under assistance awards.

The issue of achieving results under assistance and acquisition mechanisms is specifically addressed in ADS 304. In section 303.3.4.c, “Achieving Results”, it states that “Both acquisition and assistance instruments can be written to achieve results. With acquisition, the contract can utilize a ‘performance-based’ methodology. As for assistance, grants and cooperative agreements may be structured as ‘results-oriented.’ Remedies for failure to achieve stated results and outcomes, although different between these instrument types, are available for both acquisition and assistance instruments.” However, the fact that ADS 304.3.3 places certain restrictions on the use of assistance mechanisms, while no similar restrictions are placed on acquisition mechanisms, may undermine the above statements and contribute to the false perception that assistance mechanisms are not as suited for achieving programmatic results.

With regard to federal control over an activity, ADS 304 suggests that in certain politically sensitive situations, “it may be necessary or desirable for USAID to have more day-to-day operational control or oversight of the implementation of a program. If the Operating Unit believes this level of involvement is needed, acquisition is the more appropriate choice of instrument.” However, this guidance is not appropriate to all politically sensitive issues. When a program seeks to support the development of institutions operating independently of the executive branch of government, such as civil society organizations, the nature of the work can be undermined if USAID, and by extension the U.S. government, takes a direct role in project implementation through an acquisition mechanism.

Further, sensitive work with political parties, parliaments, civil society organizations, media, and, in some instances, judicial officials, often requires that both observers and beneficiaries view the provider of assistance as an independent, nongovernmental actor that has no agenda other than providing aid to beneficiaries as effectively as possible. This point was reiterated in a recent Rand Corporation report on one of the most critical issues facing American foreign assistance in, perhaps, the most politically sensitive environment—democracy promotion in the Middle East. In describing the activities of American NGOs in the region, the report noted that “their activities maintain a higher degree of credibility among recipient communities than if the pro-

grams were promoted directly by U.S. government agencies; it is accepted that their mission is assisting forces of reform, not imposing it from the outside.”¹ This reflects the important degree of separation that assistance mechanisms provide from *direct* U.S. government control.

Likewise, in countries where one of the primary challenges to development is the paucity of autonomous and independent institutions from the state, the fundamental idea that government ought not to control all aspects of society can be undermined by a too-direct donor U.S. government hand in the implementation of programs. In such circumstances, the use of assistance mechanisms allows experienced, independent NGOs to provide assistance to local organizations, such as civic groups and parent-teacher associations, without direct association with the U.S. government, thereby strengthening the fundamental idea that government should not control all aspects of society.

Similar arguments hold true for many reform and institution-building activities. In building local capacity and in supporting reformers—whether in economic, political, or social arenas including health and education—the relationship of technical assistance providers needs to be seen as objective, independent, and supporting the needs of the project beneficiaries. The notion that the support provided by the implementing organization is motivated primarily by short-term U.S. foreign policy goals, as opposed to the desire to support local organizations, can compromise local acceptance of project-proposed solutions and local ownership of project activities.

Transferring skills to build capacity of local institutions and NGOs operating at the community level in the health and education arenas is best achieved through grants with US NGOs. Such mechanisms enhance the long-term relationships that the NGOs have in the communities and build on their detailed understanding of the opportunities and barriers to community led people-to-people health and education programs. The importance of such people-to-people programs is reflected in helping NGOs address social and behavioral concerns in their communities, including such issues as HIV/AIDS awareness and drug addiction. In democracy and governance programs, direct actions by a foreign government or agency to promote changes to political structures and processes of another country is problematic in the realm of international relations. However, supporting the efforts of NGOs to transfer skills and provide other technical assistance to those working to strengthen institutions and processes, enhance citizen participation in governmental and public affairs, promote freedom of expression in the media, strengthen rule of law institutions and electoral authorities and similar efforts is now accepted. Helping democratic reformers in a country gain the skills needed to build political organizations or strengthen the ability of civil society organizations to hold government accountable and advocate for necessary democratic reforms is in the province of people-to-people interaction, rather than direct governmental assistance.

II. “Bundling” of Multi-sectoral Program Components under Omnibus RFPs and RFAs and Increased Reliance Upon IQCs

In response to USAID’s efforts to limit the number of management units per Mission, a trend has resulted of bundling multiple project activities into a single contract or cooperative agreement, often with a high level of funding yet without a strong programmatic unity or focus. At the same

¹ Angel Rabasa, Cheryl Benard, Lowell H. Schwartz, and Peter Sickle. *Building Moderate Muslim Networks*. (Santa Monica: The Rand Corporation, 2007), p. 47-48.

time, the Working Group notes a growing reliance on indefinite quantity contracts (IQCs) as a means of project implementation.

A recent example of bundling is the issuance of an Annual Program Statement for “Multi-Sectoral Interventions to Advance Democratic Governance” in a small African country, which sought to unite various activities related to governance and democracy, health, education, and natural resources management into a single cooperative agreement for \$23,100,000. Despite the notable intention to improve governance issues, this project contained funding restrictions and a list of suggested activities that made it apparent it was an amalgamation of separate project activities, bundled together for purposes of presentation and convenience.

While the perception is that bundling various activities into a single contract or cooperative agreement will achieve substantial benefits, such as cost savings, a reduction in the number of management units in a Mission, and more efficient program management structures, this strategy can compromise USAID’s ability to achieve its intended results. In an attempt to streamline and condense its administrative processes, the Working Group contends that USAID can undermine its mission of creating effective and sustainable development programs. In fact, the “mega” programs can result in weakened synergies among implementing partners, increased risk of project failure, hindering of creativity and innovation, and underutilized expertise and talents of various organizations. In addition, highly centralized programs often fail to develop innovative approaches or creative solutions to local needs and, instead, tend to rely on static and uninspired methods.

One of the intrinsic problems associated with the bundling of multiple, unrelated activities into a single project is that it forces organizations to form unlikely and unnatural partnerships. For instance, a successful submission (application or offer) on the project described above would require collaboration between organizations with significant expertise in the health, education, natural resource management, and democracy and governance sectors, as well as commitments from a broad range of personnel and technical experts. To respond to this opportunity, an applicant would have to quickly identify, assess, and forge relationships with organizations from other sectors, often in circumstances where no previous history of cooperation exists. New and untested partnerships between organizations will likely be unstable and cumbersome, particularly as organizations adapt to each others’ cultures and approach to development assistance, determine which of the various components are “priorities” and receive the most project resources, and struggle to integrate work plans and performance monitoring plans into a cohesive whole.

The bundling of project activities also places an undue burden on the organization that will serve as the prime recipient or contractor for the project. In some circumstances, the prime organization may find itself performing oversight and management of project activities for which it has limited technical expertise, hindering the organization’s ability to manage the program effectively, especially if other project partners fail to perform to expectations.

Centralizing project management responsibilities under a single organization, as opposed to issuing awards to multiple organizations can also create complicated lines of communication and responsibility between project managers and local partners; create rivalries between local groups as they vie for funding, support, and attention from the prime organization; and/or result in the participation of fewer local partners because of the number and breadth of U.S. implementers necessarily included because of the diverse breadth of the program.

Bundling can also create conflicts and confusion among the various project beneficiaries who interact with project personnel on a regular basis. By uniting a large assortment of distinct project activities under the authority of a single Chief of Party, the project essentially creates real or perceived conflicts of interest in the eyes of the project's stakeholders and local beneficiaries. Often, the beneficiaries of the bundled projects have separate and potentially competing interests. A single vertically organized consortium with one Chief of Party should not service all of these competing interests simultaneously. Under these conditions, bundled projects often reduce the trust and support of local clients, leading to limited buy-in and mediocre project results.

Similarly, there appears to be an increasing reliance upon the use of IQCs. Anecdotal evidence suggests that USAID often selects these instruments in response to inadequate staffing levels, as both missions and contracting offices continue to be strained by reductions in Operational Expense budgets. While the Working Group recognizes that IQCs can help to streamline the procurement process, and that it is neither practical nor efficient for USAID to release every project for more broad competition, IQCs should not represent, by default, the normal means of project implementation. By their nature, the IQCs concentrate project implementation responsibilities in the hands of a limited group of prime contractors. Their use therefore restricts the pool of expertise, resources, and ideas that USAID can draw upon for developmental solutions, and it also discourages new organizations—including community institutions and faith-based entities—from entering the USAID marketplace.

By concentrating implementation responsibilities among a limited group of actors, IQCs also diminish the opportunity for sustained institutional capacity and knowledge preservation, and thus play a limited role in contributing to the knowledge and lessons learned that guide development practitioners. By their very nature, IQCs include no provisions for preserving lessons learned; they are primarily episodic and whatever knowledge gained by an individual holder of an IQC is not shared with others. As the use of IQCs has become more prevalent, only the largest IQC holders have been able to survive because the smaller organizations cannot sustain their activities between tasks. This has contributed to the concentration of IQC being held by a limited number of organizations, and it has provided the holders of the IQCs a financial incentive to minimize the use of second-tier subcontractors in project activities.

The ACVFA's Implementation Mechanisms Working Group wishes to thank all those who submitted feedback and thoughts. While all comments were appreciated and considered, they may not have been deemed appropriate for incorporation into the final recommendations of the working group.

Annex I: Implementation Working Group Recommendations

Recommendations on the Use of Acquisition and Assistance Mechanisms

- USAID should revisit the requirements of the Federal Grant and Cooperative Agreement Act and the applicable OMB guidance for the express purpose of reviewing and revising the sections of ADS Chapters 303 and 304 to bring them more closely in line with the intent of the statute. Further, these ADS chapters should include examples of the types of programs that are best suited under each mechanism along with a description of the rationale in accordance with the Act to guide staff in selecting the appropriate instrument.
- To assist USAID in developing new training materials on instrument selection and in promoting lessons learned, ACFVA should designate a new working group that will assemble a detailed list of relevant examples that examine practical issues in implement selection.
- USAID should provide additional training and guidance to its staff on selecting the appropriate instrument based on the nature of the relationship being created and the intended purpose of the award in an effort to deter decisions being made based on personal preferences or misconceptions.
- USAID should periodically provide the implementing community with relevant statistics about the overall use of acquisition and assistance mechanisms (including breaking down the use of assistance mechanisms by grants and cooperative agreements), including their use by country and sector, dollar value, number of awards, and percentage of awards, as well as whether the activities were publicly competed or released through indefinite quantity contracts or leader with associate awards.
- As part of the formal, concluding evaluation of projects, USAID should revisit the appropriateness of its selection of a particular instrument mechanism relevant to the intended purpose of the program and the desired relationship of the U.S. government to the program beneficiary. Examples of when the choice of instruments was appropriate and inappropriate should be shared with USAID contracting and agreement officers as examples of “lessons learned.”
- As other federal agencies also have experienced problems with instrument selection, USAID should research their policies and practices concerning instrument selection and substantial involvement in order to identify “best practices” for use in formulating improved policy guidance within the ADS chapters that will enable proper federal and non-federal roles to be delineated in solicitations (RFA/RFP), in agreements, and during project implementation. In light of limited resources to conduct such a study, USAID should consider utilizing the services of an outside group of experts to conduct this study, such as the Association of PVO Financial Managers.
- USAID should recognize that assistance and acquisition mechanisms serve important and distinct purposes, and not seek to blend or modify the nature of these mechanisms. The Working Group is concerned that USAID is moving toward managing grants and cooperative agreements more like contracts. In other words, treating all implementers as contractors regardless of instrument type. Further, NGOs are concerned about USAID’s introduction of new standards for development-focused budget line items and other management approaches that would exacerbate a trend toward “contract-like” management of assistance awards. Any such changes should undergo the appropriate OMB review procedures under the Paperwork Reduction Act (rather than be applied as “guidance” through Missions) and be accompanied by new resources for implementing partner capacity building.

Recommendations on the “Bundling” Trend in USAID Programming

- USAID should commission a formal qualitative and quantitative study of the bundling phenomenon. This study should examine the cost efficiencies that bundling provides as well as the impact bundling has on the quality of development programs and ultimately the affect on local partners and beneficiaries. Ideally this study should examine when the bundling of program activities is beneficial/appropriate, as well as when it damages/hinders the design and implementation of effective development programs. As part of this process, USAID should examine the potentially unintended consequences of reductions in its Operating Expenses budget on development program effectiveness. In addition, it should evaluate whether the bundling phenomenon has hampered the ability of small- to medium-size enterprises to win contracts, cooperative agreements, or grants from USAID.
- USAID/Washington should highlight and encourage the best practice of posting draft RFAs/RFPs for comment and soliciting questions and feedback from the implementing community. This process would allow non-federal entities to identify possible pitfalls in proposed approaches—such as bundling—for USAID’s consideration.
- The Working Group recognizes that the bundling phenomenon is, in part, a negative consequence of reduced management capacity within USAID Missions. To ensure appropriate staffing levels and to foster a well-trained corps of Agreement and Contracting Officers, ACFVA recommends that USAID OAA be appropriately staffed at both field and HQ levels and that Operating Expense budget be increased accordingly. Having less staff available to oversee manage programs should not automatically translated into reduced management units, as this ultimately undermines the quality of USAID’s development programs.

Annex II: The Relationship of Contractors and NGOs with USAID under Acquisition and Assistance Mechanisms

Under a contract, the contractor essentially works for the U.S. Government, performing a scope of work formulated by the government. The “client” is the U.S. Government, not the program beneficiary. The contractor is viewed as an extension or a direct agent of the U.S. Government, and the program is a “government-run” activity. Indeed, this relationship has been most recently exemplified by the USAID branding policy that the programs conducted under contracts must be positioned as USAID’s and only be marked with the Agency’s logo (graphic identity). In fact, the policy goes so far as to state that contractors and subcontractors’ logos must not be used on the programs. In essence, the contractor loses any institutional affiliation with regard to delivery of service and is instead identified primarily through its association with USAID.

In contrast, a program conducted under an assistance award is “government-supported” and focuses on a “people-to-people” transfer of skills and assistance from the U.S. NGO sector to local communities, NGOs, and institutions. Assistance mechanisms often allow the U.S. Government to foster sustaining and mutually beneficial relationships between the implementing NGOs and program beneficiaries, since the NGOs can utilize their networks, connections, and resources to establish connections with program beneficiaries that extend beyond the life of finite government programs. This distinction is important, as many contractors only interact with program beneficiaries during the life of the contract and their interactions end with the completion of their specific scope of work, unlike many NGOs, whose missions are grounded in constituencies and values, and whose programs are based on long-term, people-to-people relationships. Through assistance mechanisms, NGOs, in partnerships with USAID, can leverage their expertise and volunteer networks to help local beneficiaries address specific problems and development issues. Under an assistance mechanism, the process through which these problems are addressed is almost as important as the end result, as a successful collaboration promotes local ownership of results and sustainability of best practices.

Contracts are the most appropriate mechanism for acquiring goods, materials and services related to, for example, infrastructure improvements, facility rehabilitation, commodity purchases, and development and installation of computer systems. On the other hand, when the purpose is for the recipient to carry out a public purpose of support, then an assistance instrument is the most appropriate vehicle.



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